

The accession negotiations between Spain and the European Community: the case of the industrial sector, 1979-1985

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The Spanish accession into the European Communities (EC) in 1986 is considered, admittedly, as a historic milestone in Spain's contemporary history. After approximately 40 years of political isolationism under the Francoist regime, the first democratic elections in Spain took place in June 1977. In July of the same year, the elected government submitted the official application for the EC membership. The accession negotiations between Spain and the European Community were officially launched in February 1979 and, after an arduous negotiating process, both parties signed the Treaty of Accession in June 1985.

The EC enlargement acts as a transformative force for the economy of the EC, the older member states, and the new member itself, as it deepens and widens the Community market of goods and services and integrates a national economy into a larger European one. This important process leads the parties involved to launch reforms and measures to smooth the impact of this economic change on the most vulnerable economic sectors. Although scholars usually assess the economic impact of any EC enlargement by analysing the period after the signature of the Treaty of Accession, it is during negotiations before accession when governments and European institutions set the terms under which economies transit towards the new scenario. This challenging undertaking frequently causes the clashing of interests between the candidate and the Community, and among the EC member states, which unleashes disputes throughout the negotiating period.

In the case of the Spanish enlargement, despite being a process of economic nature, accession negotiations have been traditionally investigated from a political and diplomatic perspective. Historical scholarship assesses the Spanish enlargement within the framework of the Southern European enlargement studies with a focus on its political dimension within a Cold War context. Insightful research has been carried out on the idea of democratic consolidation of these countries and the way that the EC emerged as a civilian power through the enlargement policy.¹ Nevertheless, any reference to the economic dimension of the Spanish accession has been limited to the agriculture dossier. This sector has been traditionally considered the central and most conflictive element of accession negotiations due to its high electoral and political relevance to the French, who reacted against integrating the Spanish competitive agriculture into the Community market.² However, other economic sectors have been largely neglected by historiography. By exploring how the integration of Spain's industrial market into the EC customs union was shaped in the framework of accession negotiations, this paper aims to shed light on the importance of the economic aspects of the Spanish accession into the EC.

When Spain became an official EC membership candidate in February 1979, its industrial market remained highly protected despite the EEC-Spain 1970 Trade Agreement.³ In this sense, the Spanish economy's opening would entail benefits, but it was crucial to do it through a gradual process to avoid jeopardising the domestic industrial market. The Spanish industry grew significantly after 1960,

¹ Emma De Angelis and Erini Karamouzi, 'Enlargement and the Historical Origins of the European Community's Democratic Identity, 1961–1978'. *Contemporary European History* 25, no. 3 (2016): 439–58; Erini Karamouzi, 'Enlargement as External Policy: The Quest for Security?', in Ulrich Krotz, Kiran Klaus Patel and Federico Romero (ed.), *Europe's Cold War Relations: The EC Towards a Global Role*, London: Bloomsbury Academic, 2020, pp. 185–205.

² Julio Crespo MacLennan, *Spain and the process of European integration, 1957-85*, Basingstoke; New York: Palgrave in association with St. Antony's College, Oxford, 2000; Matthieu Trouvé, *L'Espagne et l'Europe: de la dictature de Franco à l'Union européenne*, Bruxelles: P. Lang, 2008; Sergio Molina García, *Una llave para Europa. El debate agrario franco-español y la adhesión de España a la CEE, 1975-1982*, Madrid, Ministerio de Agricultura, 2020.

³ Jesús M. Zarategui, *Europa, no sin España (1968-1978)*, EUNSA (Universidad de Navarra), 2017. The trade agreement was between the European Economic Community (EEC) and Spain.

becoming the driving force of the rest of the national economy. The progressive structural change taking place in the Spanish economy increased the relative importance of the industry sector in Gross Domestic Product terms, while agriculture's relative weight declined.⁴ However, the fact that the Spanish economy was still relatively closed had conditioned the emerging industrial market structure. In 1979, the Spanish market was characterised by the presence of a vast number of small and medium-sized firms with low productivity.⁵ These enterprises' size was, mainly, a consequence of the type of Spanish economic growth, which reflected the existing link between the firms' size and market volume, characterised by the lack of economies of scale. Therefore, as the European Commission claimed, 'the dismantling of tariffs will have a greater effect on those firms which owe their development or their survival to the protection provided by the customs tariffs or by non-tariff measures'.⁶

On the other hand, however, the opening of this market of 40 million consumers represented an opportunity for the Community market expansion and foreign investment. This would result in new economic growth potential for the European economy in a complicated juncture of economic stagnation that required internal changes in the EC.⁷ How the Community would maximize the benefits and, conversely, Spain would reduce the potential costs of the market opening was the crux of the whole matter.

How was the dismantling process of the Spanish protectionism negotiated? Which were the main stumbling-blocks? In order to answer these questions, this paper adopts a political economy approach and focuses primarily on national governments and Community institutions. In addition to assessing negotiations at the governmental and supranational level, this paper explores how economic non-state actors, such as big business or business organisations, participated in and shaped, at certain moments, the content and course of bilateral and intra-Community negotiations. This qualitative study uses primary sources from national and European Union archives.

