

PREM 19/929

● PART 2 ends:-

●
m/Ind to m/FCO 23/4/82

PART 3 begins:-

m/Trade to m/Ind 18/5/82

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
OD (E) (80) 33	4. 12. 80
OD (E) (80) 17th Mtg Min 1	10. 12. 80
CC (80) 44th Concs Min 1	11. 12. 80
OD (E) (81) 7	17. 3. 81
OD (E) (81) 9	17. 3. 81
EQS (81) 7	27. 3. 81
OD (E) (81) 11	2. 4. 81
OD (E) (81) 12	2. 4. 81
OD (E) (81) 4th Mtg	6. 4. 81
CC (81) 25th Concs Min 3	25. 6. 81
CC (81) 37th Concs Min 3	19. 11. 81
CC (81) 40th Concs Min 3	10. 12. 81
CC (82) 8th Concs Min 4	4. 3. 82

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed R. Penman Date 31 Oct 2012

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

The Government and the Textiles
Industry. Dept of Trade, Sept. 1980

Trouble Looming : Low Pay in the
Wool Textile Industry. Steven Winyard,
Low Pay Unit .

ISSN 0307 - 8116, August 1980

Signed R Roman Date 31 Oct 2012

PREM Records Team



DEPARTMENT OF INDUSTRY
Ashdown House
123 Victoria Street
London SW1E 6RB

Tel: 01 212 6401
Switchboard 01 212 7676

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With the Compliments of the

Office of the Minister of State
for Industry and Information
Technology

Usie Davie's

cc Members of OD(E) Committee

Sir Robert Armstrong

PS/SOS

PS/MacGregor

PS/Mr Lamont

PS/Secretary

Mr Manzie

Mr Gill

Miss Mueller

Mr Bryant CT

Mr Farrow IC(A)

Mr Russell SBP

Mr Armstrong CT (on file)

DEPARTMENT OF INDUSTRY

ASHDOWN HOUSE

123 VICTORIA STREET

LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212

SWITCHBOARD 01-212 7676

6401



FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY

KENNETH BAKER MP

The Rt Hon Douglas Hurd MP
Minister of State
Foreign Office
Downing Street
LONDON SW1

23 April 1982

ACTION TO STEM STATE AIDS FOR TEXTILES

There is a gathering tide of opinion in the UK textiles and clothing industry that the increasing amount of state assistance being given by some of our European Community partners to their industry is distorting the free market of the Community to our disadvantage.

This view was expressed to me most forcefully recently when I met a delegation from the wool textile industry. One source of their ammunition is the Werner Report, which was paid for by the Department of Industry, on the relative competitiveness of the cloth sector of the wool industry. In fact the report is somewhat inconclusive. Further work by the Department suggests that there might in fact not be much of a differential. More particularly, however, the delegation pointed to new measures of assistance recently announced in France, Belgium and the Netherlands. And there is always the rather opaque assistance given by the Italian Government, which often subsidises lame ducks. A summary of the new aid schemes is attached.

There are of course Community rules about state aids enshrined in the Treaty of Rome (Articles 92 to 94) and there are specific Commission guidelines on aids for textiles. The underlying theme is that assistance should be granted only sparingly, that it should not distort competition in the Community market, should not prop up lame ducks and should not create additional capacity where none is needed. The Commission have shown themselves rather weak in enforcing these rules and guidelines. Despite strong representations, especially from ourselves, they approved the Belgian scheme, albeit in modified form. They are not getting very far in discussion with the French about their new measures and seem incapable of doing anything effective about the Italian measures.

M39/M39AAQ



I think that the assertions of the wool textile industry probably have some foundation, especially as regards the newest schemes of assistance. The UK industry has a number of advantages; its wage rates are lower than its Continental counterparts and it has excellent industrial relations. Of course it is affected by higher interest rates, though these are coming down, and what the industry argues is too high and too fluctuating an exchange rate against Continental currencies. Nevertheless, it is the state aids that would probably tip the balance against our firms.

The amount of aid going to the UK textile and clothing industry has decreased substantially in the last two years and will decrease further in August this year when much of Lancashire and Yorkshire, where the cotton and wool sectors are traditionally located, loses its Assisted Area status. In the financial year 1980/81, £88m was offered or paid (£59m of it under the Temporary Short Time Working Compensation Scheme (TSTWCS) compared to over £110m in each of 1977/78 and 1978/79. In 1981/82 to date only £52 million has been offered or paid (about half of it under the TSTWCS).

I am concerned at the growing trend among our Community partners to introduce new assistance for their textile industries. There are obviously beggar-my-neighbour features about this and it is in our interests to try to stop it. We certainly want to avoid joining the circle. The chances are not good that we could launch a successful direct attack on the Commission with a view to cutting back other countries' existing aids. It is always hard to get sufficient evidence to back up such cases. Moreover, we need to remember that some of the schemes have already been approved by the Commission. We could also be vulnerable to counter-attack for some of our own assistance outside the textile sector.

However, the Commission themselves have been unhappy about the increasing scale of textile aids - they agonised for months over the Belgian scheme and are concerned over the latest French plans - and indicated last year that they were about to strengthen their aid guidelines. They promised a paper on the subject; but have failed to produce it.

I believe that we should now urge the Commission at the highest level to tighten up the effectiveness of the existing machinery for controlling aids in this sector; their intended initiative should be implemented forthwith. Ideally, of course, an aids policy should exist as part of a general Community policy for all aspects of the textile industry; but to seek this would be to embark upon interminable discussions. It would be better to concentrate upon aids, where the Commission already have a definite function to perform. We can expect support for more effective Commission action from Germany (who, like ourselves, have no aid schemes aimed specifically at textiles and clothing). Indeed the Germans have lodged a complaint with the European Court over the Commission's handling of the Belgian aid scheme.



Officials have considered the form and content of such an initiative and the attached draft reflects their discussions and the comments of our permanent representatives in Brussels. If you and members of OD(E) agree, Patrick Jenkin proposes to write to Commissioner Andriessen as soon as possible.

I am sending a copy of this letter to colleagues on OD(E) and Sir Robert Armstrong.

Jenkin

Kenneth Baker

KENNETH BAKER



STATE AIDS FOR TEXTILES RECENTLY ANNOUNCED BY OTHER MEMBER STATES

FRANCE

November 1980 scheme

- textiles added to the list of strategic sectors giving easier access to interest-free or low interest loans, and creation of an export promotion centre
- £210 million allocated to projects in 1981
- plan not notified to the Commission

November 1981

- plan to reduce social charges by up to 12% conditional on textile firms agreeing specific investment and employment targets
- estimate of reduction in industry's costs is £180 million over 2 years
- plan ^{probably} not officially notified to Commission yet.

- Other - French Government covering losses of Boussac-Saint Freres (major French textile company) since appointment of receiver last June pending re-structuring of company
- £9 million interest-free loan over 15 years to help Prouvost (another major French textile firm) to broaden its capital base. The amount represents 50% of Prouvost's 1981 investment.

BELGIUM

December 1981

- Commission approval for first year of a proposed 5 year aid scheme to re-structure Belgian textile industry
- £90 million allocated for 1982 mainly in form of grants and low-interest loans
- sensitive products eg man-made fibres excluded from any aid; certain other products categories eg carpets, hosiery, terry towelling, where over-capacity exists need special prior approval before aid can be offered.

NETHERLANDS

- Commission approval in 1981 for £6 million aid scheme to help textile firms develop new products and raise quality.

TEXT OF LETTER FROM SECRETARY OF STATE FOR INDUSTRY
TO COMMISSIONER ANDRIESEN

STATE AIDS FOR THE TEXTILES AND CLOTHING INDUSTRY

I am writing to express my serious concern at the proliferation in the Community of schemes of Government aid directed specifically towards the support of the textiles and clothing industry. I fully recognise the considerable efforts which the Commission has made over many years to regulate subsidies in this sector. However, in the course of the past year, as the Commission is aware, substantial programmes of assistance involving £300m (540 million Ecus) have been introduced. This causes the United Kingdom great concern.

2 The textile and clothing industry throughout the world has of course been facing severe problems during the recession. Since the beginning of 1980, over 150,000 jobs have been lost in the United Kingdom alone, representing 20% of the UK workforce, production has fallen by 25% and over 700 establishments have closed involving a substantial loss of capacity. We have not introduced a sectoral scheme of Government assistance to ease this transition, because we believe that, within the framework established by the Multi-Fibre Arrangement, such matters should be determined in this sector by the commercial judgement of the companies concerned.

3 It is apparent that some Member States have chosen to embark on substantial programmes of state assistance for their textiles industries and this will inevitably increase competitive pressure on the industries of other Member States, including the UK. There is a real risk that the economic problems, particularly the unemployment, of the Member States giving this aid will simply be shifted elsewhere in the Community.

The situation will be exacerbated by the schemes in the pipeline, of which the Commission is aware.

4 An aids policy of this kind cannot be in the best long term interests of the Community. The Community has provided its industries with the framework of protection afforded by the new Multi-Fibre Arrangement. The industries should now aim to make the necessary adjustments to face international competition without continuing, costly Government subsidies. Firms in Member States with schemes of assistance, on top of the help afforded by the Multi-Fibre Arrangement, will not force themselves to take difficult decisions while they are in receipt of Government subsidies; nor will firms in Member States without such schemes make the necessary adjustments while their confidence in the future is undermined by the belief that their Community competitors are being unfairly strengthened by state aid.

5 The situation I have described above suggests that the guidelines drawn up by the Commission in 1971 and 1977 to regulate aids to textiles and clothing and the arrangements for aids to the manmade fibre sector since 1977 have proved inadequate. I had understood from a report of a multilateral meeting of officials in September last year that the Commission was seriously concerned about the escalation of these aids and intended to take an initiative in this area. The United Kingdom welcomed this. I therefore most strongly urge the Commission to reconsider the effectiveness of the existing machinery for controlling aids in this sector with a view to cutting short what is becoming a dangerous upward spiral of Government subsidisation.

6 I should be glad to discuss this with you if you feel this will be helpful. Alternatively my officials are available to discuss our concerns with your officials in greater detail, if you should wish.

Multi-Fibre Arrangement

11 am

The Minister for Trade (Mr. Peter Rees) *rose*—

Mr. Michael Cocks (Bristol, South): On a point of order, Mr. Speaker. I seek your guidance on a highly unsatisfactory state of affairs that has arisen. It is a convention of this House that when the Government make a statement the Opposition are given a copy of it half an hour beforehand so that they can study it and give a considered response to the Minister. I freely acknowledge that from time to time the half hour is contracted and may be only 20 or 25 minutes, but we have always taken an understanding view. Today the Opposition's Front Bench spokesman was handed a copy of the Minister's statement one minute before 11 o'clock. In the best interests of the House, that situation cannot be tolerated.

I know, Mr. Speaker, that you cannot protect us under Standing Orders because a convention of the House is something that is accepted and honoured as far as possible, but is not a right enshrined in the Standing Orders. However, the Government have put the Opposition in an intolerable position, and I ask you, Mr. Speaker, to find some way of relieving us in the future from such difficulties.

This is no light statement. The multi-fibre arrangement is of vital interest to tens of thousands of workers in the textile industry. Therefore, Mr. Speaker, would you consider the position in which my hon. Friend has been placed and possibly initiate some sort of action, perhaps through the usual channels, to remedy the position?

It is not easy on a Friday to find a way of intervening in the Government's business. Therefore, may I also draw your attention, Mr. Speaker, to the winding-up speech in the debate on Welsh affairs last night? A most unfortunate reference was made by the Secretary of State for Wales to my right hon. Friend the Member for Rhondda (Mr. Jones). It is reported in col. 1072 of today's *Hansard*. I hope that the Government will find an early opportunity of restoring fully the damage done to my right hon. Friend's reputation.

Several hon. Members *rose*—

Mr. Speaker: Order. Before I call anyone else on the original point of order, may I first deal with the latter point, because I was in the Chair at 10 o'clock last night. There was a rather loud conversation between two right hon. Members. The conversation was not addressed to the whole House. However, it was rather a loud conversation.

The House knows that it is absolutely out of order to make any suggestion that any right hon. or hon. Member has had too much to drink. That was the clear implication. I have no doubt that the conversation was private. No point of order was raised with me, or I would at once have risen. However, I am sure that an opportunity will be taken to put the matter right. I believe that that ought to be done, since the remark is now in *Hansard*.

Mr. Peter Rees: Further to the first point of order, Mr. Speaker. I deeply apologise to the House that the convention was not observed to the full on today's statement on the multi-fibre arrangement. The circumstances, which I hope the House will understand, are that the discussions were not concluded until very late last night. It was considered better to make a statement today because of the concern that I know is felt in the House

about these matters rather than wait until Monday. I appreciate that these are highly technical matters and I should have preferred that Opposition spokesmen were fully in possession of the details in advance.

I offer my apologies. I hope that the House will feel that there is ample opportunity to do justice to the subject, if not completely today, at least in the questions that will be put to my Department on Monday. There is at least one question which, subject to the Chair's direction, might give rise to some supplementary questions to enlarge upon matters which any hon. Member believes that I have not dealt with satisfactorily in the statement today.

Mr. Bob Cryer (Keighley): Further to that point of order, Mr. Speaker. The Opposition have appreciated that the Government have made statements from time to time on the multi-fibre arrangement. It is clear from today's exchanges that there has been a regrettable lapse in the provision of information to the Opposition Front Bench.

I have one point to make for your consideration and possible influential help, Mr. Speaker. The MFA is complicated and highly technical. The Opposition Front Bench spokesman speaks on behalf of the Labour Party, but Back Benchers also have to deal with the technical complexities. Textile workers in our constituencies are much concerned about the matter and we must deal with the arrangements.

It is not good enough to issue copies of statements so late and to only a few right hon. and hon. Members on the Front Bench. On technical matters such as this the Government should issue copies more widely so that other hon. Members can grasp the information and ask more probing questions.

Mr. James Lamond (Oldham, East): Further to that point of order, Mr. Speaker. I support my hon. Friend the Member for Keighley (Mr. Cryer). What he said in this instance applies to all statements by the Government. No harm would be done to the Government if they allowed hon. Members who are interested in a statement to receive a copy half an hour before it is made. As a result hon. Members' questions would be more informed and probing. I cannot see that that would be bad for the Government or the country.

Mr. Speaker: I am sure that what has been said by the hon. Members for Keighley (Mr. Cryer) and Oldham, East (Mr. Lamond), and by the Opposition Chief Whip will have been noted with care by the Government Front Bench. There has obviously been a slip up this morning about a convention. It is not a rule, but a very strong convention, which both parties, whenever they have the privilege of sitting on the Government Benches, normally observe.

Mr. Peter Rees: With permission, Mr. Speaker, I should like to make a statement on the special Foreign Affairs Council to discuss textiles which took place in Brussels yesterday.

I am glad to be able to tell the House that the Council agreed that the Community should sign the extended multi-fibre arrangement which was adopted by the GATT Textile Committee in Geneva on 22 December last. The Council also authorised the Commission to start negotiations immediately on new MFA bilateral agreements with supplying countries. These should come into effect on 1 January 1983 when the current agreements expire.

Trade

These negotiations will take place within a framework of revised global ceilings for imports of the eight most sensitive textile and clothing products—the so-called group I products. These new ceilings will apply to all imports from low-cost sources both from our MFA partners and from the Community's preferential suppliers and will include all outward processed trade. The ceilings represent a firm commitment by the Community to regulate imports in these highly sensitive categories. They take account of planned cutbacks in imports which will be the subject of negotiations with the Community's dominant suppliers together with other technical adjustments aimed at reducing the total liability of the Community. The rate of growth which will be allowed on these quotas will be very small. For the United Kingdom the overall annual growth rate in this especially sensitive area will be roughly 1 per cent.

Furthermore, the Council agreed that annual growth rates for the less sensitive products outside group I should also be kept very low. In view of recent trends in consumption they will in general be lower than those negotiated with supplying countries under MFA 2.

Considerable concern has been expressed to me by hon. Members and by representatives of the industry about the possibility of the proposed new anti-surge mechanism which is designed to prevent too rapid a take-up of under-utilised quotas being nullified by an exceptional surge of imports under the quotas in the course of 1982.

I am glad to tell the House that at the insistence of the United Kingdom the Council agreed on special measures to counteract this possibility. First, rapid anti-dumping or countervailing action will be taken in appropriate cases. Secondly, in particularly serious cases, action will be taken as a matter of urgency under the general review clauses in the existing bilateral agreements so as to reach a solution related to quantities. Those are major innovations and will, I hope, help to reassure the House about this potentially difficult problem.

The Council also considered the treatment to be given to outward processed goods. Industrial requirements in this sector vary widely within the community. I am glad that, after considerable discussion, our colleagues in the Community were able to meet our requirements on this difficult point. I confirm that we shall be under no obligation to open special quotas for additional outward processed goods, which is in accordance with the wishes of the United Kingdom industry with which we have kept in close touch throughout the negotiations. The only exception will be any such trade offered to the dominant suppliers as compensation for the cutbacks in their normal trade which I mentioned earlier.

The stage is set for the Commission to begin its bilateral negotiations which will determine the precise quotas for each country and each product. The mandate given to the Commission is a tough one, including points established at earlier Councils, which have been reported to the House—for example, reduced flexibility in the use of some quotas, a commitment to consult under the general review clauses in the event of recession, together with the cutbacks on the dominant suppliers and the anti-surge mechanism which I have already mentioned. All that is in addition to the generally more restrictive global ceilings and growth rates agreed yesterday.

The Commission is to report back to the Council in the autumn on progress made. Until then, we cannot be certain precisely what quotas will emerge. However, the Council

decided yesterday that in the absence of the satisfactory renewal, in good time, of the bilateral agreements, the Community would notify its withdrawal from the Multi-Fibre Arrangement by the end of this year.

As I think I have made clear, yesterday was not the end of the story. We shall be monitoring progress in the negotiations very carefully to ensure that the special interests of the United Kingdom industry are kept fully in mind by the Commission. If the Commission fulfils its mandate—I have every confidence it will—I think that there can be no doubt that the new MFA bilateral agreements will, by any definition, be significantly tougher than those currently in force, and the already high degree of protection afforded to the United Kingdom industry will be substantially enhanced, thus enabling the industry to continue the process of restructuring and modernisation upon which it is already embarked.

Mr. K. J. Woolmer (Batley and Morley): Will the Minister accept that the manner in which the statement has had to be made is thoroughly unsatisfactory to the Opposition? The House will appreciate that my questions and observations can be only an instant view rather than the considered view that the House would normally expect. Will the Minister assure the House at once that the Government will make some amends by ensuring that a full debate will take place on this matter, which is important for more than 600,000 workers in this country? They would expect nothing less than a full debate on what could be the determination of their jobs and their future.

Does the Minister recognise that many aspects of his statement, and of its omissions, will continue to cause great concern in the textile and clothing industries? As those industries have lost 120,000 jobs under MFA 1 and 200,000 jobs under MFA 2, will the Minister accept the vital importance of negotiating an MFA 3 that stems that huge job loss? Does the Minister accept that by basing future growth of low-cost imports on existing quotas instead of the actual level of imports, there can still be an increase of imports over the next four and a half years of at least 22 per cent., causing a further substantial loss of British jobs? That will not be taken account of, or limited, by the measures that he has announced.

Does the Minister recognise the grave doubts that exist about the proposed anti-surge mechanism? Will he ensure that group II and III products are covered, so that products such as men's and boys' jackets and bed linen are included, because the potential import growth there is 100 per cent. or more? Will the hon. and learned Gentleman spell out what compensation would be offered to countries affected by anti-surge action?

Exactly what has been agreed on cutbacks to dominant suppliers? Details were lacking from the hon. and learned Gentleman's statement. As expansion of outward processing by the United Kingdom or our partners in Europe poses a serious threat to our imports and exports through free circulation, will the Minister spell out his assessment on the effect on this country of outward processing and what safeguards will be available to us because of its impact on us through our EEC partners?

Does the Minister accept that most attention has been given to group I products? As they account for only 50 per cent. of low-cost imports, may I turn his attention to the group II and III products? What average growth rate of imports will be permitted? It will not be satisfactory to the House, the industry or the trade unions to be told that the



Handwritten initials and scribbles

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5146
SWITCHBOARD 01 215 7877

From the
Minister for Trade

Nick Huxtable
Private Secretary to the
Lord President of the Council
Whitehall
London SW1

24 February 1982

Dear Nick,

SPECIAL FOREIGN AFFAIRS COUNCIL ON TEXTILES: THURSDAY,
25 FEBRUARY 1982

I would like to confirm our telephone conversation of this morning, concerning the timing of a Statement by my Minister, Peter Rees, on the outcome of the Foreign Affairs Council which is to meet tomorrow to determine the Community's position on accession to the Protocol renewing the Multi-Fibre Arrangement. You told me that the Lord President wished that this statement be given at 11 am on Friday, 26 February. (There is still some possibility, I should note, that this Council will not reach a decision - in which case there would be nothing to report.)

I mentioned to you that since the Statement would follow very soon after the end of the Council (which we expect to run late) we would not be able to circulate the text as far in advance as either we or you would have liked. We will circulate the text as soon as is possible. *Mr Rees will only return on Friday morning.*

I am circulating this to Number 10 and the Chief Whip's Office.

Yours sincerely,
Matthew Crickshank

MATTHEW CRICKSHANK
Assistant Private Secretary to the
Minister for Trade (PETER REES)

5 FEB 1962

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TO PRIORITY CERTAIN MISSIONS AND DEPENDENT TERRITORIES
GUIDANCE TELEGRAM NUMBER 169 OF 23 DECEMBER 1981

GUIDANCE TELEGRAMS NOS 124 AND 158
EXTENSION OF THE MULTI-FIBRE ARRANGEMENT (MFA)

1. NEGOTIATIONS IN THE GATT CONCLUDED ON 22 DECEMBER WITH THE ADOPTION BY CONSENSUS OF A NEW PROTOCOL EXTENDING THE MFA FOR A FURTHER FOUR YEARS AND SEVEN MONTHS (IE FROM 1 JANUARY 1982 TO 31 JULY 1986). SPEAKING FOR THE EUROPEAN COMMUNITY THE COMMISSION STATED THEY WOULD RECOMMEND TO THE COUNCIL OF MINISTERS THAT THE PROTOCOL SHOULD BE ACCEPTED FOR THE TIME BEING, BUT THAT CONTINUED EC PARTICIPATION IN THE MFA BEYOND THE END OF 1982 WOULD DEPEND ON THE NEGOTIATION OF SATISFACTORY NEW BILATERAL AGREEMENTS WITH THE INDIVIDUAL SUPPLIER COUNTRIES CONCERNED. THESE NEGOTIATIONS WILL TAKE PLACE DURING THE COURSE OF 1982 (THE COMMUNITY'S EXISTING BILATERALS UNDER THE PREVIOUS MFA RUN UNTIL THE END OF NEXT YEAR). THE TEXT OF THE STATEMENT TO PARLIAMENT BY THE SECRETARY OF STATE FOR TRADE IS BEING TELEGRAPHED SEPARATELY BY THE COI TO POSTS IN SUPPLIER COUNTRIES.

LINE TO TAKE

2. IF THE SUBJECT IS RAISED WITH YOU, YOU SHOULD SAY THAT THIS OF COURSE IS A QUESTION FALLING ENTIRELY WITHIN COMMUNITY COMPETENCE AND THAT THE COMMISSION HAS NEGOTIATED ON BEHALF OF THE COMMUNITY AS A WHOLE, ON THE BASIS OF AGREED COMMUNITY POSITIONS. MEANWHILE WE REMAIN STRONGLY IN FAVOUR OF CONTINUING TO TRY TO RESOLVE THE SPECIAL PROBLEMS OF THE TEXTILES SECTOR BY MUTUAL AGREEMENT. WE THEREFORE WELCOME THE OUTCOME OF THE NEGOTIATIONS ON THE EXTENSION PROTOCOL (AND APPRECIATE THE HELPFUL ROLE PLAYED BY ASEAN AND HONG KONG IN PARTICULAR AMONG THE DEVELOPING COUNTRY SUPPLIERS). A NUMBER OF ISSUES REMAIN TO

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BE RESOLVED IN THE BILATERAL NEGOTIATIONS. THESE WILL NEED TO BE APPROACHED IN A SPIRIT OF REALISM SINCE THE INCREASING DIFFICULTIES BEING FACED BY THE EC TEXTILE INDUSTRY (NOT LEAST IN THE UK) MEAN THAT THE COMMUNITY'S ROOM FOR MANOEUVRE IS BOUND TO REMAIN LIMITED. BUT NATURALLY WE HOPE THAT NEW BILATERAL AGREEMENTS CAN BE CONCLUDED, AS QUICKLY AS POSSIBLE, ON MUTUALLY ACCEPTABLE TERMS.

3. YOU SHOULD CONTINUE TO RESIST ANY ATTEMPT TO IDENTIFY THE UK AS THE LEADING 'HAWK' WITHIN THE COMMUNITY, STRESSING THAT ON ISSUES SUCH AS THIS THE COUNCIL OF MINISTERS PROCEEDS ONLY BY CONSENSUS AND THAT THE COMMISSION'S NEGOTIATING MANDATE THEREFORE HAS THE SUPPORT OF ALL MEMBER STATES.

4. YOU SHOULD ALSO CONTINUE TO AVOID BEING DRAWN INTO DISCUSSION OF POINTS OF DETAIL, MAKING IT CLEAR THAT THESE ARE ISSUES FOR NEGOTIATION WITH THE COMMISSION.

5. IF IT IS SUGGESTED THAT BY RESERVING THE RIGHT TO WITHDRAW FROM THE MFA IN THE ABSENCE OF SATISFACTORY NEW BILATERAL AGREEMENTS THE COMMUNITY IS THREATENING TO RENEGE ON REPEATED COMMITMENTS TO RESIST PROTECTIONIST PRESSURES AND PRESERVE THE OPEN TRADING SYSTEM, YOU SHOULD SAY THAT WHILE NO-ONE UNDERESTIMATES THE SERIOUSNESS OF THE SITUATION, IT IS IMPORTANT NOT TO OVER-DRAMATISE IT EITHER. THE BASIC (1973) MFA TEXT PROVIDES FOR ANY PARTICIPATING COUNTRY TO WITHDRAW AT 60 DAYS' NOTICE. OTHER DEVELOPED COUNTRIES (AUSTRALIA, NORWAY) HAVE OPERATED OUTSIDE THE MFA AND HAVE USED NORMAL GATT RULES TO RESTRAIN IMPORTS OF TEXTILES. IT CAN BE ARGUED THAT THEY HAVE IN FACT THEREBY OBTAINED MORE EFFECTIVE PROTECTION, BUT AT THE COST OF CREATING UNCERTAINTY WHICH HAS BEEN DETRIMENTAL TO THE INTERESTS OF SUPPLIER COUNTRIES. IT WOULD NOT BE PROFITABLE TO SPECULATE ABOUT WHAT MIGHT HAPPEN IF THE COMMUNITY, BY FAR THE LARGEST IMPORTER OF LOW-COST TEXTILES IN THE WORLD, HAD TO TAKE SIMILAR ACTION. OUR PREFERRED OPTION, REFLECTED IN THE COMMISSION'S NEGOTIATING MANDATE, IS TO REMAIN WITHIN THE MFA

FRAMEWORK. BUT OBVIOUSLY THE COMMUNITY CANNOT COMMIT ITSELF TO DOING SO BEFORE WE KNOW WHETHER THE DEAL ON OFFER IS ACCEPTABLE.

