



10 DOWNING STREET

Prime Minister

You will wish to see this tonight  
as the Customs propose to take  
action tomorrow.

Michael Franklin says me to say  
that he had personally looked into  
the problem and concluded that the  
Customs would have to go ahead

It is unfortunate, 5 weeks before  
Mr. Franklin's visit. We shall have  
to hope that any new blows over  
before then.

Note the contents of this letter?

Yes Mr. A.S.C. -  $\frac{15}{2}$



file

BK

India

10 DOWNING STREET

*From the Private Secretary*

16 February 1982

Indian Textiles

Thank you for your letter of 15 February. The Prime Minister has taken note of the situation you describe.

I am copying this letter to the Private Secretaries to the Lord Privy Seal, Mr. Kenneth Baker (Department of Industry) and the Economic Secretary (HM Treasury).

A. J. COLES

Jonathan Rees, Esq.,  
Department of Trade

JK



*From the Secretary of State*

John Coles Esq  
Private Secretary  
10 Downing Street  
London, SW1

15th February 1982

Dear John

#### INDIAN TEXTILES

You may be aware that problems arose last year during the Prime Minister's visit to Delhi in connection with the seizure by Customs of a number of consignments of Indian garments fraudulently declared as being "folkloric" and thus entitled to quota-free entry.

This problem was eventually dealt with. However Customs now have what they consider to be incontrovertible proof of a further attempt by the Indians to evade quota restrictions on a deliberate and systematic basis. On this occasion the charge is that the Indian government is certifying large quantities of garments as being "handloom" items, ie products made entirely by hand from the cloth through to final finishing, when they are in fact mill produced garments. Unlike mill-made garments, "handloom" products (like "folklorics") enjoy free entry.

The most serious abuse appears to be in the category of womens' woven suits. The Indian quota for this category has grown from 123,000 garments in 1979 to 128,000 garments in 1981. The quota is fully used and over the same period imports of ostensibly "handloom" woven suits have increased from 247,000 to 792,000. In a recent sample of eight consignments arriving at Heathrow, Customs found every one to be of mill-made garments fraudulently certified as being "handloom".

Customs believe they now have the technical capability to distinguish quickly between the two sorts of garment and will start an exercise at Heathrow tomorrow to examine all consignments of handloom womens' woven suits arriving from India. It seems probable that this will result in the seizure of virtually every consignment and we expect a quick and probably hostile reaction from the Indian authorities.

My Secretary of State is conscious of the fact that Mrs Gandhi is visiting London next month and it is regrettable that textiles should again threaten to be a bone of contention between our two countries. Nevertheless, if it proves (as Customs confidently expect) that the



*From the Secretary of State*

Indian authorities are systematically giving false certifications in order to circumvent the quota restrictions agreed under their bilateral MFA agreement with the Community, action must clearly be taken to prevent its continuance. Otherwise the Government would be put in an impossible situation vis-a-vis the textile lobby (who are already fiercely critical of the new MFA protocol negotiated in Geneva last December). Furthermore, the aim of preventing textile fraud which led to the appointment of an additional twelve specialist officers in the Investigation Division of Customs in 1980 would be negated.

We shall have to resist the inevitable complaints from the Indians. The most we could do would be to offer that Customs should meet the Indians to explain the circumstances, although in practice there will be little to discuss if the goods seized have been fraudulently declared. So far as the importers themselves are concerned, if they claim the seizure is not correct, Customs are legally required to institute proceedings so that the matter may be decided in Court.

I am copying this letter to the Private Secretaries to the Lord Privy Seal, Mr Baker (DoI) and to the Economic Secretary (Treasury).

Yours Sincerely,  
*Jonathan Rees*

J N REES  
Private Secretary



UNITED STATES POSTAL SERVICE

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15 FEB 1982

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R H

*India*

8 May, 1981

Indian Trade Problems

The Prime Minister has seen and taken note of the Secretary of State for Trade's minute to her of 6 May on this subject.

I am sending a copy of this letter to Roderic Lyne (FCO).

M. O'D. B. ALEXANDER

J Rhodes, Esq  
Department of Trade

*R*

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Foreign and Commonwealth Office

London SW1A 2AH

7 May 1981

*For [unclear]*

*Dear Michael,*

UK/India Trade Problems

Your letter of 28 April to John Rhodes asked for a report on this question to be prepared in conjunction with the FCO and to reach you on 6 May.

FCO Ministers have just seen the final version of the report annexed to the letter of 6 May from the Secretary of State for Trade to the Prime Minister. The 'diary' attached to the report refers in somewhat abbreviated form to action taken by the FCO. Since the degree of abbreviation may give rise to a somewhat misleading impression you may like to have a rather fuller account of this aspect.

I therefore enclose a note which reproduces verbatim part of a letter sent to the Department of Trade on 1 May.

*Flag A  
below  
SI Trade to  
PM 6/5/81*

On a point of detail in John Rhodes' letter of 6 May to Tim Lankester, the High Commission's copy of Mr Biffen's letter to Mr Mukherjee of 27 February had not, in fact, been mislaid, even temporarily.

I am sending a copy of this letter to John Rhodes.

*yours etc  
Roderic Lyne*

(R M J Lyne)  
Private Secretary

M O'D B Alexander Esq  
10 Downing St

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1-7 MAY 1981





*From the Secretary of State*

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Ruh*

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Tim Lankester Esq  
Private Secretary  
10 Downing Street  
London, SW1

6 May 1981

*Dear Tim,*

PRIME MINISTER'S VISIT TO INDIA

An epilogue to the report commissioned in Michael Alexander's letter of 28 April, and now with you.

The Prime Minister clearly felt that she had been inadequately briefed on the Indians' trade grievances. Naturally we regret this, but I feel entitled to remind you that the brief was prepared in accordance with Cabinet Office instructions as to length. Fuller briefing could readily have been provided if it had been commissioned. When my Permanent Secretary learned that the Prime Minister was to have a separate meeting with Mr Mukherjee he offered Number 10 a supplementary brief. The offer was not taken up. Sir Kenneth accepts that this is a matter for you to decide and has no complaint about it.

