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## TEXTILES, CLOTHING AND FOOTWEAR

It is hoped that the attached brief will be of assistance to Members in connection with Labour's supply day debate on the textiles, clothing and footwear industries on Thursday, 26th February 1981.

The brief is a combination of two restricted circulation briefs which were produced on 15th February for the lobbies on 16th February, with some minor amendments.

The Department of Trade's pamphlet, "The Government and the textiles industry: The background to Government policies on textile and clothings imports", is also recommended.

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## TEXTILES AND CLOTHING

The best source of information is the Department of Trade's comprehensive pamphlet, "The Government and the textiles industry - the background to Government policies on textile and clothing imports", which was published in September 1980. The following notes do not constitute a strict resume of the pamphlet, which is largely factual and explanatory.

### 1. Problems of the Industries

The textile and clothing industries have suffered, in common with the rest of British industry, from the forces of the recession and the difficulties occasioned by the strength of the pound, the relatively high level of interest rates, and the very high level of stocks at the onset of the recession. Correspondingly, they will benefit above all from the success of the Government's economic policies. There are, however, a number of special problems with which they have been faced - nearly all of them originating many years before May 1979, and most of them outside any Government's control.

(i) Developing countries. Clothing manufacture represents an attractive basic industry for developing countries as it requires only modest capital investment, does not need an advanced technological base and is labour intensive. Accordingly, highly competitive industries have grown up in a number of developing countries since the war, particularly in South-East Asia, and cotton producing countries have proceeded to develop their spinning and weaving capacity in the textile sector. This utilisation of comparative advantage - natural and inevitable if developing countries are to develop - has necessitated fundamental contraction and increased specialisation in the industrialised countries.

(ii) Relative size. The UK textile and clothing industry is the largest in Europe. It accounts for 2 per cent of GDP, 5 per cent of visible exports and 10 per cent of total manufacturing employment - about 650,000 people. The process of adjustment has been more painful and has involved relatively more people than elsewhere. The industry has lost about 330,000 jobs since 1970, of which some 30,000 were lost in 1979 and 76,000 between the end of 1979 and September 1980. However, other EEC countries adjusted more quickly in the 1970's - the labour force contracted by 14 per cent (130,000 jobs) between 1973 and 1978 in the UK as against 24 per cent (570,000 jobs) in the rest of the EEC.

(iii) Low productivity. Comitextil's bulletin No.5 of 1979, based on data up to 1977, showed the UK's productivity (in thousands EUA) to be the lowest in the EEC apart from Ireland.

| | Output per man | | Value added per man | |
|---|---|---|---|---|
| | Textiles | Clothing | Textiles | Clothing |
| Netherlands | 24.5 | 17.2 | 8.6 | 5.8 |
| Germany | 22.2 | 16.3 | 10.0 | 7.7 |
| Denmark | 23.3 | 15.4 | 8.0 | 6.9 |
| France | 19.3 | 12.5 | 9.1 | 5.8 |
| Belgium | 21.7 | 11.8 | 7.3 | 5.4 |
| Italy | 15.6 | 10.3 | 5.9 | 4.5 |
| UK | 13.4 | 7.7 | 4.8 | 3.4 |

The significant increase in both productivity and investment in 1978-79 has done much to make the industry more competitive - but smaller. As the Minister for Trade, Mr. Cecil Parkinson, said in Manchester on 31st January 1980: "The falling workforce can be shown to be principally a reflection of technical advance and increased productivity".

(iv) Changes in fashion and technology. Changes in fashion from suits and formal wear to casual dress and lighter clothing have been rapid and beneficial to volume production in low-cost countries. Technological advance (e.g. in machines, dyes and fabrics) has also been swift, especially in the man-made sector, leading to greatly increased capacity at a time of slowly rising demand.