BACKGROUND (TO BE DRAWN ON AS APPROPRIATE EXCEPT WHERE INDICATED)

(A) EC FOREIGN AFFAIRS COUNCIL 8 DECEMBER

6. THE DECEMBER COUNCIL CONFIRMED AND CLARIFIED THE DECISIONS TAKEN BY MINISTERS THE PREVIOUS MONTH (GUIDANCE TELNO 158). IN PARTICULAR IT BECAME CLEAR THAT CUTBACKS ON THE SO-CALLED ''DOMINANT'' SUPPLIERS (HONG KONG, SOUTH KOREA, MACAO - PLUS TAIWAN, NOT A PARTY TO THE MFA) WOULD HAVE TO BE INCLUDED IF THERE WAS TO BE AGREEMENT ON A COMMUNITY POSITION. THE POSSIBILITY WAS KEPT OPEN OF COMPENSATING CUTBACKS BY NEW QUOTAS FOR OUTWARD PROCESSING TRADE. (OUTWARD PROCESSING IS THE EXPORT OF CLOTH WOVEN IN THE COMMUNITY TO LOW COST SUPPLIER COUNTRIES WHERE IT IS MADE UP INTO GARMENTS WHICH ARE SUBSEQUENTLY REIMPORTED). THE EXTENT OF SUCH COMPENSATION REMAINS TO BE DECIDED.

7. (FOR YOUR OWN INFORMATION ONLY). AT THE DECEMBER COUNCIL FRANCE AND ITALY AGAIN TOOK THE LEAD IN ARGUING FOR AN EXTENSION OF THE LIST OF DOMINANT SUPPLIERS TO INCLUDE SUCH COUNTRIES AS BRAZIL, SINGAPORE AND ROMANIA. ON THIS THEY RECEIVED SUPPORT ONLY FROM IRELAND. THEY ALSO ARGUED FOR A DEEPER CUTBACK ON THE ''DOMINANTS'' THAN OTHER MEMBER STATES ENVISAGED. THIS LATTER QUESTION REMAINS UNRESOLVED AND WILL COME BACK TO THE 25 JANUARY COUNCIL.

(B) NEGOTIATIONS ON MFA EXTENSION PROTOCOL

8. NEGOTIATIONS PROVED PREDICTABLY DIFFICULT. AMONG THE DEVELOPING COUNTRIES THE ASEAN GROUP (NONE OF WHOSE MEMBERS WERE INCLUDED IN THE COMMUNITY'S LIST OF ''DOMINANT'' SUPPLIERS) WERE HELPFUL IN PROPOSING PROTOCOL LANGUAGE WHICH TRIED TO TAKE SOME ACCOUNT OF EC OBJECTIVES. HONG KONG PLAYED A KEY ROLE THROUGHOUT THE NEGOTIATIONS AND WAS PARTICULARLY CONSTRUCTIVE IN AGREEING AN EXCHANGE OF SIDE LETTERS WITH THE COMMISSION WHICH ENVISAGES A ''MUTUALLY ACCEPTABLE'' BILATERAL ARRANGEMENT ON CUTBACKS. THIS

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ENABLED THE COMMUNITY TO ACCEPT AN OPAQUE FORMULA IN THE EXTENSION PROTOCOL WHICH HONG KONG NO DOUBT HOPES WILL AVOID DEMANDS FOR CORRESPONDING CUTBACKS FROM THE US. AS A RESULT OF HONG KONG'S ACTION THE COMMISSION WERE ABLE TO SECURE COMPARE E COMMITMENTS FROM SOUTH KOREA AND MACAO.

(C) EC FOREIGN AFFAIRS COUNCIL: 25 JANUARY 1982

9. THE JANUARY COUNCIL WILL BE INVITED BY THE COMMISSION TO ADOPT A DECISION ACCEPTING THE NEW EXTENSION PROTOCOL FOR THE TIME BEING, BUT AT THE SAME TIME MAKING PROVISION FOR EC WITHDRAWAL FROM THE MFA AT THE END OF 1982 UNLESS, BEFORE THEN, THE COUNCIL TAKES A FURTHER DECISION TO THE CONTRARY IN THE LIGHT OF PROGRESS IN NEGOTIATING THE NEW BILATERAL AGREEMENTS. THE JANUARY COUNCIL WILL ALSO HAVE TO EXAMINE NEW FIGURES FOR THE INTERNAL ''GLOBAL CEILINGS'' WHICH SET AN UPPER LIMIT ON TOTAL IMPORTS OF EACH OF THE MOST SENSITIVE CATEGORIES OF TEXTILE PRODUCTS FROM ALL LOW COST SOURCES. OTHER ASPECTS OF THE COMMISSION MANDATE FOR BILATERAL NEGOTIATIONS WITH INDIVIDUAL SUPPLIER COUNTRIES REMAIN CONDITIONAL UPON GLOBAL CEILING FIGURES PROVING SATISFACTORY.

(D) OUTLOOK BEYOND JANUARY

10. THE PROSPECTS FOR A SUCCESSFUL OUTCOME NOW DEPEND ON THE NEGOTIATIONS WHICH THE COMMISSION WILL UNDERTAKE WITH EACH INDIVIDUAL SUPPLIER COUNTRY. THE AIM IS THAT THE COUNCIL SHOULD REVIEW THE RESULTS IN EARLY AUTUMN 1982 (I.E. THE SEPTEMBER COUNCIL) AT THE LATEST.

CARRINGTON

BY TELEGRAPH

BELGRADE
GENEVA(UKMIS)
BUCHAREST
BUDAPEST
PRAGUE
SOFIA
MEXICO CITY
BRASILIA
RIO DE JANEIRO

BOGOTA
LIMA
MONTEVIDEO
CAIRO
BANGKOK
JAKARTA
ISLAMABAD
MANILA
PEKING

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DACCA
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CONFIDENTIAL

Multi-fibre Arrangement

3.30 pm

The Minister for Trade (Mr. Peter Rees): With permission, I should like to make a statement on negotiations for the renewal of the multi-fibre arrangement. My right hon. Friend the Lord Privy Seal reported to the House on 18 November on the Foreign Affairs Council on 16 and 17 November, including a parallel session, which he chaired, on the Community's negotiating position for the final round of talks in Geneva on the renewal of the multi-fibre arrangement.

In view of the importance of this subject for many United Kingdom interests, and, in particular, the United Kingdom textile and clothing industries, I will, Mr. Speaker, with permission, supplement what my right hon. Friend told the House and, particularly, report on subsequent events in the GATT textiles committee in Geneva.

On 17 November, the Council decided that it would be necessary to give further consideration to the question of overall import ceilings for sensitive products particularly. This embraces the all-important question of imports of low-cost textiles and clothing from the preferential countries. The House will be aware that the Government place the greatest importance on acceptance by the Community of such an overall approach.

The Council had in mind, however, that the final round of negotiations on the renewal of the MFA was to start in Geneva on 18 November. The Council wished the Commission to be able to participate in these negotiations from the beginning and to be in a position to state the broad Community position clearly, especially since other participants, notably the United States and the developing countries, had put forward formal proposals. On this basis the Commission made a full statement in Geneva on 20 November. I have placed a copy of this statement in the Library. Within the next day or two, I expect the Commission to table a full draft protocol of extension for the MFA in Geneva, essentially a formal expression of the Community's requirements in a renewed MFA.

I should like to summarise for the House the main points of the Commission's statement. The first is the depressed state of the Community's market and the very low rate of growth forecast over the next years. The House will know that this has been estimated at about 1 per cent. on average. Secondly, import penetration in clothing and textiles is much higher in the Community than in any other major importing country. Accordingly, the Community would agree only to small overall growth rates.

Third is the Community's intention to seek a surge mechanism which would guard against a threat presented by under-utilised quotas. I can tell the House that the United Kingdom was instrumental in introducing this concept into the Community position.

Fourthly, difficulties caused to the Community industry in the past as a result of reductions in demand during periods of recession when supplying countries' quotas continued to grow. The House will be glad to know that the Community has decided that special provisions should be negotiated with supplying countries to try to mitigate such problems in the future. The House will recall that this is something that the Government have been seeking for

some time, and I believe the mechanism now agreed will go some way towards meeting the industry's concerns in this area.

Fifthly, the Community's statement made clear that we shall be looking very closely at our trade with a few dominant suppliers, including Hong Kong. In particular, the Community will seek "adjustments"—I am afraid that I cannot be more specific on this point—in these suppliers' quotas, possibly with existing access being replaced in part by an element of outward processing quotas. I emphasise that what can finally be achieved in this field, is clearly a matter of negotiation.

Furthermore, and sixthly, the ability of the dominant suppliers to use the flexibility provisions to augment their quotas in particular years will also be reduced. These flexibility provisions enable supplying countries, within specific limits, to anticipate a following year's quota, carry over from a previous year's quota, or transfer quota from one product to another. We expect to negotiate substantial reductions in the ability of the dominant suppliers to use these provisions.

I have given a short summary of the Community's position on important areas of the renegotiation. In general, the Government are content with the position agreed by the Community. I would not wish to pretend, that the United Kingdom has obtained satisfaction on every single point which we have raised, but I believe that no essential British interests have been compromised.

As I have already said, certain essential elements still have to be reconciled—in particular the overall approach to low-cost imports which is a subject upon which I know hon. Members have strong views. The actual quotas for individual MFA countries will have to be hammered out in detail in the course of bilateral negotiations during next year. I believe that the groundwork has now been laid for a new arrangement which will be tough, indeed, in many respects, tougher than the current MFA, and which will provide the United Kingdom industry with the trading climate it needs to plan for the future, while taking account of all the interests represented in the House.

Mr. John Smith (Lanarkshire, North): I thank the Minister for making the statement; it has been requested on a number of occasions in the House. When is the statement to be placed in the Library? It was not available when I inquired a short time ago. Has not the Minister rather delicately obscured the fact that no agreement has been reached in the EEC on the single most important part of these negotiations—the agreement that there should be an overall limit, a global limit, on imports admitted to the EEC? Does not the delicate phrasing conceal the fact that no agreement has yet been reached? Can the Minister say when agreement will be reached? Will he report back to the House on the matter?

I notice that a statement has been made in Geneva which will be followed by a protocol. Will the agreement—or lack of agreement—on this subject be ready before the protocol is submitted?

On quotas, the Minister referred to an anti-surge mechanism. Does not this confirm that growth will be on the basis of existing quotas and not on existing levels of imports which, in some cases, are much lower than existing quotas? If this were not the case, there would be no need for an anti-surge provision to be introduced into the structure of the agreement.

November to put this right, but that it should be put right immediately, either by increasing this year's Christmas bonus or at least by introducing an Easter bonus to make good the shortfall?

The Prime Minister: The shortfall will be made good at the next uprating, which will take place next November. The hon. Gentleman will recall that there was a shortfall in the November 1978 uprating. That was made good by the Conservative Government in November 1979.

Mr. Ennals: Does the Prime Minister accept that never before have a Government consciously reduced the amount payable to pensioners below even the Government's own expectations and that now, for a whole year, the figure will be roughly 3 per cent. less than the actual rate of inflation? Does she agree that that is a deplorable situation for elderly people?

The Prime Minister: I do not accept the figure of 3 per cent. I think that 2 per cent. is more accurate. I should point out that the uprating effective from November 1978 was based upon an underestimate of 1.9 per cent.

Engagements

Q4. **Mr. Chapman** asked the Prime Minister if she will list her official engagements for Tuesday 24 November.

The Prime Minister: I refer my hon. Friend to the reply that I gave some moments ago.

Mr. Chapman: Will my right hon. Friend take a little more time today to consider the increasing unfairness of the rating system, notwithstanding supplementary rates? Will she recognise that there is increasing impatience on the Conservative Benches for the consultation paper on alternatives to the domestic rating system? May I tempt her to be a little more forthcoming and to agree that that

consultation paper should be a short, quick step towards radically reforming the rating system by a Bill in this Parliament?

The Prime Minister: I know of my hon. Friend's very particular interest in this subject, and he knows that I share his views, as do the Government, about the unfairness of the rating system. The Green Paper to which he refers should be available next month. We shall then enter a period of consultation. The speed of that will determine whether we can bring forward a Bill, as I believe would be advisable if it is possible, during the present Parliament.

Mr. Race: Will the Prime Minister confirm or deny the stories in the national newspapers earlier this week that the Government are to cut the real value of unemployment benefit? Given that the Government have already made a 5 per cent. cut in the recent past, does she agree that a further reduction in the real purchasing power of the unemployed is totally unjustifiable?

The Prime Minister: I neither confirm nor deny any such stories as are prevalent in the newspapers at the moment. A full statement will be made in due course.

Mr. Farr: Can I assure my right hon. Friend if she wants to make an announcement that domestic rates will be abolished in the lifetime of this Parliament, such an announcement would be received throughout the country with great and overwhelming support?

The Prime Minister: I hope that my hon. Friend is correct. I would have to make clear that the revenue that comes from the rating system, both domestic rates and industrial and commercial rates, would have to be replaced by revenue from elsewhere. *[Interruption.]* One cannot have expenditure not covered by taxation. Only an Opposition of the irresponsibility of the present one would suggest that one could. The difficulty is deciding what taxation should be levied to cover the loss of income from the rating system.

Statement on Negotiations for the Renewal of the
Multifibre Arrangement

Peter Rees' statement is attached. This allowed Members such as Richard Wainwright and Ken Woolmer to express their concern about the loss of jobs in the textile industry, which Mr Rees acknowledged to be 150,000 in the last 18 months. But the statement was simply a broad description of the mandate given to the Commission, not of the outcome of the negotiations with suppliers, and Mr Rees was not heavily criticised for the stance the Government had taken. He rightly took the credit for introducing the concept of a "surge mechanism" into the Commission's mandate to guard against suppliers' accumulating under-used quotas; and the Opposition did not question Anthony Grant's statement that the Government's position was much tougher on the low cost suppliers than the previous Government's. John Smith, who opened for the Opposition, praised Mr Rees for his grasp of this very technical subject.

I will not go into the detailed questions that were raised; in most cases Mr Rees avoided being drawn too far, on the grounds that this would prejudice the Commission's negotiations with suppliers.

WPSH

mf

24 November, 1981



STATEMENT ON NEGOTIATIONS FOR THE RENEWAL OF THE
MULTI-FIBRE ARRANGEMENT

My Rt.hon. Friend the Lord Privy Seal reported to the House on 18 November on the Foreign Affairs Council on 16 and 17 November, including a parallel session, which he chaired, on the Community's negotiating position for the final round of talks in Geneva on the renewal of the Multi-Fibre Arrangement.

2 In view of the importance of this subject for many UK interests, and, in particular, the UK textile and clothing industries, I will, Mr Speaker, with permission, supplement what my Rt.hon Friend told the House and, particularly, report on subsequent events in the GATT Textiles Committee in Geneva.

3 On 17 November, the Council decided that it would be necessary to give further consideration to the question of overall import ceilings for sensitive products. This embraces the all-important question of imports of low-cost textiles and clothing from the preferential countries. The House will be aware that the Government places the greatest importance on acceptance by the Community of such an overall approach.

4 The Council had in mind, however, that the final round of negotiations on the renewal of the MFA was to start in Geneva on 18 November. The Council wished the Commission to be able to participate in these negotiations from the beginning and to be in a

/position to

(Continued)



position to state the broad Community position clearly, especially since other participants - notably the US and the developing countries - had put forward formal proposals.

5 On this basis the Commission made a full statement in Geneva on 20 November. I have placed a copy of this statement in the Library. Within the next day or two, I expect the Commission to table a full draft Protocol of Extension for the MFA in Geneva - essentially a formal expression of the Community's requirements in a renewed MFA.

6 Let me summarise for the House the main points of the Commission statement.

- I The depressed state of the Community's market and the very low rate of growth forecast over the next years. The House will know that this has been estimated at about 1% on average.
- II That import penetration in clothing and textiles is much higher in the Community than in any other major importing country. Accordingly, the Community could agree only to small overall growth rates.
- III The Community's intention to seek a surge mechanism which would guard against a threat presented by underutilised quotas. I can tell the House that the UK was instrumental in introducing this concept into the Community position.

/Continued.....



IV The difficulties caused to the Community industry in the past as a result of reductions in demand during periods of recession when supplying countries' quotas continued to grow. The House will be glad to know that the Community has decided that special provisions should be negotiated with supplying countries to try to mitigate such problems in the future. The House will recall that this is something which the Government has been seeking for some time, and I believe the mechanism now agreed will go some way towards meeting the industry's concerns in this area.

V The Community's statement made it clear that we shall be looking very closely at our trade with a few dominant suppliers, including Hong Kong. In particular, the Community will seek "adjustments" - and I am afraid, Mr Speaker, that I cannot be more specific on this point - in these suppliers' quotas, possibly with existing access being replaced in part by an element of outward processing quotas. I would emphasise that what can finally be achieved in this field, Mr Speaker, is clearly a matter of negotiation.

VI Furthermore, the ability of the dominant suppliers to use the flexibility provisions to augment their quotas in particular years will also be reduced. These flexibility provisions enable supplying countries, within specific limits, to anticipate a following year's quota; carry over from a previous year's quota; or transfer quota from one



product to another. We expect to negotiate substantial reductions in the ability of the dominant suppliers to use these provisions.

7 Mr Speaker, I have, given a short summary of the Community's position on important areas of the renegotiation. In general, the Government is content with the position agreed by the Community. I would not wish to pretend, Mr Speaker, that the UK has obtained satisfaction to every single point which we have raised. But I believe that no essential British interests have been compromised. As I have already said, Mr Speaker, certain essential elements still have to be reconciled - in particular the overall approach to low-cost imports which is a subject upon which I know hon. Members have strong views. The actual quotas for individual MFA countries will have to be hammered out in detail in the course of bilateral negotiations during next year. I believe that the groundwork has now been laid for a new Arrangement which will be tough, provide the UK industry with the trading climate it needs to plan for the future, while taking account of all the interests represented in the House.



NOTES FOR SUPPLEMENTARIES.

1. Surge mechanism/1980 or 1982 base levels

The UK, along with a number of other countries is very concerned at the overhang which exists in present quotas, and which use of 1982 access would perpetuate. But use of 1980 actual imports would simply not be negotiable.

The surge mechanism proposed is designed to deal with both these concerns. It allows exporting countries to retain notional access based on 1982 quotas. But it sets a level for underutilised quotas based on actual trade in the year before.

We are concerned at the potential for artificial increases in imports in 1982 and the question of rises in 1986, and have told Commission to look at ways of dealing with these two problems.

2. Recession clause

The UK has pressed all along for some form of recession mechanism to be included in the EC negotiating position. This we have achieved, and while it may not fulfil completely the automaticity which we and industry were seeking, it does allow for ways of substantially reducing cess in a recession.

3. Growth rates

Further discussion in December in the light of determining overall global ceilings. The UK will still be pressing to get growth overall as close as possible to expected consumption growth(1%). Obviously will vary according to product and size of quota.

4. Burden-sharing

The Commission has pointed repeatedly to the EC's position as the largest importer, both in absolute and relative terms, of low-cost textiles in the world, and the special problems this causes.

We cannot, however, put much more than moral pressure on those developed countries which take less.

5. Differentiation/reciprocity

The Community has agreed the principle that - within the limited scope available, and strictly within the global ceilings - more generous treatment be given to the poorer, smaller suppliers.

Equally, the Community has made it clear to the more developed exporting countries (NICs) that the Community will take particular account of the openness of their markets to EC textile exports when determining the treatment given them.



6. Extension of number of sensitive products

A number of countries have proposed additions to Group I (the group of - at present - 8 most sensitive categories). Discussions are continuing at a technical level. But the removal of any products from Group I has already been rejected.

7. Fraud

The Commission's statements (and the draft EC protocol of extension to be tabled next week) include the principle that fraudulent imports will be credited in full against the appropriate quota of their true country of origin. One can mention here the scrupulous enforcement of regulations against fraud in Hong Kong.

8. Basket extractor mechanism

The UK has achieved one of its major aims in obtaining agreement within the EC to a more automatic basket extractor mechanism, allowing a quicker setting of new quotas on the basis of more realistic trigger levels.

9. Flexibility

The Community has already resolved to tighten up the use of flexibility for dominant suppliers under MFA bilaterals. The recession mechanism will also include the possibility of a waiver of all flexibility for dominant suppliers in a recession.

10. Outward processing

The UK position is clear. Any special quotas for OP which may be agreed must be within existing quotas and within the global ceiling. We will maintain this position in discussion on the Commission's draft regulation in December.

11. Price clause

The bilaterals with state-trading countries already include a price clause and the EC has already made clear its intention to include one in bilaterals under the next MFA. Price clause not appropriate for other MFA suppliers.

12. Social clause

Government consider any clause which links acceptance of imports strictly to social conditions in the Third World would effectively bar almost all imports from the Third World. But Community draft protocol to be presented this week will contain a clause designed to encourage the spread of the benefits of development to as wide as possible a section of the population in the countries involved.



13. "Bilateral link"

The EC has made it clear that it will require a broad understanding on the content of future bilaterals before agreeing to sign the next KPA - and in slightly greater detail with the dominant suppliers. This is not an attempt to put the cart before the horse, but simply to allow both sides to reach a clearer understanding of what they are letting themselves in for next year.



BACKGROUND

WORKING OF RECESSION AND SURGE CLAUSES

1. Recession clause

The Community's agreed proposal is for

- i) A review clause, allowing for negotiation of reductions in quotas and flexibility for all suppliers in a recession; and
- ii) For dominant suppliers a suspension (based on the proposals in the US draft protocol) of flexibility in a recession [unilaterally].

[The actual details of, eg. when to trigger the mechanism will be resolved later].

2. Surge clause

The Commission proposal is at present for a mechanism which

- i) Allows the supplier country national access in 1983 onwards based on 1982 quotas.

But, where

- ii) a quota is more than 50% utilised;
- iii) is large enough to make up 1% of total Community access; and
- iv) imports rise above the previous year's actual imports by 10% of the current year's quota.

The Community would then negotiate with the supplier a set of effectively new quotas which would bring the acceptable level of imports in any one year gradually up to the national access granted for 1986.

It is agreed Community policy that the surge mechanism will apply not only on a (global) Community basis, but also to each separate Member State.



DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

From the
Minister for Trade

Mike Pattison Esq
Private Secretary
10 Downing Street
LONDON SW1

24 November 1981

Dear Mike,

STATEMENT ON NEGOTIATIONS FOR THE RENEWAL OF THE MULTIFIBRE
ARRANGEMENT

I enclose a copy of the statement that my Minister intends to make in the House this afternoon about the negotiations for the renewal of the Multifibre Arrangement. This statement gives details of the Community's opening statement at the GATT Textile Committee last week and generally brings the House up to date with the present state of negotiations.

Copies of this letter and its attachment go to the Private Secretaries to the Lord President, Members of OD(E), Secretaries of State for Industry, Scotland, Wales and Northern Ireland, the Chief Whip and Sir Robert Armstrong.

Yours ever,

Nick McInnes

N McINNES
Private Secretary to the
Minister for Trade (PETER REES)



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CF to [signature] 28/4

cc: Gausbil - letter returned
D/mo

10 DOWNING STREET

THE PRIME MINISTER

28 April, 1981

Dear Mr. Smith,

In my letter of 15 April I promised I would write again on my return from India in reply to your letter of 26 March, enclosing a letter you had received from Mr Babbs, director of Mutual Mills Limited of Heywood, Lancs.

We have looked further into Mr Babb's claim that one of his customers has received 13 million Belgian Francs from the Belgian Government at 2% interest to remain viable through our Embassy in Brussels. They advise that although regional financial aid, not limited to the textile industry, is available in certain circumstances in the form of loans at interest rates of 4% or 5%, to their knowledge loans are not available at interest rates as low as 2%. Nor do they know of any scheme of assistance to the textile industry worth £56 million. (The details of the aid package announced by the Belgian Government last autumn have still not been finalised, or approved by the European Commission, so no loans should have been made under that scheme). The regional incentives do permit rebates of interest of up to 5%, so it is possible that some years ago, when Belgian interest rates were lower, a Belgian company might have received a loan at an effective rate of interest of 2% in the form of regional assistance. Perhaps the company to which Mr Babbs referred received an interest rebate of 2%. In the circumstances I would suggest that if either you or Mr Babbs have any further information about the Belgian assistance to the textile industry, you contact the Department of Industry and they will look into the matter further in conjunction with our embassy.

/The question

RH

The question of whether or not a low interest Belgian Government loan enabled a Belgian company to be awarded a Ministry of Defence contract is now academic, as the contract has after all been awarded to a British company. But in any case it must be remembered that a large number of British companies have also benefited from financial assistance from the government in recent years, in the form of regional aids, or selective assistance under Section 8 of the Industry Act, and also from employment measures such as the Temporary Employment Subsidy and the Temporary Short Time Working Compensation Scheme. A total of £35.5 million was offered or paid to the textile, clothing and footwear industries in the financial year 1979/80, and the figure for 1980/81 will show a marked increase over last year.

But I do not believe that a further scheme of assistance specifically for the textile industry, such as Mr Babbs proposes, is an effective way of solving the industry's problems in the long run. The only way to serve the interests of the textile industry, and those of British Industry as a whole, is to bring domestic inflation firmly under control, and thus to give British manufacturers a firm economic base from which to operate.

Yours sincerely,

Margaret Thatcher

Cyril Smith, Esq, MBE, MP



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ *Secretary of State for Industry*

24 April 1981

M Pattison Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

NJS

Dear Milce

Further to my letter of 10 April, enclosing a draft interim reply to Cyril Smith's letter of 26 March, I now attach a substantive reply.

...

2. The British Embassy in Brussels have supplied officials here with some more information about aids to industry as a result of a visit to the Belgian Ministry of Economic Affairs. However the Embassy can find no trace of a scheme of assistance for textiles worth £56m, nor of the availability of loans at 2% interest. As the draft reply explains, loans are available to industry at either 4% or 5% under laws passed in 1959 and 1970, and regional incentives permit interest rate rebates of up to 5% on loans; under the latter scheme, it would theoretically be possible that a 5% interest rebate would have resulted in an effective rate of 2% if interest rates were very low, but the Embassy advise that this could only have occurred some years ago, when Belgian interest rates were lower than they are now. There is a proposal in Belgium to introduce a scheme of assistance for the textile industry, but the details of this have not yet been finalised, let alone approved by the Commission. Nor, apparently, will this take the form of 2% interest loans.
3. The question of whether or not a low interest rate Belgian Government loan was given to the company originally awarded the MOD contract is now academic, as the contract has been awarded to a UK company. The draft reply therefore goes on to point out that UK firms receive aid as well, and to explain why the Government does not propose to introduce a special package to aid the textile industry.

*Yours ever
Catherine*

CATHERINE BELL

Private Secretary

ENCLS.

DRAFT REPLY TO CYRIL SMITH MP

In my letter of 15 April I promised I would write again on my return from India in reply to your letter of 26 March, enclosing a letter you had received from Mr Babbs, director of Mutual Mills Ltd of Heywood, Lancs.