I understand that the Prime Minister also expected the High Commission to be able to produce copies of my Secretary of State's letter of 27 February to Mr Mukherjee and of Customs' letters offering terms of release to the folkloric garment importers. The first may have been temporarily mislaid; nevertheless the letter had been delivered through our High Commission. The latter are letters of the kind which enforcement agencies issue routinely all the time and would never normally be copied to diplomatic missions.

Mr Mukherjee mentioned tobacco in the wider context of concern over India's increasingly adverse trade balance. My Secretary of State, in response to similar expressions of concern from Mr Mukherjee in January, made him the offer which was renewed in the penultimate paragraph of his letter of 27 February to Mr Mukherjee and again by our High Commissioner himself at a meeting with Mr Mukherjee on 16 March. Mr Mukherjee's letter of 18 April is the first response. We are in touch with the Indian High Commission about this.

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*From the Secretary of State*

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Although Mr Mukherjee told the Prime Minister he had discussed quota transferability with my Secretary of State in January there is no record of any such conversation in the agreed minutes or Stuart Hampson's very full notes. The "Community" quotas which Mr Mukherjee wants would amount in principle to giving the low-cost exporting countries freedom to sell into one Member State the total quantity of (say) shirts the Community as a whole had agreed to accept, and deny the individual Member States any foreknowledge of the level of low-cost imports. This would be totally incompatible with the position on renewal of the Multi-Fibre Arrangement which Ministers agreed on 6 April. There are already provisions for redeploying unused quota facilities between Member States by agreement.

I am copying this to Roderic Lyne.

*Yours sincerely,*

A handwritten signature in dark ink, appearing to be 'John Rhodes', written in a cursive style.

JOHN RHODES  
Private Secretary

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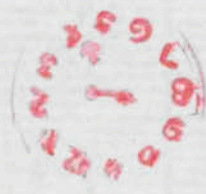
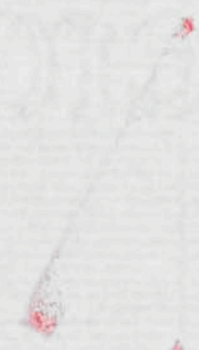


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Prime Minister

(2)

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PRIME MINISTER

INDIAN TRADE PROBLEMS

This is the response to my request for a full meeting on the preparations for your visit to India. There are one or two points I might mention to you orally when you have read this. But I doubt whether it is now possible to carry the matter any further.


Amul

Your Private Secretary's letter of 28 April asked for a report "on what was done and whether more could have been done" before your visit to India about the matters raised with you by Mr Pranab Mukherjee, the Indian Minister of Commerce and Steel at your meeting with him on 16 April.

2 Notes on each of these are attached, together with a 'diary' of the steps taken before the visit. On folklorics, I might stress that in view of the involvement of the Commission and the other Member States who have similar problems, the offers made by Customs and in part taken up by importers, and not least the elements of fraud, there was no scope for the "Nelson Touch". To accept the garments as folkloric despite their non-conformity with the definitions in the agreement would be exceeding national competence, and severely risk putting ourselves in an untenable position both domestically with the industry and internationally with the other Member States and the Commission. Proceedings in this way would also have conflicted with the decision taken by Ministers in 'E' Committee on 22 May 1980, which resulted in the appointment of twelve additional specialist officers to Customs Investigation Division specifically to deal with cases of textile import fraud.

3 You will note that there was in some cases a lapse of some months before Customs seizure of "folkloric" imports and offers to importers. Notwithstanding the additional staff allocated to textiles import fraud work, because of other commitments the investigators concerned could not be exclusively assigned to the folkloric cases which were relatively minor in comparison with the many other commercial fraud cases which Customs had in hand. They were not raised as a political issue until my own visit to India in January which was some time after most consignments had been seized.

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4 I am responsible for the general conduct of our trade relations with India and for shipping policy. Peter Walker is responsible for decisions governed by the Fertilisers and Feedings Stuffs Regulations (aflatoxin); Willie Whitelaw for those governed by the Misuse of Drugs Act 1971 (opium); and the Commissioners of Customs and Excise for the operation of the Customs and Excise Management Act 1979 (folkloric garments). Their departments have provided or cleared these accounts of their respective actions.

5 Perhaps I could make some general comments:-

- (i) the Indians complain about these subjects (and others they did not raise with you) not because we fail to give them answers but because they either ignore the answers, or hope to obtain more favourable ones by trying again or at a higher level;
- (ii) by the same token, the issues covered in this note had by your departure been pursued as far as they could have been short of overlooking facts and reversing agreed policies. That a country complains about the effect of a particular policy is not, to my mind, sufficient reason to set it aside;
- (iii) what may look like dilatoriness is in considerable measure the consequence of trying to be helpful. We have perhaps offered more than we should have done in the way of re-examination, further discussion etc. For example on the folklorics issue Customs could simply have confiscated the goods (which they would have been fully entitled to do).

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(iv) my Permanent Secretary visited Delhi between 24 and 27 March to discuss final preparations for the commercial side of the visit with Ministers and senior Indian officials.

Sir Kenneth Clucas explained to the most senior available official in the Department of Commerce where we stood on the various Indian "grievances", who expressed himself as satisfied with the action being taken. Mr Mukherjee himself next day made no mention of these points. Mr Mukherjee's subsequent letter of 18 April (of which I am attaching a copy together with my letter to him of 27 February) similarly suggests that most (if not all) the heat has gone out of them.

6 As to future action, my view is that the tone of Mr Mukherjee's letter of 18 April demonstrates that there is no need for high level demarches. On folklorics, the issue that appears to have generated the most heat on the Indian side, Mr Mukherjee's reply to me, drafted after your meeting, indicates that remaining problems should be resolved at working level. I would propose to deal with this and the other outstanding matters in my response to the letter.

