



Foreign and Commonwealth Office  
London SW1

26 November 1980

*For John,*

TEXTILES

*with MODBA*

You sent Peter Carrington a copy of your minute of 21 November to the Prime Minister which raises issues of considerable importance.

As regards quotas on US textiles, we think we would be in for a bruising experience if we were to try to renew our existing quotas on polyester fibre and nylon yarn or to seek new restrictions on other products. As their threat to retaliate against wool textiles has shown, the Americans are in a position to do real damage to British exports. Other EC Member States would also be vulnerable to retaliatory action by the US and for this reason they would, as you say, be reluctant to agree to any extension of safeguard action against American textile imports next year. We therefore agree that our interests would be best served by taking an early opportunity to announce that we intend to let the quotas lapse at the end of this year.

At the same time we cannot be expected to keep quiet about the unfair advantage which American producers enjoy as a result of the energy price differential (though in practice this is probably only a small element in the competitive advantage enjoyed by the /US).

The Rt Hon John Nott MP  
Secretary of State for Trade  
Department of Trade  
1 Victoria Street SW1

US). But for our approach to the US to be effective we must of course ensure that it is well substantiated and convincing.

On implementation of the present Multi-Fibre Arrangement (MFA), we face if anything an even more difficult decision. Our present policy of seeking quick and effective use of the 'basket extractor' mechanism is leaving us uncomfortably exposed. You cite the heavy cost of our dispute with Indonesia. I realise that ours is one of the easiest EC markets to penetrate but the fact that we so often take the lead in seeking new restraints on imports from developing countries is likely increasingly to expose us to damaging retaliation. It also inevitably strengthens the hand of those who criticise (however unfairly) the Government's approach to North/South.

I should perhaps also sound a note of caution about the risks of moving towards a policy of treating the economically strong developing countries with kid gloves while continuing to pursue aggressively cases involving the weaker but more numerous developing countries, which are less well placed to damage UK export interests. This would not only cause obvious difficulties in the North/South context; it could also cause problems for us in the Community, where the Commission (on which we greatly depend for implementation in practice of our textile policy) would be reluctant to act in a way which was contrary to the Community's policy generally towards the developing world, i.e. to favour the least developed.

You make the point that it is the basket extractor which is under more immediate pressure than the principle of restraints on trade in textiles. No doubt this is because the basket extractor is the weakest point in the Community's protective armour. It is also not by chance that the first major problem has arisen over a country where Hong Kong investors and entrepreneurs are known to be active. An effect of the rigorous quotas imposed on places like  
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Hong Kong has been to stimulate entrepreneurs to establish manufacturing capacity elsewhere in the developing world. Developmentally this is much to be welcomed; also it is much in our long term interest if the process ends up by creating new markets for our exports as valuable and as open as that of Hong Kong.

I agree that it would be useful to have an early discussion of these questions. Unfortunately there seems to be little prospect of a meeting being set up before next week. Meanwhile the Commission are due to hold the next round of formal negotiations with Indonesia on 1/2 December.

I understand officials in EQS will be reviewing the situation before then with a view to seeking a solution defensible within our present policy. But there is little prospect of an early settlement, and since the underlying policy must now be considered to be under review I hope you and other recipients will agree that we should encourage the Commission to get through next week's meeting without either raising the temperature further or unnecessarily prejudicing our negotiating position for an eventual solution with the Indonesians.

I am sending copies of this letter to the Prime Minister, to the members of E Committee, to Humphrey Atkins, George Younger, Nicholas Edwards and to Sir Robert Armstrong.

Yours  
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Trade

Treasury Chambers, Parliament Street, SW1P 3AG  
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PRIME MINISTER

*MSM*

TEXTILES

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*1/12*

I have seen John Nott's minute to you of 20 November, and Keith Joseph's and Peter Carrington's comments on it.

2. I agree that we need to review our textiles policy as a whole before coming to a decision on quotes for American polyester fibre and nylon yarn.

3. I am sending copies of this minute to the members of E Committee, to Humphry Atkins, George Younger, Nicholas Edwards and Sir Robert Armstrong.

(G.H.)

/ December 1980

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