(v) Subsidised energy in the USA. The USA's subsidised energy costs gave manufacturers of synthetic yarns and fibres an 8 -16 per cent advantage on their selling price. Under GATT Article xix the EEC imposed temporary import quotas on American polyester filament yarn and nylon carpet yarn at the Government's request in February 1980. However President Carter signed a proclamation on 18th September whereby American tariffs on British wool textiles would have been almost doubled had the quotas been renewed; EEC steel producers were threatened with anti-dumping suits; and British carpet manufacturers strongly resented denial of access to low-cost yarn and attributed substantial loss of sales and turnover to the quotas. Mr. Parkinson consequently announced on 15th December that instead of applying for the quotas to be renewed, he would launch an initiative within the EEC to persuade the USA to remove the cause of the conflict. The good sense of this approach was confirmed when President Reagan announced the immediate ending of oil price control on 27th January; it is hoped that gas price deregulation, which would be consistent with the new administration's outlook, will follow.

(vi) Protection. The effect of protection on industrial performance has been a mixed blessing. The original justification for protective measures - that they would give the industry a breathing-space to facilitate more rapid adaptation - is no longer seriously maintained, after twenty one years of experience during which protection has intensified in scope and employment has continued to diminish. While protection has made life easier in social terms, it has almost certainly slowed down the kind of adjustment which is required. Indeed, this is now its very purpose. The tougher quotas on sensitive items have concentrated import substitution on precisely those subsectors of high import penetration and least relative efficiency. The process of trading up by low cost exporters within quotas has had the paradoxical (but predictable) result of concentrating low cost competition in the more high quality, less price sensitive areas while offering greatest opportunities for import substitution at the bottom end of the market where the UK is presumed to have least comparative advantage.

Labour spokesmen tend to ignore these problems, preferring to believe that given enough protection, all that is required is expanding demand and investment. It is important to note that these are not problems. The levels of consumer's expenditure on clothing, and on household textiles and soft furnishings, reached a record high in real terms in 1980, surpassing the records set in 1979. And the levels of investment have accelerated sharply, as the Parliamentary Under-Secretary of State for Industry, Mr. John McGregor, revealed in a Written Answer on 26th January 1981 (col.282):-

| | *Capital Expenditure (1)* *£ million current prices* | *Employment (2)* *Thousand* | *Capital Expenditure per Head* *£* |
|---|---|---|---|
| **Textiles Industry (Order XIII of the SIC 1968)** | | | |
| 1975 | 185·4 | 533·1 | 348 |
| 1976 | 171·0 | 517·9 | 330 |
| 1977 | 180·8 | 503·0 | 359 |
| 1978 | 223·8 | 479·0 | 467 |
| 1979 (3) | 275·5 | 457·1 | 603 |
| **Clothing Industry (Order XV except MLH 450 of SIC 1968)** | | | |
| 1975 | 26·0 | 345·6 | 75 |
| 1976 | 29·8 | 330·3 | 90 |
| 1977 | 37·3 | 321·0 | 116 |
| 1978 | 53·7 | 311·5 | 172 |
| 1979 (3) | 63·7 | 303·7 | 210 |

*Notes*

(1) New building work plus acquisitions less disposals of plant and machinery, and vehicles

(2) Average number employed (full and part time) during the year (including working proprietors)

(3) Provisional estimates

*Source* Reports on the Annual Census of Production and Department of Industry estimates

## 2. The Multi-Fibre Arrangement

The Government are committed to seeking "a tough successor" to the MFA, which regulates the growth of imports from low cost sources. The precise outcome, however, will depend on agreement by the other GATT signatory countries, both developed and developing, and the future of the bilateral agreements negotiated under the MFA between the EEC and 27 low cost countries will likewise depend on agreement in each case. There have been as many recommendations as to the shape of the next MFA and the bilateral agreements by industry and other pressure groups as there are blades of grass, which cannot be summarised and answered in brief. The Department's pamphlet explains the details of the MFA and the action that has been taken under it; the following paragraphs assess the effects of the existing MFA, which along with a clear assessment of the industry's problems, should serve as a guide to the principles upon which the Government will seek to influence the Commission's negotiating mandate.

