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FRAME EXTERNAL

DESKBY 290800Z

FM UKREP BRUSSELS 282116Z NOV 84

TO IMMEDIATE F C O

TELEGRAM NUMBER 4008 OF 28 NOVEMBER

INFO PRIORITY COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN,

LUXEMBOURG, ATHENS, MADRID

INFO SAVING BRUSSELS.

FOREIGN AFFAIRS COUNCIL 26-28 NOVEMBER.

SPANISH ACCESSION: TARIFF TRANSITION.

1. COMMISSION CONTACTS WITH SPAIN LEAD TO DAVIGNON PROPOSING A PACKAGE COVERING CARS, HIGH TARIFFS AND THE GENERAL REGIME OF DISMANTLEMENT. THIS WAS ACCEPTABLE TO ALL EXCEPT UK WHO HAD PARTICULAR DIFFICULTY ON PROGRESSIVITY FOR CAR QUOTA AND THE LACK OF ^{FRONT} FIRSTLOADING IN GENERAL TRANSITION TO BALANCE A WEAKER REGIME FOR HIGH TARIFFS AS WELL AS NEEDING FIRM ASSURANCE ON ALLOCATION OF THE CAR QUOTA. AFTER NEGOTIATIONS HAD COME TO A STANDSTILL CONTACT WITH THE SPANISH PRIME MINISTER SUGGESTED FURTHER FLEXIBILITY IN THE SPANISH POSITION.

DETAIL

2. ON TUESDAY EVENING DAVIGNON REPORTED ON HIS TALKS WITH SPAIN. THE ONLY MOVEMENT WAS THAT THEY WERE WILLING TO ACCEPT 24 PER CENT AS THE STARTING POINT FOR HIGH TARIFF TREATMENT. THEY HAD REJECTED THE IDEA THAT THERE SHOULD BE NO EXCLUSIONS FROM THE RESULTING LIST. THEY HAD MENTIONED NUMBERS FOR THE CAR TARIFF QUOTA WHICH WERE NOT WORTH MENTIONING AND HAD INSISTED ON MAINTAINING THE FOUR CATEGORIES BY CAPACITY.

3. DAVIGNON THEN PROPOSED THAT HE SHOULD BE AUTHORISED TO EXPLORE THE POSSIBILITY OF RAISING THE BASE LINE FOR CALCULATING THE PART OF A TARIFF SUBJECT TO ACCELERATED DISMANTLEMENT FROM 20 PER CENT TO 24 PER CENT. I REMINDED DAVIGNON OF THE SCORN HE HAD POURED THE DAY BEFORE ON THE IDEA OF APPLYING ACCELERATED DISMANTLEMENT TO THE 1.6 PER CENT OF A 21.6 PER CENT TARIFF. WITH A 24 PER CENT BASE LINE THE SAME LOGIC WOULD APPLY TO A 25.6 PER CENT TARIFF. DAVIGNON'S REPORT HAD SHOWN NO SIGN OF MOVEMENT ON THE SPANISH SIDE. I WAS ALREADY UNDER FIRE FOR HAVING ACCEPTED THE 24 PER CENT TRIGGER LEVEL AND COULD NOT POSSIBLY GO FURTHER. DAVIGNON'S PROPOSAL CONSIDERABLY REDUCED THE IMPACT OF ACCELERATED DISMANTLEMENT FOR A NUMBER OF IMPORTANT PRODUCTS. I NOTED THAT AS THE NEGOTIATIONS PROGRESSED INCREASING WEIGHT SEEMED TO ATTACH TO THE GENERAL REGIME OF DISMANTLEMENT. WE WOULD LOOK CAREFULLY AT THE OVERALL BALANCE OF ANY PACKAGE TO EMERGE FROM DAVIGNON'S DISCUSSIONS.

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4. THE ONLY OTHER SPEAKER WAS RUHFUS (FRG) WHO AGREED THAT DAVIGNON SHOULD HAVE MORE FLEXIBILITY AND WAS HAPPY WITH THE LINE PROPOSED. DAVIGNON SAID HE WANTED TO CLINCH A DEAL QUICKLY. HE HAD NOTED IN PARTICULAR THE UK'S VIEWS, AND ACCEPTED THAT ANY PACKAGE WOULD HAVE TO BE ACCEPTABLE AS A WHOLE.