7 A postscript. The note you were sent on 24 April said that Sally Oppenheim would be making a statement about inflammable dresses. We agreed to do this at the request of the Indian High Commission, though we warned the Indians that any further statement on this subject would be likely to provoke another round of scare stories in the media. At the last minute the Indians recognised the wisdom of this, and their High Commission requested us not to publish a further statement after all. We have complied with their wishes.

WJB

Department of Trade  
1 Victoria Street  
London, SW1H 0ET

6, May 1981

J.B.

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FOLKLORICS

1 The EC/India bilateral textile agreement allows for the exemption from normal quota arrangements of "traditional folklore handicraft textile products of India as defined in a list of such products agreed between the two parties" as well as products made entirely by hand in a cottage industry. In seizing the consignments in question Customs officers had regard to the definitions in the annex to the textile agreement. Whilst it is the legal responsibility of the importer to ensure that his declaration of the description of the goods is correct and it is open to him to consult Customs experts if in doubt Customs have not pursued technical offences by importers except where there was also a clear indication of attempted evasion of quotas.

2 Following the seizures of garments claimed to be folkloric, investigations of the importers were mounted by Customs. Because of other commitments, the investigators concerned could not be exclusively assigned to the folkloric cases. Nevertheless these investigations were pushed forward as quickly as possible. The Commissioners made appropriate offers in each case as soon as practicable on receipt of the completed report.

3 On 23 January Customs advised the Indians of the terms on which the garments held not to be folkloric could be released to



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the importers. Annex A lists the date on which the individual traders were offered release either for admission under quota or for re-export outside the EC. In all but four cases (of which three were candidates for fraud prosecutions) offers of release had been made two weeks before the Prime Minister's departure, and in most cases considerably earlier. Six thousand pieces have so far been released. This does not reflect any want of energy by Customs but rather the traders' rate of response to the offers made. The Government of India could have speeded up releases considerably by providing documentation (and Mr Kaul indicated to the Prime Minister that they were willing to do so) against which import licences could be issued enabling goods to be admitted to the UK under quota. But for the last three months the Government of India has preferred to fight a war of attrition in Brussels - effectively at the traders' expense - trying to get more goods ruled "folkloric" (including a number they initially accepted were not) rather than helping them in this way. Mr Kaul's attempt to blame the UK, rather than the Government of India, for the cash flow problems of Indian firms is, alas, only too typical.

5 Mr Mukherjee's very temperate letter of 18 April, and comments in a similar vein made to the Commission team which has recently been in India negotiating an extension of the textile agreement, indicate that the Indians want to dispose of this issue finally, and at working level. In the circumstances dramatic gestures would be inappropriate and the best way forward would be for the reply to Mr Mukherjee's letter to encourage him down this path.





## FOLKLORIC GARMENTS

300 garments consigned to BALASH JEWELLERY were accepted as folkloric and released in January. 490 garments consigned to SUNDERJI were put into a bonded warehouse on arrival; ie the trader himself postponed the need for any decision on their treatment. He has now stated that he will be presenting an import licence.

Confidential offers to compound criminal proceedings were made to the following importers:

*These 3 have been given the offer*

*of paying an administrative fine rather than going through the courts.*

*"Third Eye" have accepted, and have now been offered admission under quota or re-export. The other two have not yet replied.*

	<u>Date of Seizure</u>	<u>Date of Offer</u>	<u>Number of garments Involved</u>
<u>Third Eye</u>	<u>24 October 1980</u>	<u>1 April 1981</u> <i>IL.</i>	500
Rajan Fashions	<u>13 October 1980</u>	<u>2 April 1981</u>	1240
Gujral Brothers	<u>20 October 1980</u>	<u>24 April 1981</u>	1520

Offers of release (for admission under quota or re-export outside the EC) were made to the other traders:

	<u>Date of Seizure</u>	<u>Date of Offer</u>	<u>Number of garments Involved</u>
NatashaOverseas	<u>22 October 1980</u>	<u>15 December 1980</u>	2070
Maliks of London	22 October 1980	<u>14 January 1981</u>	500
Jaipur Fashions	17 October 1980	15 January 1981	1000
A H Burdett	12 December 1980	13 February 1981	1350
Groovy Dig	26 November 1980	13 February 1981	2085
Seasonworth	23/24 October 1980	13 February 1981	1055
Zarys Fashions	11 November 1980	13 February 1981	200
Chelsea Girl	11 November 1980	13 February and and 11 March 1981 1 April 1981	748
Joytex	24 October 1980	13 February 1981	400
G Singh The Warehouse	27 January 1981	19 February 1981	1372
Greygale	11 November 1980	<u>3 March 1981</u>	604

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	<u>Date of Seizure</u>	<u>Date of Offer</u>	<u>Number of garments Involved</u>
Durga Arts & Crafts	<u>1/2</u> October 1980	<u>20</u> March and <u>24</u> April 1981	579
Evelyne Abraham	16 October 1980	2 April 1981	600
Flaming Fashions	<u>15</u> October 1980	<u>24</u> April 1981	5915
* Third Eye	24 October 1980	24 April 1981	500

(\* on settlement of offer above)



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TOBACCO

1 The Indians' desire for a larger duty-free quota within the EC Generalised System of Preferences is fully in accord with the UK interest. We cannot guarantee satisfaction because we cannot impose our will on our EC partners; and Italy in particular has strenuously opposed the liberalisation of raw tobacco imports under the Generalised System of Preferences. But the Indians have long been assured of our support on this issue, and they are well aware of its limitations. Tobacco is not a matter of controversy between the two Governments, and the terms of the answer given to the Indians when they raised the subject during the Indo-British Economic Committee (IBEC) meeting in January made no further action necessary until the time arrived to start bidding for a larger duty-free GSP tobacco quota. The reply to Mr Mukherjee's letter (which does not mention tobacco) can confirm that we are making fresh representations to the Commission.



