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PRIME MINISTER

Enlargement of the Community

The negotiations with Spain and Portugal are reaching the decisive phase. There is to be discussion of how best to secure UK interests in the end-game after Cabinet on Thursday. You might like to ponder the attached papers before then:

- A Note by Sir G Howe
- B Much better note by Mr Williamson
- C Letter from Mr Tebbit.

There is no doubt that enlargement is going to change the nature, increase the cost and encumber the operation of the Community. One asks oneself why we ever got involved with it. The political benefits roll nicely off the tongue but look less decisive as the political and financial costs become clearer.

But there are some useful gains for instance over Gibraltar and perhaps Spanish membership of NATO to be had; an enlarged Community should put paid to a lot of the guff about European Union/Federal Europe since it will obviously be impractical, leaving more scope for progress on practical matters of interest to the UK; anyway its not practicable at this stage to reopen the whole question of the desirability of enlargement; and, most important, the Fontainebleau agreement should shield us from the worst of the financial costs (we should pay 'only' 7% of them).

There are no real problems left with Portugal.

The Community's present negotiating positions on the \_\_\_\_\_

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main outstanding issues with Spain, listed in paragraph 4 of Mr Williamson's note, meet our main requirements:  
accelerated reduction in the highest Spanish tariffs, tight limits on Spanish fishing in Community waters, limits to the cost of the olive oil and wine regimes, satisfaction on restructuring of the Spanish steel industry. But there is bound to be some horse-trading in the final stages: the Community won't get its way on everything: and we shall come under strong pressure to compromise on some of them. We need to be clear about the order of importance of the UK interests at stake.

These seem to be:

- to get the Fontainebleau agreement tied up tight as soon as possible. This will be far more important in determining the impact of enlargement on the UK than any of the issues actually under negotiation with Spain;
- to get Spanish restrictions on Gibraltar lifted. But this is mainly a bilateral issue.

Apart from these:

- to insist on really large reductions in the highest Spanish tariffs. This and satisfaction on Gibraltar will be crucial to getting enlargement through the House;
- ✓ - limits on Spanish fishing even if the Community has to pay for it in aid to restructuring of the Spanish fishing fleet (to which our contribution will be small);
- limits on the cost of extending the olive oil and wine regimes to Spain;

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- insistence on effective restructuring of the Spanish steel industry.

One of the questions which the meeting needs to consider is whether we can afford to relax our position on any of these to gain others (e.g. Mr Tebbit's suggestion that we should weaken on olive oil to get our way on tariffs).

Another question which might be looked at is: clearly we don't want to get manoeuvred into the position of appearing to block Spanish accession, but how much do we mind if others, eg France, do? Do we want Spain in enough to justify concessions on our interests to buy off others? (Answer no.)

If there is time the meeting might also consider what life will be like inside an enlarged Community and how we should be preparing for it. An inner directory of Britain/France/Germany? But can you exclude Italy? A northern tier? An inner and an outer Community?

C.D.P.

11 September 1984



Qz 03872

MR POWELL - 10 Downing Street

ENLARGEMENT OF THE COMMUNITY:  
PRIME MINISTER'S MEETING ON 13 SEPTEMBER

1. In preparation for this meeting the Foreign and Commonwealth Secretary is submitting a minute to the Prime Minister, together with a note on the state of the negotiations with Spain and Portugal prepared by the Foreign and Commonwealth Office after discussion with other Departments. As there are so many questions which may be raised at the meeting, it may be helpful if I draw particular attention to the following points.

Adjusting to the enlarged Community

2. The entry of Spain and Portugal into the Community will be a major change, bringing in about 48 million more people with historic links with South and Central America and an ambition to revive their role in Europe. Spain alone will bring to the Community an agricultural land area greater than that of Italy and Germany together (it will increase the number of farmers in the Community by 26 per cent), major merchant and fishing fleets, crude steel production similar to our own, a fast expanding level of car production now overtaking that of the United Kingdom and other potentially powerful industrial sectors based on heavy investment by multinational companies. Member states have supported enlargement of the Community for democratic and defence reasons. It will, however, bring many problems. The United Kingdom, like other member states, will have to make some adjustments in order to protect its interests. It is not too soon to think about them.

3. The main changes which the entry of Spain and Portugal will bring to the Community are in:

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- (i) political attitude. The enlarged Community will clearly be more orientated to the South and to the Mediterranean. About 160 million of the enlarged Community's 320 million people will live in countries with a Mediterranean coastline. A sharper division between North and South in the Community is almost inevitable. The United Kingdom is bound to have to form alliances with Germany, Denmark and the Benelux and, where possible, France on such issues as Mediterranean programmes and aid for restructuring. It is therefore important that agreement has now been reached that a qualified majority in the enlarged Community will need 54 votes, so that the United Kingdom with one large and one other member state (other than Luxembourg) will be able to block unacceptable decisions.
- (ii) industry. Spanish production will become an increasing competitor for British industry and in some sectors may target its exports on the British market. It is therefore very important that the Community should be aware of and, where justified, should be effective in removing Spanish aids such as those in steel production; and that the present imbalance in tariff protection should be reduced as quickly as possible in the transitional period (the Spanish, of course, do not want accelerated reduction of their high tariffs). The situation is clearly sensitive for cars (Spanish tariff 36.7 per cent, UK tariff 4.1 per cent) because Spain has become a major supplier to the United Kingdom. The Spanish Government encouraged the multinational car manufacturers (General Motors, Ford) to establish plants in Spain but only on condition that two-thirds of their output would be exported, and the United Kingdom is the soft market. In the House of Commons between April and July there was a full debate, an adjournment debate, an early day motion, a Select Committee report and at least ten Parliamentary Questions on this subject. The disparity of treatment applies more widely than to cars.

