

FLASH

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TO FLASH NEW DELHI

TELEGRAM NUMBER CREDU U/N OF 16 APRIL.

Private Secretary

FOLLOWING FURTHER TELECON WITH MATHRANI, FROM SECRETARY OF STATE FOR TRADE TO HIGH COMMISSIONER, DELHI.

DELHI.

FOLKLORIC TEXTILES.

AS FURTHER BACKGROUND TO MY PREVIOUS TELEGRAM I THOUGHT IT MIGHT BE USEFUL TO GIVE A SHORT SUMMARY OF THE MAIN TEXTILE ISSUES INVOLVED.

THE INDIANS ARE NOT DEALING HONESTLY IN THIS MATTER. THERE ARE PRECISE DESCRIPTIONS OF EACH TRADITIONAL FOLKLORIC GARMENT IN THE EC/INDIA TEXTILE AGREEMENT. WE AND THE COMMUNITY'S CUSTOMS AUTHORITIES ARE CLEAR IN OUR MINDS THAT THE ITEMS IN DISPUTE DO NOT TALLY WITH THESE DESCRIPTIONS, BUT ARE IN FACT FASHION CLOTHES. (MANY - INCLUDING SOME OF THOSE WE NEVERTHELESS ACCEPTED AS FOLKLORIC - HAVE UNION JACKS AND BRAND NAMES SUCH AS QUOTE FASHION HOUSE UNQUOTE WOVEN INTO THEIR LABELS). THE INDIANS, WHO INITIALLY AGREED THAT MANY OF THE ITEMS DETAINED WERE NOT FOLKLORIC, HAVE ONCE MORE RETRACTED.

THIS SHOULD BE SEEN IN THE CONTEXT OF INDIAN DISSATISFACTION AT BEING UNABLE TO SHIP MORE CLOTHES THAN THEIR NON-FOLKLORIC QUOTAS (AS AGREED BETWEEN THE EC AND INDIA) ALLOW. THE USE OF FOLKLORIC AND HANDLOOM ALLOWANCES OUTSIDE THE NORMAL QUOTA SYSTEM HAS BEEN QUITE SPECTACULAR. FOR INSTANCE IN THE CASE OF WOMEN'S JACKETS, THE QUOTA FOR NON-FOLKLORIC ITEMS WAS 142,000 IN 1980. TOTAL SENDINGS INCLUDING HANDLOOM AND FOLKLORIC JACKETS FOR THE SAME YEAR TOTALLED 714,000.

WE HAVE SHOWN A GREAT DEAL OF FLEXIBILITY ALREADY. ALL THOSE GARMENTS STILL BEING HELD COULD HAVE BEEN CONFISCATED. NEVERTHELESS CUSTOMS HAVE OFFERED ALMOST ALL TO THE IMPORTERS IN QUESTION FOR RELEASE. THIS SHOULD MEAN THAT THE BULK OF THOSE HELD WILL BE CLEARED FROM CUSTOMS IN DUE COURSE.

ANY ATTEMPT TO INTERVENE WITH EXCEPTIONAL MEASURES COULD CAUSE POSSIBLE LITIGATION FROM THOSE IMPORTERS WHO WILL HAVE ALREADY PAID TO HAVE THEIR GOODS CLEARED EITHER FOR SALE IN THE UK OR OUTSIDE THE COMMUNITY (AT A POTENTIAL LOSS). IT WOULD FURTHERMORE UNDERMINE THE CREDIBILITY OF OUR TEXTILE POLICY BOTH WITH DOMESTIC INDUSTRY AND INTERNATIONALLY (NOT LEAST WITH THE LOW-COST EXPORTING COUNTRIES).

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FOLLOWING TELECON WITH MATHRANI, FROM SECRETARY OF STATE FOR TRADE TO HIGH COMMISSIONER, DELHI

FOLKLORIC TEXTILES

THE FACTS ARE AS FOLLOWS: CUSTOMS ORIGINALLY SEIZED SOME 21,600 GARMENTS IN 27 CONSIGNMENTS. NINETEEN IMPORTERS WERE INVOLVED.

