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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5144

GTN 215)

(Switchboard) 215 7877

From the Minister for Trade

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
SW1

One Minute

Now Charles

MW

20
21/12

December 1984

SPANISH ACCESSION: INDUSTRIAL TARIFFS

You might like to have details of the agreement which the Community reached with Spain early this week on the arrangements for the dismantlement of the industrial tariffs and on the special arrangements for cars after enlargement. Mr Channon represented the UK for this item at the meeting of the Foreign Affairs Council.

2 The agreement provides for the dismantling of tariffs in seven years so that after three years the tariffs will be reduced by 52½%. In addition there is a low tariff (17½%) quota for cars starting at 32,000 in 1986 rising to 36,000 and 40,000 over the next two years.

3 A major problem was the inability of the Community to agree on national shares of the low tariff car quotas. On every basis acceptable to most of the others, eg past trade, the UK share would have been miniscule. In the end the UK and Italy were given reserved shares of 2,000 a year each, with the rest available on a free-for-all basis, subject to Commission monitoring.

However, with Vice-President Davignon's assistance Mr Channon made a private agreement with the Spanish Foreign Minister which gives us a guaranteed allocation of 5,000 cars in year one with 6,000 and 7,000 in subsequent years. These figures are to be confirmed in an exchange of letters. We cannot in public refer directly to the Spanish undertaking. We can, however, say that we are confident that the UK share will come to about 5,000 cars in 1986, rising appreciably thereafter. We can also say that the Spanish have agreed to make interim improvements to the existing quotas for the second half of 1985, before Spain formally joins the Community.

4 Mr Channon believes that this is the best settlement we could achieve in the circumstances. He will be writing to West Midlands MPs about the outcome. Davignon has understood our position and been helpful to us all along; but there has been no support and little sympathy from other Member States. It was therefore important, if possible, to get an agreement before Davignon left the Commission.

5 The settlement gives something for all our exporters by packing 52½% of the duty reductions into the first three years. For cars (of course the most politically sensitive aspect of this issue) there will be a reduced duty quota more than double what we have now, with further increases thereafter, at a level of duty which is a substantial improvement on the present position. We are also getting something on account in 1985.



6 This is additional to the benefits which will come when Spain introduces VAT, which she must do by accession. VAT will end Spain's present tax discrimination against imports. Taking tax and duty burden together, UK cars outside the quotas trade at a 60% disadvantage against Spanish-made ones. This will have been halved one year after accession.

7 Austin Rover now have a chance to build up their position in Spain. It remains to be seen whether they are able to make use of it. Total UK car exports to Germany (whose car market is four times the size of Spain's) were only 7,300 in 1983, despite the total lack of tariff barriers.

8 I am copying this letter to Colin Budd and Anthony Cary (Foreign and Commonwealth Office) and to Richard Hatfield (Cabinet Office).

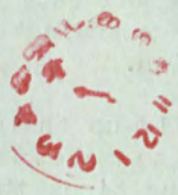
Your sincerely
Steve

STEPHEN NICKLEN
Private Secretary to the
Minister for Trade

20 December 1984

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24 December 1984

This is simply to record that the Prime Minister has seen and noted your letter of 20 December about industrial tariffs following Spanish accession. She was grateful for this report.

(Timothy Flesher)

S. Nicklen, Esq.,
Department of Trade and Industry.

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