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FROM SIR MICHAEL EDWARDES.

11th February, 1980.

The Rt. Hon. John Nott, M.P.,  
Secretary of State for Trade,  
1 Victoria Street,  
London, S.W.1.

*Dear Secretary of State,*

I have decided to write to you personally to register my deep concern and seek your assistance on a number of trading matters which are exacerbating the competitive pressures BL faces in its home market. All the matters have been raised previously with senior officials in the Department of Trade and, although one item is primarily the concern of Transport, all have Trade implications.

In the 1980s BL faces a major battle for market share. Competitive pressures which have contributed to the decline in our share of the domestic U.K. market in 1979 will become even tougher in 1980 given an anticipated reduction in the size of the total market, for cars, for instance, from over 1.7m. in 1979 to around 1.4m. for 1980. Yet some of the competitive pressures we face do not seem to accord with what is reasonable and fair, while some of our EEC partners, as well as other countries with whom we trade, appear to give a higher priority to the health and prosperity of their industries. BL, however, is advised that the U.K. Government is heavily constrained in the action it can take in those areas where we have expressed concern with the implication that BL cannot expect similar assistance from the U.K. Government. We really do seem to continue to play cricket while other countries only apply those rules which are to their own advantage.

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BL is in no position to overlook these matters, nor would I have thought is Government, given its substantial stake in the company. I suggest it makes little sense to back the company financially, yet be reluctant to back it as positively in other areas.

There are four issues to which I wish to draw attention.

1. Spain

As I am sure you know, the rapid growth of the Spanish motor vehicle industry has been based on a heavily protected domestic market and heavy inducements on manufacturers to export. With the expansion plans recently announced by GM and Fiat the industry is poised to overtake the U.K. in production in the early 1980s and cannot any longer be considered in the infant category.

It did appear last April that the Spanish Government were about to liberalise the car market, but although quotas were removed duties remained prohibitively high. More recently, the Spanish authorities announced a duty-free import quota for cars, but it seems that this is likely to be allocated only to those companies with established manufacturing plants in Spain. In short, to all intents and purposes, Spain remains a closely protected market. The worst aspect of the situation is that Spain is now the manufacturing base from which manufacturers established there are vigorously exporting cars to other EEC countries.

I understand that the Department of Trade is formally complaining to the EEC Commission that Spain's discriminatory action on duty-free quotas is, prima facie, in breach of the EEC/Spain Agreement. I hope this action is successful since it greatly concerns me to see market opportunities deliberately denied us while exports from Spain freely enter the U.K. market - in fact, some 50,000 Spanish built cars were registered in the U.K. last year while the U.K. exported only about 300 cars to Spain. I urge that you take a close personal interest in this matter.

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## 2. Eastern Europe

Over a long period we have registered our concern about the pricing policies adopted by Eastern European manufacturers in the U.K. market. While it seems clear to us that, on any normal criteria these cars are dumped, it appears that to succeed in any action to rectify this situation we need to bring the rest of the Community along with us; if the SMMT puts forward an anti-dumping case, it needs the support of its counterpart European trade associations and, if we, BL, go forward, we need the support of other Common Market manufacturers. Given the involvement of Renault, Fiat and Citroen with East European manufacturing projects, I believe there is no realistic possibility in either case of obtaining such support.

In the meantime, the East European share of the U.K. market, although still relatively small, continues to grow steadily and reciprocal trade remains negligible. Thus sales of East European cars have grown from 2,000 in 1970 to 28,000 in 1978 and 39,000 last year. By comparison in 1978 the U.K. sold only 400 cars to Eastern Europe and 1979 sales are likely to be of a similar magnitude.

We are informed that the only alternative to Community action is for the Department of Trade to "take a close interest in" the level of vehicle imports from East European countries. Of course, we are grateful for any leverage that can be applied. But I believe the time has come to act: something must be done soon to stop the extensive dumping now prevalent from Eastern Europe.

## 3. Type Approval

It is common knowledge that type approval procedures can represent potent barriers to trade; the corollary of this is that the absence of type approval processes creates a market relatively open to import competition. While the following paragraphs refer to a subject matter which is directly the responsibility of the Department of Transport, it has trading and competitive implications for the U.K. and B.L.

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- a) CARS. Unlike other vehicle manufacturing countries and our EEC partners, the U.K. lacks unique standards for vehicle type approval and bases its National Type Approval system on EEC Directives. Our EEC partners, however, all have national systems and standards which preceded the development of EEC Directives, and are able to retain the unique features of these. In consequence vehicle importers have to undertake the additional engineering work necessary to comply with these and go through time consuming national homologation procedures in order to secure type approval.