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SHIPPING

1 The answer given to the Indians at IBEC in January made it plain that we would not be intervening and regarded the matter as one for the UK lines and their customers to resolve.

2 The Indian lines within the conference have just introduced a container service. The UK line members together with two European lines are actively considering the introduction of one. The Indian Government are aware of this. The UK lines are considering as alternative options the introduction of a "dedicated" service and a transshipment service via Djibouti: they have not revealed the details to the Indian lines and have asked us not to disclose them to the Indian Government at this stage. The UK lines expect to reach a decision during May and to consult the Indian lines within two months.

3 In short, the matter is being considered through commercial channels, which accords with our longstanding policy and with what we told the Indians in January.



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OPIUM

1 The Indians' concerns about opium were first conveyed to the Department of Trade in a note from the High Commission in London received on 18 February. Preliminary consultations were held with the Home Office the following day. Officials of all the Departments concerned met on 5 March and the subject was pursued further in correspondence during the two weeks following. Action had already been taken to encourage the three UK importers to do what they could to support the Indians by expressing readiness to purchase raw opium on suitable terms and to bring the importers and the Indians into discussions. Pressure from the Indians for more drastic measures (to restrict new producers to their home markets) had just been resisted at the 29th session of the UN Commission on Narcotic Drugs and no Department was in favour of acceding to their request. But a formal rejection shortly before the visit seemed certain to provoke a strong reaction. The Indians had taken none of the many opportunities available during the run-up to the visit to press the matter, and a negative but still flexible brief looked the best one for the Prime Minister to carry. The interdepartmental co-ordinating group accordingly decided on 18 March that the opium problem was best not brought to a head before the visit.

2 Opium is not mentioned in Mr Mukherjee's letter of 18 April; but the reply would be a suitable vehicle for our response.



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## AFLATOXIN

1 A report of the working party on mycotoxins was published on 18 December. It recommended that the food industry should reduce the levels of these chemicals in their products and placed particular emphasis on the levels of aflatoxin in dairy products. Surveys of the relative levels of aflatoxin monitored in various feeding stuffs showed that they are negligible in products other than groundnuts and cottonseed. However, the levels of this known carcinogen recorded in groundnut and cottonseed were such as to cause serious concern for the health of children when metabolised by cattle into milk.

2 As a result a ban on imports of these commodities was announced by the Minister of Agriculture on 9 January to come into effect on 1 February. This matter was raised by the Indians at IBEC in January where their main complaint was that the ban discriminated against them by allowing the import and use in cattle feed of other products susceptible to aflatoxin to continue. In reply to this concern in his letter of 27 February to Mr Mukherjee Mr Biffen pointed out that the working party report obliged the Government to act. He promised to let the Indians have a copy. It was this document that Mr Kaul denied receiving when the Prime Minister met Mr Mukherjee. In fact



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Sir Kenneth Clucas was told in the Ministry of Commerce on 24 March that the report had been received; and when he mentioned that the intention was to replace the specific ban with definitive regulations as soon as our own consideration of the report had been completed the Indian representative expressed satisfaction that matters were proceeding in this way. Mr Mukherjee's letter of 18 April admits that the report has been received and is being studied by the Indian research institutions.

3 Meanwhile MAFF had begun efforts to find an alternative to the ban before it came into force on 1 February. Ministry of Agriculture officials began discussions with the UK trade, farming and enforcement interests immediately after Christmas. It became clear, however, the effect on trade and on contamination levels of the various options under discussion could not be properly evaluated without getting the feed trade to supply further up to date information. On 19 March Mr Biffen wrote to Mr Walker drawing attention to the approach of the Prime Minister's visit and the concomitant need "very soon to give the Indians at least some solid indication of progress". Mr Walker replied on 30 March explaining that the additional data were not yet available, that there would need to be further meetings in April, and that he was unlikely to be able to announce a solution by the time the Prime Minister went to India.



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Officials worked out a possible way of allowing trade to resume while protecting health by supervising the trade in the end use of these commodities, and on 15 April this was put to the interests concerned. They asked for more time to consult their membership on an issue of substantial commercial significance to them. They were pressed to reply as quickly as possible and a further meeting is being arranged urgently to finalise the details. The trade is being urged to meet officials again within ten days and a submission will be made to Ministers immediately thereafter.



The F.C.O. Input.

(a) On 10 February the FCO wrote to the DOT about preparations for the visit and enclosed a paper which listed, among matters to be resolved ahead of the visit, folkloric textiles, inflammable cottons and the aflatoxin issue.

(b) On 18 February the FCO convened the first of a series of weekly inter-departmental meetings to prepare the Prime Minister's visit. At this meeting the contents of a possible letter from the Secretary of State for Trade to the Indian Minister of Commerce about the trade complaints were discussed.

(c) Further weekly inter-departmental meetings were convened under FCO chairmanship until early April.

(d) The FCO wrote to the DOT and others on 2 March to draw attention to the need to let Delhi have 'by 16 March at the latest comprehensive instructions on the commercial package which we shall hope to obtain during the Prime Minister's visit and on the approaches Sir John Thomson should make to the Indians to prepare the ground'.

(e) On 2 March the FCO wrote to the DOT suggesting that we should consider further what could be done about the trade problems and proposing (i) a UK offer to provide aid to develop Indian marketing techniques; (ii) a Parliamentary answer to reassure the Indians about inflammable cottons; (iii) acceptance of an Indian proposal for talks about folkloric items; (iv) examination of Indian arguments about aflatoxin.

(f) On 13 March the FCO sent to Sir J Thomson inter-departmentally agreed and comprehensive instructions covering/

covering the whole visit. These authorised him inter alia to put to the Indians (i) the idea of a joint statement about the willingness of the two governments to consider the problems facing Indian exporters and to discuss the use of the aid programme for assistance in marketing techniques; (ii) our acceptance of their proposal for joint talks on the folkloric issue.