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GR
for P/Pl cc 26 2/14
(submit with previous letters
and 301 of 2414) MS
2/14

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10 DOWNING STREET

THE PRIME MINISTER

15 April 1981

Dear Mr. Smith,

Thank you for your letter of 26 March enclosing a letter you had received from Mr. Babbs, the Director of Mutual Mills Limited of Heywood, Lancashire.

As I told you in my letter of 8 April, the Ministry of Defence have issued new tenders for the contract to which Mr. Babbs refers. You may by now have heard from Mr. Rhodes of TBA (Industrial Products) Limited that his company has been successful in obtaining the contract. I am, however, looking into Mr. Babbs' claim that the Belgians are making loans available to their textile industry at 2% interest and I will write to you again as soon as I return from India.

Yours sincerely,

MT

Cyril Smith, Esq., M.B.E., M.P.



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

10 April 1981

M Pattison Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

NJS

GR
for MP
cc: JG

Dear Mike

Thank you for your letter of 27 March requesting a reply to Cyril Smith's letter of 26 March.

2 As I explained to you on Thursday, officials here have had some difficulty in obtaining information from Brussels about the low interest rate loans that Mr Babbs says are available in Belgium. There is no assistance specifically for the textile industry so far as we know other than the scheme announced last autumn but not yet implemented. But we are now awaiting information from our Embassy in Brussels as to whether or not it could be regional assistance.

3 In the meanwhile you asked for a draft interim reply which I attach. The Prime Minister wrote to Mr Smith about the MOD contract mentioned in the correspondence on 8 April. It is now to be awarded to a company in Mr Smith's constituency and notification of the decision was sent to the company on Friday 10 April by first class post. There is no reason why the Prime Minister should not refer to this in her letter to Mr Smith.

Yours ever
Catherine

CATHERINE BELL
Private Secretary

DRAFT INTERIM REPLY TO CYRIL SMITH MP

Thank you for your letter of 26 March enclosing a letter you had received from Mr Babbs, the Director of Mutual Mills Ltd of Heywood, Lancashire.

As I told you in my letter of 8 April, the Ministry of Defence have issued new tenders for the contract to which Mr Babbs refers. You may by now have heard from Mr Rhodes of TBA (Industrial Products) Ltd that his company has been successful in obtaining the contract. I am, however, looking into Mr Babbs' claim that the Belgians are making loans available to their textile industry at 2% interest and I will write to you again as soon as I return from India.



10 DOWNING STREET

From the Private Secretary

27 March 1981

I enclose a copy of a letter the Prime Minister has received from Cyril Smith MP, together with one from the Director of Mutual Mills Limited.

I would be grateful for a draft reply which the Prime Minister might send to Mr. Smith, to reach us here by Thursday 9 April.

I am sending a copy of this letter for information to Derek Piper (Ministry of Defence).

M. A. PATTISON

Mrs Catherine Bell,
Department of Industry.

FROM : CYRIL SMITH, MBE.,MP



HOUSE OF COMMONS
LONDON SW1A 0AA

March 26, 1981

The Rt Hon Mrs Margaret Thatcher MP
The Prime Minister
10 Downing Street
LONDON SW1

Dear Prime Minister,

With reference to my previous correspondence with you concerning the Textile Industry, I enclose a letter I have received from the Director of Mutual Mills Limited.

I have noted with interest what Mr Babbs has to say, and I bring this to your attention. I would much appreciate your comments please.

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'Cyril Smith', written over a diagonal line that extends across the typed name below.

CYRIL SMITH, MBE.,MP
enc

phone 69061 (5 lines)

Telex 63295

Graphic Address
"MUTUAL" HEYWOOD

Postal Code
OL10 4HP
DB/SB

Mutual Mills Limited

Heywood

Lancashire

March 23rd., 1981

Mr. C. Smith, MBE, M.P.,
House of Commons,
London
SW1A 0AA

*2/ Babbs Ack
3/ Smith to Babbs
mark for comment*

Dear Cyril,

I read with interest in Saturday's edition of the Rochdale Observer the article concerning the loss of a Ministry of Defence textile contract to the Belgian subsidiary of an American company. I presume you are aware that the Belgium Government is helping the survival of its textile industry by low interest rate loans. It is said they are making the equivalent of some £56m available to the Belgian textile industry at 2% interest, and indeed one of my own customers tells me he has received 13m Belgian Francs under this scheme to remain viable. The question, therefore, enters ones mind as to whether a low interest Belgium Government loan has enabled the Ministry of Defence contract to be placed outside this country? Certainly it would be of significant help to our industry if this Government were to adopt such a scheme.

Yours sincerely,

Dennis Babbs

D. Babbs



10 DOWNING STREET

From the Private Secretary

27 March 1981

I am writing on behalf of the Prime Minister to acknowledge your letter of 26 March with which you enclosed one from the Director of Mutual Mills Limited.

I will place this before the Prime Minister and you will be sent a reply as soon as possible.

Robert Paterson

Cyril Smith, Esq., MBE, MP.



10 DOWNING STREET

PRIME MINISTER

This letter from Cyril Smith encloses one from a Director of Mutual Mills Limited about the textile industry.

We will let you have a draft.

MAP

27 March 1981

ms

FROM : CYRIL SMITH, MBE.,MP

u15



R27B

HOUSE OF COMMONS
LONDON SW1A 0AA

March 26, 1981

The Rt Hon Mrs Margaret Thatcher MP
The Prime Minister
10 Downing Street
LONDON SW1

Dear Prime Minister,

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I have noted with interest what Mr Babbs has to say, and I bring this to your attention. I would much appreciate your comments please.

Yours sincerely,

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enc

Tel. 69061 (5 lines)

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Telegraphic Address
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OL10 4HP
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Mutual Mills Limited

Heywood

Lancashire

March 23rd., 1981

Mr. C. Smith, MBE, M.P.,
House of Commons,
London
SW1A 0AA

*2/ Thanks to
Smith's to Government
ask for comment*

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Yours sincerely,

Dennis Pottle

D. Babbs

CONFIDENTIAL

cc D/I
FCO
HMT
CO

H2



10 DOWNING STREET

From the Private Secretary

19 March 1981

BF to check when brought
to OD(E)

The Prime Minister was grateful for your Secretary of State's minute of 18 March about US textiles, and she agrees that he should bring forward a paper urgently to OD(E).

I am sending copies of this letter to Ian Ellison (Department of Industry), George Walden (Foreign and Commonwealth Office), John Wiggins (H.M. Treasury) and David Wright (Cabinet Office).

T. P. LANKESTER

Stuart Hampson, Esq.,
Department of Trade.

JH

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From the Secretary of State

PRIME MINISTER

Mr. Biffen's report on yesterday's discussion in the Foreign Affairs Council on US textiles. Some progress has been made, but it is now up to us whether to impose restrictions unilaterally. Mr. Biffen will be bringing a paper to OD(E) shortly.

TL 18/3

PRIME MINISTER

U S TEXTILES

You may like to have a brief account of yesterday's discussion in the Foreign Affairs Council on the above subject.

At the December Council there was agreement, at our insistence, that the Commission should undertake urgent consultations with the Americans with a view to finding solutions to the problem posed by the sharp increase in American exports of certain textile products to the Community, in particular the UK. The report by the Commission which was considered yesterday noted some encouraging developments. In particular, the deregulation of oil prices and the decision of the Reagan Administration to lift export restrictions on naphtha will have done something to remove the unfair advantage the US industry has hitherto enjoyed. The movement of the dollar against the pound is also helping. And the Administration are considering the possibility of a faster deregulation of gas prices which as things stand at the moment will not take place until 1985 or 1987. In addition, in terms of the textile and clothing sector as a whole, there has been some slackening off in US exports to the Community in recent months. None of this however helps in respect of the particular sectors - notably bed linen - where the US has made the most substantial new inroads about the UK market. Energy prices were never a major factor here, and the most recent export figures show a continuing rise in penetration.

The UK industry has tended to deride as insignificant the steps the Americans have so far taken and to demand immediate protective measures. The main thing that emerged from yesterday's meeting is

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From the Secretary of State

that there is no chance whatever of getting Community action of this sort, because there is no Community-wide problem. Even more important, the Commission now clearly feel that they have done as much as can be expected on what is in their view essentially a UK problem. They will go on pushing the Americans, especially on gas prices. But for the rest they say it is now up to us. In relation to the products currently most worrying the industry we have the right - because of a technicality in the rules as they affect different sorts of products - to take action unilaterally. The Council could, after a period of 4 to 6 weeks, require the removal of any restrictions we imposed, but we could act initially without the approval of either the Commission or the Council. It is - the Commission say - now for us to decide whether to use this right or not.

This faces us with a difficult decision. Objectively there is a good GATT case for Article XIX action at least on bed linen. As against this, the Americans would have a right to be compensated or to retaliate, probably against our wool textiles. The sector or sectors involved are not really that large in trade terms - eg on bed linen we are talking about American imports running even now at an annual rate of only some £10/12m (wholesale value). And generally we would not be making any easier the whole difficult task of managing, with the help of the new US Administration, to prevent the channels of trade between Europe and North America being clogged up by a wave of self-defeating protectionism.

✓ I think we now need an urgent collective view on this matter and I shall shortly be submitting a paper to OD(E) for this purpose. But I thought you should have this advance warning.

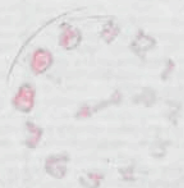
I am copying this minute to the Secretary of State for Industry, the Foreign Secretary, the Chancellor and Sir Robert Armstrong.

Department of Trade
18 March 1981
CONFIDENTIAL

W J B J. B.



11 8 MAR 1981



COPIED FROM THE ORIGINAL

TEXTILES, CLOTHING AND FOOTWEAR

It is hoped that the attached brief will be of assistance to Members in connection with Labour's supply day debate on the textiles, clothing and footwear industries on Thursday, 26th February 1981.

The brief is a combination of two restricted circulation briefs which were produced on 15th February for the lobbies on 16th February, with some minor amendments.

The Department of Trade's pamphlet, "The Government and the textiles industry: The background to Government policies on textile and clothing imports", is also recommended.

TEXTILES AND CLOTHING

The best source of information is the Department of Trade's comprehensive pamphlet, "The Government and the textiles industry - the background to Government policies on textile and clothing imports", which was published in September 1980. The following notes do not constitute a strict resume of the pamphlet, which is largely factual and explanatory.

1. Problems of the Industries

The textile and clothing industries have suffered, in common with the rest of British industry, from the forces of the recession and the difficulties occasioned by the strength of the pound, the relatively high level of interest rates, and the very high level of stocks at the onset of the recession. Correspondingly, they will benefit above all from the success of the Government's economic policies. There are, however, a number of special problems with which they have been faced - nearly all of them originating many years before May 1979, and most of them outside any Government's control.

(i) Developing countries. Clothing manufacture represents an attractive basic industry for developing countries as it requires only modest capital investment, does not need an advanced technological base and is labour intensive. Accordingly, highly competitive industries have grown up in a number of developing countries since the war, particularly in South-East Asia, and cotton producing countries have proceeded to develop their spinning and weaving capacity in the textile sector. This utilisation of comparative advantage - natural and inevitable if developing countries are to develop - has necessitated fundamental contraction and increased specialisation in the industrialised countries.

(ii) Relative size. The UK textile and clothing industry is the largest in Europe. It accounts for 2 per cent of GDP, 5 per cent of visible exports and 10 per cent of total manufacturing employment - about 650,000 people. The process of adjustment has been more painful and has involved relatively more people than elsewhere. The industry has lost about 330,000 jobs since 1970, of which some 30,000 were lost in 1979 and 76,000 between the end of 1979 and September 1980. However, other EEC countries adjusted more quickly in the 1970's - the labour force contracted by 14 per cent (130,000 jobs) between 1973 and 1978 in the UK as against 24 per cent (570,000 jobs) in the rest of the EEC.

(iii) Low productivity. Comitextil's bulletin No.5 of 1979, based on data up to 1977, showed the UK's productivity (in thousands EUA) to be the lowest in the EEC apart from Ireland.

	Output per man		Value added per man	
	Textiles	Clothing	Textiles	Clothing
Netherlands	24.5	17.2	8.6	5.8
Germany	22.2	16.3	10.0	7.7
Denmark	23.3	15.4	8.0	6.9
France	19.3	12.5	9.1	5.8
Belgium	21.7	11.8	7.3	5.4
Italy	15.6	10.3	5.9	4.5
UK	13.4	7.7	4.8	3.4

The significant increase in both productivity and investment in 1978-79 has done much to make the industry more competitive - but smaller. As the Minister for Trade, Mr. Cecil Parkinson, said in Manchester on 31st January 1980: "The falling workforce can be shown to be principally a reflection of technical advance and increased productivity".

(iv) Changes in fashion and technology. Changes in fashion from suits and formal wear to casual dress and lighter clothing have been rapid and beneficial to volume production in low-cost countries. Technological advance (e.g. in machines, dyes and fabrics) has also been swift, especially in the man-made sector, leading to greatly increased capacity at a time of slowly rising demand.

(v) Subsidised energy in the USA. The USA's subsidised energy costs gave manufacturers of synthetic yarns and fibres an 8-16 per cent advantage on their selling price. Under GATT Article XIX the EEC imposed temporary import quotas on American polyester filament yarn and nylon carpet yarn at the Government's request in February 1980. However President Carter signed a proclamation on 18th September whereby American tariffs on British wool textiles would have been almost doubled had the quotas been renewed; EEC steel producers were threatened with anti-dumping suits; and British carpet manufacturers strongly resented denial of access to low-cost yarn and attributed substantial loss of sales and turnover to the quotas. Mr. Parkinson consequently announced on 15th December that instead of applying for the quotas to be renewed, he would launch an initiative within the EEC to persuade the USA to remove the cause of the conflict. The good sense of this approach was confirmed when President Reagan announced the immediate ending of oil price control on 27th January; it is hoped that gas price deregulation, which would be consistent with the new administration's outlook, will follow.

(vi) Protection. The effect of protection on industrial performance has been a mixed blessing. The original justification for protective measures - that they would give the industry a breathing-space to facilitate more rapid adaptation - is no longer seriously maintained, after twenty one years of experience during which protection has intensified in scope and employment has continued to diminish. While protection has made life easier in social terms, it has almost certainly slowed down the kind of adjustment which is required. Indeed, this is now its very purpose. The tougher quotas on sensitive items have

concentrated import substitution on precisely those subsectors of high import penetration and least relative efficiency. The process of trading up by low cost exporters within quotas has had the paradoxical (but predictable) result of concentrating low cost competition in the more high quality, less price sensitive areas while offering greatest opportunities for import substitution at the bottom end of the market where the UK is presumed to have least comparative advantage.

Labour spokesmen tend to ignore these problems, preferring to believe that given enough protection, all that is required is expanding demand and investment. It is important to note that these are not problems. The levels of consumer's expenditure on clothing, and on household textiles and soft furnishings, reached a record high in real terms in 1980, surpassing the records set in 1979. And the levels of investment have accelerated sharply, as the Parliamentary Under-Secretary of State for Industry, Mr. John McGregor, revealed in a Written Answer on 26th January 1981 (col.282):-

	Capital Expenditure (1) £ million current prices	Employment (2) Thousand	Capital Expenditure per Head £
Textiles Industry (Order XIII of the SIC 1968)			
1975	185.4	533.1	348
1976	171.0	517.9	330
1977	180.8	503.0	359
1978	223.8	479.0	467
1979 (3)	275.5	457.1	603
Clothing Industry (Order XV except MLH 450 of SIC 1968)			
1975	26.0	345.6	75
1976	29.8	330.3	90
1977	37.3	321.0	116
1978	53.7	311.5	172
1979 (3)	63.7	303.7	210

Notes

- (1) New building work plus acquisitions less disposals of plant and machinery, and vehicles
- (2) Average number employed (full and part time) during the year (including working proprietors)
- (3) Provisional estimates

Source Reports on the Annual Census of Production and Department of Industry estimates

2. The Multi-Fibre Arrangement

The Government are committed to seeking "a tough successor" to the MFA, which regulates the growth of imports from low cost sources. The precise outcome, however, will depend on agreement by the other GATT signatory countries, both developed and developing, and the future of the bilateral agreements negotiated under the MFA between the EEC and 27 low cost countries will likewise depend on agreement in each case. There have been as many recommendations as to the shape of the next MFA and the bilateral agreements by industry and other pressure groups as there are blades of grass, which cannot be summarised and answered in brief. The Department's pamphlet explains the details of the MFA and the action that has been taken under it; the following paragraphs assess the effects of the existing MFA, which along with a clear assessment of the industry's problems, should serve as a guide to the principles upon which the Government will seek to influence the Commission's negotiating mandate.

(i) Effect on trade. The MFA permits a real annual growth rate in the volume of imports from low cost countries subject to the MFA of 6 per cent. According to figures published by the European Commission on 17th July 1980 in respect of the EEC market for 1976-9, the actual outturn was 4.3 per cent. For sensitive items, the figure was 2 per cent, and for imports from industrialised countries the figure was 11.1 per cent. There has been virtually no evidence in the UK of purchasers having switched back from low-cost to domestic sources. Quota control has therefore been effective in its stated purpose; with the consequence not of import substitution by the domestic market but diversion of the source of imports to non-EEC industrialised countries and to a lesser extent Mediterranean suppliers, and increased intra-EEC trade. As Mr. John Nott, then Secretary of State for Trade, said in Leeds on 7th November 1980:-

"Up to August of this year we exported £130 million more of our wool products, than we imported, a substantial increase on 1979. In the first nine months of this year we had a £27 million deficit in our total textiles and clothing trade with the European Community - a substantial reduction on the £179 million deficit in the same period last year. That improvement with the Community far outweighed the small increase of £36 million in our textiles and clothing deficit with the USA. Our imports of textiles and clothing from the low-cost countries have actually fallen so far this year by £100 million and our exports to these countries have increased by almost £50 million. Of course imports of textiles have increased over the years, but I must ask whether these facts are consistent with the idea that the Multi-Fibre Arrangement is not working or that we are being flooded by imports from the US and Europe".

The latest crude trade figures in £ million were published by British Business on 23rd January 1981:-

	<u>Oct 78 - Sept. 79</u>	<u>Oct.79 - Sept. 80</u>
<u>Textile fibres</u>		
Exports	307.8	331.6
Imports	479.8	392.9
Balance	-172.0	-61.3
<u>Textile yarns, fabrics</u>		
Exports	1,310.3	1,407.2
Imports	1,658.0	1,598.7
Balance	-347.7	-191.5
<u>Clothing</u>		
Exports	715.8	815.5
Imports	1,142.7	1,241.6
Balance	-426.9	-426.1
<u>Total</u>		
Exports	2,333.9	2,554.3
Imports	3,280.5	3,233.2
Balance	-946.6	-678.9

These figures should be seen in the light of the statement by the Retail Consortium: "It is an interesting fact that UK clothing manufacturers in 1978 imported yarns and fabrics into the UK to the value of £1,445 million whilst criticising retailers for importing £921 million of made up clothing" ("MFA: The Retail Case", June 1980).

(ii) Effect on prices. The aim of quota restriction is to raise import prices to a less competitive level. The effect is not precisely quantifiable. A study by the Consumers Association in August 1979 estimated that the effect of the MFA was to raise prices by 15-40 per cent, but this was vigorously disputed by the industry. Evidence from Hong Kong, where export quota licences are traded on the open market, indicates that the premium at its peak in late 1979 was £1 on a pair of jeans and 80 pence on a shirt. Exporters in low cost countries have noticeably traded up to high quality, high price products in order to maximise unit value within quota categories, thus reducing the availability of for example low value children's wear. It is sometimes suggested that the benefits of cheap imports are not passed on by retailers but absorbed in higher profit margins; in practice, however, retail prices of domestic and imported produce are usually averaged out, so that domestic manufacturers are to some extent cross-subsidised by imports.

(iii) Effect of developing countries. The effect on the MFA on the more advanced developing countries has been noted. The effect on poorer countries has been less obvious and less visible. Under the basket extractor mechanism, which enables quotas to be imposed on unrestricted products from individual countries if they pass a trigger level and are considered to be disruptive, quota control has been extended even to handloom products, which has cramped a valuable source of rural employment in the Indian sub-continent. It is inconceivable that such countries could now ascend the ladder of relative prosperity through the development of textile exports in the way that some Far Eastern economies have done. They are quickly caught in the basket extractor when amounts are shipped well below the levels required to sustain a viable export sector, and lack the capacity to switch rapidly from one item to another to exploit gaps in the quota system and to raise unit value within quotas. As Mr. John Nott observed: "One might expect that the Tribune Group would be the leading castigators of the Multi-Fibre Arrangement. One might expect it to castigate the MFA as a trade conspiracy against the poor. If one looks at it in terms of the workers in Bangladesh, one realises that that is precisely what it is" (Hansard, 26th June 1978, Col. 1065).

(iv) Effect on industry. The MFA has undoubtedly eased the pressure and pace of change in the industry as a whole, and has been of particular benefit in certain sectors and areas of the country which might otherwise have suffered the most severe social disruption. That is why the Government will be pressing for a tough successor. It is a pragmatic judgement, and the Government will continue to show flexibility in implementation. The need for this was demonstrated by the Indonesian dispute, after quotas were imposed under the MFA on Indonesian clothing imports, which totalled some £5.5 m. in 1980. Indonesia threatened to retaliate against British export contracts worth £150 million at a late stage of negotiation and a further £700 million worth of business. Following a visit by Mr. Nott, larger quotas were negotiated and the dispute was resolved.

3. The Government's record,

- The present Government has been just as diligent as its predecessor in implementing the present MFA system of control.

- Since May 1979, two new voluntary restraint agreements have been negotiated (with Malta and Cyprus), which means that all Mediterranean producers except Turkey are now under restraint.

- Safeguard action has been taken against imports of Turkish cotton yarn.

- 36 new quotas covering new products were introduced under the basket extractor between May 1979 and November 1980, and at least 3 more since.

- The first voluntary restraint agreement with a Lome Convention country (Mauritius) was negotiated in January 1980.

- An MFA type agreement was concluded with China in June 1979.

- A five year trade safeguard provision was included in the Treaty of accession of Greece to the EEC, and similar provisions will be included in the cases of Spain and Portugal.

- The Government persuaded the Commission to control free circulation imports under Article 115 of the Treaty of Rome in 32 cases (25 quotas) in 1979, as against 24 cases (13 quotas) in 1978.

- The Department of Trade's anti-dumping unit has continued to support the UK industry in applications to the Commission, and the Government is pressing to strengthen the EEC's anti-dumping staff; an anti-dumping information pack was published in January 1981.

- Definitive anti-dumping duties were imposed on USA acrylic fibres in May 1980, and provisional duties on American yarn were succeeded by USA-EEC negotiations at the UK's behest.

- 12 new specialist staff were added to HM Customs and Excise Fraud investigation team last November, and measures to combat textile origin fraud are being implemented on a Community basis.

- An Order requiring compulsory country of origin marking for textile and clothing goods was laid this month, and will come into effect at the end of 1981.

- The textile, clothing and footwear industries were offered or paid £35.5 million under the temporary short-time working compensation scheme and Industry Acts in the year 1979-80, and since then up to the end of 1980 the textile industry received a further £23.7 million and the clothing and footwear industries a further £13.4 million under the scheme.

FOOTWEAR

1 The UK Industry

Footwear production totalled about £750 million in 1980, of which £130 million was exported. The industry is in considerable difficulties. Stocks rose to unprecedentedly high levels during the second quarter of 1980, as output and orders fell sharply. Employment fell from 71,000 in January 1980 to 66,500 in November in GB, when 15,600 workers were on short time. Three major problems are the internal condition of the industry; restrictions in export markets; and the development of low cost production in other countries, which has necessitated a long delayed but now rapid shift into up-market, high value products at the expense of jobs in the large, labour intensive, lower quality end of the market. High grade manufacture is extremely competitive, but is only a very small proportion of total UK production and employment.

Recent trends in productivity and orders illustrate this clearly. Productivity measured by number of pairs per head has fallen consistently since 1975, whereas value added per head has risen by some 15 per cent. Net new orders by volume have fallen steadily since 1976, whereas they have risen by value from a monthly average in £ million of 48.8 in 1977, 56.4 in 1978 and 61.4 in 1979 to 64.1 in the first ten months of 1980.

Added to this, investment, technology, training, design and quality have all been lacking. The footwear Economic Development Committee reported in February 1980: "The pace of development in new technology, due particularly but not exclusively to the introduction of the micro-processor, is probably more rapid now than at any time in the industry's history....Close attention should be paid to the assistance available under the Government's Microprocessor Application Project...To date no applications under this project have been submitted by footwear manufacturing firms, and the EDC must register its disappointment at the industry's failure so far to seize the opportunity offered by the Government". The EDC reported that of 329 applications under the previous Government's £4.5 million scheme of Assistance, 167 were concerned with investment in closing machinery, 78 for consultancy projects and 84 for rationalisation and restructuring. The Scheme expired in March 1980 and has not been renewed.

The Footwear, Leather and Fur Skin Industry Training Board carried out a survey of 98 firms in 1979 and discovered shortages of labour and recruitment difficulties, especially in the case of skilled machinists, in most parts of the industry. It also suggested that production had been disrupted in some firms by high levels of absenteeism and labour turnover.

The EDC was also critical of design performance: "There are few truly innovative designers working in the UK today, designers who are capable of producing original shoe styles. There are rather more but still not enough adaptors, designers capable of recognising design trends and adapting them to suit the needs of their own company". Its recommendation for financial assistance has not been accepted by the Government.

The Office of Fair Trading, which monitors the Footwear Code of Practice, reported on 11th September 1980 that footwear complaints (80 per cent Industry, 20 per cent service) remain about 5 per cent of all complaints about goods and services. It announced a new scheme

whereby new lines of shoes would be pre-tested before going on sale. British shoes have a better level of wear and tear than imported shoes.

2. Trade problems.

The UK's traditional export markets in Australia, Canada, New Zealand and South Africa, which have always had higher tariffs than Britain, are now protected by quotas. Japan and nearly all developing countries (not Hong Kong, Singapore or Saudi Arabia) have both tariff and non-tariff barriers. Comecon bloc imports are of course firmly state controlled. The only large open markets are the EEC and the USA. A reverse problem is the banning of exports of raw materials (hides and skins) by virtually every country outside West Europe, North America and Australasia, thus limiting the supply and raising the price.