(i) Effect on trade. The MFA permits a real annual growth rate in the volume of imports from low cost countries subject to the MFA of 6 per cent. According to figures published by the European Commission on 17th July 1980 in respect of the EEC market for 1976-9, the actual outturn was 4.3 per cent. For sensitive items, the figure was 2 per cent, and for imports from industrialised countries the figure was 11.1 per cent. There has been virtually no evidence in the UK of purchasers having switched back from low-cost to domestic sources. Quota control has therefore been effective in its stated purpose; with the consequence not of import substitution by the domestic market but diversion of the source of imports to non-EEC industrialised countries and to a lesser extent Mediterranean suppliers, and increased intra-EEC trade. As Mr. John Nott, then Secretary of State for Trade, said in Leeds on 7th November 1980:-

"Up to August of this year we exported £130 million more of our wool products, than we imported, a substantial increase on 1979. In the first nine months of this year we had a £27 million deficit in our total textiles and clothing trade with the European Community - a substantial reduction on the £179 million deficit in the same period last year. That improvement with the Community far outweighed the small increase of £36 million in our textiles and clothing deficit with the USA. Our imports of textiles and clothing from the low-cost countries have actually fallen so far this year by £100 million and our exports to these countries have increased by almost £50 million. Of course imports of textiles have increased over the years, but I must ask whether these facts are consistent with the idea that the Multi-Fibre Arrangement is not working or that we are being flooded by imports from the US and Europe".

The latest crude trade figures in £ million were published by British Business on 23rd January 1981:-

| | Oct 78 - Sept. 79 | Oct. 79 - Sept. 80 |
|---|---|---|
| Textile fibres | | |
| Exports | 307.8 | 331.6 |
| Imports | 479.8 | 392.9 |
| Balance | -172.0 | -61.3 |
| Textile yarns, fabrics | | |
| Exports | 1,310.3 | 1,407.2 |
| Imports | 1,658.0 | 1,598.7 |
| Balance | -347.7 | -191.5 |
| Clothing | | |
| Exports | 715.8 | 815.5 |
| Imports | 1,142.7 | 1,241.6 |
| Balance | -426.9 | -426.1 |
| Total | | |
| Exports | 2,333.9 | 2,554.3 |
| Imports | 3,280.5 | 3,233.2 |
| Balance | -946.6 | -678.9 |

These figures should be seen in the light of the statement by the Retail Consortium: "It is an interesting fact that UK clothing manufacturers in 1978 imported yarns and fabrics into the UK to the value of £1,445 million whilst criticising retailers for importing £921 million of made up clothing" ("MFA: The Retail Case", June 1980).

(ii) Effect on prices. The aim of quota restriction is to raise import prices to a less competitive level. The effect is not precisely quantifiable. A study by the Consumers Association in August 1979 estimated that the effect of the MFA was to raise prices by 15-40 per cent, but this was vigorously disputed by the industry. Evidence from Hong Kong, where export quota licences are traded on the open market, indicates that the premium at its peak in late 1979 was £1 on a pair of jeans and 80 pence on a shirt. Exporters in low cost countries have noticeably traded up to high quality, high price products in order to maximise unit value within quota categories, thus reducing the availability of for example low value children's wear. It is sometimes suggested that the benefits of cheap imports are not passed on by retailers but absorbed in higher profit margins; in practice, however, retail prices of domestic and imported produce are usually averaged out, so that domestic manufacturers are to some extent cross-subsidised by imports.