(g) The FCO wrote to the DOT on 13 March proposing that a senior DOT official should go to India before the Prime Minister's visit.



DIARY

16-23 January

Indo-British Economic Committee (IBEC) meeting in Delhi, attended by Mr Biffen. Indians complain about folkloric garments, shipping, tobacco, and the "aflatoxin" import ban. UK delegation

- i defends UK action on folkloric garments and aflatoxin but Mr Biffen undertakes to look into them on his return
- ii explains that HMG regards the provision of shipping services as a commercial matter for the lines and their customers to resolve without Government intervention
- iii sympathise with Indian discontent about the GSP tobacco quota and pointed out that its enlargement in the UK interest as well as India's.

23 January

Meeting in London about folklorics attended by representatives of UK Departments, the EC Commission and the Indian High Commission. Customs advise that the garments held not to be folkloric (and which are not involved in possible legal proceedings) can be released either for re-export outside the EC or for admission to the UK under quota on presentation of an import licence (issued against Indian export licences). (One consignment had by then been accepted as folkloric and offers of release had been made to three other importers).

2-11 February

29th session (in Vienna) of UN Commission on Narcotic Drugs.

10 February

Sir John Graham (Deputy Under Secretary, FCO) writes to Mr Caines (Deputy Secretary, Department of Trade) proposing arrangements for preparing for the Prime Minister's visit and including folkloric garments and aflatoxin amongst the issues to be resolved beforehand.

18 February

Note about opium received from Indian High Commission.

FCO convene the first of a series of weekly interdepartmental meetings to prepare for the Prime Minister's visit. Possible letter from Mr Biffen to Mr Mukherjee considered.



- 19 February First consultation about opium.  
Folklorics meeting held by Commission in Brussels; Indians present as well as Member States.
- 24 February Indian High Commissioner proposes discussions with Customs about folkloric garments to see if unnecessary delays could be avoided during meeting with Mr Blaker.
- 27 February Mr Biffen writes to Mr Mukherjee stating the position on folklorics and aflatoxin.
- 2 March FCO write to DoT putting forward suggestions (which were subsequently considered in the interdepartmental group) to "defuse" the Indian grievances.
- 5 March Interdepartmental meeting about opium.  
The Interdepartmental group agrees that Indian High Commissioner's proposal for discussions about folklorics should be accepted.
- 13 March Comprehensive and interdepartmentally agreed instructions sent to Sir John Thomson.  
Sir John Graham proposes visit of senior DoT. official to Delhi
- 18 March Indian High Commissioner calls on Mr Biffen. No grievances raised.  
The interdepartmental group decides that the opium problem is best not brought to a head before the visit.
- 19 March Mr Biffen writes to Mr Walker about aflatoxin.
- 20 March Customs make offer to Durga Arts and Crafts.
- 24-27 March Sir Kenneth Clucas visit Delhi. Conveys acceptance of High Commissioner's proposed folklorics discussions. No pressure from the Indians about these or their other complaints.
- 30 March *Mr Walker replies to Mr Biffen about aflatoxin - saying no solution possible before PM's visit.*
- 3 April Trade brief sent to Cabinet Office.
- 7-10 April Sir John Thomson home for consultations.



- 9 April Prime Minister requests further consideration of concessions on folklorics.
- 10 April Mr Biffen's Private Secretary replies advising against.
- 14 April Prime Minister tells Mr Biffen she accepts this advice.
- 16 April Prime Minister's meeting with Mr Mukherjee.



*From the Secretary of State*

His Excellency Shri Pranab Mukherjee  
Minister for Commerce, Steel  
and Mines  
Government of India  
New Delhi

27 February 1981

10  
*Your Excellency,*

Now that I am back in London I should like to thank you most sincerely for all your efforts to make my trip to Delhi so worthwhile. It was, as you know, my first overseas visit as Secretary of State for Trade and I am very grateful to you both for making it a memorable one for me personally and for ensuring that the Indo-British Economic Committee discussions were conducted in such a cordial and constructive manner. Although my visit was a short one it left me with a firm impression of India's enormous potential and a strong wish to see trade between our two countries continuing to expand.

11  
I promised, when I was in Delhi, to look into some particular trade problems which you raised with me. I fully share your view that our general trading relations can continually be threatened by irritations over individual issues, and it is vital that we can discuss such issues frankly in order to reach appropriate solutions. It is for this reason that I have attached importance since my return to London to following up the various points which we discussed.

First was the detention of consignments of Indian textiles by HM Customs on the grounds that they did not qualify for quota-free



*From the Secretary of State*

admission as folkloric. 27 Government of India export authorisations are involved. The goods covered by one of these were released shortly after I sent an urgent message back from Delhi when you emphasised to me the gravity<sup>a</sup> with which the Government of India viewed the matter. In the case of two more the Indian side have agreed that the goods are not folkloric. We accept that some of the goods covered by another four export authorisations are folkloric, but have not as yet been able to release them for other reasons - for instance, prominent Union Jack labels, which is objectionable under our Trade Descriptions Act. The rest are not considered folkloric either by HM Customs or the EC Commission. They differ significantly from the descriptions given in the agreement. Consequently they cannot be admitted outside quota. HM Customs are, however, prepared to make the goods available to the importers subject to appropriate safeguards.

In the case of ground nut and cottonseed a published report by experts - I am having a copy sent to Delhi - particularly recommended the Government to reduce the contamination of milk by aflatoxin, and identified the two products in question as the main source of this contamination. The implications of this finding for child health were serious, and obliged us to act upon it urgently although we were aware that in doing so we would, scientifically speaking, be leaving a number of loopholes. These were not intended to discriminate against India, which is far from being the only exporter affected, or in favour of any other country: as I stressed in Delhi, the present prohibition is an interim measure. I am sure you can appreciate that it would be the height of folly, in an area as politically sensitive as child health, for us to give commercial considerations deliberate



*From the Secretary of State*

priority over safety. Work on more refined definitive controls, which I hope will answer your criticisms, is progressing as rapidly as possible, and I have asked our High Commissioner to keep you informed.