At the same time, there has been a steady rise in import penetration, facilitated by the UK's highly concentrated and efficient retail sector. It is important to note, however, that most of the increase has come from the EEC. The UK industry asserts that Italy, which supplies 80 per cent of UK imports from the EEC, benefits from unduly lax labour laws and low wages. Looked at another way, UK labour costs per unit of output are higher than Italy's. As UK export penetration to the EEC has increased only modestly by comparison, the UK-EEC trade deficit widened between 1969 and 1979 from 9 to 29 million pairs. The British Footwear Manufacturers Federation gave the Select Committee on Trade and Industry (HC 442 -xi, 11th June 1980) the following figures, which understate the difference between developed and developing country trade trends as they are by volume (million pairs), not value:-

<u>Exports</u>	1969	1974	1979
EEC	3.0	6.6	11.0
Other	17.5	11.7	7.9
	<u>20.5</u>	<u>18.3</u>	<u>18.9</u>
 <u>Imports</u>			
EEC	11.9	25.7	40.3
Spain, Greece & Portugal	3.6	5.6	10.7
Comecon	3.5	7.8	7.0
Developing countries	40.7	36.5	48.5
Other Developed	5.7	4.6	3.5
	<u>65.4</u>	<u>80.2</u>	<u>110.0</u>

3. Import restrictions

Existing restraints cover about 50 per cent of total footwear imports from low cost sources. There are formal quotas on non-leather footwear imports from Poland, Czechoslovakia, Hungary and Bulgaria, and on all footwear from China, and voluntary restraint agreements on leather footwear imports from Poland, Czechoslovakia and Rumania, on non-leather footwear from Taiwan and on all footwear from South Korea. There is a countervailing duty on imports of men's fashion shoes from Brazil, at present under review by the Commission, and anti-dumping action against imports from Poland and Czechoslovakia is being considered. The Government has stood firm against pressure from other EEC countries and Eastern Europe to increase quota levels on leather footwear imports from Poland and Czechoslovakia. There will be compulsory country of origin marking of footwear from the end of this year.

Footwear has been placed on the list of sensitive products in the EEC's new Generalised Scheme of Preferences, which grants free or reduced duty access to imports from developing countries. In most cases there will be automatic reimposition of full duty on individual importing countries once their tariff quotas are used up, and in other cases reimposition will lie at the discretion of any Member State. Footwear was also excluded from the reciprocal tariff reductions at the GATT Tokyo Round.

Mr. John Nott visited Brazil in May 1980 and stressed the urgency of trade liberalisation. Recent relaxations have been a move in the right direction, but have not removed the problem. Speaking on behalf of Mr. Cecil Parkinson on 17th June 1980, Mr. David Hunt put the difficulties in perspective: "The Government is firmly on the side of the footwear industry, but it isn't the Government which is bringing foreign shoes in...It may be much easier to involve the Government rather than criticise the distributors who are, after all, your customers. But you, the industry, should lobby the distributors as effectively as you undoubtedly lobby Ministers....Brazil apart, imports from most developing countries have been static or declining in recent years. Nor would an MFA for footwear be likely to be negotiable with the developing countries concerned, who already strongly resent the existing MFA for textiles. The Government's view remains that it is prepared to look at requests for individual controls on a basis consistent with the UK's international trading obligations".

4. Future Opportunities

It is hard to be other than gloomy about the footwear industry's immediate prospects. Nonetheless, there is immense scope for improvement - for modernisation and rationalisation at home and for exploitation of markets in Europe. K shoes have recently agreed to a takeover bid from C and J Clark, the UK's largest footwear manufacturer, and while both companies have recently announced closures and redundancies, the cutbacks were a small percentage of their workforces; they are expected to continue trading independently, and in stronger shape.

There are signs that the potential for increased exports to the EEC is being tested. Exports to Germany rose by 40 per cent in 1979 and

by 104 per cent in volume in the first quarter of 1980. The entry of Greece, Spain and Portugal into the EEC will provide opportunities when their high levels of protection are dismantled. At present, Greece operates an import deposit scheme, requires import licences and has a duty of 40 per cent; Spain has a 20.2 per cent tariff on leather footwear, a general import surcharge of 10 per cent, export rebates of 10 per cent and restrictions on the export of hides; and Portugal has a general import surcharge of 10 per cent and requires import licences. The BFMF estimate: "There is no reason why we should not export as much to the three countries combined as we do to, say, Italy now (650,000 pairs worth £3.9 million last year). In the longer term if, as in a declared aim of the Community, there is a convergence of living standards, there is no reason why the trade imbalance should not be significantly reduced" (Ibid).

Mr. Anthony Clothier, director of C and J Clark, giving evidence for the BFMF, added: "There is no doubt that the opportunities for investment in the future are going to be very great...The pieces of the shoe trade which are certain to remain in the developed, high labour cost countries, are the ones on which there is a high degree of style change and one on which there is a need for service in terms of, for example, fitting shoes for children...The real issue for us is whether we can develop technologies which are highly flexible and highly responsive to these conditions, to make sure that the shoes for which there are some natural advantages for us to produce in high cost countries can continue to be produced. This is where I think that quite a lot of things that are happening at present are quite promising".

MFJ

Trade

22 December 1980

Thank you for your letter of
12 December, with the sample of
Chinese cloth. The Prime Minister
has seen this.

MAP

Peter McCarthy, Esq.,
Department of Trade.

2/50



15.12.80

PA
MS

MR SPEAKER, IN THE ABSENCE OF MY RT HON FRIEND THE SECRETARY OF STATE, WHO IS ON A TRADE VISIT TO SPAIN, I WOULD LIKE TO MAKE A STATEMENT ABOUT TEXTILES AND CLOTHING.

I NEED NOT REMIND THE HOUSE OF THE IMPORTANT CONTRIBUTION MADE BY THE TEXTILE AND CLOTHING INDUSTRIES TO THE COUNTRY'S ECONOMY AND THE CONCERN THIS GOVERNMENT HAS FOR THEIR PROBLEMS.

IT WAS IN RECOGNITION OF THIS THAT - IN ADDITION TO PRESSING FOR THE STRICTEST POSSIBLE IMPLEMENTATION OF THE ARRANGEMENTS RELATING TO IMPORTS FROM DEVELOPING COUNTRIES - WE EARLIER THIS YEAR SECURED AGREEMENT OF THE EUROPEAN COMMUNITY TO THE IMPOSITION OF QUOTA RESTRICTIONS AGAINST IMPORTS, ESSENTIALLY FROM THE UNITED STATES, OF POLYESTER FILAMENT YARN AND NYLON CARPET YARN.



THESE QUOTAS EXPIRE AT THE END OF THIS YEAR AND WE HAVE BEEN
CONSIDERING IN THE FULLEST CONSULTATIONS WITH REPRESENTATIVES OF
THE INDUSTRY AND THE FIRMS AFFECTED DIRECTLY OR INDIRECTLY, WHETHER
WE SHOULD SEEK THEIR RENEWAL.

WE HAVE HAD TO BEAR IN MIND THE EFFECT RESTRICTIONS ON THESE RAW
MATERIALS HAVE HAD ON USERS IN THIS COUNTRY AND ALSO THE FACT THAT,
IN THE CASE OF POLYESTER YARN, THE COMMISSION HAS IMPOSED ANTI-
DUMPING DUTIES ON SOME HALF OF US IMPORTS OF THIS PRODUCT. WE
HAVE CONCLUDED THAT THE BALANCE OF ADVANTAGE DOES NOT LIE IN
MAINTAINING THESE QUOTAS ANY LONGER. WE SHALL NOT THEREFORE BE
SEEKING THEIR RENEWAL FOR 1981.



THE GOVERNMENT IS, HOWEVER, EXTREMELY CONCERNED AT THE DAMAGINGLY SHARP RISE IN IMPORTS OF CERTAIN OTHER US PRODUCTS AND THE PROBLEMS THIS CREATES FOR PARTICULAR SECTORS OF OUR INDUSTRY; AND THE WIDER PROBLEM, WHICH THESE IMPORTS IN A CONSIDERABLE MEASURE REFLECT, OF THE IMPACT OF UNITED STATES' ENERGY POLICIES ON A WIDE RANGE OF BRITISH INDUSTRIES, THOUGH NOTABLY TEXTILES.

THE ISSUE IS ONE WHICH HAS ALREADY BEEN TAKEN UP WITH THE COMMISSIONERS IN BRUSSELS AND OUR COMMUNITY PARTNERS AT MINISTERIAL AND PRIME MINISTERIAL LEVEL. THE GOVERNMENT FEELS THE TIME HAS NOW COME FOR A CONCERTED STAND BY THE COMMUNITY. AT TOMORROW'S MEETING OF THE EC COUNCIL OF FOREIGN MINISTERS I SHALL THEREFORE BE SEEKING AGREEMENT TO A COMMON COMMUNITY APPROACH WHICH WOULD IN EFFECT PUT THE ONUS ON THE AMERICANS TO USE SOME OF THE SOLUTIONS AVAILABLE TO THEM WHICH WILL AVOID THE NEED FOR RECOURSE



TO RESTRICTIVE ACTION ON OUR SIDE. A FASTER DEREGULATION OF OIL AND GAS PRICES AND A RECOGNITION ON THE PART OF THE US OF THE NEED FOR GREATER RESTRAINT IN PRESSING THEIR ADVANTAGES IS REQUIRED. WE SHALL THEREFORE SEEK A MANDATE FOR THE COMMISSION URGENTLY TO PURSUE DISCUSSIONS WITH THE AMERICANS OVER THE WHOLE RANGE OF PROBLEMS AND POSSIBLE SOLUTIONS AND TO REPORT BACK TO THE COUNCIL. WE SHALL ALSO BE SEEKING ENDORSEMENT FROM THE COUNCIL OF A FIRM RESOLVE TO TAKE ANTI-DUMPING ACTION WHERE THIS IS JUSTIFIABLE -

THOUGH I DO RECOGNISE THAT DUMPING IS IN THE MAIN NOT A MAJOR ELEMENT IN THE PROBLEM) - AND TO IMPOSE PROVISIONAL DUTIES WHERE THE FULL PROCESS WHICH WOULD LEAD TO FINAL DUTIES WOULD TAKE TOO LONG.

A REPORT ON THE OUTCOME OF THE DISCUSSION IN THE EC COUNCIL WILL BE MADE IN DUE COURSE.



From the
Minister of State
for Consumer Affairs

The Rt Hon Sally Oppenheim MP

Mike Pattison Esq
Private Secretary
Prime Minister's Office
10 Downing Street
London SW1

4
DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5662
SWITCHBOARD 01 215 7877

Prime Minister

MP 15/12/80

12 December 1980

Dear Mike,

I understand that when she had lunch with the Prime Minister recently Mrs Oppenheim mentioned the high quality and value for money of cloth being imported into this country from the Peoples Republic of China.
... She promised to let the Prime Minister see a sample and I enclose one provided by Hield Brothers Limited, Worsted Cloth Manufacturers, Bradford.

Yours sincerely,

Peter McCarthy

PETER McCARTHY
Private Secretary

MP

ERFINE SUITING



Hield Brothers Limited
England



Range

RED CHINA

Quality

PRICE

£3.46

PER MEGRE

CIF

HONG KONG

010
CONFIDENTIAL

DEPARTMENT OF TRADE

1 VICTORIA STREET LONDON SW1H 0ET

Telephone 01-215 7877

cc Mr Ingham
Mr Alexander



~~Private Secretary PA~~

This seems a
good draft.

From the Secretary of State

Content?

Nick Sanders Esq
Private Secretary
10 Downing Street
London SW1

Yes ~~no~~

12 December 1980

PL
17.12

Dear Nick

TEXTILES STATEMENT

Following the discussion in Cabinet yesterday, it has been agreed that the textiles statement should be made by the Minister for Trade on Monday. I attach a copy of the draft.

I am sending copies of this letter to the Private Secretaries of all members of OD(E) plus the Private Secretaries of the Secretaries of State for Industry, Scotland, Energy, Wales, Northern Ireland and Attorney General/Law Officers Department, and David Wright (Cabinet Office).

Yours sincerely,

Stuart Hampson

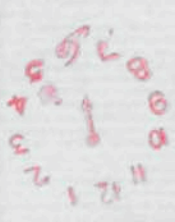
Stuart Hampson
Private Secretary

ENC



London, England

COMMERCIAL



12 DEC 1980

DRAFT TEXTILES STATEMENT:

Mr Speaker, in the absence of my rt hon Friend the Secretary of State, who is on a trade visit to Spain, I would like to make a statement about textiles and the much wider, though related, problem of United States energy prices.

The Government is extremely concerned at the problems raised for particular sectors of the British textile industry by the damagingly sharp rise in imports of certain U.S. products; and the wider problem, which these imports in a considerable measure reflect, of the impact of United States' energy prices on a wide range of British industries, though notably textiles.

The issue is one which has already been taken up with the Commissioners in Brussels and our Community partners at Ministerial and Prime Ministerial level. The Government feels the time has now come for a concerted stand by the Community. At tomorrow's meeting of the EC Council of Foreign Ministers I shall therefore be seeking agreement to a common Community approach which would in effect put the onus on the Americans to find some solution which will avoid the need for recourse to restrictive action on our side. A faster deregulation of oil and gas prices and a recognition on the part of U.S. industry of the need for greater restraint in pressing their advantages is required. We shall therefore seek a mandate for the Commission urgently to pursue discussions with the Americans along these lines and to report back to the Council. We shall also be seeking endorsement from the Council of a firm resolve to take anti-dumping action where this is justifiable

/though

though I do recognise that dumping is in the main not a major element in the problem - and to impose provisional duties in legitimate cases where the full process which would lead to final duties would take too long.

The House will be aware that in February this year the European Community imposed quota restrictions until the end of this year against imports, essentially from the United States, of polyester filament yarn and nylon carpet yarn.

My right hon Friend the Secretary of State for Trade and I have had the fullest consultations with representatives of the textile industry and with the firms who are affected directly or indirectly by these quotas. We have had to bear in mind the damaging effect restrictions on these raw materials have had on users in this country and also the fact that, in the case of polyester yarn, the Commission has imposed anti-dumping duties on some half of U.S. imports. We have concluded that the balance of advantage does not lie in maintaining these quotas any longer. We shall not therefore be seeking their renewal for 1981.

A report on the outcome of the discussion in the EC Council will be made in due course.

17 DEC 1980

11 12 1
10 9 8 7 6 5
4



cc Mr Ingham
Mr Lankester
Mr Alexander

From the Secretary of State

Nick Sanders Esq
Private Secretary
10 Downing Street
London SW1

Dear Nick

TEXTILES STATEMENT

I should be grateful if you could obtain the Prime Minister's approval for the Secretary of State to make a statement on textiles next Tuesday.

OD(E) discussed this morning my Secretary of State's paper OD(E)(80)33 on Textiles. In essence it was agreed that the two quotas on synthetic fibres should not be extended. This decision should, however, be linked to an announcement that we were pressing in the Council of Ministers for a strong Community initiative with the new American administration on US feedstock prices, and also for discussions between the Community and the US on textile imports.

After discussing this subject with the Chief Whip my Secretary of State feels that it would be advisable to announce his decision by a statement to the House. This should ideally be timed to coincide with the Minister for Trade's attendance at the Council of Ministers - ie next Tuesday, 16 December.

Despite the new EC initiative I have referred to, there will obviously be some protest from Members with textiles constituencies and a mini-textiles debate will ensue. On the other hand, the outcome will not be totally unexpected, and moreover the consequences for other sectors of the textile industry and indeed for British industry in general of maintaining these quotas has been fairly well publicised and should be taken up in the House.

We will, of course, be clearing the text of the statement in the normal way.

I am copying this letter to Paul Lawrence (Chancellor of the Duchy's Office), Murdo MacLean (Chief Whip's Office) and David Wright (Cabinet Office).

Yours sincerely,
Stuart Hampson
Private Secretary

Trade
PRIME MINISTER

Contact for an oral statement to be made (to a mixed reception) next Tuesday?

10 December 1980

* There is time in the business. See also Mr Ibbot's note (attached). MS 10/12
(see below)

* The proposal (see the Cabinet folder) that there should be an oral statement by Mr Hereltine on RSG (England) on Tuesday means that we shall need to discuss timing at Cabinet MS



170 DEC 1980



COMMUNICATIONS

2/13

Qa 05201

TO: PRIME MINISTER

FROM: J R IBBS

TEXTILES

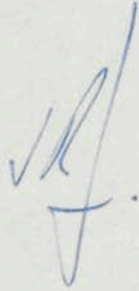
I have seen the recent minutes to you on textiles, and the paper the Secretary of State for Trade has put to OD(E).

2. My own contacts with the Industry have convinced me that it believes the Government does not fully understand its present difficulties and is reluctant to give proper help. This impression is bad both for the Industry and the Government. Although some parts of the Industry have been inefficient and some are unsuited to withstand competition from developing countries, there are other parts which are well managed, efficient and in which there has been substantial investment. It is no fault of theirs that they have been severely hit quite suddenly at a time of recession by the American feedstock advantage, by the strength of sterling and by the focussing of United States exports on the United Kingdom. Their feeling of isolation has been exacerbated by the Carter Administration's public statement in November 1978 of determination to assist the textile and clothing industry and commitment to its health and growth. They look for some corresponding words of support, and actions over a period to back them up.

3. While I do not disagree with the Secretary of State for Trade's recommendations on not renewing quotas or seeking new ones immediately, I believe it would be most unfortunate if decisions on these were announced in a manner which added to the poor morale in the industry. Equally I think that any public weakening of attitude towards use of the MFA basket extractor mechanism would be most unfortunate, even if some discretion is required in the way it is actually used. What is needed is a message of hope for the Industry of intention to provide overall support where this is justified rather than reluctant piecemeal assistance. The approach proposed by the

Secretary of State for Industry can give this encouragement and, in particular, I believe the United Kingdom industry would respond positively to the suggestion of a stronger Community approach to the United States.

4. I am sending a copy of this minute to members of E Committee, the Secretaries of State for Northern Ireland, Scotland and Wales and Sir Robert Armstrong.



9 December 1980



MBG (taken in ODEJ)

PRIME MINISTER

DL
10/12

TEXTILES

- 1 In his minute to you of 21 November John Nott raises some important issues.

- 2 I have now had my meeting with the industry. There are two separate - although inter-related - aspects of our textiles policy on which early decisions need to be taken; our attitude to the growing pressure of imports from America, and our approach to the use of the 'basket extractor' procedure under the Community's MFA arrangements with low cost countries.

- 3 In considering textiles policy we must bear in mind the importance of the industry to the UK economy: employment of 680,000; output of £9000 million; over £2000 million exports; good labour relations; considerable investment over the last decade; better-than-average improvements in productivity. However, the industry is going through a very rough time. A large number of jobs have already been lost and many more will go.

The American Problem

- 4 I agree that, as John suggests, the two yarn quotas are not worth keeping.



5 But simply to abandon them, and leave it at that, would imply that we were not prepared to try to tackle the problem of US textiles, no matter what damage they were causing. Confidence is already low and could collapse in other areas where the American pressure is already intense - carpets, household textiles - and where it is building up quickly - certain fabrics and garments. We can, and should, continue discussions with the Americans on energy pricing at Community and Member State level. The advent of the Reagan administration provides at least the possibility of a change of position that would not otherwise have existed.

6 We can continue to press for action when dumping can be established, but it is often very difficult to establish the facts and to prove injury. Anti-dumping action cannot be regarded as a solution to the general problem.

7 If we feel the problem of imports of American textiles needs to be tackled effectively, a more comprehensive approach is necessary. This could be pursued at the 16 December Council. The 2 yarn quotas are due to expire at the end of this month. In announcing at the Council that we are not seeking their renewal we could try to secure from that Council a recognition that imports of US textiles are a real problem now for the Community and that the Commission should be mandated to seek a practical solution with the US and to report back in, say, 3 months. It would be understood that the Commission should pay particular attention to energy pricing and - insofar as is appropriate - dumping, but without the possible remedies being limited to these.



8 By dropping the quotas we would please the Germans who have been the most hostile to them, and they might be the more prepared to consider a comprehensive approach on the above lines. And we might find support for an approach to the Americans from the French and possibly the Italians, Irish and Belgians. The UK industry would see it as a useful step forward.

9 We might well not secure Council agreement; and if we did, the Commission might not be able to come forward with acceptable solutions. But I can see no other way forward if we want to tackle the problem. There might well be a hostile American reaction to an approach from the Community which included the possibility of MFA action. But nobody can know what their response will be until an approach has been made. And there can be little doubt that the Americans themselves would not hesitate to act against the Community, or any developed country, if the situation was reversed.

10 In coming to conclusions, and as a background, we must also take account of other aspects which must surely be worth discussing with the Americans once we have got them to the conference table. The first of these is that, although we do not wish to reopen the MTNs, it will be known to them that the enormous movement of the exchange rate since the tariffs were settled (the US tariffs in textiles being higher than those of the EC and in key areas very much higher) do present in combination a major practical problem for our industry. As



a result of this it is very difficult to accommodate further increases in imports from the developing world, as well as further damaging increases from the USA. The much stricter application of the MFA by the USA towards the developing world has also diverted imports from them to us.

11 Secondly, noting the very large increases of exports from and reductions of imports into the USA, the developing world will wish to link the renegotiation of the MFA (and the Americans also want a strong MFA) with the fact that the richest country in the world seems to be the biggest gainer to date (exports 46% up in 1979 on 1978 and imports down 18%). Of course the USA will say that the exchange rate, the MTNs and their use of the MFA are all perfectly fair, but one would hope that they could see the combination of circumstances which leave our not inefficient and relatively high technology industry in a very difficult position and our Government in a position where failure to secure a practical solution would be difficult to defend.

12 Inevitably, we would appear to be taking a step towards further protectionism. It will be said - with some justice - that the competitiveness of the US products stems from more than the admitted unfair advantages of US energy policy. Nevertheless, these unfair advantages are a fact which cannot be ignored. Our public justification, therefore, would have to lean heavily on the unfairness of US energy policy and allegations of dumping; this

/would ...



would be consistent with the mandate for the Commission sketched above. The basic question we have to settle, therefore, is whether an approach of this kind would be justified in view of the serious state of the industry.

MFA and the Basket Extractor

13 I entirely agree with John Nott that we must go for a tough MFA next year. However, this cannot be separated from how we manage our textile agreements between now and the expiry of the present MFA in twelve months' time.

14 At present we are committed to seeking effective use of the basket extractor mechanism in the Community's MFA agreements. This has been stated numerous times by Ministers and is brought out in the Department of Trade's booklet "The Government and the Textiles Industry" published in September, where we say "the Department has agreed that it will automatically seek basket extractor action for 17 sensitive categories", and "The Government will continue to put cases of this type to the European Commission".

15 We have to recognise that there will be occasions where the supplying country will threaten, or take, retaliatory action. I agree that we cannot escape the obligations to take this into account when deciding on action in particular cases.

16 But we can never know how serious a threat is nor, after the event, whether orders were lost as a result of retaliation or for other reasons.



17 More to the point, however, we cannot look at specific cases in isolation. If we give way to threats of retaliation in any one case, we can be certain that every other country with whom the Community has a bilateral agreement will try to follow suit; our whole current MFA textile trade policy would be in jeopardy, and our prospects of securing the touch successor to which we are committed would be seriously weakened.

18 So while agreeing that we need to continue to assess our interest as fully as possible in basket extractor cases and play our cards as carefully as possible to avoid over-exposure, we need also to bear in mind the wider consequences for our textiles industry of not pressing cases which are justified under the terms of the Community's arrangements. There may be a case on broader grounds for changing our current practice on basket extractor cases. However, if we do decide to change, the industry will rightly claim that we are reneging on our commitments. In these circumstances we would not be able to avoid announcing publicly that we had altered course. Nor could we avoid the consequential recriminations of the textile industry.

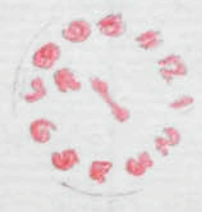
19 I am sending copies of this minute to members of E Committee, Humphrey Atkins, George Younger, Nicholas Edwards and Sir Robert Armstrong.

Catherine Bell
PP K J

(Approved by the Secretary of State
and signed in his absence)



29 DEC 1941



COMMUNICATIONS

11-100

Trade
US Fibres
TL 8/12

CONFIDENTIAL

SK



cc: Trade Ind
WO HO
SO Ch. Sec. HMT
NIO AGO
CO LPS
HMT
MAFF
LPO
FCO
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D/Em
5 December 1980

10 DOWNING STREET

From the Private Secretary

Dear Stuart,

Textiles

The Prime Minister has seen the Secretary of State for Trade's minute of 21 November and the subsequent comments from other Ministers. She recognises the importance of the issues which have been raised. She is also conscious that the questions have Community implications and need to be considered in the framework of the Community's Common Commercial Policy. She hopes, therefore, that the future of the United States quotas can be considered at an early date by OD(E) in the context of our general approach to the application of the Multi-Fibre Arrangement to low cost textile imports.

I am sending copies of this letter to the Private Secretaries to the members of E and OD(E) Committees, to the Private Secretaries to the Secretaries of State for Northern Ireland, Scotland and Wales, and to David Wright (Cabinet Office).

Yours ever

Richard Alexander

Stuart Hampson, Esq.,
Department of Trade

CONFIDENTIAL

SK



PRIME MINISTER

TEXTILES

I have seen a copy of John Nott's minute to you of ~~21~~ November on the above.

2. Several of the issues which he raises are directly relevant to Northern Ireland and I hope that there will be further discussion of these before final decisions are taken. The general position which we adopt on the MFA is of course very important to a region with such a large textile/clothing stake as Northern Ireland; but I am most immediately concerned about the quotas on imports of American man-made fibres and the implications for employment and capacity of the very rapid build-up of imports of American bedlinen.

3. Quotas. In spite of recent setbacks the employment provided by the MMF sector is still of prime importance to Northern Ireland - indeed the firms which John Nott mentions as being anxious to renew the quotas (Hoechst, British Enkalon and Courtaulds) all operate plants in the Province and all have been adversely affected by the current market conditions. John Nott's minute discusses the quota question in a wide context. But given the Northern Ireland situation with which I am dealing, I must have regard to the immediacy of its employment implications, and I ask that every possible step should be taken to help maintain as much as possible of the region's MMF industry and of the 3,500 jobs which it provides (jobs which in present circumstances could not be replaced) - bearing in mind that 2,000 jobs at British Enkalon alone are currently at serious risk and the Company's continued presence in NI may well depend on evidence of a constructive policy towards the future of the industry in the UK. Anything which can be done on quotas would contribute toward this objective.

Prime Minister

This whole issue, on which I showed you the papers last week, is to be taken in OD(E) next week.

me

TL 9/12

4. Bedlinen. Near Londonderry Courtaulds make sheeting in the largest and most up-to-date factory of its kind in Europe- an inherently efficient unit with a willing workforce. Because of depressed demand - due in significant part to the Americans' capture of so much of the market - the factory is operating at less than one-third capacity. Nevertheless it still gives 800 jobs and could employ more in an area where local unemployment rates run as high as 30 per cent, and its survival must be a matter of great importance to me. I fully take the point of John Nott's comments about our wider relationship with the United States, but I suggest we cannot lightly accept the implications of allowing the Americans to move toward dominance of this sector.

5. I welcome John Nott's reference to the possibility of a tough new MFA next year and would support his wish for a robust EC attitude to USA policy on energy pricing.

I am copying this to the recipients of John Nott's minute.

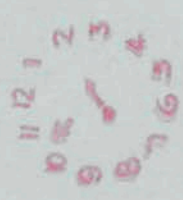

H.A.

