

Prime Minister

Ref. A02226

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in this folder the
submission from the
employers and the
draft reply provided
by DoI which
you wished.

Problems of the Textile and Clothing Industries
(E(80) 41 and 43)

BACKGROUND

You asked the Secretaries of State for Industry and for Trade to put a joint paper to E on the problems and prospects of the textile and clothing industries, the measures that are currently being taken to assist them, and any further measures that might be introduced. The paper by the Secretary of State for Trade on Britain's international trade policies, E(80) 43, has been put on the agenda as relevant to this item because it makes some particular references to the textile industry. But discussion of its main theme - the need to preserve the open trading system - is for a later meeting when it can be taken alongside a promised paper on non-tariff barriers to trade.

2. The problem is simply stated. Employment in textiles and clothing has fallen from 926,000 in 1974 to 760,000 now. This contraction is accelerating. The industry is regionally concentrated in the North West, and is also important in Northern Ireland. There is an increasingly negative trade balance.

3. Our industry is highly protected, as are its competitors. Nevertheless it cannot compete with the low labour costs of the developing countries and is also losing markets to other developed countries. It complains of general difficulties - interest rates, the exchange rate and VAT. But its main complaints are directed against the inadequacy of controls over imports and against "unfair" trading.

4. The main protection for the industry against low-cost imports from developing countries is provided by the Multi Fibre Arrangement (MFA) and associated restraint measures. The industry criticises these measures as inadequate and ineffective because of cheating by others. However, the MFA agreements run to the end of 1982 and it is judged impracticable to renegotiate

them before then. Moreover the MFA is negotiated by the Commission on behalf of the Community as a whole, and there is no prospect of general agreement to any changes yet.

5. The Secretaries of State differ on the tactics for stating the Government's policy now to the successor to the MFA - see paragraph 14 of E(80) 41. The Secretary of State for Trade argues that it is bad negotiating tactics to commit ourselves to any detailed position now. The Secretary of State for Industry feels it might improve confidence if the Government could state firmly that its aim would be to ensure that the next MFA would link access more closely to actual market conditions (i. e. allow for changes during periods of recession).

6. Any changes in the arrangements with developed countries are also constrained by GATT and Community obligations. Seventy per cent of our imports from developed countries come from EEC countries and any unilateral restrictions would be illegal. Paragraph 9 notes that the Italians are believed to be giving secret subsidies to textiles, and that the United States synthetic textile industry is benefiting from cheap feed stocks as a result of energy price controls. In his wider paper, E(80) 43, the Secretary of State for Trade concludes that the controls on imports work better than the industry claims. He also implies that the root cause of the industry's problem is its own inefficiency.

7. For the rest the paper notes (paragraph 15) other measures under consideration, notably the possibility of compulsory origin labelling to encourage customers to buy British, and greater efforts by Customs and Excise in enforcement of origin rules. But action here would require more staff. Various financial measures are discussed in paragraphs 16 and 17 but no new proposals are made.

HANDLING

8. You might open the meeting by explaining - if you agree - that general discussion of the Secretary of State for Trade's paper on international trade policies should be deferred until after Whitsun when it can be taken with the papers on non-tariff barriers. You might then ask the Secretary of State for Industry to introduce the paper, and the Secretary of State for Trade to follow him. The

Foreign and Commonwealth Secretary will wish to comment on the international implications and the Chancellor of the Exchequer on the financial. The Secretary of State for Northern Ireland has been invited to attend or be represented and will want to comment on the Northern Ireland aspects. Mr. Ibbs would like to comment on the problem of subsidies to the United States synthetic textile industry.

9. In discussion you will wish to cover the following questions:

(i) What should be our line on the renegotiations of the Multi Fibre Agreement?

You might first establish that no-one disagrees with the proposition that there can be no substantial changes in the MFA until new agreements are introduced after 1982. Subject to this the Committee will wish to come to a view on whether the Government should declare its negotiating objectives now - as the Secretary of State for Industry proposes - or not - as the Secretary of State for Trade recommends.

(ii) Can any more be done to clamp down now on unfair trading?

In the absence of other immediate measures this seems the main possibility. Departments are already doing what they can to prompt the Commission to enforce existing restraints rigorously. It is unsatisfactory that they have so far been unsuccessful in challenging the Italians on their covert textile subsidies. The paper does not discuss in any detail why more cannot be done to counter the Americans' subsidies to their synthetic textile industry. Mr. Ibbs will be able to comment from experience.

(iii) What other measures can be taken?

The Chancellor of the Exchequer might wish to comment on the suggestion that Customs and Excise should be strengthened to devote more effort to the enforcement of origin rules and so help check fraudulent trading. The obvious difficulty here is that it conflicts with the objective of staff reductions.

CONCLUSIONS

10. In the light of the Committee's discussion you will wish to record conclusions:

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- (i) Settling the question of whether the Government should make known now its objectives for renegotiation in 1982 of the present Multi Fibre Agreement.
- (ii) If possible, giving guidance on the acceptability of an extra effort, and extra staff, by Customs and Excise in enforcing existing agreements.

REA

ROBERT ARMSTRONG

21st May, 1980

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