CUSTOMS SUBSEQUENTLY AGREED THAT TWO CONSIGNMENTS COMPRISING SOME 500 ITEMS COULD BE ACCEPTED AS FALLING WITHIN FOLKLORIC DEFINITION. THESE WERE RELEASED IN JANUARY/FEBRUARY. TWO IMPORTERS WERE INVOLVED.

CUSTOMS CONSIDER THERE IS CLEAR EVIDENCE OF INTENTIONAL FRAUD IN THE CASE OF THREE IMPORTERS, AND ARE CURRENTLY CONSIDERING TAKING ACTION AGAINST THEM. APPROXIMATELY 3,300 GARMENTS ARE INVOLVED.

IMPORTERS OF MOST OF THE REMAINING 18,000 GARMENTS HAVE BEEN TOLD THAT GOODS WILL BE RELEASED EITHER FOR RE-EXPORT UNDER CUSTOMS CONTROL FOR SALE OUTSIDE THE COMMUNITY, OR ALTERNATIVELY FOR SALE IN THE UK IF THEY CAN PRESENT VALID IMPORT LICENCES. THESE WILL BE ISSUED BY THE DEPARTMENT OF TRADE WITHIN 5 DAYS OF APPLICATION AGAINST AN OFFICIAL INDIAN GOVERNMENT EXPORT LICENCE. IN THESE CASES, THE GOODS WILL OF COURSE COUNT AGAINST THE RELEVANT NON-FOLKLORIC QUOTA.

ONE IMPORTER HAS ALREADY TAKEN ADVANTAGE OF THIS OFFER (500 GARMENTS) AND A NUMBER OF OTHER IMPORTERS HAVE TOLD CUSTOMS THAT THEY ARE MAKING ARRANGEMENTS TO DO SO.

YOU SHOULD KNOW THAT TWO OTHER COMMUNITY COUNTRIES (FRANCE AND IRELAND) HAVE SIMILAR MIS-DESCRIPTION PROBLEMS WITH THE INDIANS.

WE MAY BE TOLD THAT IT WOULD BE POSSIBLE FOR US TO INCREASE THE NON-FOLKLORIC MFA QUOTA TO ACCOMMODATE THESE SHIPMENTS. THIS WOULD REQUIRE EC AGREEMENT OF WHICH WE WOULD NOT BE CERTAIN, AND WHICH WOULD TAKE AT LEAST A MONTH TO PROCESS THROUGH BRUSSELS. TO DO SO WOULD RUN ENTIRELY COUNTER TO OUR PREVIOUS POSITION IN THIS PARTICULAR ISSUE, AND PUBLICLY UNDERMINE BOTH DOMESTIC CONFIDENCE AND INTERNATIONAL CREDIBILITY IN OUR STATED POLICY TO TAKE A THOUGH STANCE ON THE IMMINENT RE-NEGOTIATION OF THE MULTIFIBRE ARRANGEMENT (MFA 3). IT IS THEREFORE AN UNACCEPTABLE COURSE.

LINE TO TAKE

THE PROBLEM IS BASICALLY A TECHNICAL AND LEGAL ONE. THREE UK IMPORTERS ARE SUSPECTED OF DELIBERATE FRAUD, AND CUSTOMS AUTHORITIES ARE CONSIDERING LEGAL PROCEEDINGS. IT WOULD CLEARLY BE WRONG FOR THE GOVERNMENT TO INTERVENE IN THESE THREE CASES.

IN THE OTHERS WE HAVE TRIED TO BE HELPFUL. THE GOODS SEIZED ARE LIABLE TO CONFISCATION AND COULD BE DESTROYED BUT CUSTOMS HAVE IN FACT TOLD THE IMPORTERS CONCERNED THAT THE GOODS WILL BE RELEASED EITHER FOR RE-EXPORT FOR SALE OUTSIDE THE COMMUNITY OR FOR SALE ON THE UK MARKET IF A VALID IMPORT LICENCE IS OBTAINED. I UNDERSTAND THAT ONE IMPORTER HAS ALREADY OBTAINED THE NECESSARY LICENCES, AND HIS GOODS HAVE BEEN RELEASED, AND THAT A NUMBER OF OTHERS HAVE TOLD US THAT THEY WILL DO THE SAME. THIS SEEMS TO BE THE BEST WAY OF GETTING ROUND THIS DIFFICULT PROBLEM.