5. ON WEDNESDAY 28 NOVEMBER DAVIGNON CIRCULATED A NEW PACKAGE (MUFAXED TO FCO AND TO DTI BY HAND OF BROTHERTON) THIS INCLUDED

(A) ACCELERATED DISMANTLEMENT OF THE PART OF TARIFFS ABOVE 24 PER CENT, WITH 15 SENSITIVE ITEMS EXCLUDED FROM HIGH TARIFF TREATMENT

(B) A QUOTA OF 28,000 CARS RISING TO 40,000 AFTER THREE YEARS, WITH A TARIFF OF 18.3 PER CENT, DIVIDED INTO FOUR CATEGORIES BY CAPACITY WITH 13,000 CARS IN THE 1275-1990 CATEGORY.

(C) A QUOTA OF 1000 VANS (LESS THAN 2000 KG) RISING TO 1500 AT A TARIFF OF 15.8 PER CENT.

(D) 7 YEAR DISMANTLEMENT IN THE PATTERN: 10, 12 AND A HALF, 12 AND A HALF, 15, 15, 15, 10, 10.

THE COMMISSION ALSO SUGGESTED THAT THE 28,000 CARS SHOULD BE SPLIT AS FOLLOWS:

FRG	10,900
FRANCE	6,200
ITALY	5,200
UK	5,000
BELGIUM/NETHERLANDS	700.

6. DAVIGNON SAID THAT HE WANTED TO PUT THIS TO SPAIN ON A TAKE IT OR LEAVE IT BASIS. THERE WAS A CHANCE OF AGREEMENT ON THE SPOT. IF THE CHAPTER WAS LEFT TO LATER IT MIGHT BECOME RELINKED TO AGRICULTURE. HE RECOUNTED HOW HE HAD PRESSED THE SPANIARDS ON ALL THE POINTS OF CONCERN TO THE COUNCIL AND HAD SEEN NO SIGN OF MOVEMENT. IN PARTICULAR HE HAD ARGUED FOR FRONT LOADING SO THAT 55 PER CENT OF TARIFFS WERE REMOVED IN THE FIRST THREE YEARS. THERE WAS NO CHANCE OF SPAIN ACCEPTING THAT: INTRODUCTION OF VAT WOULD ALREADY REDUCE THEIR COMPETITIVE ADVANTAGE IN YEAR ONE AND IT WAS FOR THAT REASON THAT HE PROPOSED A 10 PER CENT REDUCTION AS THE FIRST STEP. DAVIGNON SAID THAT THE SUGGESTED ALLOCATION OF THE CAR QUOTA COULD BE DISCUSSED AT A LATER STAGE.

7. DUMAS (FRANCE) SAID THAT 40,000 CARS IN YEAR THREE SEEMED OVER-GENEROUS. THE SUGGESTED ALLOCATION WAS UNJUST. FRANCE SHOULD HAVE MORE. DISCUSSION ON THIS SHOULD START FROM ZERO AND NOT FROM THE COMMISSION'S SUGGESTION. (BILATERALLY THE FRENCH TOLD US THEY INTENDED TO CUT THE GERMAN AND ITALIAN SHARES AND NOT OURS). POENSGEN (FRG) SAID THAT THE PROPOSED GERMAN SHARE WAS QUITE OUT OF LINE WITH ITS 67 PER CENT SHARE OF THE SPANISH MARKET. VAN EEKELEN (NETHERLANDS) SAID THEIR FIGURE WAS TOO LOW AS WELL. THEIR QUOTA AND THAT OF BELGIUM SHOULD BE SEPARATED. MR RIFKIND SAID THAT THE UK COULD NOT AGREE ANY PACKAGE WITHOUT CLEAR AGREEMENT THAT THE UK WOULD GET 5000 CARS IN THE QUOTA.