While our EEC partners are able to retain their unique National systems, the U.K. is under pressure from the EEC to abandon the one unique aspect of its own Type Approval process, namely the Minister's Approval Certificate (MAC) and the sub-MAC system. This is held to discriminate against imports from other EEC countries.

What particularly disturbs me is that we appear about to relinquish this without securing any benefit for the U.K. At the very least, the MAC procedure ought to be used as a bargaining counter to secure some form of reciprocal EEC arrangement for the granting of Whole Vehicle Type Approval on the basis of EEC Directives.

In pressing this view, I am conscious too of the publicly declared opposition of the French to the BL-Honda project; it would not surprise me in the least to see French National Type Approval regulations being invoked to obstruct BL's efforts to sell this car in France. Until we are confident this is not an obstacle it seems extremely foolish to abandon our only direct counter measure and bargaining counter in negotiations on European vehicle type approval.

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- b) **COMMERCIAL VEHICLES.** On commercial vehicles the U.K. has no National Type Approval system at all; any importer can bring any truck into the U.K. market and sell it without any check having been made that it complies with U.K. legislation. Only if subsequently it is identified as contravening "Construction and Use Regulations" is action possible. In practical commercial terms this means that importers can and do import trucks to meet individual customers' requirements and sell them without hindrance. By comparison, BL has to ensure that its trucks adhere to Construction and Use Regulations where they are for sale in the U.K. and also conform with the type approval regulations of other markets in which we wish to sell; in the latter case - and this applies to other EEC countries - this means that we have to be highly selective in the specifications we sell and cannot afford to offer customers the freedom of choice of our total product range. I find this situation quite incredible and, with the rapid growth of truck imports into the U.K. a real threat to the survival of our Commercial Vehicles business.

David Abell and other senior executives of Leyland Vehicles Limited have been in touch with the Department of Transport at Permanent Secretary level to suggest ways in which the U.K. could redress the balance by developing U.K. national type approval for commercial vehicles but so far there are no positive results. I really do urge that we address this question as a matter of urgency.

#### 4. Japan

There is, finally, a further issue to which I wish to refer, namely the matter of the need for continuing restraint by Japanese manufacturers of their vehicle exports to the U.K. In this area I readily acknowledge that the U.K. motor industry, its many thousands of suppliers, and BL in particular, have been greatly helped by the considerable support which the Department of Trade has lent to the efforts of the SMMT.

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A further round of SMMT/JAMA talks has just ended. Our impression is that the Japanese have accepted - reluctantly - a period of further restraint for 1980: but the understandings are opaque, if not ambiguous, and were only arrived at after some very blunt talking by the British side. Moreover, we are clear that it will be essential to obtain confirmation and reinforcement of the undertakings during the course of this year: as far as we are concerned, the Japanese are committed to not exceeding 10% of the total U.K. car market.

I hope your Department, with the assistance of FCO and the Embassy in Tokyo, can help to do this in no uncertain terms: as I have, I am sure, already demonstrated, we need this restraint now more than we ever did. In particular, we need to make it crystal clear to the Japanese that this policy of voluntary restraint must continue into the future: the suggestion I saw recently in the press that in 1981 the system could begin to be dismantled is totally out of the question, in my view.

I attach a copy of the jointly agreed minutes of the recent SMMT/JAMA meeting: these are not to be published but it was agreed they would form the basis of informal press briefing.

Thus with the exception of Japan, on all the other items I have mentioned above BL - and the U.K. - loses. I regret to note that in almost every instance the common thread linking these problems is the apparent inability of the U.K. Government to act because of some limitation imposed on us by the European Commission or the ramifications of Community membership. I quite understand that any club requires its members to observe rules but it does appear that there are more rules applying to the U.K. than to other EEC countries! Is this really the case, or are we simply reluctant to act, or have we simply failed to realise that in today's world economic climate charity begins at home? Historically, BL has been a staunch supporter of U.K. membership of the Community, but there are occasions when I really begin to wonder where our true national interests rest, if we are to play the game according to different rules to those followed by our "partners".

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In the next year or two we will need all the help we can get. I cannot believe that the Government is really as powerless to assist in these matters as it appears to be and I do earnestly seek your assistance to redress the unequal situation we face in these areas.

I propose to continue the dialogue on these broad matters with the unions.

I am sending a copy of this letter to Sir Keith Joseph, Mr. James Prior and Mr. Norman Fowler.

Yours sincerely,  
Michael Snowe.