The struggle between protectionist and liberalising forces of the economy was at the core of the main conflicts of EC-Spain accession negotiations. This paper shows that the dispute over how and under what conditions the Spanish industry should integrate into the European economy converged in three negotiation elements: the tax harmonisation, the tariff transition period, and the high tariffs of the car industry. These three apparently technical issues emerged as main stumbling blocks and dominated much of the political discussion between the Spanish and the Community delegations.

The Value Added Tax regime

The implementation of the Value Added Tax (VAT) by Spain was one of the main requirements to become a member state established by the Community authorities. Although, at first sight, it does not seem related to the integration of Spanish the industrial sector into the EC market, both elements were closely linked during accession negotiations. The Spanish tax system discriminated against foreign products, becoming one of the factors behind the Spanish industrial growth during the 1960s and 1970s. The tax discrimination had boosted the Spanish exports to the EC market and had reduced the increase of imports.⁸ While cross-border trade was taxed by EC member states under the VAT regime – based on the payment of VAT in the country of destination –, Spain applied a compensation rate on imports and exports as a consequence of a national multi-stage tax system. However, this compensation rate, which was supposed to be the same amount as the indirect tax rate applied to the domestic economy, was *de facto* higher. As a result, these so-called 'border tax adjustments' were excessively

⁴ Albert Carreras and Xavier Tafunell, *Historia económica de la España Contemporánea (1789-2009)*, Barcelona: Crítica, 2010, pp. 333-366.

⁵ Albert Carreras and Xavier Tafunell, *Estadísticas Históricas de España : Siglos XIX-XX*. Bilbao: Fundación BBVA, 2005, p. 721.

⁶ 'Commission's opinion to the Council concerning the Spain's application for accession', COM (78) 630 final, Brussels, 30 November 1978, p. 16. All COM documents cited in this paper can be freely accessed at the COM files collection available at the Historical Archives of the European Commission (in Brussels) website, https://ec.europa.eu/historical_archives/archisplus/arcp_central.cfm?lng=EN&page=com_recherche.

⁷ Barry J. Eichengreen, *The European Economy since 1945: Coordinated Capitalism and Beyond*, Princeton University Press, 2006, chapter 9.

⁸ Carreras and Tafunell, *Historia económica*, p. 352.

taxing imports and subsidizing exports.⁹ Despite its benefits for the Spanish industry, this tax system was against the Community legislation and the EC member states' interests. Therefore, the VAT regime's implementation by the date of accession aimed to harmonize competition conditions.

Disagreements on how and when the VAT regime should be implemented in Spain became the main stumbling block of accession negotiations on the industry from 1979 to 1982. While the Community demanded the introduction of the VAT regime from the date of accession (if not earlier), Spain stated that it was necessary a long transitory period after the date of accession to introduce the new tax system progressively.¹⁰ The Spanish business organisation also participated in the discussion by exerting pressure on the Spanish government. Besides the obvious concern about losing the protection that the current tax system provided, the Spanish businessmen argued against the more significant fiscal pressure of the VAT regime. García Crespo insightfully shows that, according to the Spanish businessmen, the firms' productivity depended on the national government's economic and fiscal policy. This argument left aside the effects of macroeconomics and the internal firm's management on productivity changes and placed full responsibility on the Spanish administration.¹¹ Therefore, in the businessmen's view, by implementing the VAT regime, the government would be responsible for reducing the Spanish firms' competitiveness and productivity. This was the main rationale behind the businessmen's attempts to influence the Spanish authorities' position against the Community's demands.

Finding a solution to this conflict that was acceptable to all parties concerned was not an easy task. Tensions between EC member states and Spain reached their peak in July 1981, when France set the Spanish undertaking on VAT as a previous compulsory condition for the progress of accession negotiations on the industry.¹² After several months of harsh disputes between the EC and Spain, and between the Spanish delegation and the businessmen, an agreement was reached in February 1982. Spain eventually accepted the implementation of the VAT regime by the time of accession. However, as compensation, the Spanish requested a long-post accession tariff transition period to achieve a harmonious integration of the Spanish industry into the EC market.¹³ From that moment on, the duration of the tariff transition period turned out into the second point of contention between both parties of negotiations.