You will recall that, in response to the concern you expressed during IBEC about the trade balance, I suggested that your Government should send a manufacturers' mission to Britain to investigate the scope for collaboration with British companies. I also suggested that, subsequently, our two Governments should consider the problems facing Indian exporters and indicated that my Government was prepared to consider assistance through our technical co-operation programme for the development of marketing techniques. I look forward to hearing your views on these ideas.

I have also had the pleasure, since I returned, of meeting Mr Sethi and Dr Chanana again. I hope they found their visits as useful and enjoyable as I found mine.

With all good wishes

*Yours sincerely*

*John Biffen*

JOHN BIFFEN





RECEIVED IN

30 APR 1981

SECRETARY OF STATE FOR  
TRADE'S OFFICE

वाणिज्य मंत्री  
भारत  
MINISTER OF COMMERCE  
INDIA  
NEW DELHI.

APRIL 18, 1981.

Your Excellency,

Thank you very much for your letter dated 27th February, 1981. I am happy to note that you found your visit to India in January in connection with the Indo-British Economic Committee meetings a very useful one. Indeed I am grateful for the personal interest you have taken in trying to find solutions to some of the problems affecting Indo-British trade. With your continued personal interest, I am sure, satisfactory solutions could be found to these issues.

2. As for the folkloric textile items held up by H.M. Customs, I understand that the quantities released so far are rather small. After careful inspection of the consignments our experts are of the view that most of these items still held up are indeed "folkloric" as per the description of "India items" laid down in the agreement. They feel that the interpretation given by H.M. Customs is somewhat narrow and unduly technical. I believe another meeting of the experts is being held at Brussels shortly to discuss this problem. I hope experts from both the countries along with those of the E.C. Commission will be able to resolve this issue satisfactorily.

3. With regard to the ban on groundnut and cottonseed extractions, we have received the report published by the British experts. We are examining this matter in consultation with our own research institutions and shall revert to the subject later.

4. I have given some thought to your suggestion for sending a high powered manufacturers' mission to Britain to investigate the scope for exports and for collaboration with British Companies. Though such missions are generally helpful in establishing contacts, you will appreciate that Government of India is already sponsoring a number of specialised missions to various countries including U.K. for market surveys and for promotion of exports. In addition, a number of premier organisations

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भारत

MINISTER OF COMMERCE

INDIA

NEW DELHI.

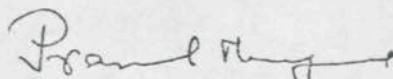
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like Federation of Indian Chamber of Commerce and Industries, Associated Chambers of Commerce of India and Association of Indian Engineering Industries send out their members in delegations to various countries for exploring the markets. If we have to send a high-powered trade mission to Britain as suggested by you to improve the volume of trade and correct the imbalances therein, it will need a lot of groundwork in Britain to identify specific sectors wherein exports from India should be promoted and also identify possible lines of production where tie-up arrangements could be explored. Some backing from the Government of U.K. may also be required to introduce the mission to the various Chambers of Commerce and other leading trade organisations, if the mission is to achieve the purpose we have in mind. I would be grateful if you could examine this point and let us know as to how best the preparatory work could be done before a mission is actually sent from India. I am asking our officials from the High Commission to discuss this matter in detail with your Department of Trade.

5. With regard to the British assistance for the development of marketing techniques, a request is being made for additional assistance under the Aid programme. I hope this request would be considered favourably.

Thanking you once again,

Yours sincerely,

  
( PRANAB MUKHERJEE )

H.E. Rt. Hon'ble Mr. John Biffen,  
Secretary of State for Trade,  
Government of the United Kingdom,  
LONDON SW1H 0ET.



10 DOWNING STREET

Wedne  
From the Private Secretary

1 May 1981

Received

Paul

PRIME MINISTER'S VISIT TO INDIA: FOLLOW UP

As you know, the Prime Minister had a meeting this morning with your Secretary of State and with the Minister of State at the Foreign Office to review the commercial aspects of her visit to India. Much of the discussion was, in the event, taken up with the problem referred to in the second paragraph of my letter to you of 28 April. Sir K. Clucas and Sir J. Graham participated in this morning's meeting and will, I think, have a clear idea of the ground which needs to be covered in the report asked for in my letter. I would merely like to stress now that the report should be available, without fail, by Wednesday 6 May.

I am sending a copy of this letter to Roderic Lyne (Foreign and Commonwealth Office).

M. O'D. B. ALEXANDER

John Rhodes, Esq.,  
Department of Trade.

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10 DOWNING STREET

*From the Private Secretary*

28 April 1981

Prime Minister's Visit to India: Follow up

The Prime Minister has seen your letter of 24 April to Tim Lankester. She is grateful for the information in it. She would however, as I mentioned to Catherine Capon, like to have a short meeting with your Secretary of State about the next steps. We will be in touch about a time.

As I have told both you and Roderic Lyne on the telephone, the Prime Minister feels that the issues summarised in your letter might with advantage have been pursued rather further and rather more vigorously before her visit to Delhi than they were. She has asked for a report on what was done and whether more could have been done. I should be grateful if you and Roderic Lyne, to whom I am sending a copy of this letter, could arrange for this to be put in hand and for the results to be available by Wednesday 6 May.

M. O'D. B. ALEXANDER

John Rhodes, Esq.,  
Department of Trade.

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24 April 1981

From the Secretary of State's  
Private Secretary

T P Lankester Esq  
PS/Prime Minister  
10 Downing Street  
SW1

Dear Tim,

We were asked to provide ready for the Prime Minister's return a report dealing with the various Indian problems raised with the Prime Minister on 16 April by the Indian Minister of Commerce and Steel, Mr Mukherjee.

