



MBM (taken in ODEJ)

PRIME MINISTER

DL
10/12

TEXTILES

1 In his minute to you of 21 November John Nott raises some important issues.

2 I have now had my meeting with the industry. There are two separate - although inter-related - aspects of our textiles policy on which early decisions need to be taken; our attitude to the growing pressure of imports from America, and our approach to the use of the 'basket extractor' procedure under the Community's MFA arrangements with low cost countries.

3 In considering textiles policy we must bear in mind the importance of the industry to the UK economy: employment of 680,000; output of £9000 million; over £2000 million exports; good labour relations; considerable investment over the last decade; better-than-average improvements in productivity. However, the industry is going through a very rough time. A large number of jobs have already been lost and many more will go.

The American Problem

4 I agree that, as John suggests, the two yarn quotas are not worth keeping.



5 But simply to abandon them, and leave it at that, would imply that we were not prepared to try to tackle the problem of US textiles, no matter what damage they were causing. Confidence is already low and could collapse in other areas where the American pressure is already intense - carpets, household textiles - and where it is building up quickly - certain fabrics and garments. We can, and should, continue discussions with the Americans on energy pricing at Community and Member State level. The advent of the Reagan administration provides at least the possibility of a change of position that would not otherwise have existed.

6 We can continue to press for action when dumping can be established, but it is often very difficult to establish the facts and to prove injury. Anti-dumping action cannot be regarded as a solution to the general problem.

7 If we feel the problem of imports of American textiles needs to be tackled effectively, a more comprehensive approach is necessary. This could be pursued at the 16 December Council. The 2 yarn quotas are due to expire at the end of this month. In announcing at the Council that we are not seeking their renewal we could try to secure from that Council a recognition that imports of US textiles are a real problem now for the Community and that the Commission should be mandated to seek a practical solution with the US and to report back in, say, 3 months. It would be understood that the Commission should pay particular attention to energy pricing and - insofar as is appropriate - dumping, but without the possible remedies being limited to these.



8 By dropping the quotas we would please the Germans who have been the most hostile to them, and they might be the more prepared to consider a comprehensive approach on the above lines. And we might find support for an approach to the Americans from the French and possibly the Italians, Irish and Belgians. The UK industry would see it as a useful step forward.

9 We might well not secure Council agreement; and if we did, the Commission might not be able to come forward with acceptable solutions. But I can see no other way forward if we want to tackle the problem. There might well be a hostile American reaction to an approach from the Community which included the possibility of MFA action. But nobody can know what their response will be until an approach has been made. And there can be little doubt that the Americans themselves would not hesitate to act against the Community, or any developed country, if the situation was reversed.

10 In coming to conclusions, and as a background, we must also take account of other aspects which must surely be worth discussing with the Americans once we have got them to the conference table. The first of these is that, although we do not wish to reopen the MTNs, it will be known to them that the enormous movement of the exchange rate since the tariffs were settled (the US tariffs in textiles being higher than those of the EC and in key areas very much higher) do present in combination a major practical problem for our industry. As



a result of this it is very difficult to accommodate further increases in imports from the developing world, as well as further damaging increases from the USA. The much stricter application of the MFA by the USA towards the developing world has also diverted imports from them to us.

11 Secondly, noting the very large increases of exports from and reductions of imports into the USA, the developing world will wish to link the renegotiation of the MFA (and the Americans also want a strong MFA) with the fact that the richest country in the world seems to be the biggest gainer to date (exports 46% up in 1979 on 1978 and imports down 18%). Of course the USA will say that the exchange rate, the MTNs and their use of the MFA are all perfectly fair, but one would hope that they could see the combination of circumstances which leave our not inefficient and relatively high technology industry in a very difficult position and our Government in a position where failure to secure a practical solution would be difficult to defend.

