



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
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Nick Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Nick

... I enclose briefing for the Prime Minister's meeting at 12 noon on Monday 9 June with the delegation from the Lancashire textiles industry led by Nicholas Winterton, Cyril Smith and Jack Straw. The Secretaries of State for Trade and Industry will also attend.

The brief incorporates the points raised by Mr Straw in his letter of 5 June.

The substance of the brief has been agreed with Department of Trade officials.

Yours sincerely
Catherine Bell

CATHERINE BELL
Private Secretary



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BRIEFING FOR THE PRIME MINISTER'S MEETING WITH NORTH-WEST
TEXTILE MPs, 9 JUNE 1980

The Prime Minister (accompanied by the Secretaries of Industry and Trade) has agreed to meet a delegation representing the Lancashire textiles industry. The delegation will comprise:

- Mr Cyril Smith, MP
- Mr Jack Straw, MP
- Mr Nicholas Winterton, MP
- Mr Bob Lloyd-Jones, Director-General of the
British Textile Employers Association
- Mr J E Longworth, British Textile Employers
Association
- Mr Jack Brown, Amalgamated Union of Textile Workers
- Mr Ian MacArthur, Director, British Textile
Confederation
- Mr Derek NIGHTINGALE, Chairman Walsden Printing Co (Finishing Industry)

A letter was received at short notice from Mr Straw listing a number of points which he intends to raise and advising that he plans to release extracts from the letter to the press. These points are:

- i) Imports of man-made fibre products from the USA.
- ii) Imports from Mediterranean Associate countries of the EEC.
- iii) Public purchasing.
- iv) British Retailers' Purchasing Policy.
- v) Aid to Industry.
- vi) The (social) consequences of the industry's collapse.

The State of the Industry

Like other parts of the textiles and clothing industry, cotton and allied textiles (the "Lancashire" industry) is facing very serious difficulties. Closures are mounting. Employment fell from 69,000 to 65,000 in 1979, and the process appears to be accelerating. Fears of a very serious collapse cannot be discounted.



Continuing pressure from imports from both high-cost and low-cost sources (where Lancashire textiles were the first to feel the impact) is a major factor. The strength of sterling is making imports more attractive and exporting more difficult. High inflation and interest rates are adding to the industry's problems.

Mr Straw's Points

(i) - Imports of Man-made Fibres from the USA

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

Smith says they have control over this.

We are watching the position carefully at present. The problems of those carpet manufacturers using US yarn will of course have been alleviated by the level of the quotas which, as Mr Straw acknowledges, will give them access to amounts greater than they imported last year. On the evidence provided by industry the UK 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.

(ii) - Imports from Mediterranean Associate Countries of the EEC

As Mr Straw says, controls on the EEC's Mediterranean Associates are less formal than the restraints on other low-cost suppliers under the MFA. But the preferential trading status which the Mediterranean countries enjoy as EEC Associates guarantees them unrestricted access to Community markets for their manufactures. Under the Voluntary Restraint Arrangements (VRA) which the Community has succeeded in



negotiating, the Mediterranean countries have agreed to forego this right in the case of textiles and restrain their exports. Although the levels have not always been scrupulously observed, these arrangements were the best that could be achieved, and it will not be possible to establish more effective controls in this area.

The preferential agreements with Mediterranean countries do provide for the imposition of quotas in exceptionally disruptive cases. This safeguard provision was invoked to block further imports of cotton yarn from Turkey (for which no VRA exists) in late 1979 for the remaining weeks of that year. We would not rule out similar action in the future if conditions warrant it. But the need for Community consent for safeguard action limits our powers to act independently. So far this year Turkish yarn imports are running at a lower rate than last and are consistent with respect for the limit which we envisage (about 3000 tonnes).

(iii) - Public Purchasing of Textiles

The UK is under a Community obligation to advertise certain public contracts for tender. But within these limits purchases of textiles and clothing by central Government are normally (some 90%) made from UK sources. Local authorities and health authorities - who also have to have regard to Community obligations - are responsible for their own purchasing decisions. We hope that they will use their relationship with UK suppliers to improve industrial performance to the advantage of both sides and that where ever 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 is about to set up a Supply Council to establish 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.



(iv) - British Retailers' Purchasing Policy

Retailers purchase what they can sell to the consumer, and it is primarily the responsibility of the manufacturer to produce the right goods.

However the need for closer relationships between retailer and manufacturer in the search for import substitution opportunities has been recognised. 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 importance to this work and the Department of Industry is represented on the Panel. There have been one or two instances of import substitution arising from the work of the Panel but this is essentially a long term exercise. The Secretary of State for Trade recently attended a dinner hosted by the Chairman of the Clothing EDC at which a number of major retailers were also present. The Chairman of the Clothing EDC undertook to submit to the Departments of Trade and Industry an outline scheme aimed at helping with design, marketing and promotion.