2. Attached is a detailed report prepared by a special Working Party led by the Department of Trade and involving representatives of the various other Departments concerned.

3. The main points are as follows :

a) Folkloric Garments

The Customs have completed action with the 19 importers involved. Apart from the 3 cases involving legal action and the 2 cases involving genuine folkloric goods it is for the importers to decide what to do i.e. either to re-export or seek entry against the quota upon receipt of the necessary Indian Government Export licence. Customs have invited the Indians to discussions on the treatment of future consignments.

b) Inflammable Dresses

Although not specifically raised with the Prime Minister this has been linked by the Indians with the folkloric garments issue in earlier discussions. A statement which should help allay Indian concerns is to be issued by the Minister of State for Consumer Affairs next week.



*From the Secretary of State*

c) Shipping

For several years we have resisted Indian pressure to get HMG to depart from its normal policy and intervene in discussions between shipowners and customers. Economic factors on the UK/India route (not least subsidised competition from the USSR and India itself) have not been conducive to investment by British shipping lines. Three British and 2 Continental lines are however now considering the feasibility of a joint container service. If this results in a decision to proceed we will obviously have met that particular grievance. But the companies have asked that we should say nothing just yet.

d) Tobacco

We can promise the Indians continued support within the EC for their efforts (despite Italian and French objections) to get improved access under the Generalised System of Preferences.

e) Aflatoxin

The Ministry of Agriculture is about to put proposals to Ministers which should dispose of Indian complaints about discrimination. This would allow imports of Indian cottonseed to resume but there would still be problems for groundnut (the major interest for the Indians) unless they can improve the quality of their product. We should be able to inform the Indians about these proposals as soon as Ministers have decided upon them.

f) Opium

The decline in UK imports from India is due to a number of factors including the need for UK manufacturers to draw on the most economic sources of raw materials available. There has also been a substantial decline in the manufacture of opiates in the UK. Although officials do not believe that it is right to use existing statutory powers designed for other purposes to compel UK firms to operate contrary to their commercial judgement, we can tell the Indians that at least 2 UK companies remain in the market for raw opium from India and purchases can expand if the Indians can meet price and delivery requirements.



*From the Secretary of State*

4. My Secretary of State has not been able to see this letter or the attached paper before dispatch to you. A copy is in his week-end box. The suggestion is that the next step should be a letter from him to the Indian Minister of Commerce and Steel reporting these further developments.

5. I am sending copies of this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Home Secretary, the Chancellor of the Exchequer, the Secretary of State, DHSS, and the Minister of Agriculture.

*Yours sincerely,*

A handwritten signature in dark ink, appearing to be 'John Rhodes', written in a cursive style.

JOHN RHODES



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INDIAN TRADE PROBLEMS

This note deals with the various matters raised with the Prime Minister on 16 April by Mr Pranab Mukherjee, the Indian Minister of Commerce and Steel. It has been prepared by the Department of Trade in consultation with the other Departments concerned.

Folkloric Garments

2. Nineteen importers in all had consignments queried by Customs. Customs have now completed their investigations. The position today - Friday April 24 - is set out in the Annex to this note.

3. It is now up to the importers to respond to the various offers made by Customs. As soon as the Indian Government issues export licences to those traders who decide to avail themselves of Custom's offers to release for sale in the UK under quota the corresponding import licences will be issued forthwith. We have

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considered once again whether there is any further action we might take. We recognise the continuing importance the GoI attach to this issue, and the negative influence it could exert on their impending decisions on the coastal steel plant contract. However, given the elements of fraud and the various offers now made by Customs there is nothing more we can do on these particular consignments. Customs are very willing to have further discussions with the Indians on the Customs treatment of future shipments and have already invited them to such discussions.

4. Moreover a Commission team is currently in India discussing the renewal of the current EC/Indian bilateral textile agreement which expires at the end of this year. The future treatment of folklorics - which has long caused problems (not only for us but other Member States also) - will be one of the issues under discussion/.

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5. An issue which the Indians have linked with the folklorics one but which was not raised with the Prime Minister is inflammable dresses. The Indians consider that cautionary statements issued by Department of Trade Ministers impugned Indian-made garments unjustly. We consider that they were fair and have explained to the Indians that any further statement on the subject could only go part of the way towards meeting their wishes. They have said that they would nevertheless appreciate such a statement. The Minister of Consumer Affairs will issue a statement next week.
6. In our view we should not go beyond the actions mentioned in paragraphs 3 and 5.

#### Shipping

7. The Indians have claimed on numerous occasions, going back to 1978, that the British-based shipping services between India and the UK were inadequate.
8. Traditionally, the eastwards trade has subsidised the westward, which consists largely of price-sensitive commodities. This inherent downward pressure on west-bound freight rates has been intensified in recent years (1) by the numerous container vessels returning to Europe from the Gulf, which would otherwise go back empty, competing for West-bound Indian freight - and capturing up to 50% of it (2) by the lines' inability to pass on the costs of congestion in Indian ports. These factors



have caused one of the five UK Conference Lines to cease trading; a second (Ellermans) has suspended its services; and a third (Clan) has sold off most of the vessels it operated on the UK/India route. Only Anchor and P & O still provide a regular service.

9. Thus, whilst the UK lines have certainly curtailed their services they have done so in response to trading conditions and in the light of their commercial judgement. Regular meetings between the shipper organisations (including the All India Shippers Council) and the Conference lines afford ample scope for this judgement to be called into question and defended by those directly concerned. HMG has long regarded such discussions between shipowners and their customers as the proper way to resolve questions about the provision of shipping services. We have no powers to impose particular commercial policies on UK shipowners and very little leverage over them. The Indians are well aware of this, although it has not deterred them from soliciting intervention by HMG.