December 1980

R 4/12



-4 DEC 1980





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CONFIDENTIAL

Ref. A03720

MR. ALEXANDER

Prime Minister: You have already seen the minutes referred. Para 4 says, rather vaguely, that the outstanding issues should be ~~not~~ resolved in collective seminars. Agree? — Amb

Textiles

In his minute of 21st November to the Prime Minister, the Secretary of State for Trade raised a number of questions about the Government's policy on low cost textile imports and sought agreement to his allowing the two existing quotas on United States synthetic textiles to lapse at the end of the year. The Secretary of State for Industry, in his minute of 25th November, objected to an early announcement before he had heard the industry's case and the implications of any such decision had been fully considered. The Chancellor of the Exchequer, the Secretary of State for Wales and the Lord Privy Seal all agreed on the need for discussion of the wider policy issues before any announcement on the fate of the United States quotas was made, though the Lord Privy Seal was content to see them lapse.

2. The Secretary of State for Trade's minute deals with four separate questions: the existing American quotas, the possible need for new restrictions on other American textile products, the cost to our exports of rigorous implementation of the Community's textiles policy against countries like Indonesia and Mexico, and the problems caused by the dual pricing of energy in the United States. Officials under Cabinet Office chairmanship have since reviewed the scope for a settlement with Indonesia and Mexico and have agreed on immediate next steps. Urgent work is under way, with the Department of Trade in the lead, on how best to tackle the energy price differential problem, which affects the chemical as much as the textile industry. That leaves the United States quotas and our general approach to the implementation of the Multi-Fibre Arrangement (MFA), both of which fall squarely within the framework of the Community's common commercial policy.

3. I therefore suggest that these last two issues be considered in OD(E) in the first instance. A provisional slot has been earmarked for this purpose on 10th December, and I understand that the Secretary of State for Trade is willing to circulate a paper as the basis for discussion.



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4. If the Prime Minister agrees, her reply to Mr. Nott might say that she recognises the importance of the issues he has raised, notes the comments of colleagues and the Secretary of State for Industry in particular, is aware that the questions at issue have Community implications and need to be considered in the framework of the Community's common commercial policy, and suggests accordingly that the future of the United States quotas be considered at an early meeting of OD(E) in the context of our general approach to the application of the MFA to low cost textile imports. The reply might be copied to the members of E and OD(E) Committees and to the Secretaries of State for Northern Ireland, Scotland and Wales.

(Robert Armstrong)

3rd December, 1980



GOVERNMENT OF IRELAND

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12 11 1980
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GOVERNMENT OF IRELAND

GOVERNMENT OF IRELAND



Trade

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

MSM

TEXTILES

R

1/12

I have seen John Nott's minute to you of 20 November, and Keith Joseph's and Peter Carrington's comments on it.

2. I agree that we need to review our textiles policy as a whole before coming to a decision on quotes for American polyester fibre and nylon yarn.

3. I am sending copies of this minute to the members of E Committee, to Humphry Atkins, George Younger, Nicholas Edwards and Sir Robert Armstrong.

(G.H.)
/ December 1980

1 DEC 1980

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CONFIDENTIAL

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C.F. ^{to note} *ans I think*
1/2



10 DOWNING STREET

cc D/T
D/1
19V

THE PRIME MINISTER

28 November 1980

Dear Mr. ...

Thank you for your letter of 11 November, in which you requested that we look again at the question of a package of financial assistance for the textile industry. You cite the deteriorating situation in the industry and the announcement of aid packages by other Members of the European Community as reasons why we should reconsider the introduction of such a scheme.

First, I must emphasise again that the Government does appreciate the serious difficulties the textile industry is experiencing at present, as indeed are a number of other industries. It is for this reason that we have announced further special measures to assist companies to overcome short term difficulties that threaten jobs with a genuine long term future.

As you know, the Secretary of State for Employment announced last Friday that the maximum period of support under the Temporary Short Time Working Compensation Scheme would be extended to nine months (with the rate of reimbursement for workless days reduced from 75 per cent to 50 per cent for new applications). This additional period of support will give an extra breathing space to companies making the necessary adjustments to achieve the level of competitiveness necessary to preserve real jobs, and will assist firms in the textile industry and elsewhere.

/The textile and

The textile and clothing industries in the UK do in fact already receive a substantial amount of financial assistance. In the year ended 31 March 1980 some £35.5 million was offered or paid to the British textile, clothing and footwear industries under the Industry Act and the Temporary Short Time Working Compensation Scheme. But I do not believe that emergency packages such as you have proposed are an effective means of solving the problems of industry in the long run. The only way to serve the interests of the textile industry, and those of British industry as a whole, is to bring domestic inflation firmly under control, and thus to give British manufacturers a firm economic base from which to operate.

This is what our present economic policies are designed to do. We have always said that we would reduce MLR when monetary developments together with the rate of inflation permitted. The prospect of progress on both these fronts has now enabled us to make a cut in MLR of 2 per cent, which will ease some of the difficulties which industry is currently facing. But we are not prepared to take additional steps unless and until we are satisfied that they would not create even greater difficulties later on. (Incidentally, John Nott was mis-quoted in the article in the Guardian to which you referred in your final paragraph: the words "short-term" had been substituted for what he actually said, which was "long-term").

The introduction of a substantial package of financial assistance would - in the light of demands from other industries for comparable treatment - cut right across our strategy for reducing public expenditure and borrowing. To do so would only create upward pressures on interest rates and thereby have an adverse effect on output and employment elsewhere in the economy.

/You suggest

You suggest that an emergency package of aid could partially be financed by savings in expenditure on unemployed textile workers. The PSBR cost of unemployment is, however, only one aspect of the whole picture. In weighing up the costs and benefits of giving financial assistance to the textile sector the Government must also consider factors such as how long the assistance would be needed and the alternative contribution to the economy which could be made by the resources used. Moreover, your calculations assume that everyone who becomes unemployed would remain unemployed. Nobody would deny that the real adjustment process and re-absorption of these people into other activities can be painfully slow in the present climate - that is why we have announced details of a £250 million package of additional employment measures to alleviate the difficulties caused by this process. But we are confident that in due course they will be re-employed.

Your letter also called for additional assistance for industry in areas which are to lose their Development or Intermediate Area status. The Government is determined to operate a more effective regional industrial policy; to introduce special forms of compensating assistance for areas which are due to be down-graded would nullify that policy. Having said that, you will of course appreciate that no area in the North West will lose its Assisted Area status before 1 August 1982, and industry in the region will continue to be eligible for selective financial assistance until that date.

As for Government help with energy conservation, we have already provided considerable support for the textile industry for improvements in energy efficiency, under the Energy Conservation Scheme (which has now closed) and the Industrial Energy Thrift Scheme: £3 million has been paid out so far under the former;

/and five sector

and five sector reports have been published on energy efficiency in the textile and allied industries, and five seminars held to discuss their findings. In addition, funds are still available for R&D and Demonstration projects, of which eight are currently being undertaken in the textile industry at a cost of some £500,000 to the Government; and grants are available under the Department of Energy's Energy Survey and Extended Survey Schemes, towards the cost of consultants to advise on improving energy efficiency. In the circumstances, I do not consider that there is any further need for assistance for energy conservation in the textile industry at the present time.

As I explained in my last letter, there are practical difficulties preventing the introduction of one of your other proposals, a scheme on the lines of the Temporary Employment Subsidy, since we should come up against the same objections from the European Commission as before. You suggest in your letter that announcements by the French, Belgian and Dutch Governments of major plans to assist their textile industries, demonstrate that the EC rules are not the obstacles we claim them to be. But a clear distinction must be drawn between a Member State's intention and what may eventually be permitted by the Commission. The Commission will be reviewing all these proposals very carefully and we shall be consulted in this process. It therefore remains to be seen whether or not they will permit the aid packages to be implemented in their present form. Meanwhile I can assure you that officials are keeping a close watch on the situation.

/I can assure

I can assure you that I am deeply concerned about the difficulties facing the textile industry, and that I am keeping a close watch on the situation. But I firmly believe that the only way to solve its problems is not the construction of so-called emergency packages of aid (which would tend to become permanent) but the creation of the basis for an efficient and competitive economy by getting inflation under control.

Yours sincerely
Margaret Thatcher

Jack Straw, Esq., M.P.



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

29 November 1980

Nick Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
SW1

TIM

Any comments?

N28/4

Dear Nick

... I attach a draft reply for the Prime Minister to send to Jack Straw MP on the difficulties of the Lancashire textile industry, in response to your letter to Stuart Hampson dated 11 November.

I am copying this letter to Stuart Hampson.

Yours ever

Catherine Bell

CATHERINE BELL
Private Secretary



For MP
✓ CC16

DRAFT

Jack Straw Esq MP
House of Commons
London
SW1A 0AA

Thank you for your letter of 11 November, in which you requested that we look again at the question of a package of financial assistance for the textile industry. You cite the deteriorating situation in the industry and the announcement of aid packages by other Members of the European Community as reasons why we should reconsider the introduction of such a scheme.

R: First, I must emphasise again that the Government does appreciate the serious difficulties the textile industry is experiencing at present, as indeed are a number of other industries. It is for this reason that we have announced further special measures to assist companies to overcome short term difficulties that threaten jobs with a genuine long term future.

P As you know, the Secretary of State for Employment announced last Friday that the maximum period of support under the Temporary Short Time Working Compensation Scheme would be extended to nine months (with the rate of reimbursement for workless days reduced from 75% to 50% for new applications). This additional period of support will give an extra breathing space to companies making the necessary adjustments to achieve the level of competitiveness necessary to preserve real jobs, and will assist firms in the textile industry and elsewhere.



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cut down

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after
par 7

3. ~~But~~^X As I explained in my last letter, there are practical difficulties preventing the introduction of one of your other proposals, a scheme on the lines of the Temporary Employment Subsidy, since we should come up against the same objections from the European Commission as before. You suggest in your letter that announcements by the French, Belgian and Dutch Governments of major plans to assist their textile industries, demonstrate that the EC rules are not the obstacles we claim them to be. But a clear distinction must be drawn between a Member State's intention and what may eventually be permitted by the Commission. ~~The latter~~^X have to look at the compatibility of State aids to the textile and clothing industries with the Rome Treaty: they have already opened proceedings under Article 93(2) in respect of the scheme proposed by the Dutch Government on the grounds that it could have an adverse effect on intra-Community trade. This has the effect of blocking the scheme's entry into force unless and until the Dutch can modify it to remove the Commission's objections. The Commission may thus object to a scheme if it is likely to have ~~consequences for competitor industries in other Member States.~~

^Y ~~They~~^{The Commission} will be reviewing all these proposals very carefully and we shall be consulted in this process. It therefore remains to be seen whether or not ~~they~~^{the Commission} will permit the aid packages to be implemented in their present form. Meanwhile I can assure you that officials are keeping a close watch on the situation. ^Y

4. The textile and clothing industries in the UK do in fact already receive a substantial amount of financial assistance.



In the year ended 31 March 1980 some £35.5m was offered or paid to the British textile, clothing and footwear industries under the Industry Act and the Temporary Short Time Working Compensation Scheme. But I do not believe that emergency packages such as you have proposed are an effective means of solving the problems of industry in the long run. The only way to serve the interests of the textile industry, and those of British industry as a whole, is to bring domestic inflation firmly under control, and thus to give British manufacturers a firm economic base from which to operate.

¶ This is what our present economic policies are designed to do. We have always said that we would reduce MLR when monetary developments together with the rate of inflation permitted. The prospect of progress on both these fronts has now enabled us to make a cut in MLR of 2%, which will ease some of the difficulties which industry is currently facing. But we are not prepared to take additional steps unless and until we are satisfied that they would not create even greater difficulties later on. (Incidentally, John Nott was mis-quoted in the article in the Guardian to which you referred in your final paragraph: the words "short-term" had been substituted for what he actually said, which was "long-term"). ¶ The introduction of a substantial package of financial assistance would - in the light of demands from other industries for comparable treatment - cut right across our strategy for reducing public expenditure and borrowing. To do so would only create upward pressures on interest rates and thereby have an adverse effect on output and employment elsewhere in the economy.



£ You suggest that an emergency package of aid could partially be financed by savings in expenditure on unemployed textile workers. The PSBR cost of unemployment is, however, only one aspect of the whole picture. In weighing up the costs and benefits of giving financial assistance to the textile sector the Government must also consider factors such as how long the assistance would be needed and the alternative contribution to the economy which could be made by the resources used. Moreover, your calculations assume that everyone who becomes unemployed would remain unemployed. Nobody would deny that the real adjustment process and re-absorption of these people into other activities can be painfully slow in the present climate - that is why we have announced details of a £250m package of additional employment measures to alleviate the difficulties caused by this process. ~~But the evidence suggests that over a period of time they will be re-employed elsewhere in the economy.~~ *we are confident that in due course*

£ Your letter also called for additional assistance for industry in areas which are to lose their Development or Intermediate Area status. The Government is determined to operate a more effective regional industrial policy; to introduce special forms of compensating assistance for areas which are due to be down-graded would nullify that policy. Having said that, you will of course appreciate that no area in the North West will lose its Assisted Area status before 1 August 1982, and industry in the region will continue to be eligible for selective financial assistance until that date.

£ As for Government help with energy conservation, we have already provided considerable support for the textile industry for improvements

/in ...



in energy efficiency, under the Energy Conservation Scheme (which has now closed) and the Industrial Energy Thrift Scheme: £3 m has been paid out so far under the former; and five sector reports have been published on energy efficiency in the textile and allied industries, and five seminars held to discuss their findings. In addition, funds are still available for R&D and Demonstration projects, of which eight are currently being undertaken in the textile industry at a cost of some £500,000 to the Government; and grants are available under the Department of Energy's Energy Survey and Extended Survey Schemes, towards the cost of consultants to advise on improving energy efficiency. In the circumstances, I do not consider that there is any further need for assistance for energy conservation in the textile industry at the present time.

⇒

X-X and Y-Y

Ⓐ I can assure you that I am deeply concerned about the difficulties facing the textile industry, and that I am keeping a close watch on the situation. But I firmly believe that the only way to solve its problems is not the construction of so called emergency packages of aid (which would tend to become permanent) but the creation of the basis for an efficient and competitive economy ^{by} getting inflation under control.



Foreign and Commonwealth Office
London SW1

26 November 1980

For John,

TEXTILES

with MODBA

You sent Peter Carrington a copy of your minute of 21 November to the Prime Minister which raises issues of considerable importance.

As regards quotas on US textiles, we think we would be in for a bruising experience if we were to try to renew our existing quotas on polyester fibre and nylon yarn or to seek new restrictions on other products. As their threat to retaliate against wool textiles has shown, the Americans are in a position to do real damage to British exports. Other EC Member States would also be vulnerable to retaliatory action by the US and for this reason they would, as you say, be reluctant to agree to any extension of safeguard action against American textile imports next year. We therefore agree that our interests would be best served by taking an early opportunity to announce that we intend to let the quotas lapse at the end of this year.

At the same time we cannot be expected to keep quiet about the unfair advantage which American producers enjoy as a result of the energy price differential (though in practice this is probably only a small element in the competitive advantage enjoyed by the /US).

The Rt Hon John Nott MP
Secretary of State for Trade
Department of Trade
1 Victoria Street SW1

US). But for our approach to the US to be effective we must of course ensure that it is well substantiated and convincing.

On implementation of the present Multi-Fibre Arrangement (MFA), we face if anything an even more difficult decision. Our present policy of seeking quick and effective use of the 'basket extractor' mechanism is leaving us uncomfortably exposed. You cite the heavy cost of our dispute with Indonesia. I realise that ours is one of the easiest EC markets to penetrate but the fact that we so often take the lead in seeking new restraints on imports from developing countries is likely increasingly to expose us to damaging retaliation. It also inevitably strengthens the hand of those who criticise (however unfairly) the Government's approach to North/South.

I should perhaps also sound a note of caution about the risks of moving towards a policy of treating the economically strong developing countries with kid gloves while continuing to pursue aggressively cases involving the weaker but more numerous developing countries, which are less well placed to damage UK export interests. This would not only cause obvious difficulties in the North/South context; it could also cause problems for us in the Community, where the Commission (on which we greatly depend for implementation in practice of our textile policy) would be reluctant to act in a way which was contrary to the Community's policy generally towards the developing world, i.e. to favour the least developed.

You make the point that it is the basket extractor which is under more immediate pressure than the principle of restraints on trade in textiles. No doubt this is because the basket extractor is the weakest point in the Community's protective armour. It is also not by chance that the first major problem has arisen over a country where Hong Kong investors and entrepreneurs are known to be active. An effect of the rigorous quotas imposed on places like
/Hong

Hong Kong has been to stimulate entrepreneurs to establish manufacturing capacity elsewhere in the developing world. Developmentally this is much to be welcomed; also it is much in our long term interest if the process ends up by creating new markets for our exports as valuable and as open as that of Hong Kong.

I agree that it would be useful to have an early discussion of these questions. Unfortunately there seems to be little prospect of a meeting being set up before next week. Meanwhile the Commission are due to hold the next round of formal negotiations with Indonesia on 1/2 December.

I understand officials in EQS will be reviewing the situation before then with a view to seeking a solution defensible within our present policy. But there is little prospect of an early settlement, and since the underlying policy must now be considered to be under review I hope you and other recipients will agree that we should encourage the Commission to get through next week's meeting without either raising the temperature further or unnecessarily prejudicing our negotiating position for an eventual solution with the Indonesians.

I am sending copies of this letter to the Prime Minister, to the members of E Committee, to Humphrey Atkins, George Younger, Nicholas Edwards and to Sir Robert Armstrong.

Yours
la



1900



Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)



WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

D *Jh*

TL ✓

26 November 1980

TEXTILES

I have just returned from two days in North Wales where I met local authorities and trade union representatives. Great concern was expressed to me with considerable vehemence about the textile industry and the future prospects of Courtaulds.

On my return I have seen your minute of 21 November to the Prime Minister in which you suggest that you might make an announcement, when you wind up today's debate, about import quotas. I think that a major issue of this sort requires a good deal more deliberation than an announcement today would allow. I understand that Sir Keith Joseph has asked you to stay your hand on this and not to make the announcement you propose. I fully share Keith's view about this.

/ I am copying this letter to the recipients of yours.

John Nott

Neil

The Rt Hon John Nott MP
Secretary of State for Trade
Department of Trade
1 Victoria Street
LONDON

26 NOV 1980





C. G. Mr Dupond.

Mr Nott (Flag A) is suggesting that the yarn quotas should be dropped. Sir Kerwin is rightly insisting that he should first hear industry's case at first hand: the issue with them, I think, ^{have to} come back for collective discussion.

PRIME MINISTER

TEXTILES

Flag A

1 I have seen John Nott's minute to you of 21 November. R

20/11

2 I have a great deal of sympathy with many of the points he makes in his minute but it does raise a lot of big and inter-related issues which will need careful consideration.

3 The immediate question is that of our renewing or dropping the existing polyester yarn and nylon carpet yarn quotas. This may seem to stand on its own, but in fact it ties in with the whole complex of issues he raises. I do not therefore think it right for an announcement of the dropping of the quotas to be made tomorrow night.

4 I understand John Nott's desire to resolve the quota issue quickly, but any decision on this specific issue would have serious and far-reaching implications for future policy towards the industry as a whole. Before a decision is made, I consider that I should hear the industry's case at first hand. This I propose to do within the next few days and John may wish to join me.

/5 ...



5 I am copying this minute to other members of E Committee,
George Younger, Nicholas Edwards, Humphrey Atkins and Sir
Robert Armstrong.

12.

JK K J

25 November 1980

(approved by the Secretary of State
and signed in his absence)

Department of Industry
Ashdown House
123 Victoria Street
London SW1

25 NOV 1980

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4 5 6 7 8 9 10

CONFIDENTIAL



PRIME MINISTER

TEXTILES

We have some difficult decisions to take on textiles.

2 The most urgent question is whether we try to get the EC to renew our existing quotas against American polyester fibre and nylon yarns which expire at the end of the year.

3 Almost as urgent - and whatever we do about the existing quotas - is whether we should seek restrictions on other textile sectors hit by United States competition, when we are under well orchestrated pressure from the industry and constituencies.

4 These specific two questions are related to a third problem of a more general nature, the difficulty of the United States energy price differential.

5 Finally, the retaliation by Indonesia against our use of the MFA "basket extractor" mechanism against them, and threats of such retaliation by Mexico, make it necessary to reconsider the whole way we implement the present MFA.

6 The question in paragraph 4 goes wider than textiles - notably to chemicals - but for the rest they are all textile issues.

7 The simplest issue to my mind is the first. Although a number of major companies, eg Hoechst, British Enkalon and to a lesser extent, Courtaulds, are anxious for us to renew the nylon yarn quota we feel that the broader interests of the textile industry are to ensure that they receive the benefit of low raw material



prices from whatever sources. Indeed we have had several protests from, for instance, Lancaster Carpets and Abingdon Carpets about the impact of the nylon yarn quota on their raw material supplies and hence their output. Additionally, ICI has already announced its intention to close plants at Ardeer and Kilroot in its Fibres Division, and to renew our quotas on polyester fibres from the United States of America would not change this.

8 There is no doubt (President Carter has signed the legal instrument) that if we were to renew these quotas the United States would retaliate against our woollen textile products. On my recent visit to Yorkshire I received widespread pleas from the industry that in its present hard-pressed condition we should not allow this to happen.

9 All the arguments seem to point strongly towards allowing these quotas to lapse. We would have very great difficulties in obtaining EC agreement to their renewal in any event.

10 More difficult are new cases of United States penetration, the most notable and important of which is bed linen where United States penetration has risen from 10% in 1978 and 17% in 1979 to over 40% in the third quarter of 1980 (in the same period total import penetration has risen from 32% to 54%). In some ways this is a classic GATT Article XIX case. You will be aware, however, that the American product is a superb one in great demand by the British consumer, and if we were to start singling out individual textile products for protective action we would place ourselves in an impossible position because before long we would be running a system of managed trading in textiles between ourselves and the United States - with all the complications and traumas of policing such a situation with our largest ally.



11 To jump to the fourth issue namely the existing MFA (paragraph 5), it is becoming clear that our insistence on pushing the Community into a rigorous implementation of the current MFA is beginning to cost us an unacceptable price in terms of lost exports. In the case of Indonesia the figure could already be in the area of £100 million - perhaps more. There are threats from Mexico - potentially a bigger market. We are tremendously vulnerable to a wave of retaliation from the low-cost countries upon whom we increasingly depend for major export possibilities. Generally speaking the more important textile producers, ie Hong Kong, Taiwan, Korea etc are the very countries whose economies are growing at 10% per annum compound and with whom we have the greatest opportunities. At the present time we have a surplus of £2.7 billion on our trade with them in manufactures.

12 I am not saying that we should go for no more basket extractor cases; only that we should from now on handle them more carefully and not push them where the price is too great.

13 That does not mean giving up hope of a tough new MFA next year. On that we would have the support (the Germans, as you will recall from your meeting with Helmut Schmidt, excepted) of most of the Europeans - the EFTA countries as well as the EC - the United States (with a question mark about Reagan), Canada and Australia. We would not in that exercise be exposed - and therefore so appallingly open to retaliation - as we are in our present efforts to enforce the basket extractor arrangement.

14 Failing to act against the United States will make it more difficult to persuade the developing countries to acquiesce in the MFA restrictions against them. Just, however, as MFA II was in effect imposed on the developing countries, the same will in the end, I believe, be true of MFA III. EC inaction against United States imports will be a much used debating point but I doubt if in the end it will much affect the outcome.



15 The remaining issue is the wider one of United States energy prices. Here British industry has major grounds for complaint, and I think we can only justify a relatively open market approach to these issues if at the next Summit the European heads of government make a major assault on the new President on this subject. In the meantime I have talked to Davignon and in making an announcement on these quotas I would like to emphasise a new British approach towards the differential energy problem, not least because it covers a much wider range of currently threatened British products (ie chemicals, plastics, paints) than the mere problems of fibres alone.

16 I quite realise that what I have suggested on quotas will evoke a chorus of protest from sections of the textile lobby. Other parts of the textile industry will breathe a sigh of relief but will remain silent. I suspect that privately neither the industry nor the unions really expect us to extend the quotas. I acknowledge that 100,000 jobs are forecast to go this year and perhaps another 135,000 next year. But I must be frank and say that in my view the high tide of protectionism in textiles is past. The industry is smaller than before. At the same time the protests of the developing world are growing louder and more aggressive. Where there is genuine dumping, action can be taken - as it has been on acrylic fibres and polyester filament yarn. For the rest it is absurd to go on giving this industry every bit of protection we can get through Brussels at the expense of the industries where our future lies - including the more competitive sectors of the textile industry (such as woollens) itself. Not to mention the United Kingdom consumer.

17 I have no doubt that Sir Keith Joseph will want to give the views of the Department of Industry, and you may feel it desirable to call an early meeting on this subject. It would be very valuable to me if I could at least clear our action on polyester yarn and nylon carpet yarn before I wind up the debate on the Loyal Address on Wednesday.



18 There is of course a lot of detailed background to all this. A note has been prepared by my officials in consultation with the other Departments most concerned. I have asked for this to be made generally available.

19 I am copying this to other members of E Committee, Humphrey Atkins, George Younger, Nicholas Edwards and Sir Robert Armstrong.

SW .

Department of Trade
1 Victoria Street
London, SW1H 0ET

JN

21 November 1980



21 NOV 1980

GEORGETOWN



From the Secretary of State

Tim Lankester Esq
Private Secretary
10 Downing Street

21 November 1980

Dear Tim,

TEXTILES

with TL?

My Secretary of State has sent a minute to the Prime Minister today on textiles policy. The facts on which he has taken his decision are already available to officials in the Departments principally concerned. For the information of officials in the other Departments whose Ministers have received my Secretary of State's minute, I am now attaching copies of the relevant material.

I am copying this letter and enclosure to the Private Secretaries of all Ministers who have received Mr Nott's minute.

Yours sincerely,

Stuart Hampson

STUART HAMPSON
Private Secretary



ANNEX A

REQUESTS FOR CONTROLS ON INDIVIDUAL PRODUCTS

The following paragraphs analyse the case for action on the various products where we have received requests for action. (The industry has not asked us to continue the quota on polyester filament yarn).

2 To summarise, we would say that the case on nylon carpet yarn is not strong - (there are doubts that the quota will be fully used) - but the industry has asked for its continuation at lower levels. The strongest case is on sheets and pillowcases; and ^{on}warp knitted fabric is reasonable though not cast iron. The polyester fabrics, which also show a high penetration, are the subject of an anti-dumping case; and the industry would prefer to follow this course. We do not consider that the import penetration figures on man-made fibre tufted carpets would justify action in its own right (though there could be complications if the nylon carpet yarn quota were to be extended). And, as yet, the penetration figures on T-shirts and sweaters are far too low. We would, therefore, recommend to Ministers that the cases on polyester sheets and pillowcases and on warp-knitted fabrics were the only ones which could be said to meet the Article XIX GATT criteria for emergency safeguard action. The MFA criteria - which are less stringent - would permit action on a wider range of these products. As noted in the paper, if this route is used, then bilateral consultations might be opened with the US on the whole range.

3 Here are the detailed statistics, analysed on the basis of the Article XIX criteria:-



Polyester Filament Yarn

The quota was fixed at 9053 tonnes for the year. Imports in the first nine months of 1980 from sources subject to quota were 10,042 tonnes. However, some 3540 tonnes of these imports were re-exports. It therefore seems likely that in the year as a whole imports from quota sources will, quite legitimately, exceed the quota levels by some 4500 tonnes. The US estimate for 1980 exports to the UK was 30,000 tonnes. An additional factor has been the recently announced closures and redundancies in ICI plants which means that overall ICI have now reduced their capacity in this area by some 50%. Even before the ICI announcement, estimated UK production for the first nine months of 1980 had fallen to 16,600 tonnes against 39,164 tonnes for the whole of 1979. It is reckoned that total employment in the man-made fibres industry may be as low as 17,500 by next year as against 33,000 in 1977.