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8. ON THE OVERALL PACKAGE FIORET (ITALY) CALLED FOR MORE CARS IN THE SMALLEST CATEGORY. VAN EEKELLEN WONDERED WHETHER IT WAS ANY LONGER WORTH AIMING FOR SPECIAL TREATMENT FOR HIGH TARIFFS. THE NUMBER OF PRODUCTS CONCERNED AND THE IMPACT OF ACCELERATION MECHANISM WERE BOTH LIMITED. HE SUGGESTED DROPPING ALL HIGH TARIFF TREATMENT AND THE QUOTA FOR CARS AND INSTEAD SEEKING FRONT LOADING TO GIVE 57 AND A HALF PER CENT REDUCTION IN THE FIRST THREE YEARS. ALTERNATIVELY THE CAR QUOTA COULD STAND, AND OTHER HIGH TARIFF TREATMENT COULD BE DROPPED IN EXCHANGE FOR A 55 PER CENT REDUCTION IN THE FIRST THREE YEARS. POENSGEN AGREED WITH THESE IDEAS.

9. MR RIFKIND SAID THAT HE WOULD BE CONTENT FOR THE COMMISSION TO PUT A PROPOSITION TO SPAIN ON A TAKE IT OR LEAVE IT BASIS BUT THE CONTENT WOULD HAVE TO BE DIFFERENT FROM THAT PROPOSED. HE RECALLED THAT THE PREVIOUS EVENING DAVIGNON HAD SUGGESTED THE COMMUNITY MAKE A CONCESSION ON THE BASE LINE IN EXCHANGE FOR NO EXCLUSION ON GROUNDS OF SENSITIVITY ITEMS. NOW THE COMMUNITY WAS ASKED TO ACCEPT BOTH. THE STARTING POINT FOR THE CAR QUOTA WAS SATISFACTORY SUBJECT TO THE RIGHT ALLOCATION ARRANGEMENTS BUT THE GROWTH PROPOSED WAS TOO LOW. THE UK WANTED A QUOTA OF 56,000 AFTER THREE YEARS. WE ALSO NEEDED AN INCREASE IN THE PART OF THE QUOTA FOR CARS BETWEEN 1275 AND 1990 CC - AT LEAST ANOTHER 2,000 VEHICLES. THE DUTY OF 18.3 PER CENT RESULTED FROM THE GENERAL RHYTHM OF DISARMAMENT PROPOSED AND MIGHT THEREFORE BE SUBJECT TO MODIFICATION BUT IT WAS IN ANY CASE TOO HIGH AND DID NOT ACHIEVE THE STATED OBJECTIVE OF THE COUNCIL OF A SUBSTANTIAL REDUCTION - THE TARIFF QUOTA IN EXISTENCE BEING PARTLY IN A RATE OF 19 PER CENT. ON COMMERCIAL VEHICLES MR RIFKIND SAID THAT THE QUANTITIES PROPOSED SEEMED MINIMAL AND WE WOULD LIKE TO SEE AN IMPROVEMENT (IN PRIVATE AND AT WORKING LEVEL THE COMMISSION TOLD US THAT THEY DID NOT PROPOSE TO ALLOCATE THE COMMERCIAL VEHICLE QUOTA NATIONALLY BUT WOULD SUPERVISE ITS RUNNING TO ENSURE FAIR PLAY AND BEARING IN MIND TRADITIONAL PATTERNS OF TRADE). MR RIFKIND SAID THAT IT WAS MOST IMPORTANT TO HAVE SOME ELEMENT OF FRONT LOADING IN THE OVERALL DISMANTLEMENT REGIME, ALL THE MORE SO SINCE THIS MIGHT NOW INCLUDE ALL TARIFFS UP TO 24 PER CENT. IF A PATTERN OF 12 AND A HALF, 12 AND A HALF, 15, 15 COULD BE AGREED FOR THE FIRST FOUR CUTS IT WOULD BE POSSIBLE FOR THE UK TO ACCEPT THE 24 PER CENT BASE LINE AND THE EXCLUSION OF SENSITIVE ITEMS.