10. Container services have been introduced recently by the Soviet and Indian members of the Conference. The Soviets do not, in this field, look for a normal economic return; and the Indians are thought to be highly unlikely to be able to make the service pay without substantial assistance from the GoI (which is itself effectively one of the major shipowners).



11. Although this is not the most auspicious background for further investment by the British lines it puts their long-term position at risk and we have ascertained that P & O, Clán, Ellermans and two continental lines are actively considering the establishment of a joint container service themselves. It would be wrong to give favourable indications to the GoI at this stage, when it is not certain that the proposed service will be launched. But an end to this particular complaint may be at least in prospect.

#### TOBACCO

12. Indian exports to the UK fell by 30% between 1979 and 1980. The Indians want improved access under the EEC Generalised System of Preferences to recover this ground. We take 56% of the present duty-free quota for Virginia-type tobacco (61,200 tonnes) and have strongly supported its enlargement; but have been resisted as strenuously by Italy (in particular) and France, for whom tobacco is a sensitive product. (We of course have similar sensitivities in other areas.)

13. Decisive action is not within our gift; but we have already told the Commission that we want improved access for tobacco included in their proposals for the 1982 GSP and can promise the Indians continued support.

AFLATOXIN

14. The Ministry of Agriculture held a major meeting of farming, trade and regulatory bodies concerned on 15 April to consider the propositions (1) that all animal feed constituents should be subject to a legal maximum aflatoxin contamination level of 400 parts per billion (which would greatly reduce but not eliminate the risk of contamination reaching human food); and (2) that groundnut should not be sold or used for inclusion in dairy cattle feed (which would prevent contamination in milk, the most serious problem).

15. No internationally agreed levels of acceptable aflatoxin contamination exist, but a standard figure of 400 ppb for all constituents would not be out of line with standards applied by other importers. It should dispose of the Indian complaint about discrimination. Imports of Indian cottonseed should then be able to resume but the existing quality of Indian Groundnut is unlikely to pass the test (groundnut is the more significant export for the Indians).

16. The Ministry of Agriculture plans to put proposals to Ministers early in May. There is a statutory requirement to consult all interested parties before Regulations are presented to Parliament. This will afford an early opportunity for putting our proposals to the Indians and obtaining their views.

OPIUM

17. The decline in UK imports of raw opium (RO) from India is due to

- (a) a global trend away from raw opium towards poppy straw concentrate as the raw material for morphine and codeine. In 1975 morphine extracted from opium accounted for 65% of total morphine manufacture: in 1979 only 40%
- (b) global over-supply both of raw materials and manufactured opiate drugs, causing depressed prices
- (c) the contraction of the UK manufacturers' export markets
- (d) a consequent decline in the manufacture of opiates in the UK, as shown by the following figures for codeine production

	<u>Kgs</u>
1976	28,762
1977	21,234
1978	21,766
1979	21,567
1980	14,776



18. Although the switch to concentrate of poppy straw (CPS) from RO is the main reason for the drop in RO imports from India the total demand for both materials has also declined:

	<u>Kgs</u>		
	<u>1978</u>	<u>1979</u>	<u>1980</u>
RO	213,964	94,949	7,013
CPS (in terms of anhydrous morphine alkaloid content)	12,035	19,396	14,758
TOTALS	225,999	114,345	21,771

19. The Indians are effectively asking us to use the licensing powers of the Misuse of Drugs Act 1971 to compel the three UK manufacturers to rely on RO by not licensing the importation of CPS. Arguments weighing against this are:

- (a) It is by no means clear that this would be a proper use of powers given to prevent drug misuse, and the chances of legal challenge are high.
- (b) To compel manufacturers to act against their commercial judgement - particularly at a time when their markets are contracting - is undesirable.



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(c) The British firms were responsible for developing the Australian production when there were difficulties in securing adequate supplies elsewhere. Acceding to the Indian request would cut off their return on that investment.

20. Although the last Labour Government supported UN resolutions calling on importers to support traditional supplies it seems right to stop short of compelling the UK manufacturers to use RO.

21. The manufacturers are, however, aware of the Indians' predicament. Both we and the International Narcotics Control Board have exhorted them to do what they can to support the Indians.

2. Although it seems impossible that demand for RO will climb again to anything like 200 tonnes p.a., there is good reason to regard talk of the trade disappearing as too pessimistic. One of the UK companies has no present plans to use CPS and expects to import 15-25 tonnes of RO this year. The second has contractual commitments for CPS that make it unlikely that they will import more than 15 tonnes <sup>of RO</sup> /this year, but if the Indians can offer a competitive price (and offer it in good time) they could be in the market for 50 tonnes next year and beyond.

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23. The real problem is that the Indians' exports have declined overall - not just to the UK. (The INCB report for 1980 says that of the major importers only the USA, the USSR and Japan have maintained their imports). Restrictions applied in the UK alone would help very little.

Department of Trade  
24 April 1981

FOLKLORIC GARMENTS

<u>No of</u> <u>Importers</u>	<u>No of</u> <u>Pieces (approx)</u>	<u>Action Taken</u>
1	3,300	Goods folkloric: released.
4	5000	Goods non-folkloric: released for re-export outside Community or for sale in UK against relevant quotas.
9	12500	Goods non-folkloric: release on same terms as above offered.
1	500	Goods non-folkloric: not entered on arrival for sale into the UK. Trader has told Customs he will be presenting an import licence.
1	600	A mixed consignment for which, inter alia, incorrect quantities were declared. 400 folkloric pieces available for release on receipt of correct documentation.



No of  
Importers

No of  
Pieces (approx)

Action Taken

Release for  
re-export or entry  
against quota  
offered for the other  
200 (non-folkloric).

3

300

Goods non-folkloric.  
Deliberate attempts  
by importers to  
avoid quotas. Customs  
have initially made  
offers to compound  
proceedings (ie to  
pay fines) in lieu  
of Court proceedings.  
One has accepted so  
far and an offer to  
restore the goods  
has been made.