The tariff transition

In any enlargement of the EC, the candidate is compelled to accept all rules and legislation of the Community, the so-called *acquis communautaire*. The only aspect subject to negotiation is the length of the transitory period from the day of accession until the full implementation of the *acquis*. In the Spanish accession negotiations, both parties negotiated the period during which Spain would have to dismantle its tariff and non-tariff protection to integrate the Spanish industrial market into the EC customs union. Unsurprisingly, Spain requested a long transitory period, ten years, with most dismantling occurring in the last years. Ten years was the minimum period that the Spanish government needed to carry out a restructuring programme that permitted the Spanish firms, small and low-productivity, to compete in a bigger and more competitive market.¹⁴ By contrast, however, the EC member states called for a short transition period, three or five years, with a rapid tariff dismantling from the first year. This request's logic was to rectify the imbalance of concessions granted to Spain by the EEC-Spain 1970 Trade Agreement. This agreement was another factor that had boosted, together with the tax discrimination, the Spanish exports to the Community during the 1970s. The EC

⁹ A summary of both EC and Spanish fiscal systems in Eduardo Abril Abadín, 'La política fiscal comunitaria y la problemática fiscal de la adhesión de España a las Comunidades Económicas Europeas', in *Problemas de la adhesión de España a las Comunidades Europeas*, Universidad de Oviedo, 1979, pp. 119-137.

¹⁰ HAEU, CMD5/ADH, 34.1, document CONF-E/12/79, Brussels, 23 November 1979.

¹¹ Guillermo García Crespo, *El precio de Europa: Estrategias empresariales ante el Mercado Común y la Transición a la democracia en España (1957-1986)*, Editorial Comares, S.L., Granada, 2019, p. 166.

¹² ADLC, 5173, n. 671, telegram from Raoul Delaye, the then French ambassador in Madrid, to the French Ministry of Foreign Affairs, Madrid, 27 June 1981.

¹³ HAEU, CM5/ADH, 50.1, document CONF-E/14/82, Brussels, 8 March 1982, pp. 23-24.

¹⁴ AGA, Caja 66/3943, n. 26, report entitled 'argumentos económicos petición periodo transitorio', Brussels, 27 January 1982.

member states had mistakenly granted advantageous concessions to the Spanish industry, which had damaged the EC trade balance with Spain. Therefore, a short tariff transition period aimed to redress it.¹⁵

Although the tariff transition seemed a minor technical element to be negotiated by experts, it became a significant discussion point at the political level. Political tensions between both parties lasted until December 1984. A solution was only feasible when the EC members agreed on an intra-EC dispute that further hindered the progress of the Spanish accession negotiations: the car-industry dispute.

The car-industry dispute

Hitherto, dispute on tariff dismantling had taken place in the bilateral negotiations between Spain and the EC. However, in mid-1982, the EC member states started to disagree on the removal of the Spanish high industrial tariffs, which mainly affected the car industry. From that moment on, a dispute began between two groups of EC countries. On the one hand, those countries with direct foreign investments within the Spanish car market, which benefited from its highly protective duties, were against a rapid tariff dismantling in this sector. This was the case of France and the car company Renault, the major shareholder of the Spanish branch FASA-Renault, the leading car producer in the Spanish automobile industry at the time.¹⁶ On the other, the EC member states that had not been able to penetrate the increasingly wealthy Spanish car market advocated for a rapid dismantling of the high industrial tariffs. The United Kingdom and Italy were the main representatives of that stance, largely influenced by the British Leyland company and FIAT, respectively.¹⁷

The struggle between protectionist and liberalising forces took place, on this occasion, at the heart of the EC. Automobile companies acted as an influential group of pressure, which diffculted the mutual understanding between EC countries. Eventually, a global ‘package’ solution was reached. All parties involved had to give some of their interests up. While Spain, and to some extent France, accepted an early and faster dismantling of high industrial tariffs that affected the automobile industry, the Community conceded a seven-year tariff transition period with a lineal dismantling for the rest of Spanish products.

Conclusions

Four concluding remarks can be drawn from this paper. Firstly, the study of economic elements can illuminate different negotiating dynamics that impacted at the political level, which the literature on the Spanish enlargement excessively focused on political aspects has neglected. Secondly, the groups of pressure with defined economic interests were able to influence and shape the course and the content of the Spanish accession negotiations. Thirdly, the very constitution of the EC, with multiple members and institutions, makes it inherently difficult to balance the EC member states’ economic interests and find a common position on a shared political goal (the Spanish enlargement). Lastly, the findings presented in this paper shed light on the complexity and relevance of economic issues when studying the history of European integration.

Abbreviations

ADLC Archives Diplomatiques La Courneuve
AGA Archivo General de la Administración
HAEU Historical Archives of the European Union
TNA The National Archives

¹⁵ ‘Commission communication to the Council on tariff questions for industrial products under the EEC-Spain agreement and the negotiations on the customs union in connection with Spain’s accession’, COM (83) 171 final, Brussels, 30 March 1983.

¹⁶ ADLC, 5175, n. 63, report on industrial relations between France and Spain drafted by the Ministry of Industry and Research, Paris, 29 November 1983. See Tomàs Fernández de Sevilla i Mansanet, ‘El desarrollo de la industria del automóvil en España: el caso de FASA-Renault, 1951-1985’. Tesis Doctoral, Universitat de Barcelona, 2013.

¹⁷ TNA, FCO 9/3631, n. 183, report entitled ‘Spain – Options for the tariff transition’, London, 30 September 1982.