(iii) Effect of developing countries. The effect on the MFA on the more advanced developing countries has been noted. The effect on poorer countries has been less obvious and less visible. Under the basket extractor mechanism, which enables quotas to be imposed on unrestricted products from individual countries if they pass a trigger level and are considered to be disruptive, quota control has been extended even to handloom products, which has cramped a valuable source of rural employment in the Indian sub-continent. It is inconceivable that such countries could now ascend the ladder of relative prosperity through the development of textile exports in the way that some Far Eastern economies have done. They are quickly caught in the basket extractor when amounts are shipped well below the levels required to sustain a viable export sector, and lack the capacity to switch rapidly from one item to another to exploit gaps in the quota system and to raise unit value within quotas. As Mr. John Nott observed: "One might expect that the Tribune Group would be the leading castigators of the Multi-Fibre Arrangement. One might expect it to castigate the MFA as a trade conspiracy against the poor. If one looks at it in terms of the workers in Bangladesh, one realises that that is precisely what it is" (Hansard, 26th June 1978, Col. 1065).

(iv) Effect on industry. The MFA has undoubtedly eased the pressure and pace of change in the industry as a whole, and has been of particular benefit in certain sectors and areas of the country which might otherwise have suffered the most severe social disruption. That is why the Government will be pressing for a tough successor. It is a pragmatic judgement, and the Government will continue to show flexibility in implementation. The need for this was demonstrated by the Indonesian dispute, after quotas were imposed under the MFA on Indonesian clothing imports, which totalled some £5.5 m. in 1980 . Indonesia threatened to retaliate against British export contracts worth £150 million at a late stage of negotiation and a further £700 million worth of business. Following a visit by Mr. Nott, larger quotas were negotiated and the dispute was resolved.

3. The Government's record,

- The present Government has been just as diligent as its predecessor in implementing the present MFA system of control.

- Since May 1979, two new voluntary restraint agreements have been negotiated (with Malta and Cyprus), which means that all Mediterranean producers except Turkey are now under restraint.

- Safeguard action has been taken against imports of Turkish cotton yarn.

- 36 new quotas covering new products were introduced under the basker extractor between May 1979 and November 1980, and at least 3 more since.

- The first voluntary restraint agreement with a Lome Convention country (Mauritius) was negotiated in January 1980.

- An MFA type agreement was concluded with China in June 1979.

- A five year trade safeguard provision was included in the Treaty of accession of Greece to the EEC, and similar provisions will be included in the cases of Spain and Portugal.

- The Government persuaded the Commission to control free circulation imports under Article 115 of the Treaty of Rome in 32 cases (25 quotas) in 1979, as against 24 cases (13 quotas) in 1978.

- The Department of Trade's anti-dumping unit has continued to support the UK industry in applications to the Commission, and the Government is pressing to strengthen the EEC's anti-dumping staff; an anti-dumping information pack was published in January 1981.

- Definitive anti-dumping duties were imposed on USA acrylic fibres in May 1980, and provisional duties on American yarn were succeeded by USA-EEC negotiations at the UK's behest.

- 12 new specialist staff were added to HM Customs and Excise Fraud investigation team last November, and measures to combat textile origin fraud are being implemented on a Community basis.

- An Order requiring compulsory country of origin marking for textile and clothing goods was laid this month, and will come into effect at the end of 1981.

- The textile, clothing and footwear industries were offered or paid £35.5 million under the temporary short-time working compensation scheme and Industry Acts in the year 1979-80, and since then up to the end of 1980 the textile industry received a further £23.7 million and the clothing and footwear industries a further £13.4 million under the scheme.

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## FOOTWEAR

### 1 The UK Industry

Footwear production totalled about £750 million in 1980, of which £130 million was exported. The industry is in considerable difficulties. Stocks rose to unprecedentedly high levels during the second quarter of 1980, as output and orders fell sharply. Employment fell from 71,000 in January 1980 to 66,500 in November in GB, when 15,600 workers were on short time. Three major problems are the internal condition of the industry; restrictions in export markets; and the development of low cost production in other countries, which has necessitated a long delayed but now rapid shift into up-market, high value products at the expense of jobs in the large, labour intensive, lower quality end of the market. High grade manufacture is extremely competitive, but is only a very small proportion of total UK production and employment.