The detailed figures indicate that the rise in import penetration in 1980 (92.7% for nine months as against 67.2% in 1979) appears to have been caused largely because of a significant fall-off in the UK market; it is not caused by increased imports as such.

The Commission imposed a provisional anti-dumping duty in August of this year on imports of polyester filament yarn from the US. The industry say they would prefer a final duty to import restrictions



Nylon Carpet Yarn

It is not certain that this year's quota will be fully used. Imports from sources subject to quota reached 4300 tonnes in the first nine months of 1980 against a quota of 7,500 tonnes for the year.

Imports from the US in January-September 1980 reached 3,892 tonnes, a market penetration rate of 23.5% against 15.5% for the same period last year. Total imports are some 10% down on the comparable period in 1979, but penetration is up from 67.6% to 81.7% due to a faster rate of decline in UK consumption and production, with the sharp drop in UK carpets output. Very little nylon carpet yarn from the US is re-exported; of 3,892 tonnes of imports, only 163 tonnes were for re-export in 1980

Some manufacturers who did not qualify for import licences because of their relatively new use of the US yarns have had difficulty in securing the supplies they wanted but, overall, there is no clear evidence that British carpet manufacturers have suffered seriously from lack of imports. This is not surprising since at Commission insistence the quota was fixed at a level related to imports in the second half of 1979 (producing a 1980 quota figure larger than the level of total imports in 1979).

ICI report that UK prices were virtually constant during 1979 and the early part of 1980 (resulting in decreasing margins); in the second and third quarters of 1980 poorer trading conditions have forced prices down towards the level of US imported yarns in order to retain market share. ICI prices for set yarns in Q1 1980 were on average 215p/kg, and 202p/kg by end Q2/early Q3. US imports have remained at around 185-190 p/kg over the period, with higher dollar prices being offset by



lower sterling prices as the US dollar has weakened. With cost inflation, UK margins in 1980 have been seriously affected.

ICI have made a trading loss on nylon carpet yarn for the last 2½ years, and the cash flow position remains poor despite efforts to reduce the amount of cash tied up in working capital. The real trading loss per unit in the first quarter of 1980 was seven times as large as that of the first quarter of 1978.

There seems little point in continuing the quota at existing levels and little chance that the Community would agree to its renewal at a lower level (as the industry has requested).

NYLON CARPET YARN

NIMEX Ex 5101.08; Ex 5101.09; Ex 5101.11; Ex 5101.13

(Tonnes)

OP

	1977	1978	1979			1980						
			JAN-DEC	JAN-SEPT	Q4.	JAN-SEPT	Q1.	Q2	Q3	JULY	AUG.	SEPT
TOTAL IMPORTS	16322	17746	19118	13553	5565	13501	4963	3923	4615	1381	1431	1803
of which												
EEC	13913	14969	13295	10060	3235	9094	3019	3140	2935	722	908	1305
CANADA	-	-	604	305	339	343	137	22	184	42	68	74
USA	2215	2714	5015	3102	1913	3892	1738	743	1411	590	405	416
SWITZERLAND	45	35	55	41	14	15	-	1	14	14	-	-
TOTAL EXPORTS	5514	5815	6830	5058	1772	6932	2064	2611	2257	920	523	814
UK PRODUCTION	22133	19704	15392	11539	3853	9966	3429	3949	2588	960	708	920
UK MARKET	32941	31635	27680	20034	7646	16535	6328	5261	4946	1421	1616	1909
IMPORT PENETRATION												
TOTAL	49.5%	56.1%	69.1%	67.6%	72.8%	81.7%	78.4%	74.6%	93.3%	97.2%	88.6%	94.4%
US	6.7%	8.6%	18.1%	15.5%	25.0%	23.5%	27.5%	14.1%	28.5%	41.5%	25.1%	21.8%
US + CANADA	6.7%	8.6%	20.4%	17.0%	29.5%	25.6%	29.6%	14.5%	32.2%	44.5%	29.3%	25.7%



Man-made Fibre Tufted Carpets

These were included in the UK's original request for action to the Commission. Our request was rejected on the grounds that the import penetration figure of 8.5% was too low to justify action under the Community's international trading obligations. However, the Commission did recognise that if import trends continued to rise and damaged domestic industry, safeguard action would have to be taken. Import levels in 1980 have fluctuated widely: a substantial fall in the middle months of the year was followed by a large increase in September. There are estimates that 1980 US imports will be double those of 1979. In fact, import penetration from the US and Canada in the first nine months of 1980 reached 11.3%. It seems unlikely that the Commission would consider this high enough to justify import restrictions, particularly as part of the rise in penetration is due to a fall in the UK market, and there has been a greater rise in penetration over recent years from other members of the Community than from the US and Canada. Imports from the EC now take some 14% of the market compared with 11% in 1979 and from USA about 11% compared with 5% in 1979.

Employment in the UK carpet industry has fallen quite sharply. In 1975 37,500 people were employed in carpet manufacturing in UK (excluding N. Ireland). This went down to 33,400 by 1977 and by August 1979 to 31,500. By August 1980 the figure was down to 25,400.

The Report of the British Carpet Manufacturers' Association for 1979-80 noted that in the first four months of 1980 three carpet manufacturers went into receivership and that few companies expected to make a profit in 1980. This prediction appears to be confirmed by company results available in CT Division which show some large modern carpet manufacturers in loss and most of the remainder showing extremely low profits on turnover.

MMF TUFTED CARPETS.

NIMEX 5802-14

(000, \$ m)

COP

	1977	1978	1979			1980						
			JAN.-DEC	JAN.-SEPT	Q4.	JAN.-SEPT	Q1.	Q2	Q3	July.	Aug.	SEPT
TOTAL IMPORTS	4631	9775	16,672	11,384	5288	16,460	5277	5897	5306	1310	1496	2500
of which:												
EEC.	4152	8029	10,483	7,498	2985	9152	2582	3151	3417	900	961	1558
CANADA.	1	256	1003	559	444	718	325	167	226	74	38	114
USA.	79	1137	4716	2998	1718	6254	2220	2522	1512	292	433	777
SWITZERLAND	1	3	18	12	6	3	1	2	-	-	-	-
TOTAL EXPORTS	28,225	23,935	19508	14545	4963	10,257	2963	3381	2713	1052	766	1075
UK PRODUCTION.	28,453	24,980	100,667	75,500	25167	56,526 ^E	23135	17295	16,076 ^E	5366 ^E	5365 ^E	5365 ^E
UK MARKET.	74,859	80,830	97,831	72,337	25,492	62,749	24,449	19814	18,489	5624	6075	6770
INDEX RE-ITERATION												
TOTAL	6.2%	12.1%	17.0%	15.7%	20.7%	26.3%	21.6%	27.8%	28.7%	23.3%	24.5%	36.9%
US	0.1%	1.4%	4.8%	4.1%	6.7%	10.1%	9.5%	12.7%	8.2%	5.2%	6.9%	11.8%
US + CANADA	0.1%	1.7%	5.8%	4.9%	8.5%	11.3%	10.8%	13.6%	9.4%	6.5%	7.6%	13.5%

(E) Estimated figure.



Polyester sheets and pillowcases

Recent industry representations have concentrated on this sector and the figures so far presented provide the best case we have for further import restrictions under Article XIX of the GATT. UK production has fallen from about 5 000 tonnes in the first nine months of 1979 to about 4 000 tonnes in the first nine months of 1980. US penetration has increased from 10% in 1977 to 32.8% in the first nine months of this year and total import penetration from 23.9% to 48.2%. Employment in this sector is estimated at 3671. To date, there has not been a particularly significant fall-off in the number of employees in the UK in this sector (4,276 in 1977 and 3,671 to date in 1980). At the present time however, some 2,900 people are on short time working - 79% of the current labour force - and the number of man-days lost in this respect - 80,000 in the period Jan-Aug 1980 is expected to increase by a further 120,000 in the last 4 months of this year.

Manufacturing costs in the USA lie in the range £2.23 to £2.32 per single sheet. (In fact, single plain dyed US sheets are available in bulk in the UK as low as £1.80 each). A corresponding sheet produced by an efficient UK manufacturer costs about £3.20.

This low cost competition from the USA has had a serious effect on the profitability of UK firms. Thus the UK market leader's profitability in index terms has slumped from 100 in the first half of 1978 to minus 13 in the second half of this year. Even this understates the deterioration in profitability since the factory concerned has received Government financial assistance exceeding £750,000 per annum.

The UK industry contends that, because of the sudden emergence of the USA as a disruptive supplier, the recent very high level of capital investment in this sector in the UK is now very seriously at risk. The loss of this high technology sector would be a serious blow since it could otherwise offer long-term profitability and employment.



Warp Knitted Fabrics

The figures in this area also appear to provide a good basis for a case under GATT Article XIX. British Celanese have been experiencing considerable problems as a result of certain US imports in this sector (mainly in the rayon lining area). UK production has decreased significantly (from 7,255 tonnes in 1979 to 3,558 tonnes in the first nine months of 1980) and US and Canadian import penetration has increased from 7.3% in 1977 to 36.4% in the first nine months of 1980.

At the same time the UK yarn producer's (British Celanese) sales to warp knitters have been affected by increasing imports of triacetate yarn for warp knitting, primarily from Belgium but to a lesser extent from the USA.

Comprehensive employment statistics are not available. However, within the Warp Knitters' Association, which represents a major part of the industry, there have been 2 company closures and 2 major re-structurings so far this year resulting in the loss of 1,940 jobs out of a total Association membership of 4,930 ie about 40%.

Examples of UK and US prices for various grades of fabric are as follows:

	<u>UK Price</u>	<u>US landed price</u>
84 Decitex Tricel	232p/kg	164p/kg
Brushed acetate and triacetate	186-200p/m	160p/m
Velour	225p/m	185-190p/m

In order to retain markets, UK manufacturers are selling at a loss. Thus British Celanese are selling Tricel at 222p/kg and Carrington Viyella are selling velour at 210p/m. Even so, UK prices are not competitive with those of the USA.

British Celanese have estimated that their total loss of profit on yarn sales to UK warp knitters in 1979 because of increased US import penetration was about £750,000.

It should be noted that there has been some fall-off in the UK market which could argue partly against the justification for action. But the rise in penetration cannot be attributed solely to this.

WARD KNITTED FABRICS OF REGENERATED TEXTILE FIBRES (OTHER THAN STITCH BONDED)

ANEX 60.01-81; ANEX 60.01-89

(Kilnes)

COP

	1977	1978	1979			1980						
			JAN-DEC	JAN-SEPT	Q4	JAN-SEPT	Q1	Q2	Q3	JULY	AUG.	SEPT
TOTAL IMPORTS.	461	714	1602	898	700	1730	639	702	389	112	132	145
of which												
EEC	88	178	108	83	25	41	14	17	10	5	1	4
CANADA	1	-	76	51	25	145	36	75	34	7	23	4
USA	251	381	1382	738	644	1502	565	603	334	99	105	130
SWITZERLAND	6	4	11	7	4	25	10	5	10	1	3	6
TOTAL EXPORTS.	2529	2275	1295	1045	250	760	203	281	276	121	68	87
UK PRODUCTION	5503	5980	7255	5586	1669	3558	1223	1149	1186E	396E	395E	275E
UK MARKET	3035	4399	7562	5439	2123	4528	1659	1570	1299	387	459	453
IMPORT PENETRATION												
TOTAL	13.4%	16.2%	21.2%	16.5%	23.2%	38.2%	38.5%	44.7%	29.9%	28.9%	28.8%	30.0%
US	7.3%	8.7%	18.3%	13.6%	30.3%	33.2%	34.1%	38.4%	25.7%	25.6%	22.9%	28.7%
US + CANADA	7.3%	8.7%	19.3%	14.5%	31.5%	36.2%	31.2%	43.2%	28.3%	27.4%	27.9%	29.6%

Figures for 1977 & 1978 include stitch bonded materials
 1977. 60.01-8184 + 8978 ; 1978 60.01-8100 + 8900 ; 1979-1980. 60.01-8199 + 8999



Heavy weight woven Polyester Textured Fabrics

The EC market for these fabrics is now about 100 million square metres per year, of which the UK accounts for about half. Figures supplied by the UK industry show total import penetration rising from 51% in 1977 to an estimated 62% this year. During the same period penetration of US imports has risen from 2% to 14%.

Estimated UK employment in the manufacture of these fabrics rose from 825 in 1977 to 1000 in 1979, but fell back to 800 in the first half of this year. Samuel Courtauld and Carrington Viyella have both announced closures of several modern weaving mills this year, part of the production of which was devoted to heavyweight textured polyester fabrics. A further 350 jobs will disappear if Samuel Courtauld has to withdraw from this market.

Average market prices at current values charged by EEC producers of dyed fabrics have fallen from 111 pence/metre in 1977 to 105 pence/metre in the second half of this year. Without the disruption caused by US imports prices were expected to have remained fairly constant in this period. Between 1979 and the second half of this year, actual prices of dyed fabrics imported from the US have fallen from 90 to 80-85 pence/metre, ie some 20-25% below those of EC producers.

The initial effect of the low-priced fabric on the market has been to depress prices to a level where none of the major EC producers is profitable, (for example, Samuel Courtauld are losing around £15,000 a week). In the first half of this year, EC producers were operating at 80-85% capacity. For as long as US fabric is available at unrealistically low prices, the losses being made by EC suppliers are likely to increase until they are forced out of business altogether.

UK production and employment in this area are both relatively small.

The industry has now decided to mount an anti-dumping case which is expected to be opened shortly by the Commission. The industry feels that imposition of a significant anti-dumping duty would be more in their interests and this route is being followed in the interim.



Knitted Products: Tee-shirts etc. Jumpers etc, and Knitted fabrics

1. In August 1980 the Knitted Industries Federation (KIF) Ltd asked for basket extractor action against the US on these items. Import penetration for the first 6 months of 1980 is as follows:

	Knitted shirts and T-shirts	Jumpers, pullovers, cardigans	Knitted fabrics (not elastic)
US Import Penetration 1st 6 months 1980	2.9%	4.5%	5.6%
(1979)	(0.8)	(1.4)	(N/A)

2. US prices for some products are below those of the low cost countries; for example, the US average price for tee-shirts is 86p per garment, compared with \$1.41 from Hong Kong and 94p from Portugal; jumpers from the US are an average of £1.67 compared with £2.45 from Hong Kong and £1.86 from South Korea. The KIF have made the point that action should be taken against the USA to avoid antagonising third world countries whose products are subject to restraints. But these figures do not demonstrate a case for action at present.



The UK's international obligations

1) GATT

Article XIX of the GATT permits import restrictions to be imposed where a sudden surge in imports is damaging the domestic industry. In most of the cases (polyester filament yarn; nylon carpet yarn; tufted carpets) there has been a fall in the UK market of an order which would make it difficult to prove that it was the imports (rather than the UK recession and domestic situation) which was causing the damage. There would also be some doubts in the case of warp knitted fabrics. This is not the case in relation to bedlinen or polyester fabrics. The level of imports in the remaining sector of sweaters, T-shirts etc has not been examined in depth as the penetration levels are too small to justify action.

2) Multi-Fibre Arrangement

In theory, action could also be taken under Articles 3 or 4 of the MFA. In this case the criteria for action are less stringent than under Article XIX of the GATT. In practice with one exception (US/Japan) the MFA has never been used between one developed country and another.

There are no emergency powers governing the use of the Multi-Fibre Arrangement and it is necessary in all cases for prior consultations to be held with the exporting country before restrictions are agreed or imposed.

The Community Dimension

Article XIX

It is normally necessary to seek prior Community approval under legislation 926/79 before any import restrictions are imposed. For the so-called liberalised products (including nylon carpet yarn) it is in practice always necessary to proceed by this route since any use of emergency powers by an individual Member State fall after 6 weeks unless they are confirmed by a positive vote in the Council.

However, as most of the products now concerned are "unliberalised" in Community terms, it would be possible for the UK to declare an emergency situation and to make use of Community emergency procedures in Article 14 of Regulation 926/1979. This means that the UK could impose quotas on the products in question - tufted carpets; polyester bedlinen; and warp knitted fabrics - which would remain unless the Community took a positive decision by qualified majority to discontinue them. This decision would have to be taken within six weeks.

The MFA

Because there is no right of unilateral action under the MFA; and given the Commission's rights in negotiating external trade arrangements with third countries, the Commission itself would have to undertake any of these consultations. An attraction of using

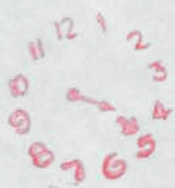


the MFA is that there is no provision for compensation or retaliation in the MFA (although all GATT rights and obligations are unaffected by it) and it would be difficult for the US to take retaliatory action without prejudicing all its own bilateral MFA agreements with developing countries.

Community Reactions

Preliminary discussions with the European Commission (though not based on specific figures) suggest that the Commission would be unlikely to support us in any extension of the existing quotas into 1981; or of any extension of the quotas into new product areas. While Commission support is in theory less critical in relation to non-liberalised products than it was in the case of the polyester yarn and nylon carpet yarn quotas (where the products were liberalised) the lack of such support would inevitably lead to counter proposals from them which could produce majority agreement among Member States and thus bring about the demise of any unilateral quotas. Only the French and Irish would be likely to support us if we took unilateral action. There seems little doubt that we would be refused an application for action on a non-emergency basis by the Commission and the Community either in respect of Article XIX action or action under the Multi-Fibre Arrangement.

21 NOV 1980



D/TRADE telephoned today
to say that they had
transferred these papers
to D/INDUSTRY.

Vanessa Br.

13.11.80

FILE

VLB

Trade

cc D/1

11 November 1980

I attach a copy of a letter the Prime Minister has received from Jack Straw, MP, about the difficulties of the Lancashire textile industry.

I should be grateful if you, in consultation with the Department of Industry, would let me have a draft reply for the Prime Minister to send to Mr. Straw, and if this could reach me by 26 November.

I am copying this letter and enclosure to Catherine Bell (Department of Industry).

N J SANDERS

Stuart Hampson, Esq.,
Department of Trade.

VLB

cc16



10 DOWNING STREET

MR. SANDERS

cc: Mr. Gow
Mr. Ingham

Jack Straw rang about the attached letter. He apologised for forgetting to mention in it that he proposes to release the text to the Press at lunch time today.

A handwritten signature in blue ink, appearing to be 'MAD'.

11 November 1980

JACK STRAW, M.P.



HOUSE OF COMMONS
LONDON SW1A 0AA

PRS
R11/11

11 November 1980

The Prime Minister
10 Downing Street
London SW1.

Dear Prime Minister,

You will, I am sure, recall that on 9th June, together with Nicholas Winterton and Cyril Smith, I met you to discuss the difficulties of the Lancashire textile industry. I had on 5th June sent you a letter detailing the key points which I intended to raise, and on 14th July you sent me a long and considered reply to these.

I had, in particular, pressed you to provide better financial assistance to the industry, including a more substantial employment subsidy. You however replied to say:

"Your fifth point concerned financial assistance to industry. As you know, authority to approve schemes of state aid, including those designed (in the words of Article 92.3(b) of the Treaty of Rome) "to remedy a serious disturbance in the economy of a Member State" rests with the European Commission. The Commission took a serious objection to the Temporary Employment Subsidy precisely because so much went to textiles and clothing firms (this was not envisaged when they originally approved the scheme) and they considered that it was distorting the pattern of trade and competition in the Community in maintaining output at artificially high levels. This the Short Time Working Compensation Scheme does not do. I am afraid there is really no prospect that the Commission's view would be any different now if we sought to re-introduce arrangements similar to the TES."

You also went on to say:

"But I do think it is important not to over-emphasise the capacity of this kind of measure to deal with the problems of a particular industry. The Government is not, and cannot be, in a position to support the maintenance of employment in any particular industry on more than a strictly temporary basis. In the longer run, the remedy must lie in the Government's overall economic policies, which are designed to bring inflation under control, and to create conditions in which all firms - in textiles as in other industries - can compete profitably and create new and lasting jobs."

(continued)



But now the situation has changed markedly in two respects. I am therefore writing to you to ask you urgently to provide an emergency package of aid to save the industry.

First, the situation of the industry has deteriorated alarmingly since we met. The British Textiles Confederation in a circular dated 27 October 1980, claims that: "the U.K. textile industry is experiencing its most acute crisis since the 1930's. Its level of production has fallen dramatically, and jobs are being lost at an accelerating rate. It is no exaggeration to say that the continued existence in the U.K. of some basic textile activities is now at risk".

When pressed on the current state of the industry both you and your Ministers quite frequently refer to the Labour Government's record, and suggest that the problems which the industry now faces are not new but merely part of a long-term continuing decline. For example, John Nott, Secretary of State for Trade, in answer to a supplementary question from myself on Monday 27 October (OR col. 21) said: "I remind the hon. Gentleman that 150,000 people lost their jobs while the Labour Government were in office. Therefore this problem is not new...."

Whilst I of course understand the temptation of any Government to suggest that the problems with which it has to deal are not new, but inherited from previous administrations, I would ask you to appreciate that the difficulties which now afflict the textile industry, in terms of both the scale and pace of the collapse of output and employment, are of a quite different dimension from the difficulties which the industry has faced in the last 20 years. In this sense, their problems really are new, as the following figures only too dramatically illustrate.

During the period of the last Labour Government, employment in the textile industry did decline - from 545,000 in March 1974 to 449,000 in May 1979 - a fall of 96,000 jobs (1) But (and not of 150,000 suggested by Mr Nott) (GB figures). most of this decline was accounted for by changes within the industry and by increases in productivity. Significantly, and contrary to popular belief, output in the textile industry was broadly stable - falling no more than 6% - throughout this five years period. On an index of 1975=100, production was 105.9 in 1974, 100 in 1975, 103 in 1976, 100.9 in 1977, 99.3 in 1978, and 99.8 (2) in the second quarter of 1979, when the election took place.

Since the summer of 1979, however, output in the industry has plummeted very fast indeed. The index of production stood



at 98 in July 1979; by August 1980 it was down to 77, and is likely now to be lower still. This is a fall of 22.5% - close on a quarter - in thirteen months. And this overall fall disguises some truly catastrophic falls in production, particularly in man-made fibre production. Here production in August 1980 was 50% less than in August 1979 ⁽³⁾.

This decline in output has been accompanied by a steeper absolute, and proportionate decline in employment than at any time in the past two decades. By August 1980, 62,000 jobs had been lost in the fifteen months from May 1979 - two-thirds of the total lost in the whole 5 years of the previous Administration. And, as you will be well aware, many thousands more redundancies have been announced since August, and all the indications are that, as grant under the TSTWC Scheme runs out for many firms by Christmas, there will be even more redundancies declared.

The second respect in which the situation of the textile industry has changed markedly since we met concerns the reaction of other EEC states to the problems of the industry. Three EEC countries - Belgium, Netherlands and France - have now announced major plans to save their industries. Their action indicates that the EEC rules have not been the same stumbling block to assistance as has been suggested by Ministers - and yourself - in this country. But the fact that these countries' industries are to receive such substantial aid from their governments will inevitably place the UK industry at an even graver competitive disadvantage unless corresponding action is taken by the UK Government.

Belgium's announcement was the first - on 2nd August, the Financial Times reported that "the Belgian Government is moving towards the adoption of an ambitious £526m. five years plan to save the country's textile industry. On 22nd August the Dutch Government announced a "£6.5m. aid programme to help its hard hit textile industry modernise and increase exports over the next three years" (Financial Times); and on 29 October the Financial Times reported that "the French authorities are to draw up aid plans for the country's hard-pressed textile industry, aimed at pumping public funds into a large-scale reorganisation and modernisation programme..." Its aim is to restrain "the decline in the industry's 950,000 labour force by between 3 to 4% up to 1985" (cuttings attached). I appreciate that the details so far available of the Belgian and French schemes indicate that they are not yet firm: but they do show a positive resolve by these governments to take steps to save the industry which has yet to be shown by your Government.

The action needed

In the light of this, the most serious crisis to face the industry since the war, nothing less than a major package of rescue aid for the industry is needed if it is to survive in anything like its present form.

This I would ask you to put in hand. The aid should include an immediate extension of grant payments from six to

(continued)



twelve months, under the Temporary Short Time Working Compensation Scheme, and the removal of restrictions on payment of grant in respect of employees for whom it has previously been paid; urgent reconsideration of a compensation scheme similar to the Temporary Employment Subsidy, which had the effect of helping active employment, rather than no work periods on short time; and special investment, energy conservation, and marketing help, and additional assistance to the industry in those areas which are losing Development or Intermediate Area status (a large part of the North West). There is, no doubt, a great deal in the schemes being pursued by the French, Belgian and Dutch Governments which could be applicable to the U.K., and these should urgently be studied.

The details of any rescue scheme will obviously have to be worked out by the Departments of Trade and Industry, with the industry and trade union representatives concerned. What matters immediately is an urgent Ministerial commitment to the saving of the industry. Such a scheme would of course cost many millions, gross. But before you dismiss the idea for reasons of cost, you should bear in mind that in a full year the cost to the nation of the 62,000 textile workers who had already lost their jobs by August, in terms of benefits paid out, and tax etc. foregone, will be around £295 millions. This figure is based on estimates provided for me by the Library of the House which puts the average cost to the state of such workers declared unemployed at £4762 per year. The Treasury have consistently refused to provide similar estimates, but I should be happy to pass on the detailed calculations behind my figures if there is any doubt about them. Moreover, since the textile industry, as a traditionally low return one, has been hit disproportionately hard by the rise in interest rates (and the related rise in sterling) the cost of such an aid scheme could equitably be paid for from the revenue which derived from a windfall profits tax on the banks.

Your Trade Secretary, John Nott, was reported (Guardian, 8 November) as saying on Friday last that "if I knew of any simple, short-term answer which would slow down the trend in the industry, I would bring it into effect now". An emergency aid and rescue programme for the industry of the kind which I have described could be introduced now, as the example of France, Belgium and the Netherlands amply demonstrates: it would provide tangible cash help - which in turn could help partly to offset the industry's loss of competitiveness caused by high interest and exchange rates - and help restore confidence in the industry. A failure by you to do what can be done will inevitably be taken to show that, despite Mr Nott's words, your Government is prepared wilfully to let large parts of the textile industry wither and die.

I shall look forward to hearing from you.

Yours sincerely,
Jack Straw



- (1) Department of Employment Year Book 1976, Table 73;
Department of Employment Gazette, October 1980, Table 1.2.
- (2) British Business, 24 October 1980, pg. 356.
- (3) British Business, 31 October 1980, pg. 411.