FOR THE FUTURE WE ARE HAPPY TO GO ALONG WITH THE PROPOSAL PUT TO US BY YOUR HIGH COMMISSIONER IN LONDON THAT THERE SHOULD BE TALKS BETWEEN YOUR OFFICIALS AND OUR CUSTOMS PEOPLE TO CLARIFY ANY REMAINING POINTS OF OBSCURITY IN THE CUSTOMS CLASSIFICATIONS RELATING TO TEXTILES.

FURTHER BACKGROUND IS AVAILABLE IN TELNO CRED A 152.

OPIMUM

AUSTRALIAN MATERIAL IS SIGNIFICANTLY CHEAPER. IT IS PRODUCED FROM STRAW OF THE WHOLE POPPY. THIS

- (I) ELIMINATES MILKING THE JUICE OF INDIVIDUAL PLANTS WHICH IS BOTH LABOUR-INTENSIVE AND A POTENTIAL SOURCE OF ILLICIT SUPPLY
- (II) GIVE A MUCH HIGHER YIELD IN OPIATES THAN MANUFACTURE FROM RAW OPIUM.

WHAT THE INDIANS ARE EFFECTIVELY ASKING US TO DO IS USE IMPORT LICENSING POWERS (CONTAINED IN THE MISUSE OF DRUGS ACT) DESIGNED TO PREVENT DRUG ABUSE TO STOP OUR MANUFACTURERS EXERCISING WHAT IS A COMMERCIAL JUDGMENT IN FAVOUR OF THE AUSTRALIAN PRODUCT.

SHIPPING

THE INDIAN COMPLAINTS ABOUT THE SHIPPING SERVICE ARE OF LONG STANDING. BRITISH SHIPPING LINES ASSERT THAT PRESSURE ON THEM BY THE INDIAN GOVERNMENT TO KEEP FREIGHT RATES ON THE ROUTE DOWN MEANS THEIR RETURNS ARE TOO LOW TO JUSTIFY INVESTMENT IN NEW SHIPS (INCLUDING CONTAINER SHIPS). MR BIFFEN'S RESPONSE WHEN THE MATTER WAS RAISED AT IBEC IN JANUARY WAS THAT THIS IS A PURELY COMMERCIAL MATTER BETWEEN SHIPPING LINES AND THEIR INDIAN CUSTOMERS. HE ADDED, HOWEVER, THAT THIS WAS A SUBJECT WHICH COULD BE CONSIDERED BY THE JOINT MONITORING COMMITTEE OF CONFERENCE LINES AND INDIAN AND BRITISH SHIPPERS WHICH WAS DUE TO MEET TO LOOK INTO COMMON PROBLEMS. WE UNDERSTAND THIS MEETING WILL TAKE PLACE SHORTLY. THE PRIME MINISTER IS RECOMMENDED TO TAKE THE SAME LINE.

WE HAVE CONSISTENTLY TAKEN THE LINE WITH THE INDIANS THAT NEW INVESTMENT CAN ONLY BE JUSTIFIED BY THE PROSPECT OF AN ADEQUATE RETURN, WHICH DEPENDS ON FREIGHT RATES.

WE HAVE ALSO POINTED TO THE STRONG COMPETITION IN THIS TRADE BETWEEN CONFERENCE AND NON-CONFERENCE LINES AS GUARANTEEING AN ADEQUATE SERVICE IF THE INDIANS ARE PREPARED TO CREATE THE CONDITIONS IN WHICH SUCH A SERVICE CAN BE PROVIDED PROFITABLY.

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