Recent trends in productivity and orders illustrate this clearly. Productivity measured by number of pairs per head has fallen consistently since 1975, whereas value added per head has risen by some 15 per cent. Net new orders by volume have fallen steadily since 1976, whereas they have risen by value from a monthly average in £ million of 48.8 in 1977, 56.4 in 1978 and 61.4 in 1979 to 64.1 in the first ten months of 1980.

Added to this, investment, technology, training, design and quality have all been lacking. The footwear Economic Development Committee reported in February 1980: "The pace of development in new technology, due particularly but not exclusively to the introduction of the micro-processor, is probably more rapid now than at any time in the industry's history....Close attention should be paid to the assistance available under the Government's Microprocessor Application Project...To date no applications under this project have been submitted by footwear manufacturing firms, and the EDC must register its disappointment at the industry's failure so far to seize the opportunity offered by the Government". The EDC reported that of 329 applications under the previous Government's £4.5 million scheme of Assistance, 167 were concerned with investment in closing machinery, 78 for consultancy projects and 84 for rationalisation and restructuring. The Scheme expired in March 1980 and has not be been renewed.

The Footwear, Leather and Fur Skin Industry Training Board carried out a survey of 98 firms in 1979 and discovered shortages of labour and recruitment difficulties, especially in the case of skilled machinists, in most parts of the industry. It also suggested that production had been disrupted in some firms by high levels of absenteeism and labour turnover.

The EDC was also critical of design performance: "There are few truly innovative designers working in the UK today, designers who are capable of producing original shoe styles. There are rather more but still not enough adaptors, designers capable of recognising design trends and adapting them to suit the needs of their own company". Its recommendation for financial assistance has not been accepted by the Government.

The Office of Fair Trading, which monitors the Footwear Code of Practice, reported on 11th September 1980 that footwear complaints (80 per cent Industry, 20 per cent service) remain about 5 per cent of all complaints about goods and services. It announced a new scheme whereby new lines of shoes would be pre-tested before going on sale. British shoes have a better level of wear and tear than imported shoes.

2. Trade problems.

The UK's traditional export markets in Australia, Canada, New Zealand and South Africa, which have always had higher tariffs than Britain, are now protected by quotas. Japan and nearly all developing countries (not Hong Kong, Singapore or Saudi Arabia) have both tariff and non-tariff barriers. Comecon bloc imports are of course firmly state controlled. The only large open markets are the EEC and the USA. A reverse problem is the banning of exports of raw materials (hides and skins) by virtually every country outside West Europe, North America and Australasia, thus limiting the supply and raising the price.

At the same time, there has been a steady rise in import penetration, facilitated by the UK's highly concentrated and efficient retail sector. It is important to note, however, that most of the increase has come from the EEC. The UK industry asserts that Italy, which supplies 80 per cent of UK imports from the EEC, benefits from unduly lax labour laws and low wages. Looked at another way, UK labour costs per unit of output are higher than Italy's. As UK export penetration to the EEC has increased only modestly by comparison, the UK-EEC trade deficit widened between 1969 and 1979 from 9 to 29 million pairs. The British Footwear Manufacturers Federation gave the Select Committee on Trade and Industry (HC 442 -xi, 11th June 1980) the following figures, which understate the difference between developed and developing country trade trends as they are by volume (million pairs), not value:-

| Exports | 1969 | 1974 | 1979 |
|---|---|---|---|
| EEC | 3.0 | 6.6 | 11.0 |
| Other | 17.5 | 11.7 | 7.9 |
| | 20.5 | 18.3 | 18.9 |

| Imports | | | |
|---|---|---|---|
| EEC | 11.9 | 25.7 | 40.3 |
| Spain, Greece & Portugal | 3.6 | 5.6 | 10.7 |
| Comecon | 3.5 | 7.8 | 7.0 |
| Developing countries | 40.7 | 36.5 | 48.5 |
| Other Developed | 5.7 | 4.6 | 3.5 |
| | 65.4 | 80.2 | 110.0 |