10. DAVIGNON SAID THAT THE U.K SHOULD BEAR IN MIND THAT TWO-THIRDS OF THE EXISTING QUOTAS WAS AT 25%. 18.3% WAS THEREFORE A SUBSTANTIAL REDUCTION. AS FOR THE GENERAL RHYTHM OF DISARMAMENT A FEW PERCENTAGE POINTS CHANGE IN EITHER DIRECTION WOULD BE NULLIFIED BY A CHANGE IN THE VALUE OF THE PESETA. THE COMMUNITY SHOULD BE CAREFUL NOT TO IMPOSE TOO HARSH CONDITIONS ON SPAIN OR IT WOULD FIND THEM TAKING SAFEGUARD ACTION ON A NUMBER OF PRODUCTS. HE DID NOT BELIEVE

THAT THERE WAS ANY POSSIBILITY AT ALL OF NEGOTIATING ANYTHING WITH THE SPANIARDS WHICH WAS HARSHER THAN THE TERMS HE PROPOSED. BUT IF THE COUNCIL WISHED TO CHANGE THE PROPOSAL THEY WERE FREE TO TAKE OVER THE NEGOTIATION THEMSELVES.

11. THE PRESIDENCY CONDUCTED A TOUR DE TABLE ASKING IF DELEGATIONS COULD ACCEPT DAVIGNON'S PACKAGE AS IT STOOD ON A YES OR NO BASIS. ALL SAID YES EXCEPT MR RIFKIND AND VAN EEKELEN (THOUGH IF HE HAD SPOKEN BEFORE THE U.K HE MIGHT WELL HAVE ACCEPTED).

12. THE COUNCIL THEN MET IN MINISTERS-ONLY FORMATION. DAVIGNON EXPLAINED THAT AS HE HAD LEFT THE SPANIARDS THEY HAD BEEN OFFERING A TARIFF QUOTA OF 22,000 CARS RISING TO 35,000, NOTHING ON LIGHT COMMERCIAL VEHICLES AN OVERALL DISMANTELEMENT PATTERN BEGINNING 10, 10, 15, 15. HE WAS REASONABLY CONFIDENT THAT THE SPANIARDS WOULD ACCEPT HIS PROPOSALS ON THE GENERAL TARIFF REGIME BUT LESS SO THAT HE COULD GET 28,000 - 40,000 FOR CARS. HE WAS SURE THAT 28,000 - 48,000 AS PROPOSED BY THE U.K WOULD BE NON-NEGOTIABLE. BUT HE THOUGHT THAT AN OVERALL PATTERN OF 10, 12 AND A HALF, 15, 15 MIGHT BE WORTH PROPOSING. MR RIFKIND SAID THAT HE WOULD CONSIDER FURTHER THE QUESTION OF AN OVERALL REGIME GIVING 52 AND ONE HALF PERCENT REDUCTION ON THE FIRST THREE YEARS, BUT THAT IT WAS ESSENTIAL FOR THE U.K TO HAVE A FIRM QUOTA ALLOCATION OF 5,000 CARS AND A QUOTA THAT ROSE TO 48,000. RUHFUS (FRG) SAID THAT GERMANY COULD NOT ACCEPT NATIONAL ALLOCATION OF THE CAR QUOTA. THE FRG WOULD IN ANY CASE HAVE TO GET MORE THAN THE COMMISSION'S PROPOSAL IMPLIED. DUMAS REPEATED THAT 6,200 UNITS WAS NOT ENOUGH FOR FRANCE. RUHFUS SAID THAT SOME ELEMENT OF FRONT LOADING COULD ENABLE THE COMMUNITY TO DROP THE REST OF THE PACKAGE INCLUDING CARS. DAVIGNON POINTED OUT THAT THIS WOULD BE POLITICALLY IMPOSSIBLE FOR THE U.K AND ITALY. THEREAFTER DAVIGNON BULLIED AND BARRY (PRESIDENCY) PLEADED BUT MR RIFKIND CONTINUED TO INSIST ON THE REQUIREMENTS MENTIONED ABOVE.

13. IN SUBSEQUENT TELEPHONE CONTACT WITH GONZALES DAVIGNON FOUND THAT SPAIN COULD ACCEPT A QUOTA OF 45,000 CARS FOR YEAR THREE WITH SOME REDUCTION IN THE COMMERCIAL VEHICLE QUOTA, BUT WERE UNWILLING TO MOVE ON THE GENERAL TRANSITION REGIME.

FCO ADVANCE TO:

FCO - PS/SOS, PS/MOS, PS/PUS, RENWICK, CROWE
EVANS ECD(E) (DESKBY 290800Z)

DTI - PS/NOT, WILLIAMS, LACKEY, BROTHERTON (ECIP).

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