Dutch earmark 20.5m aid for textile industry

BY CHARLES BATCHELOR IN AMSTERDAM

THE NETHERLANDS has announced a Fl 30m (£8.5m) aid programme to help its hard-hit textile industry modernise and increase exports over the next three years. The textile sector has declined more rapidly in the Netherlands than in any other European country in recent years, with earlier aid programmes achieving only limited success. The Government will provide Fl 25.6m (£5.5m) to the cotton, rayon and linen industries and Fl 4.4m (£950,000) to the wool sector to cover the three years to the end of 1982, to

improve prospects in both traditional and new markets, according to the Economics Minister, Mr. Gijs Van Aardenne. Aid will be available in five categories:—
① The Government will pay half the wage and social security costs and business expenses of textile company export managers for the first 12 months' employment, up to a maximum of Fl 60,000 (£13,000). Elsewhere similar subsidies only apply for six months.
② Subsidy of 20 per cent for investment aimed at diversifying a company's product range

or improving quality.
③ The same percentage will be paid to meet the cost of removing equipment to achieve diversification or improve quality.
④ The scheme will meet 40 per cent of costs at trade fairs and exhibitions.
⑤ The modification or demolition of buildings to diversify production or improve quality. This aid will be reduced if any company is already eligible for other general subsidies which meet more than half the cost of investments. Spending of less than Fl 10,000 (£2,100)

will not qualify for aid. The Government has asked the European Commission to approve the latest aid programme. A recent Government review of the Dutch textile industry showed that output levels and employment have fallen more quickly than in any other European country. Output fell by 15 per cent between 1970 and 1976, compared with a 7 per cent average increase in the EEC as a whole. Employment fell by 34 per cent between 1973 and 1978 compared with a 22 per cent decline in the EEC.

Financial Times
22 August 1980

FINANCIAL TIMES
2 AUG 80

Textile & Clothing Ind

£526m plan for Belgian textiles

BY GILES MERRITT IN BRUSSELS

BELGIUM'S Government is moving towards the adoption of an ambitious £526m five-year plan to save the country's textile industry. But with the deficit on state spending continuing to grow, there remain major political obstacles to the plan's acceptance. By last month the deficit had passed the budgeted target for the whole of 1979. The plan has been drawn up by Mr. Willy Claes, Economic Affairs Minister, and aims to minimise unemployment in the textile industry. By spending

Bfr 35bn (£526m) on restructuring the sector between 1980-84 it is planned to limit the industry's total workforce to 100,000 people. That would entail the loss of 20,000 jobs, against the loss of 45,000 that Mr. Claes has predicted would occur otherwise. The rescue scheme has been approved by the Belgian Government's Ministerial Committee for Economic Co-ordination and forwarded to a textile industry body representing employers and trade unions. But it has yet to be accepted by a full

Cabinet meeting. The urgent need for such a plan has been emphasised this week, by the worker occupation of one of Belgium's major textile companies. Fabelta-Tubize, the loss-making synthetic fibres producer, has been occupied by a number of militant employees in protest against threatened closure. FINANCIAL TIMES, published daily except Sundays and holidays. U.S. subscription rates \$365.00 per annum. Second Class postage paid at New York, N.Y., and at additional mailing centres.

29 OCT 80
FINANCIAL TIMES

Textile Ind

French to aid textile industry

By Terry Dodsworth in Paris

THE FRENCH authorities are to draw up aid plans for the country's hard-pressed textile industry in the next three months, aimed at pumping public funds into a large-scale reorganisation and modernisation programme. Talks have begun with textile manufacturers on the methods to be employed, following mounting unemployment in the industry. The industry has been hit by a fall in domestic consumption, a decline in French competitiveness overseas, and rise in cheap imports. The French authorities are aiming at European action to halt the rapid growth in the sale of U.S. artificial fibre products in Europe, based on cheap feedstocks. But in the rest of the industry, where most of the present redundancy is biting, the emphasis will be on giving the industry a more competitive structure. The Government has two main instruments available to achieve its aim of restraining the decline in the industry's 950,000 labour force by between 3 and 4 per cent up to 1985. One of these is a system of grants and aids for developing strategic industries known as CODIS. The other is the CIDISE system of financial aids for helping investment

State investment boost for ailing French textiles

BY ROBERT MAUTHNER IN PARIS

THE FRENCH Government has adopted a package of measures aimed at bolstering the ailing French textile and clothing industry, hit by shrinking overseas markets and declining competitiveness. The authorities' objective is to increase investments in the textile industry by some FFr 1bn (about £100m) a year, roughly equal to one-third of total current annual investments.

The Government has decreed that the textile and clothing industries will become one of the seven key strategic sectors earmarked for restructuring and modernisation. The most dynamic textile companies will thus be able to take advantage of grants and soft loans made available by the Committee for the Development of Strategic Industries (CODIS) with which they can sign so-called "development contracts." The aid to be given by CODIS will be very selective and will be allocated only to those companies whose growth, profit, productivity and export performances are well above the average.

In addition, healthy companies short of funds will be given easier access to public "participatory loans" granted by the Interministerial Committee for the Development of Investments and Aid to Employment (CIDISE), which are intended to strengthen companies' capital and reserves. Banks and other financial establishments, as well as regional development companies, will be encouraged to increase their participatory loans to the textile sector and, for this purpose, will be able to apply themselves for loans from a special new fund to be financed partially by the State. Particular emphasis will be laid on promoting French textile exports. A committee for the "international expansion" of the French textile industry has been set up with the task of drawing up a dynamic export strategy. At the same time, the Government has given an undertaking that textile imports will be carefully monitored and that it will have recourse to safeguard clauses provided in international agreements.

F.T. 7.11.80



DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
 123 VICTORIA STREET
 LONDON SW1E 6RB

Trade

TELEPHONE DIRECT LINE 01-212 3301
 SWITCHBOARD 01-212 7676

Secretary of State for Industry

J E Longworth Esq
 Oldham and District Textile
 Employers Association Ltd
 Thorncliffe
 115 Windsor Road
 OLDHAM
 Lancs OL8 1RQ

2 October 1980

*PS/hon'ble Wrencham
 PS/Mr Mitchell
 PS/Sir P. Conway
 Mr Steele
 Mr Hudson CT
 Mr Muir CTB (on file)*

Dear Mr Longworth

*R
 17/10*

The Prime Minister has asked me to reply to your letter of 18 September.

The Government regrets as much as you do closures of textile mills like the ones you mention. Courtaulds will, as you know, retain substantial modern capacity in spinning. Whether or not anyone will ever invest again in a new spinning mill in this country remains to be seen. The uncertainty is clearly large: but that also makes it impossible to be too categorical about the future.

I note that you disagree with the Government's macroeconomic and trade policies. Not all cheap imports are unfair nor can we restrict the import of all of them. We try to reconcile our wider trading interests and our legal obligations with our desire to see the textile sector given a reasonable trading framework in which to operate. You are aware of the details of that framework - in terms of quotas, trade coverage, and so on. I know you think the protection afforded to the industry is insufficient but it is more extensive than the protection given to other manufacturing sectors. We are always on the alert to improve the operation of the restraints; you know for example about the new quotas we have introduced since we took office. You may think they were not introduced quickly enough; but we have to work through European Community procedures.

As for our economic policies, our objective is to get down the rate of inflation to a tolerable level. That can only be to the good of an industry like textiles which conducts, contrary to often received wisdom, a large part of its trade with the developed world. Experience has shown that subsidies and interventions in industry do not secure this objective. To

/provide ...



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
111 VICTORIA STREET
LONDON W. 1

provide specially cheap credit and so on for manufacturing industry, as some advocate, would simply put us all back again onto a road that leads nowhere. The textile industry would welcome that no more than we do. The question is not one of sincerity of views but how to obtain results.

Erindly,
Ken Joseph



Confidential - PPS

From the Secretary of State

C Pond Esq
Director
Low Pay Unit
9 Poland Street
London, W1V 3DG

22 September 1980

Dear Mr Pond

R 249

Thank you for your letter of 15 August enclosing a copy of your Unit's Report "Trouble Looming" on low pay in the woollen industry. You also wrote to the Prime Minister, and she has asked me to reply on her behalf.

Your Report is a useful and stimulating one, particularly since it considers the effect of Government policy over a 10 year period. You will not, I am sure, expect me to comment in detail on such a comprehensive Report. There are, however, two particular areas which are central to the issues raised and conclusions reached where I would like to set out the Government's position. The first relates to import controls and is of course my direct responsibility at the Department of Trade; the second is the question of direct Government assistance to the industry and the relationship between this and low pay.

As your Report says, we already have a very substantial system of import restraints in the textile field, particularly upon the "low-cost" suppliers. We cannot be insensitive to the fact that some of these countries are among the poorest in the world and have to be able to sell to survive. Nor should we forget that we have a substantial surplus on our trade in manufactured goods with the non-oil exporting developing countries, giving us jobs and protecting earnings in other industries. The Government does not claim that the system is perfect. Although the formal quotas imposed under the Multi-Fibre Arrangements work well, the procedure for introducing new quotas has not worked out as smoothly as we would have liked; and the Voluntary Restraint Arrangements with the Mediterranean countries depend for their effectiveness upon the licensing arrangements operated by the exporting countries themselves, and these too have not worked perfectly in all cases. Undoubtedly these failings have been damaging to particular firms in particular areas. However, taking an overall view, the regime has been effective: last year imports of textiles and clothing from the low-cost countries accounted



From the Secretary of State

for only 12% by value of our domestic market, and their growth over the period 1976-79 was around 6% per annum in volume terms. The Government has said it is determined to implement the existing controls upon low-cost textiles as effectively as possible, and we have also said we will negotiate the best possible arrangement to succeed the MFA when it expires at the end of 1981. I believe these assurances are as much as the industry could reasonably expect and, as I have said many times, the protection given to textiles and clothing manufacturers against low-cost imports goes far beyond what any other sector of manufacturing industry receives. As suggested in your Report, we are consulting the industry on what we would hope to see in the successor regime to the MFA.

In fact, the majority of the United Kingdom's imports of textiles and clothing now comes from other developed countries - mainly from other EC countries and the United States of America. Undoubtedly, there are differences in production conditions between these countries and the United Kingdom, and in certain cases this leads to an element of unfair competition. The Government has made it quite clear that it regards the American feedstock price controls as distorting the terms of trade, and we are taking all the measures open to us to eliminate this particular inequity. But among the factors at work there are some significant ones - the exchange rate, the size and efficiency of some of our competitors' operations and (in a few cases) lower wage rates - which it is difficult to regard as a valid basis for interference with the open trading arrangements we have with these countries. The fact of the matter is that, so far as our trade in textiles and clothing with other developed countries is concerned, exports and imports have both grown over the last 10 years, and this trade as a whole is in broad balance (exports in 1979 totalled £1,612m, imports £1,695m). The majority of these imports in any case come from within the European Community, and we cannot impose controls on trade from other Member States. Whereas machinery does exist - you mention Article XIX of the GATT in your Report - for acting unilaterally to reduce imports from non-EC developed countries, the criteria to be met are strict. Even if they are met we then have to convince our fellow members in the Community and the GATT trading partners who are themselves the targets of such proposed measures.

Earlier this year, the Community, on our behalf took Article XIX action against fast growing imports of polyester filament yarn and nylon carpet yarn. Two facts became clear in the aftermath of that action. The first is that the consent of our Community partners for further action of this kind will be strictly limited: any future case will need a very clear-cut economic justification if it is to receive their essential support. The second is that the Americans will make full use of the compensation clause in Article XIX to ensure that any improvement in our trade balance in one sector is offset elsewhere.



From the Secretary of State

To sum up, the sort of action you propose to restrict imports from the developed countries would represent a drastic departure from the open trading system that now exists between these countries; no impartial observer would conclude from our overall trading position (eg our balance of payments) that such action was justified except possibly in very restricted areas; and as a result we could not obtain the necessary consent of our EC partners to bring in such measures.

I should like to turn now to the question of low pay and direct Government assistance to the industry. The Government's view is that in general, pay levels should be determined by free and responsible collective bargaining between the parties concerned, and that the Government should refrain from trying to influence the level of wages in industry. This applies to the wool textile industry as any other. Any attempt to raise pay or obtain a commitment to minimum pay levels regardless of what the industry could afford to pay would be bound to affect the profitability and hence the viability of the industry. The difficult judgement how best to allocate operating margins between profits (and hence investment) and pay levels can best be taken by the industry itself in the context of free collective bargaining. The main task of the Government must be to seek to establish the conditions in which industry in general can expand and create more job opportunities. If we are to do this our highest priority must be to bring inflation under control. Until this is done the conditions in which the industry can flourish cannot be established.

You refer in your Report to the assistance already given to the wool textile industry under the two schemes introduced under the Industry Act 1972, and you propose a further scheme of assistance. A great deal of modernisation took place under the earlier schemes, and there is considerable doubt whether a third scheme of assistance is wanted by the industry itself. The Wool Textile Economic Development Committee which is representative of the industry has been giving a good deal of attention to its problems but there has been no indication from them (as there was in respect of the two earlier schemes) that a further scheme is wanted. There may indeed be some individual cases of re-equipment and modernisation where financial assistance would help to stimulate the necessary investment; this is still available if needed, on a selective basis, under Section 7 of the Industry Act in Assisted Areas and under Section 8 of the Act throughout the United Kingdom. Projects proposed for assistance are of course subject to very careful scrutiny for viability, as were the projects in the wool textile schemes, and under the new criteria announced in July 1979 assistance is only given to products which strengthen the regional and national economy and would not otherwise go head.



From the Secretary of State

The decision to discontinue the payment of Regional Development Grants in Intermediate Areas, such as West Yorkshire, was taken in order to concentrate regional aid in the areas of greatest need. I am sure that you would agree with this. Although parts of West Yorkshire are due to become non-assisted areas in August 1982, these areas will remain eligible until then for Regional Selective Assistance. As you may know Bradford, an area with a great deal of wool textile manufacturing, retains its assisted area status.

Although the Government's position on your central issue of low pay is that it is not the role of Government to dictate pay levels to industry, the fact must be emphasised that in the other main areas which you have identified - modernisation and rationalisation of the industry and import controls - there has already been considerable Government action.

Some of your recommendations are of course directed not to Government but to the industry's trade association and the trade unions, and they will no doubt wish to consider seriously the points made in your publication and your suggestions about how they might deal with them.

Yours Sincerely,

John Nott

JOHN NOTT

Trade
Aug. 80

P. 2

BIF 6-10-80

22 September 1980

The Prime Minister would be grateful if your Secretary of State would reply on her behalf to the attached letter from the Secretary of the Oldham and District Textile Employers' Association.

I should be grateful if you could let us have a copy of the reply for our records here in due course.

XXX TPL

Ian Ellison, Esq.,
Department of Industry.

TUR



10 DOWNING STREET

PRIME MINISTER

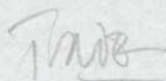
This is a further letter from Mr. Longworth, the Secretary of the Oldham and District Textile Employers' Association, who was one of the members of the textile delegation whom you saw in June. It tells of further mill closures and repeats earlier criticism of Government policy. Do you wish to reply (you answered his previous one), or shall we ask Sir Keith Joseph to reply on your behalf?

K.J.

19 September 1980

R

MB



19 September 1980

I am writing on behalf of the Prime Minister to acknowledge your letter of 18 September. I will place this before the Prime Minister and you will be sent a reply as soon as possible.

T.P. LANKESTER

J.E. Longworth, Esq.



From the
Minister for Trade

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

Dear Colleague,

Rista

RMS

The steady decline in jobs in the textiles industry over many decades is an emotive subject. Understandably, perhaps, comments are often made on the basis of assertions and myths about imports and import controls which have little or no foundation. I have had many requests from all sections of the industry and Parliament to set out in a reasonably comprehensive form what it is that the Government does to provide the industry with some measure of relief from import competition.

Of course, publishing a booklet about the Government's policies on textile and clothing imports is not going to save any jobs. But rational, well-informed discussion is desirable at a time when we are soon to begin the important negotiations on the successor to the multi-fibre arrangement - negotiations crucial to the future of the industry.

So this booklet takes a detailed look at the level of textile imports; the evolution of the various restrictions on imports; how extensive they have become; and the roles of the British Government, the European Community and the European Commission. It is frank but realistic about the shortcomings of the system.

It does not cover the wider aspects of trade policy which must always be a consideration for the Government. For instance, the cost of protection to the consumer is a reality which cannot be ignored.

Nor must we forget that the developing countries - from whom most of our low-cost imports come - represent a very important market for our manufacturing industry. Last year we had a surplus in

manufactured goods with the low-cost textiles producing countries of almost £5 billion. It is in our interests as well as theirs that they have as much opportunity as possible for economic progress. They are likely to be some of our fastest growing markets, particularly for capital equipment. So the interests of the British textile industry cannot simply be viewed in isolation from the rest of British manufacturing industry.

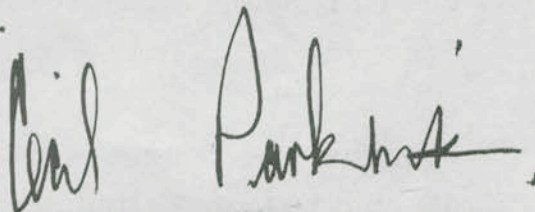
Nevertheless, the Government is committed to ensuring the strict implementation of the present agreements and arrangements affecting textile imports. It is also prepared to act, whenever action is possible, against unfair or disruptive trading. Since May 1979 we have obtained through the European Community 36 new textile and clothing quotas; negotiated restraint arrangements with three major producing countries not previously covered; taken action against damaging imports of synthetic textile products from the USA and elsewhere; and given our full support to anti-dumping action initiated by British firms. It is our intention to press for a tough successor when the present MFA expires.

However, as the booklet shows, the industry still faces severe difficulties. There is no easy answer to those difficulties. Even if they were entirely due to competition from imports there is no acceptable and realistic way in which imports can be cut off or even substantially cut down - and nor would it be in this country's overall interests for us to attempt it.

On the more positive side, the industry remains a major and successful exporter. With the recent textile mission to Hong Kong we have begun the process of encouraging a more vigorous pursuit of new markets overseas. The answer to many of the industry's problems lie in its own hands and I believe it is doing much to help itself.

Those that lie in the Government's hands - and we accept that the Government has an essential role to play - will, I hope, now be more widely understood through this booklet.

CECIL PARKINSON
MINISTER FOR TRADE

A handwritten signature in dark ink, appearing to read 'Cecil Parkinson', is written over the typed name. The signature is fluid and cursive, with a large initial 'C' and a long, sweeping underline.

Telephones:
061-624 3611 & 3612

Oldham and District Textile Employers' Association Limited

THORNCLIFFE, 115 WINDSOR ROAD,
OLDHAM OL8 1RQ

Secretary:
JOHN E. LONGWORTH
Assistant Secretary:
RAYMOND R. RAGGETT

JEL/DB

The Rt. Hon. Margaret Thatcher MP
Prime Minister
10 Downing Street
LONDON SW1

18 September 1980

Dear Prime Minister,

Since our meeting on the 9 June the textile industry has continued to decline.

What concerns me most is that mills with which I have the closest contact and which I know are well-equipped and well-managed have been forced to close.

As you will know, six modern Courtaulds mills in my area, and two in other areas, announced their closure at the end of August. On Tuesday the imminent closure of another company, Standard Mill (Rochdale) Limited, was announced. This is a most modern, well-equipped mill which has diversified into a wide range of cotton and man-made fibre yarns.

As these modern mills close down our industrial base is being destroyed and it is most unlikely that anyone in the future will ever risk investing in a new spinning mill in this country. In fact, the latest machines from the closed mills will almost certainly find their way to our overseas competitors.

I can understand that you are determined to stick to your economic policies in the firm and sincere belief that these will work for the long term good of the country. I also know that you sincerely believe that the government has done all that is possible about cheap unfair imports. I simply want you to know that many of us within this industry are just as sincere in holding contrary views on both points.

*Yours sincerely,
John E. Longworth*

Telephones :
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*Yours sincerely,
John E. Longworth*

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Trade

Correspondence
copied to
Press Office

15 September 1980

Thank you for sending us the text of your Secretary of State's proposed reply to the Low Pay Unit - your letter of 12 September refers.

The Prime Minister is entirely content with the draft, which she considers excellent.

M A PATTISON

Stuart Hampson, Esq.,
Department of Trade.

TR



10 DOWNING STREET

PRIME MINISTER

You asked to see
John Nott's proposed reply to
the Low Pay Unit. I attach
it. Flag A is the Unit's
letter to you and report,
and Flag B is a note from the
Department.

Content for Mr. Nott to
write as proposed?

Yes - excellent and MAD

12 September 1980



From the Secretary of State

Nick Sanders Esq
Private Secretary
10 Downing Street
London, SW1

12 September 1980

Dear Nick

In your letter of 28 August, you said that the Prime Minister had agreed that my Secretary of State should reply on her behalf to the letter from Mr Chris Pond of the Low Pay Unit, about the Unit's recent publication "Trouble Looming", but added that the Prime Minister would like to see the reply in draft before it was sent.

--- I attach a copy of the draft reply which the Secretary of State has approved. You will note that it also replies to a letter which Mr Pond sent direct to this Department, highlighting the conclusions of the report in the "trade" area. The reply includes contributions by the Departments of Industry and Employment dealing with financial assistance and Government policy towards low pay.

The Report contains a great deal of statistical detail about the effect of Government policy on the wool textile industry over the last ten years, and the effect that this has had on pay levels. The Department of Industry advise that little of the data is new. The central conclusion is that, despite total Government assistance to the industry under the two Wool Textile Schemes of around £30m, and the hope expressed when the schemes were introduced that this investment would lead to better productivity, greater profitability and hence better pay levels, pay in the industry remains well below the average for manufacturing industry.

The recommendations, summarised on pages 3-5 of the report, are in three sections, addressed to Government, managements and trade unions. The principal recommendations to Government are for the tightening of import controls and the introduction of a third wool textile scheme. Both these points are covered in the draft reply.

In connection with its call for more import controls, the report calls for the Government to set up an investigation into barriers to fair trade, and not to remove import controls until satisfactory solutions have been found. This is an unrealistic proposal: most of the unfair



From the Secretary of State

practices reported are oft-repeated allegations unsupported by proper evidence, and only when the GATT criteria for anti-dumping or counter-vailing action are met would they give us the right to take retaliatory action. It is likely however that the call for an investigation into unfair practices will be taken up by Members of Parliament when Parliament returns from the Recess.

I am copying this letter to Richard Dykes (Department of Employment) and to Ian Ellison (Department of Industry).

Yours sincerely,

Stuart Hampson

S HAMPSON
Private Secretary



DRAFT

From the Secretary of State

C Pond Esq
Director
Low Pay Unit
9 Poland Street
London, W1V 3DG

September 1980

Thank you for your letter of 15 August enclosing a copy of your Unit's Report "Trouble Looming" on low pay in the woollen industry. You also wrote to the Prime Minister, and she has asked me to reply on her behalf.

Your Report is a useful and stimulating one, particularly since it considers the effect of Government policy over a 10 year period. You will not, I am sure, expect me to comment in detail on such a comprehensive Report. There are, however, two particular areas which are central to the issues raised and conclusions reached where I would like to set out the Government's position. The first relates to import controls and is of course my direct responsibility at the Department of Trade; the second is the question of direct Government assistance to the industry and the relationship between this and low pay.

As your Report says, we already have a very substantial system of import restraints in the textile field, particularly upon the "low-cost" suppliers. We cannot be insensitive to the fact that some of these countries are among the poorest in the world and have to be able to sell to survive. Nor should we forget that we have a substantial surplus on our trade in manufactured goods with the non-oil exporting developing countries, giving us jobs and protecting earnings in other industries. The Government does not claim that the system is perfect. Although the formal quotas imposed under the Multi-Fibre Arrangements work well, the procedure for introducing new quotas has not worked out as smoothly as we would have liked; and the Voluntary Restraint Arrangements with the Mediterranean countries depend for their effectiveness upon the licensing arrangements operated by the exporting countries themselves, and these too have not worked perfectly in all cases. Undoubtedly these failings have been damaging to particular firms in particular areas. However, taking an overall view, the regime has been effective: last year imports of textiles and clothing from the low-cost countries accounted for only 12% by value of our domestic market, and their growth over the period 1976-79 was around 6% per annum in volume terms. The Government has said it is determined to implement the existing controls upon low-cost textiles as effectively as possible, and we have also said we will negotiate the best possible arrangement to succeed the MFA when it expires at the end of 1981. I believe these assurances are as much as the industry could reasonably expect, and, as I have said many times, the protection given to textiles and clothing manufacturers against low-cost imports goes far beyond what any other sector of



From the Secretary of State

manufacturing industry receives. As suggested in your Report, we are consulting the industry on what we would hope to see in the successor regime to the MFA.

In fact, the majority of the United Kingdom's imports of textiles and clothing now comes from other developed countries - mainly from other EC countries and the United States of America. Undoubtedly, there are differences in production conditions between these countries and the United Kingdom, and in certain cases this leads to an element of unfair competition. The Government has made it quite clear that it regards the American feedstock price controls as distorting the terms of trade, and we are taking all the measures open to us to eliminate this particular inequity. But among the factors at work there are some significant ones - the exchange rate, the size and efficiency of some of our competitors' operations and (in a few cases) lower wage rates - which it is difficult to regard as a valid basis for interference with the open trading arrangements we have with these countries. The fact of the matter is that, so far as our trade in textiles and clothing with other developed countries is concerned, exports and imports have both grown over the last 10 years, and this trade as a whole is in broad balance (exports in 1979 totalled £1,612m, imports £1,695m). The majority of these imports in any case come from within the European Community, and we cannot impose controls on trade from other Member States. Whereas machinery does exist - you mention Article XIX of the GATT in your Report - for acting unilaterally to reduce imports from non-EC developed countries, the criteria to be met are strict. Even if they are met we then have to convince our fellow members in the Community and the GATT trading partners who are themselves the targets of such proposed measures.

Earlier this year, the Community, on our behalf took Article XIX action against fast growing imports of polyester filament yarn and nylon carpet yarn. Two facts became clear in the aftermath of that action. The first is that the consent of our Community partners for further action of this kind will be strictly limited: any future case will need a very clear-cut economic justification if it is to receive their essential support. The second is that the Americans will make full use of the compensation clause in Article XIX to ensure that any improvement in our trade balance in one sector is offset elsewhere.

To sum up, the sort of action you propose to restrict imports from the developed countries would represent a drastic departure from the open trading system that now exists between these countries; no impartial observer would conclude from our overall trading position (eg our balance of payments) that such action was justified except possibly in very restricted areas; and as a result we could not obtain the necessary consent of our EC partners to bring in such measures.



From the Secretary of State

I should like to turn now to the question of low pay and direct Government assistance to the industry. The Government's view is that in general, pay levels should be determined by free and responsible collective bargaining between the parties concerned, and that the Government should refrain from trying to influence the level of wages in industry. This applies to the wool textile industry as any other. Any attempt to raise pay or obtain a commitment to minimum pay levels regardless of what the industry could afford to pay would be bound to affect the profitability and hence the viability of the industry. The difficult judgement how best to allocate operating margins between profits (and hence investment) and pay levels can best be taken by the industry itself in the context of free collective bargaining. The main task of the Government must be to seek to establish the conditions in which industry in general can expand and create more job opportunities. If we are to do this our highest priority must be to bring inflation under control. Until this is done the conditions in which the industry can flourish cannot be established.