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(iii) agriculture. Enlargement will raise the cost of the common agricultural policy and will make it more difficult to rein back expenditure on Mediterranean commodities. The Fontainebleau agreement, however, will give the United Kingdom a large degree of protection against rising agricultural expenditure. Portuguese agriculture is small (the land area is less than half that of Greece) and poorly developed: there will be a cost for the Community in encouraging restructuring and improvement in Portugal. Spain, however, is well-organised in the production and marketing of many agricultural products, particularly citrus and horticultural produce, and is already an important supplier to the Community. United Kingdom consumers will get an increasing benefit. France and Italy have been active in protecting their producers, in effectively slowing up the transition and in giving the impression that the problems of enlargement are largely agricultural. The United Kingdom's objective should still be to cut the cost of support for Mediterranean products. The Community position on two sectors is not yet settled. On wine the French have taken the opportunity to ask for stricter controls over production before Spain enters. This is really aimed at Italy but, as it is in line with our thinking, we are supporting the French. On olive oil the United Kingdom is asking for stricter controls (guarantee threshold). Northern member states and France support us.

(iv) practical and administrative problems. Enlargement will add to the difficulties of reaching decisions and administering policies within the Community (inflated Council, Commission and European Parliament; documents in nine languages; interpretation and translation; more opportunities for linkages and delays).

/State

State of the negotiations

4. The specific points are set out in the note which the Foreign and Commonwealth Secretary is sending forward. The Secretary of State for Trade and Industry will argue that our major priority now must be to get a better deal on the industrial chapter. It seems to us that the principal points are:

- (i) tariffs (including cars). The Commission has at last proposed a list of products for which the Community should demand an accelerated reduction of the Spanish tariff. We can agree it. It is essential to ensure that we get the agreement of the rest of the Community and of Spain.
- (ii) steel. We must insist on the maximum restructuring of Spanish steel production before accession and that any Spanish aids should be strictly limited and accompanied by corresponding restrictions on Spanish access to the rest of the Community market.
- (iii) fish. We must have effective limits on the licences for Spanish vessels. It would be in our interest if the Spanish fleet were reduced, even if this involved some Community aid (Fontainebleau agreement will cut back our share of the cost from the beginning of 1986).
- (iv) olive oil. We should keep pressing for a guarantee threshold or equivalent restrictions and have a good chance of obtaining some undertaking. It must be desirable (but may not in the end be negotiable) to prevent the Spanish beginning their transition to Community price levels until a guarantee threshold or equivalent control is in effect.
- (v) Gibraltar. Clearly we must have satisfaction on the removal by Spain of obstructions to trade and the free movement of persons.

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5. I am sending a copy to Sir Robert Armstrong.

*D F Williamson*

D F WILLIAMSON

7 September 1984

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Secretary of State for Trade and Industry

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6 September 1984

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The Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State for Foreign  
& Commonwealth Affairs  
Foreign & Commonwealth Office  
Downing Street  
London SW1

*D. Geoffrey,*

SPAIN: ENLARGEMENT

The Prime Minister has called a meeting on enlargement for 13 September. I understand that you are intending to provide an up-to-date stocktaking on the various issues. We will need to consider our overall tactics at this meeting. I am very concerned to secure an acceptable industrial package.

2 The Prime Minister will recall from her meeting with West Midlands MPs in December 1982 the strength of feeling in the industry and the House about the inequity of our trade in manufactures with Spain. Since the recent decision by the Spanish Government not to increase the low duty quotas for cars from the Community for the coming year, MPs are again getting extremely restless.

3 The fact is that we simply cannot live with the present situation in which Spanish cars gain access to our market over only a 4 percent tariff while our manufacturers face a 37 percent tariff in their market. Unless we get a satisfactory industrial package we will not be able to defend the negotiations in the House and will run into terrible difficulties over the necessary legislation. Yet this is a high priority with the UK alone and we will need the utmost determination in dealing with other Member States as well as Spain. Fortunately the Commission at least are recently showing a more constructive approach.



4 I am strongly of the view that holding out for major concessions on the industrial package - particularly for cars - must be one of our very highest priorities in the negotiations on enlargement. And I believe the moment has now come to make our position even more sharply clear than in the past.

5 The tactics we adopt will be of crucial importance. I believe that at our meeting and against the background I have outlined we should consider whether it is wise to push our wish to retain 'British' sherry and our position on olive oil to the bitter end. We must settle on what are our real priorities and, if necessary, be prepared to negotiate trade-offs.

6 Copies of this letter go to the Prime Minister, Nigel Lawson, Michael Jopling and to Sir Robert Armstrong.

A handwritten signature in black ink, which appears to be 'N. Tebbit', written in a cursive style with a horizontal line underneath.

NORMAN TEBBIT