12 Inevitably, we would appear to be taking a step towards further protectionism. It will be said - with some justice - that the competitiveness of the US products stems from more than the admitted unfair advantages of US energy policy. Nevertheless, these unfair advantages are a fact which cannot be ignored. Our public justification, therefore, would have to lean heavily on the unfairness of US energy policy and allegations of dumping; this

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would be consistent with the mandate for the Commission sketched above. The basic question we have to settle, therefore, is whether an approach of this kind would be justified in view of the serious state of the industry.

MFA and the Basket Extractor

13 I entirely agree with John Nott that we must go for a tough MFA next year. However, this cannot be separated from how we manage our textile agreements between now and the expiry of the present MFA in twelve months' time.

14 At present we are committed to seeking effective use of the basket extractor mechanism in the Community's MFA agreements. This has been stated numerous times by Ministers and is brought out in the Department of Trade's booklet "The Government and the Textiles Industry" published in September, where we say "the Department has agreed that it will automatically seek basket extractor action for 17 sensitive categories", and "The Government will continue to put cases of this type to the European Commission".

15 We have to recognise that there will be occasions where the supplying country will threaten, or take, retaliatory action. I agree that we cannot escape the obligations to take this into account when deciding on action in particular cases.

16 But we can never know how serious a threat is nor, after the event, whether orders were lost as a result of retaliation or for other reasons.



17 More to the point, however, we cannot look at specific cases in isolation. If we give way to threats of retaliation in any one case, we can be certain that every other country with whom the Community has a bilateral agreement will try to follow suit; our whole current MFA textile trade policy would be in jeopardy, and our prospects of securing the touch successor to which we are committed would be seriously weakened.

18 So while agreeing that we need to continue to assess our interest as fully as possible in basket extractor cases and play our cards as carefully as possible to avoid over-exposure, we need also to bear in mind the wider consequences for our textiles industry of not pressing cases which are justified under the terms of the Community's arrangements. There may be a case on broader grounds for changing our current practice on basket extractor cases. However, if we do decide to change, the industry will rightly claim that we are reneging on our commitments. In these circumstances we would not be able to avoid announcing publicly that we had altered course. Nor could we avoid the consequential recriminations of the textile industry.

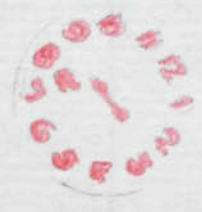
19 I am sending copies of this minute to members of E Committee, Humphrey Atkins, George Younger, Nicholas Edwards and Sir Robert Armstrong.

Catherine Bell
PP K J

(Approved by the Secretary of State
and signed in his absence)



29 DEC 1941



COMMUNICATIONS

11-100



PRIME MINISTER

TEXTILES

C. G. Mr Dupied.

Mr Nott (Flag A) is suggesting that the yarn quotas should be dropped. Sir Kerita is rightly insisting that he should first hear industry's case at first hand: the issues with them, I think, ^{have to} come back for collective discussion.

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Flag A 1 I have seen John Nott's minute to you of 21 November. T

20/11

2 I have a great deal of sympathy with many of the points he makes in his minute but it does raise a lot of big and inter-related issues which will need careful consideration.

3 The immediate question is that of our renewing or dropping the existing polyester yarn and nylon carpet yarn quotas. This may seem to stand on its own, but in fact it ties in with the whole complex of issues he raises. I do not therefore think it right for an announcement of the dropping of the quotas to be made tomorrow night.

4 I understand John Nott's desire to resolve the quota issue quickly, but any decision on this specific issue would have serious and far-reaching implications for future policy towards the industry as a whole. Before a decision is made, I consider that I should hear the industry's case at first hand. This I propose to do within the next few days and John may wish to join me.

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5 I am copying this minute to other members of E Committee,
George Younger, Nicholas Edwards, Humphrey Atkins and Sir
Robert Armstrong.

l.s.

JK K J

25 November 1980

(approved by the Secretary of State
and signed in his absence)

Department of Industry
Ashdown House
123 Victoria Street
London SW1

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