



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

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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

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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.

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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



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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

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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.

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JOHN NOTT

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Trade

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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.

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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: *[redacted]* 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.