

SECRETARY OF STATE FOR TRADE OFFICE MINUTE NUMBER: 399/83

MEETING BETWEEN THE SECRETARY OF STATE AND MINISTER FOR TRADE
AND MR HAL MILLER MP: THURSDAY 3 MARCH 1983

Those present:-

Secretary of State for Trade
Minister for Trade
Mr Michael Neubert MP

Mr Ian Gow MP
Mr Hal Miller MP

The purpose of the meeting was to discuss with Mr Miller United Kingdom-Spain trade relations, particularly in respect of cars and car components. The meeting, as Mr Gow explained in his introduction, followed one between the Prime Minister and a number of Conservative MPs from the West Midlands shortly before Christmas. It was stressed by both sides that the meeting was a private one: Mr Miller had not informed his West Midlands colleagues of it. Discussion concentrated on HMG's attitude to the problem, and the particular concerns of the West Midlands.

HMG VIEW

Mr Gow began by recalling the Prime Minister's meeting. The Prime Minister had made clear that the Government shared the concern about the imbalance in trade terms between the United Kingdom and Spain. We were seeking to redress this through EC action: if this were not successful the Government would need to consider other steps.

The Secretary of State emphasised that the issue had been a great concern to him throughout his term of office, and he had made this clear in public statements. The problem was serious, and the trade terms unfair. The root problem, the terms of the 1970 EC-Spain Agreement, had been inherited by the United Kingdom on accession. For some time it had been hoped that the issue would be resolved by Spanish accession, but the date of accession was slipping back. Recognising this, the Government had increasingly made it clear that the problem must be on its way to solution ahead of Spanish accession being completed. There had been intensive discussions in Brussels by both the Minister for Trade and Mr Gray (Deputy Secretary/Department of Trade), and the Secretary of State had himself spoken to Commissioner Natali before the February FAC stressing the need for progress. It was made clear to the Commission that the portfolio could not be closed, however difficult. These discussions had, however, been kept at a relatively low profile. Otherwise other Member States would confuse the issue with their own demands and concerns. Spain would naturally wish to seek concessions in the agricultural sector for any in the industrial: on this the EC would not readily unite.

The Secretary of State fully recognised the seriousness of the problem. But it was important to remember the facts. These were that actual imports of Spanish cars into the United Kingdom had fallen from some 70,000 in 1980 to 50,000 in 1982. Over the same

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period our admittedly very small exports had risen sharply in percentage terms: from some 400 to 1,500. Component exports had also increased in money terms. Overall, there was a general balance on visible trade, and the substantial invisible imbalance was largely attributable to tourism. The latter could not easily be remedied.

The Secretary of State again emphasised that he recognised that United Kingdom-Spanish car trade was a high profile issue, on which something had to be done. The Government was not relaxing its efforts. Negotiations did, however, have to be pursued with some stealth and confidentiality. He felt that the Spanish government would undoubtedly offer something. The question was whether it would be adequate, particularly since any settlement would necessarily have to apply to all EC Member States. But some solution was needed to dispose of the "grit" in the accession discussions.

Mr Miller asked whether the negotiations with Spain were limited to cars. The Secretary of State and the Minister for Trade said that other issues were involved: for example, blonde tobacco and whisky exports to Spain.

WEST MIDLANDS POSITION

The Secretary of State asked whether the West Midlands' real interest was in the import of Spanish cars, or the export of United Kingdom ones.

Mr Miller said that there were two interest groups. The component manufacturers might have enjoyed an increase, but it was only a small one. Furthermore, there were indications that Ford might, because of the delay in accession, be looking to source more components (from small castings to gear components) domestically in Spain. In addition, it was a particular source of complaint that the GM Nova incorporated only £74 worth of United Kingdom components per car.

Secondly, there was the concern of the assembly manufacturers - essentially BL. Their main concern was the potential level of Nova exports. There were some signs that United Kingdom sourcing of Fiestas was being switched to Germany and, indeed, the United Kingdom. But the prospect of the Nova on top of Fiesta supplies, leading to Spanish exports of some 75-100,000 per annum, was manifestly unfair. The Spanish motor industry was now larger than the United Kingdom's, but gross disparities of trade opportunity between the two countries remained. It was this point which backbench MPs had concentrated on. If there were not signs of real progress towards redressing the problems of access to the Spanish market, there would be very considerable pressures for import restraint measures. He, personally, would not welcome this - but he had to recognise the realities of the situation.

The Secretary of State again emphasised that he recognised that there needed to be clear signs of progress. He could assure Mr Miller that the government was pursuing the problem vigorously. It had been raised with the Commission very shortly after the

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Prime Minister's meeting, and the pressure was being maintained: Commissioner Natali was under instructions to report further to the March FAC.

In the longer term, the introduction of VAT by the Spanish government would also help. This was due to take place in the course of 1984, and would help remove the distortion of present non-tariff taxes.

Mr Miller said that he understood that the effect of a reduction of the tariff to 20% would, because of taxes, reduce the retail price of United Kingdom car exports by only 8%. Politically, VAT alterations in 1984 was a long time off. Indeed, assuming a VAT level of 22% his calculations showed that there would remain a 30% difference in the sale price of Spanish and United Kingdom cars. He offered to send copies of the calculations to the Department. The Minister for Trade emphasised that it was a very complex calculation, but a important element was the terms of valuation for imports.

POSITION OF UNITED KINGDOM CAR MANUFACTURERS

The Secretary of State said that he had had discussions with both Ford (United Kingdom) and GM (United Kingdom). Ford had stressed the extent to which they were net exporters from the United Kingdom: Mr Miller suggested that this might not, in fact, be the case. The Secretary of State recognised that this was certainly not the case for GM, and that he would seek to clarify Ford's position.

The Minister for Trade probed BL's ability to take advantage of improved access to the Spanish market. Mr Miller was under no illusions. At present, BL had only 27 dealers in Spain, and was selling some 2,000 units per annum. But there was potential. BL had its own importing agency, and in the right trading environment could expect to increase its market in some 18 months.

CONCLUSION

Mr Miller stressed that his concern was that the present position was perceived in the West Midlands to be intolerable: statements by Mr Jenkin as well as the Secretary of State echoed this. The issue had become a "totem pole". There was a limit to how long he, and his colleagues, could claim that the matter was being dealt with urgently, if there were no tangible results. As a result of the Prime Minister's meeting some form of deadline was thought to have been set for the end of March - if not earlier. He recognised that negotiations inevitably had to be conducted in some secrecy, but time was running out. Results had to be apparent within the next few weeks.

The Secretary of State agreed with Mr Gow that it would be wrong to suggest, at this stage, that matters would be resolved by a specified date. But clearly the matter was urgent. He recognised that there were problems for component suppliers as well as car

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manufacturing. He also agreed that further consideration should be given to the sourcing activities of Ford and GM.

Finally, Mr Miller agreed with the Minister for Trade that it would be valuable if they could further discuss the handling of any Parliamentary business which touched on the issue, particularly Parliamentary Questions.

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cc PS/Ministers
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