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CONFIDENTIAL

Prime Minister
Agree to discussion
in E(A)?

EDP 12/2

Yes

PRIME MINISTER

VEHICLE EMISSION LIMITS IN THE EC

I am writing to bring you up-to-date with the present state of negotiations on the question of vehicle emissions in the EC, and to suggest an E(A) meeting to discuss our position in the light of recent developments.

2 As you know, the FRG have decided to introduce:

(i) US vehicle emission standards from 1988 for cars of two litres and more, and from 1989 for all others;

(ii) fiscal incentives to encourage the purchase of cars conforming to those standards from the beginning of 1986.

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3 The FRG proposals require three-way catalyst technology, which we regard as costly and inefficient. Our preference is for the development of lean-burn engines which should be in mass production by the end of this decade. Although they will not achieve US standards, they will be rapidly approaching them.

4 However the FRG decision is likely to split the Western European car market in two by 1989 because the Nordic countries, Switzerland, Austria, Denmark and possibly Benelux will follow FRG.

5 We therefore agreed at E(A) in November that we would work with other Member States and try to formulate an approach which would leave FRG isolated. The reasoning was that, if isolated, FRG would be less likely to take unilateral action, and might instead settle for a compromise expressed in a "permissive" Directive. The possibility of a challenge to the Federal Government's original plans in the European Court would provide it with a way of countering domestic criticism of such a compromise.

6 It soon became clear in subsequent negotiations at Brussels that any compromise on an EC standard was likely to entail permissive approval of US emission standards for vehicles of two litres and above from 1989. This is

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certainly not something which we would agree to accept willingly, but it would be a great deal better than conceding indefinite partitioning of the internal market in vehicles. And it would be worth accepting if it would leave out from US emission standards the middle section of the market - i.e. from 1.4 to 2 litres - which is the section of most importance to BL and to the other UK vehicle manufacturers.

7 Our aim has been to preserve a united front with France and Italy, and to try with them to reach a joint compromise with FRG which would not involve US emission standards for vehicles of below two litres. However, FRG now appears to be trying to buy off the Italians and the French by offering concessions to them at the lower end of the market - i.e. up to 1.4 litres - which is of prime importance to them. In exchange, it would expect them to accept US standards for the middle range.

8 There is therefore a risk that the UK will find itself isolated on this issue at the Environment Council on 7 March, and that the subject will then feature prominently at the next European Council on 29-30 March.

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9 I think that we have now to decide what our negotiating tactics should be. I understand that an inter-departmentally agreed report should shortly be produced by officials in E(QS) on the options that face us, and I suggest that we should then discuss the matter at an early meeting of E(A).

10 I should be grateful for your agreement to this course of action.

11 I am copying this minute to other members of E(A) and to Sir Robert Armstrong.

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12 February 1985

Department of Trade and Industry

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10 DOWNING STREET

From the Private Secretary

13 February 1985

Dear Callum,

Vehicle Emission Limits in the EC

The Prime Minister has noted the Trade and Industry Secretary's recent minute on this subject and agrees to discussion at an early meeting of E(A).

I am copying this letter to the Private Secretaries to members of E(A) and to Richard Hatfield (Cabinet Office).

Yours sincerely
Charles Powell

Charles Powell

Callum McCarthy, Esq.,
Department of Trade and Industry.

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The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
LONDON
SW1H 0ET

MS/M
COO
26/2
26. February 1985

Dear Norman

VEHICLE EMISSIONS

In your letter of 12 February you drew attention to the possibility of a compromise standard agreed between the French, Italians and Germans, being unsatisfactory to us because it would involve US limits (3 way catalyst technology precluding lean burn) for the important sector of medium sized cars between 1.4 and 2 litres engine capacity.

I can see that this is a danger, but for a number of reasons I think it should not deter us from remaining firm in our opposition to US standards for medium size cars. The first reason is that only the Germans (with the Danes) actually want US standards at all. Our opposition would continue to be in line with majority opinion on the substantial point. Secondly, I believe that time is on our side in helping to win the argument, and that we should not be rushed into concessions merely to stop the Germans introducing fiscal incentives - which seems to be France's main objective at the present time.

Although fiscal incentives are clearly undesirable in principle, the evidence is that they will work badly and cause confusion from which German consumers and manufacturers will be the main sufferers. This in itself will increase internal pressures on the German Government to accommodate our views so as to obtain an agreed amendment to the Directive which they can then enforce as a mandatory requirement. Without an amendment to the existing Directive any new requirement would be in clear breach of the Treaty - and I do not believe the Germans would take plainly unconstitutional action for the sake of the marginal gains obtained from implementation of US standards for medium size cars, as compared with a regime allowing these cars to exploit lean burn technology, which they are in sight of obtaining by negotiation.

I am copying this letter to the Prime Minister, Members of E(A) Committee and Sir Robert Armstrong.

Nicholas Ridley

NICHOLAS RIDLEY

26 FEB 1985

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PRIME MINISTER

VEHICLE EMISSIONS LIMITS IN THE EC

I agree with Norman Tebbit's suggestions, in his minute of 12 February to you, that an E(A) meeting should be held to review our current position on vehicle emissions in the light of recent developments in the EC negotiations. The meeting should, I suggest, be held well before the Environment Council meeting on 7 March, when the issue will next go before EC Ministers.

The Society of Motor Manufacturers and Traders have recently written to William Waldegrave expressing concern at some of the possible compromise solutions that might emerge in negotiations. I have asked him to meet the industry to discuss this further, and to invite Norman Lamont and Lynda Chalker to join him.

I am copying this minute to Norman Tebbit, other members of E(A) and to Sir Robert Armstrong.

PJ

P J

20 February 1985

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Part 3

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