You refer in your Report to the assistance already given to the wool textile industry under the two schemes introduced under the Industry Act 1972, and you propose a further scheme of assistance. A great deal of modernisation took place under the earlier schemes, and there is considerable doubt whether a third scheme of assistance is wanted by the industry itself. The Wool Textile Economic Development Committee which is representative of the industry has been giving a good deal of attention to its problems but there has been no indication from them (as there was in respect of the two earlier schemes) that a further scheme is wanted. There may indeed be some individual cases of re-equipment and modernisation where financial assistance would help to stimulate the necessary investment; this is still available if needed, on a selective basis, under Section 7 of the Industry Act in Assisted Areas and under Section 8 of the Act throughout the United Kingdom. Projects proposed for assistance are of course subject to very careful scrutiny for viability, as were the projects in the wool textile schemes, and under the new criteria announced in July 1979 assistance is only given to products which strengthen the regional and national economy and would not otherwise go ahead.

The decision to discontinue the payment of Regional Development Grants in Intermediate Areas, such as West Yorkshire, was taken in order to concentrate regional aid in the areas of greatest need. I am sure that you would agree with this. Although parts of West Yorkshire are due to become non-assisted areas in August 1982, these areas will remain eligible until then for Regional Selective Assistance. As you may know Bradford, an area with a great deal of wool textile manufacturing, retains its assisted area status.

I hope that you will not see this reply to your letters to the Prime Minister and myself as negative. Although the Government's position on your central issue of low pay is that it is not the role of



From the Secretary of State

Government to dictate pay levels to industry, the fact must be emphasised that in the other main areas which you have identified - modernisation and rationalisation of the industry and import controls - there has already been considerable Government action.

Some of your recommendations are of course directed not to Government but to the industry's trade association and the trade unions, and they will no doubt wish to consider seriously the points made in your publication and your suggestions about how they might deal with them.

JOHN NOTT

file

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Trade

6/1/80 5.9.80

26 August 1980

On 18 August I wrote to you about the Low Pay Unit's publication "Trouble Looming".

The Prime Minister has now seen the Unit's letter, and is content that your Secretary of State should reply on her behalf. She has however asked to see that reply in draft before it is sent. I hope that it will be possible for you to let us see such a draft by Friday 5 September.

N J SANDERS

Stuart Hampson, Esq.,
Department of Trade.

S

Blind cc:- Press Office

18 August, 1980

I attach a copy of a letter the Prime Minister has received from the Low Pay Unit about wages in the wool textile industry. I gather from press reports that your Secretary of State has received a similar letter and a copy of the report itself.

I shall not be able to consult the Prime Minister about how she wishes this letter to be handled until she returns from her holiday, but I should be grateful if, for the time being at least, you could proceed on the basis that your Secretary of State should reply on the Prime Minister's behalf. I will confirm the Prime Minister's decision on how the letter to her should be handled as soon as possible next week.

I am copying this letter and its enclosure (but not the report) for information to Richard Dykes (Department of Employment) and Ian Ellison (Department of Industry).

N. L. SANDERS

Stuart Hampson, Esq
Department of Trade

DSG

18 August, 1980

I am writing on behalf of the Prime Minister to thank you for your letter of 15 August enclosing a copy of your report "Trouble Looming".

I will place your letter before the Prime Minister when she returns to London and you will be sent a reply as soon as possible.

N. J. SANDERS

Chris Pond, Esq

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10 DOWNING STREET

PRIME MINISTER

This letter from the Low Pay Unit encloses a report about wages in the wool textile industry. The report itself is worth looking through.

The report had a fair amount of publicity while you were away. A similar letter has been sent to John Nott.

Are you content for Mr. Nott to reply on behalf of the Government as a whole?

May I see the reply before it goes. MS

18 August 1980

Low Pay Unit

Director: *Chris Pond* Research Staff: Louie Burghes, Simon Crine, David Jordan. Secretary: Sarah Murison

9 Poland Street W1V 3DG

01-437 1780

Rt. Hon. Margaret Thatcher, MP
Prime Minister,
10 Downing Street,
London, S.W.1.

2/16
15th August, 1980

Dear Prime Minister,

see flap.
I enclose a copy of a recent pamphlet published by the Low Pay Unit on pay and employment in the textile industry. The report, Trouble Looming, documents the contribution that the workforce have made over the years to the necessary restructuring of their industry. They have accepted closures and redundancies at a cost of 60,000 jobs, equivalent to a halving of the workforce in ten years, co-operated in the introduction of £100 million new investment, and accepted low wages. We also note that the textile workforce has had no strikes since the 1920's. Despite this responsible approach, the rewards to the workforce are minimal. The industry is almost at the bottom of the low pay league table (three from the bottom of 77 manufacturing industries) and we calculate that one in six men and eight in ten women textile workers earned less than £60 a week in 1979.

The report calls on the government to undertake an urgent programme of measures to ensure the future of the industry, including temporary controls on the further growth of textile and clothing imports. Without such measures, the report warns, Britain may be without a textile industry at all by the end of the decade and the sacrifices of the workforce will have been wasted. We would argue that the textile workers are the litmus test of the Government's assertion that workers should 'price themselves into jobs' and be prepared to accept change. They have co-operated in a massive restructuring of the industry and have accepted exceptionally low wages. Their reward has been the continued threat of unemployment and further hardship. If the Government wishes to retain any credibility for its stand on wages and employment it must act now to provide the protection and rewards that are due to textile workers for their part in the fight against inflation.

We hope, therefore, that the Government will take the measures necessary, not only to ensure the future of the textile industry in Britain, but to provide the textile workforce with the proper rewards due to them for their willingness to co-operate in the necessary restructuring of the industry over the years.

Yours sincerely,

Chris Pond (printed signature)

CHRIS POND
DIRECTOR.

→ (CF) Mr Smith
works for
EMPLOYMENT

Trade
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Telephones:
061-624 3611 & 3612

Oldham and District Textile Employers' Association Limited

THORNCLIFFE, 115 WINDSOR ROAD,
OLDHAM OL8 1RQ

Secretary:
JOHN E. LONGWORTH
Assistant Secretary:
RAYMOND R. RAGGETT

Prime Minister

Ref: JEL/DB

No need to reply to
this. But I am sending
a copy to Employment R17/7
in view of the point at X.

The Rt. Hon. Margaret Thatcher, MP
Prime Minister
10 Downing Street
LONDON SW1

16 July 1980
R 247

Flag A Dear Prime Minister,
Thank you for your letter of the 27 June.

Since writing to you I have had further conversations with the Manchester office of the Department of Employment administering the TSTWC scheme and have found them very helpful. I believe that we should be able to sort out any problems that might arise.

I also believe they will confirm that in connection with advance payments for firms with cash flow difficulties there have been one or two cases where the advance has been adjusted at the first payment stage in the light of the amount claimed, but much more important for all firms is the fact that it can be eight to twelve weeks from the first week of short time to the receipt of the first payment.

Probably a major cause of the delay in payment is the increased use of the scheme and the limited numbers administering it.

X | Anything you can do to speed up payments would be appreciated.

Yours sincerely,
John E. Longworth.



c.c. Mr. Winterton
Mr. Smith
D/T

BE Press

10 DOWNING STREET

THE PRIME MINISTER

14 July, 1980.

Dear Mr. Straw,

A few days before our meeting on 9 June to discuss the difficulties of the Lancashire textile industry, at which Nicholas Winterton and Cyril Smith were also present, you were good enough to send me a letter mentioning a number of the points that you proposed to raise.

For my part, I found that meeting very valuable, and I do hope that I was able to reassure you on some of these points. However, it may be useful to you if I now give you a considered reply on all the points you raised, for you to pass on as you wish to your constituents and your contacts in the industry.

The first point you raised concerned imports of man-made fibre products from the USA. As you know, we were successful in obtaining the Commission's agreement at the beginning of this year, and subsequently that of the Community as a whole, to the imposition of quotas on polyester filament yarn and nylon carpet yarn. We were disappointed that the Commission did not accept our case for a quota on man-made fibre tufted carpets. However, even at their relatively high levels the quotas have stopped the alarming rate of growth of imports which was so damaging last year, and the Commission did agree that if imports of American carpets continue on an upward trend, and damage the industry, safeguard action will be taken. At present they represent about 10% of our market, compared with market shares of 17.4% for polyester filament yarn and 20.4% for nylon carpet

/ yarn

yarn at the time quotas were imposed. We are now watching the position very carefully. The UK carpet manufacturers who, in the absence of a quota on carpets, are dependent on continuing supplies of cheap yarn and who might have been severely affected if the yarn quotas had been smaller are happy to have access to amounts greater than they imported last year.

So far as other synthetic textile products are concerned, we are in close touch with the trade associations, but on the evidence presented by the industry itself we do not feel that at present there is a case under the international rules for seeking further quotas. But I do assure you that we are monitoring import trends for this whole family of products very closely.

Your second point concerned our imports from the Mediterranean countries linked to the European Community by Free Trade or Association Agreements. As you know, controls on these countries are less formal than the restraints on suppliers covered by the Multi-Fibre Arrangement, and take the form of voluntary restraint arrangements. In fact, such arrangements pose particularly difficult questions of principle. With a few exceptions these countries are guaranteed, under the terms of their agreements with the Community, quota-free access for almost all industrial products. The restraint arrangements now negotiated - several of them since this Government came to power - with all but one of these countries constitute voluntary derogations from these countries' rights under their agreements, and the administrative arrangements have to reflect this.

It is true that there have been breaches in some of the agreed levels: there were two particularly severe instances of this in 1979 (both involving clothing). However, taking the arrangements as a whole, there is no doubt that imports from the countries concerned would have been very much higher without them. We continue to press very hard for the full observation of the VRAs, and for new products to be covered by restraint levels

/ where

where necessary, but it has to be recognised that the Community as a whole values highly its special relationship with these various countries, and there can be no question of the Community withdrawing from its formal undertakings and imposing formal quotas. Although VRAs are occasionally not as effective as we might wish, your description of them as easily evaded gentlemen's agreements considerably understates both their value and their effect.

You mentioned the particular problem of cotton yarn from Turkey. This is in fact a special case, in that Turkey is the only significant Mediterranean textile exporter not to have agreed a VRA with the Community. Towards the end of 1979, the Community at our request unilaterally invoked the safeguard provisions of the EC/Turkey Agreement to block further imports of cotton yarns until the end of that year. We would not rule out similar action in the future if conditions warranted it. But as members of the Community, we do need to win Community consent for such action. At present it seems unlikely that such action will be needed this year. Imports are running at a much lower rate than last year (1,016 tonnes up to the end of May, compared to 2,853 tonnes in the corresponding period last year), and are consistent with respect for the annual limit which the Community unilaterally notified Turkey in 1978 and 1979 that it could accept (2,940 tonnes). And although imports of cotton yarn from Turkey were admittedly high last year, it remains a fact that - because of underutilisation of quotas by other beneficiaries - actual imports remained below the global ceiling for this category.

Your third point concerned public purchasing policy for textiles. As you know, we are under a Community obligation to advertise major public contracts for tender in the European Community's Official Journal. However, the fact is that, despite this requirement, the great majority of purchases of

/ textiles

textiles and clothing by central Government is from UK sources. There are no official figures for the extent of overseas purchasing by non-central Government organisations. Local Authorities and Health Authorities - who are also bound by Community obligations - must in the final analysis take responsibility for their own purchasing decisions. Naturally, we hope that they will use their relationship with UK suppliers to improve industrial performance to the advantage of both sides, and that wherever possible they will buy British textile products. But we are in no position to require them to do so. You may like to note, however, that as far as the National Health Services are concerned, Patrick Jenkin on 14 July announced the establishment of a Supply Council to work out policies over the whole range of Health Service procurement.

Your fourth point concerned British retailers' purchasing policies. I am sure that you will recognise that in deciding where to make their purchases retailers must ultimately be guided by their own commercial judgement, in the light of what they know about the customer's demand for their products, the price the customer is prepared to pay, and all the other relevant factors. It is the responsibility of the manufacturer to produce the goods the retailer wants.

Ministers take every opportunity to encourage closer liaison between manufacturers and distributors. As I mentioned at our meeting, a Panel has been established for just over a year under the aegis of the National Economic Development Office on which manufacturers and retailers are represented. We attach considerable importance to this work, and the Department of Industry is represented on the Panel. The importance of this sort of contact was demonstrated recently when the Chairman of the Clothing Economic Development Committee hosted a dinner at which a number of major retailers were present, and which John Nott also attended.

/ I understand

I understand that this EDC is now considering submitting to the Departments of Trade and Industry an outline scheme aimed at helping the clothing sector with design, marketing and promotion. We will look closely at any proposals that are put forward.

Your fifth point concerned financial assistance to industry. As you know, authority to approve schemes of state aid, including those designed (in the words of Article 92.3(b) of the Treaty of Rome) "to remedy a serious disturbance in the economy of a Member State", rests with the European Commission. The Commission took a serious objection to the Temporary Employment Subsidy precisely because so much went to textiles and clothing firms (this was not envisaged when they originally approved the scheme) and they considered that it was distorting the pattern of trade and competition in the Community in maintaining output at artificially high levels. This the Short Time Working Compensation Scheme does not do. I am afraid there is really no prospect that the Commission's view would be any different now if we sought to re-introduce arrangements similar to the TES.

Since TES was discontinued, of course, other special employment measures have been developed and expanded, and we are already committed to a high level of expenditure up to March 1981 when the whole programme of measures will be subject to annual review. But I do think it is important not to over-emphasise the capacity of this kind of measure to deal with the problems of a particular industry. The Government is not, and cannot be, in a position to support the maintenance of employment in any particular industry on more than a strictly temporary basis. In the longer run, the remedy must lie in the Government's overall economic policies, which are designed to bring inflation under control, and to create conditions in which all firms - in textiles as in other industries - can compete profitably and create new and lasting jobs.

/ Your

Your final point concerned the serious social consequences of the loss of jobs, particularly in locations where other sources of employment are limited, and for the immigrant communities in general. I am very conscious that a large part of the workforce in the Lancashire textile industry is composed of Asians, and that they make a substantial contribution to the output of the industry. All Ministers are keenly aware of the need to avoid policies which would be detrimental to relations between the different ethnic groups in our community as a whole. But the fact is that the best policies from the point of view of the minority communities are also those which are best for the country at large.

I am copying this letter to Nicholas Winterton and Cyril Smith.

Yours sincerely,

(SGD) MT

Jack Straw, Esq., M.P.



From the
Minister for Trade's office

Trade.

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

N Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

GR
type for PM p1
ccIG

11 July 1980

Dear Nick

You wrote to Catherine Capon on 2 July, asking that we re-write the draft reply we had prepared for Mr Jack Straw MP, taking the content of the annex into the main reply. In the absence of the Secretary of State on official business overseas my Minister has approved the enclosed redraft along the lines you suggested.

I am copying this letter to Catherine Bell (Department of Industry).

Yours sincerely,

KEITH LONG
Private Secretary to the
Minister for Trade (CECIL PARKINSON)



DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO:

J Straw Esq MP
House of Commons
London SW1A 0AA

A few days before our meeting on 9 June to discuss the difficulties of the Lancashire textile industry, at which Nicholas Winterton and Cyril Smith were also present, you were good enough to send me a letter mentioning a number of the points that you proposed to raise.

For my part, I found that meeting very valuable, and I do hope that I was able to reassure you on some of these points. However, it may be useful to you if I now give you a considered reply on all the points you raised, for you to pass on as you wish to your constituents and your contacts in the industry.

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the other relevant factors. It is the responsibility of the manufacturer to produce the goods the retailer wants.

Ministers take every opportunity to encourage closer liaison between manufacturers and distributors. As I mentioned at our meeting, a Panel has been established for just over a year under the aegis of the National Economic Development Office on which manufacturers and retailers are represented. We attach considerable importance to this work and the Department of Industry is represented on the Panel. The importance of this sort of contact was demonstrated recently when the Chairman of the Clothing Economic Development Committee hosted a dinner at which a number of major retailers were present, and which John Nott also attended. I understand that this EDC is now considering submitting to the Departments of Trade and Industry an outline scheme aimed at helping the clothing sector with design, marketing and promotion. We will look closely at any proposals that are put forward.

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not, and cannot be, in a position to support the maintenance of employment in any particular industry on more than a strictly temporary basis. In the longer run, the remedy must lie in the Government's overall economic policies, which are designed to bring inflation under control and to create conditions in which all firms - in textiles as in other industries - can compete profitably and create new and lasting jobs.

Your final point concerned the serious social consequences of the loss of jobs, particularly in locations where other sources of employment are limited, and for the immigrant communities in general. I am very conscious that a large part of the workforce in the Lancashire textile industry is composed of Asians and that they make a substantial contribution to the output of the industry. All Ministers are keenly aware of the need to avoid policies which would be detrimental to relations between the different ethnic groups in our community as a whole. But the fact is that the best policies from the point of view of the minority communities are also those which are best for the country at large.

I am copying this letter to Nicholas Winterton and Cyril Smith.

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17 JUL 1980

Original in G/R.



CCPOT

Trade

10 DOWNING STREET

THE PRIME MINISTER

7 July 1980

Mr Nicholas.

Thank you for your letter of 12 June, following our meeting on the previous Monday.

As requested, I enclose a copy of the reply which Keith Joseph sent to the Manchester Chamber of Commerce and Industry on 16 June.

As I made clear at the meeting, we fully appreciate the difficulties facing the textiles and clothing industry, and we are determined to do all we can to help within the framework of our international obligations and our broad economic objectives.

I know the industry is particularly concerned about imports from low cost sources. We shall continue to insist on the most effective and rigorous implementation of the European Community's procedures under the Multi Fibre Arrangement (MFA) and associated arrangements. As you know, we already have over 400 quotas and other restraints on these imports, and over 40 countries are covered. Wherever possible we shall increase our efforts to ensure that the arrangements are properly complied with; and where there is scope for new quotas we shall do all we can to ensure that they are introduced. Moreover, we are determined that the arrangement to follow the present MFA when it comes up for re-negotiation at the end of next year should allow effective and tough restraints to continue beyond 1981.

As far as domestic policies are concerned the best prospect for textiles and clothing, as for industry generally, is that inflation should be brought under control and the right basis created for an efficient and competitive economy. The battle against inflation must

/ remain our

[Handwritten signature]

remain our top priority. This means that we cannot reflate the economy artificially, for the main effect would be more inflation. We have made a start in the last few days in reducing interest rates, but our actions in this field will remain conditioned by the need to control monetary growth. And special measures of relief for textiles, even if feasible, would inevitably mean an increase in taxation elsewhere or in public borrowing, which would make the task of bringing public expenditure and inflation under control more difficult.

At the meeting on 9 June you also suggested that energy industries should charge lower prices to the textiles industry, or if that is not possible, that the Petroleum Revenue Tax should be increased and the proceeds allocated to industry. As far as oil is concerned we operate in an international market, and all Community Member States have recognised the importance of oil prices which reflect world market levels. We do not think it would be wise to depart from this principle. As for electricity and gas prices, it would be inequitable to single out the textiles industry for favourable treatment, while lower charges for industry generally would mean higher charges for domestic consumers. Nor is there scope for increasing Petroleum Revenue Tax and allocating the proceeds to industry: this would obviously have an effect on the level of exploration activity in the North Sea and we are satisfied that the tax is set at the right level at present.

You also raised the question of public purchasing of textile products. We are under a European Community obligation to advertise certain contracts for tender, but well over 90 per cent of central Government purchases of textiles and clothing are made from UK sources. We shall continue to watch developments on this front carefully and would certainly like to see public procurement generally used as effectively as possible to improve industrial performance to the advantage of both sides.

In conclusion, I must emphasise that we do not under-estimate the importance of the textiles and clothing industry in any way. I am impressed by the industry's record in improving efficiency

/ and productivity,



B/F 10-7-80.

ccD/JS

Trade

10 DOWNING STREET

From the Private Secretary

2 July 1980

Thank you for your letter of 30 June, enclosing a draft reply for the Prime Minister to send to Jack Straw, MP, about the textile industry. As I told you on the telephone, I think it would be preferable for the Prime Minister to send to Mr. Straw a full reply which she could sign herself, rather than a covering letter enclosing what is clearly a document prepared by officials.

Although I know it will cause a good deal of work to those involved, I should be therefore be grateful if the draft that you sent to us could be re-cast in this form, and if the language in which it is phrased could be made less 'official' and more personal. I should be very happy to have a word with those involved in the redrafting if that would help.

May we please have something from you by Thursday, 10 July?

I am copying this letter to Catherine Bell (Department of Industry).

N. J. SANDERS

Mrs. Catherine Capon,
Department of Trade.

MS



From the Secretary of State

Nick Sanders Esq
Private Secretary
10 Downing Street
London, SW1

12. ✓
I propose to send
this back for quick
and total redraft - it
simply isn't a Prime Ministerial
draft at all. Agree?
MS
30/6

30 June 1980

Dear Nick

Please refer to your letter of 12 June to Stuart Hampson enclosing a letter that Mr Jack Straw MP had sent to the Prime Minister prior to her meeting on textiles.

- I enclose a draft reply for the Prime Minister to send to Mr Straw
 - to which a general response to the points he raised is attached.
- This has been prepared in conjunction with the Department of Industry.

Yours sincerely
Catherine Capon.

CATHERINE CAPON
Private Secretary



DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO:

J Straw Esq MP
House of Commons
London, SW1A 0AA

A few days before our meeting on 9 June to discuss the difficulties of the Lancashire Textile Industry, at which Nicholas Winterton and Cyril Smith were also present, you were good enough to send me a letter mentioning a number of the points that you proposed to raise.

For my part, I found that meeting very valuable, and I do hope that I was able to reassure you on some of these points to your satisfaction. However, it may be useful to you if I now give you the Government's considered reply on all the points you raised, for you to pass on as you wish to your constituents and your contacts in the industry.

I am copying this letter to Nicholas Winterton and Cyril Smith.



RESPONSE TO POINTS RAISED BY MR JACK STRAW MP AT THE MEETING WITH THE PRIME MINISTER ON 9 JUNE 1980 TO DISCUSS THE LANCASHIRE TEXTILE INDUSTRY

Imports of Man-Made Fibres from the USA

The Government was disappointed that the Commission did not accept the UK's case for a quota on man-made fibre tufted carpets and fixed the quotas on polyester filament yarn and nylon carpet yarn at relatively high levels. However, the fact that quotas exist is expected to have a stabilising effect on the market. The Commission have agreed that if imports of American carpets continue on an upward trend and damage the industry safeguard action will be taken.

The Government is watching the position carefully at present. The problems of those UK carpet manufacturers using US yarn will of course have been alleviated by the level of the quotas which will give them access to amounts greater than they imported last year. On the evidence by industry the Government does not consider that there is at present a case under the International Rules for seeking quotas on other synthetic textile products. The Department of Industry is keeping in close touch with the industry on this issue.

Imports from the Mediterranean Associate Countries of the European Community

Controls on the EC's Mediterranean Associates are less formal than the restraints on other low-cost suppliers under the Multi-Fibre Arrangement. This is because the preferential trading status which the Mediterranean Countries enjoy as EC Associates guarantees them unrestricted access to Community Markets for their manufactures. Under the Voluntary Restraint Arrangements (VRAs) which the Community has succeeded in negotiating with all the major Mediterranean suppliers except Turkey, these countries have agreed to forego this right in the case of textiles and clothing and restrain their exports. Although the agreed levels have been breached on a limited number of occasions, the Government considers the arrangements to be the best that can be achieved. There is no doubt that without these arrangements, imports from the countries concerned would have been very much higher.



The preferential agreements with the Mediterranean countries do provide for the imposition of quotas in cases of exceptional disruption. This safeguard provision was invoked to block further imports of cotton yarn from Turkey in late 1979 for the remaining weeks of that year. The Government would not rule out similar action in the future if conditions warranted it. But the need for Community consent for safeguard action limits the UK's powers to act independently. So far this year imports of Turkish cotton yarn are running at a much lower rate than last year (~~1016~~ ¹⁰¹⁶ tonnes) up to the end of May, instead of ~~2853~~ ²⁸⁵³ tonnes in the corresponding period of 1979) and are consistent with respect for the annual limit which the Community unilaterally notified Turkey in 1978 and 1979 that it could accept (2940 tonnes).

Public Purchasing of Textiles

The UK is under a Community obligation to advertise certain public contracts for tender. But within these limits, the great majority of purchases of textiles and clothing by central Government is from UK sources. Local Authorities and Health Authorities - who also have to have regard to Community obligations - are responsible for their own purchasing decisions. The Government hopes that they will use their relationship with UK suppliers to improve industrial performance to the advantage of both sides and that wherever possible they will buy British textile products, but the Government is in no position to require them to do so. As far as the National Health Service is concerned, the Secretary of State has now announced the establishment of a Supply Council to work out policies over the whole range of Health Service procurement.

The Government is prepared to pursue any case where it can be demonstrated that a British company has suffered because other Member States have failed to observe Community obligations.

British Retailers' Purchasing Policy

In deciding where to make their purchases, retailers must ultimately be guided by their own commercial judgment, in the light of what they know about the customer's demand for their products, the price the customer is prepared to pay, and all other relevant factors. It is the responsibility of the manufacturer to produce the goods the retailer wants.



However the Government recognises the importance of closer relationships between retailer and manufacturer in the search for import substitution opportunities. A Panel has been established for just over a year under the aegis of the National Economic Development Office on which manufacturers and retailers are represented. The Government attaches considerable importance to this work and the Department of Industry is represented on the Panel. Although there have already been one or two instances of import substitution arising from the work of the Panel, this is seen essentially as a long-term exercise. However there is an increasing awareness on the part of UK industry of the importance of this kind of contact. For example the Chairman of the Clothing Economic Development Committee recently hosted a dinner at which a number of major retailers were present, and this was also attended by the Secretary of State for Trade. The Clothing EDC is also understood to be considering submitting to the Departments of Trade and Industry an outline scheme aimed at helping the clothing sector with design, marketing and promotion. The Government will of course look closely at any proposals that are put forward.

The suggestion that there might be a Queen's Award for Retailers, although attractive at first sight, is difficult to reconcile with the fact that the ordinary consumer's choice is above all guided by value for money. In the end the ability to satisfy this requirement is what will mark out not only the successful producer but also the successful retailer.

Aid to Industry

Authority to approve schemes of state aid designed to remedy a serious disturbance in the economy of a Member State rests with the European Commission. The Commission took a serious objection to the Temporary Employment Subsidy, precisely because so much went to textiles and clothing firms (this was not envisaged when they originally approved the scheme) and they considered that it was distorting the pattern of trade and competition in the Community in maintaining output at artificially high levels. This the Short Term Working Compensation Scheme does not do. There is no prospect that the Commission's view would be any different now if we sought to re-introduce similar arrangements.



Since TES was discontinued, other special employment measures have been developed and expanded and the Government is already committed to a high level of expenditure up to March 1981 when the whole programme of measures will be subject to annual review. However, in the longer term the Government's general economic policies are intended to bring inflation under control and to create conditions in which all firms - in textiles as in other industries - can compete profitably and create new and real jobs.

Social Consequenses

The Government is very conscious that a large part of the workforce in the Lancashire textile industry is composed of Asians and that they make a substantial contribution to the output of the industry. Ministers are keenly aware of the continuing need to promote harmony between the different ethnic groups in the community.

PART 1 ends:-

P.M to J.E Langworth 27.6.80

PART 2 begins:-

Trade to NJS 30.6.80