(v) - Aid to Industry

(a) - Special Fiscal Relief for Textile Firms

This would inevitably mean an increase in taxation elsewhere or in public borrowing. It would thus make the task of bringing public expenditure and inflation under control more difficult. It is in the longer term interests of the textiles industry, as for industry generally, that we should not be deflected on this front.

(b) - Temporary Employment Subsidy

While the EEC Commission has authority to approve schemes of aid designed to remedy a serious disturbance in the economy of a Member State, they took serious objection to the TES, 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, which the Short Term Working Compensation Scheme does not do. There is no prospect that their 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.

(vi) - Social consequences of the industry's collapse

It is true that a large part of the workforce in the Lancashire industry is composed of Asians.

Other Points Which May Arise

(vii) - Agreements with MFA Countries

Bilateral agreements negotiated under the MFA have established effective quotas on imports of many categories of product.

These cannot be cut-back (as the Prime Minister's letter of 3 June (attached as Annex) to the British Textile Employer's Association - representing the Lancashire industry - made clear). The agreements prohibit it and to renege on them would breach our international obligations.

But the Government is fully committed to seeking the rigorous implementation of existing restraint measures, although it does not have discretion to act independently of the Commission and its European partners.

(viii) - Renewal of the MFA

There will be a successor arrangement to present MFA, but negotiations with 3rd world will be very tough.



(ix) - Respect for Quotas by MFA Countries

By and large quotas work well. Discrepancies between import figures and quotas stem mainly from imports for re-export (excluded from the quotas) and permitted flexibility in quota usage.

(x) - Commission reluctance to negotiate new "Basket Extractor" quotas
Commission has unenviable task of balancing views of different Member States, and negotiating with 3rd countries who believe the restrictions to be unfair. But we must and will keep up the pressure.

(xi) - Global Ceilings

These apply for certain sensitive products (ie target levels for imports from all low-cost sources). There have been breaches because of additional access to the UK market conceded through new agreements and quotas. But breaches have been relatively small and in some cases imports have kept below the ceilings.

(xii) - Imports from Developed Countries

These have grown but so have exports to them. This trade is vulnerable to retaliation if we sought to take action against imports from these countries.

(xiii) - Government Commitment to Fair Trade

(a) But low-cost trade not necessarily unfair.

(b) EEC anti-dumping action on US acrylic yarn, and quotas on US polyester and nylon carpet yarn. But often difficult to make a case stick. Insufficient evidence under international rules to seek action on eg US carpets, fabrics and household textiles. We are keeping in close touch with industry on this.

(c) Fraudulent declaration or origin to evade quotas a recognised problem. HM Customs committed to controlling it and the Commission have made proposals for dealing with it and encouraging Member States to co-operate with each other.

(d) Government also seeking to persuade other countries to lower barriers against our own exports but this will not be easy.



(xiv) - Origin Marking

Consultation on origin marking now underway. Could run into trouble from the Commission (and European Court) but we hope they will accept it as a consumer protection measure.

(xv) - Free Circulation

New Article 115 regime for monitoring imports of 3rd country goods via other Member States does create uncertainty. Power of decision rests with the Commission but the Trade Minister has emphasised to the Commission the need for comprehensive monitoring under the new regime. The amount of free circulation is small in global terms but acute problems do arise on specific products.

(xvi) - Outward Processing

Some sectors of UK industry are beginning to see value in OP arrangements but the UK continues to count OP goods against normal quotas, and there are no plans to change this.

(xvii) - Enlargement of the Community

For Greece, a safeguard clause will be available throughout the 5 year transitional period although the Commission has discretion over its use. For Portugal and Spain (not joining before 1983) we expect to negotiate specific transitional arrangements for textiles.

(xviii) - Loss of Assisted Area Status in Lancashire Textile Areas

Need to concentrate regional assistance on areas of the greatest need. We accept that changes might occur in the circumstances of some areas compared with others. Prepared to look again at the status of affected areas if there is clear evidence of major changes in local circumstances relative to other parts of the country.



(xix) - Interest Rates

To reduce interest rates prematurely risks undermining the policy to reduce inflation. Companies and employees can safeguard liquidity by sensible wage negotiations /Note Labour relations in Lancashire textile are traditionally good. Recent wage settlements appear to have been moderate⁷. Cuts in public expenditure and the recent successful negotiation in the Community will bring forward the prospects for lower interest rates.

(xx) - Sterling

Exchange rates are determined by the market. Intervention would be inflationary. In any case this is not the way to improve long-term competitiveness, which rests rather on productivity and the ability to meet market requirements. Nevertheless the Government recognises the problems for industry of meeting the rapidity of the rise in sterling and is keeping the position of the company sector under close surveillance.