3. Import restrictions

Existing restraints cover about 50 per cent of total footwear imports from low cost sources. There are formal quotas on non-leather footwear imports from Poland, Czechoslovakia, Hungary and Bulgaria, and on all footwear from China, and voluntary restraint agreements on leather footwear imports from Poland, Czechoslovakia and Rumania, on non-leather footwear from Taiwan and on all footwear from South Korea. There is a counterveiling duty on imports of men's fashion shoes from Brazil, at present under review by the Commission, and anti-dumping action against imports from Poland and Czechoslovakia is being considered. The Government has stood firm against pressure from other EEC countries and Eastern Europe to increase quota levels on leather footwear imports from Poland and Czechoslovakia. There will be compulsory country of origin marking of footwear from the end of this year.

Footwear has been placed on the list of sensitive products in the EEC's new Generalised Scheme of Preferences, which grants free or reduced duty access to imports from developing countries. In most cases there will be automatic reimposition of full duty on individual importing countries once their tariff quotas are used up, and in other cases reimposition will lie at the discretion of any Member State. Footwear was also excluded from the reciprocal tariff reductions at the GATT Tokyo Round.

Mr. John Nott visited Brazil in May 1980 and stressed the urgency of trade liberalisation. Recent relaxations have been a move in the right direction, but have not removed the problem. Speaking on behalf of Mr. Cecil Parkinson on 17th June 1980, Mr. David Hunt put the difficulties in perspecitive: "The Government is firmly on the side of the footwear industry, but it isn't the Government which is bringing foreign shoes in...It may be much easier to involve the Government rather than criticise the distributors who are, after all, your customers. But you, the industry, should lobby the distributors as effectively as you undoubtedly lobby Ministers....Brazil apart, imports from most developing countries have been static or declining in recent years. Nor would an MFA for footwear be likely to be negotiable with the developing countries concerned, who already strongly resent the existing MFA for textiles. The Government's view remains that it is prepared to look at requests for individual controls on a basis consistent with the UK's international trading obligations".

4. Future Opportunities

It is hard to be other than gloomy about the footwear industry's immediate prospects. Nonetheless, there is immense scope for improvement - for modernisation and rationalisation at home and for exploitation of markets in Europe. K shoes have recently agreed to a takeover bid from C and J Clark, the UK's largest footwear manufacturer, and while both companies have recently announced closures and redundancies, the cutbacks were a small percentage of their workforces; they are expected to continue trading independently, and in stronger shape.

There are signs that the potential for increased exports to the EEC is being tested. Exports to Germany rose by 40 per cent in 1979 and by 104 per cent in volume in the first quarter of 1980. The entry of Greece, Spain and Portugal into the EEC will provide opportunities when their high levels of protection are dismantled. At present, Greece operates an import deposit scheme, requires import licences and has a duty of 40 per cent; Spain has a 20.2 per cent tariff on leather footwear, a general import surcharge of 10 per cent, export rebates of 10 per cent and restrictions on the export of hides; and Portugal has a general import surcharge of 10 per cent and requires import licences. The BFMF estimate: "There is no reason why we should not export as much to the three countries combined as we do to, say, Italy now (650,000 pairs worth £3.9 million last year). In the longer term if, as in a declared aim of the Community, there is a convergance of living standards, there is no reason why the trade imbalance should not be significantly reduced" (Ibid).

Mr. Anthony Clothier, director of C and J Clark, giving evidence for the BFMF, added: "There is no doubt that the opportunities for investment in the future are going to be very great...The pieces of the shoe trade which are certain to remain in the developed, high labour cost countries, are the ones on which there is a high degree of style change and one on which there is a need for service in terms of, for example, fitting shoes for children...The real issue for us is whether we can develop technologies which are highly flexible and highly responsive to these conditions, to make sure that the shoes for which there are some natural advantages for us to produce in high cost countries can continue to be produced. This is where I think that quite a lot of things that are happening at present are quite promising".

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