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From the Secretary of State

PRIME MINISTER

Mr. Biffen's report on yesterday's discussion in the Foreign Affairs Council on US textiles. Some progress has been made, but it is now up to us whether to impose restrictions unilaterally. Mr. Biffen will be bringing a paper to OD(E) shortly.

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PRIME MINISTER

U S TEXTILES

You may like to have a brief account of yesterday's discussion in the Foreign Affairs Council on the above subject.

At the December Council there was agreement, at our insistence, that the Commission should undertake urgent consultations with the Americans with a view to finding solutions to the problem posed by the sharp increase in American exports of certain textile products to the Community, in particular the UK. The report by the Commission which was considered yesterday noted some encouraging developments. In particular, the deregulation of oil prices and the decision of the Reagan Administration to lift export restrictions on naphtha will have done something to remove the unfair advantage the US industry has hitherto enjoyed. The movement of the dollar against the pound is also helping. And the Administration are considering the possibility of a faster deregulation of gas prices which as things stand at the moment will not take place until 1985 or 1987. In addition, in terms of the textile and clothing sector as a whole, there has been some slackening off in US exports to the Community in recent months. None of this however helps in respect of the particular sectors - notably bed linen - where the US has made the most substantial new inroads about the UK market. Energy prices were never a major factor here, and the most recent export figures show a continuing rise in penetration.

The UK industry has tended to deride as insignificant the steps the Americans have so far taken and to demand immediate protective measures. The main thing that emerged from yesterday's meeting is

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*From the Secretary of State*

that there is no chance whatever of getting Community action of this sort, because there is no Community-wide problem. Even more important, the Commission now clearly feel that they have done as much as can be expected on what is in their view essentially a UK problem. They will go on pushing the Americans, especially on gas prices. But for the rest they say it is now up to us. In relation to the products currently most worrying the industry we have the right - because of a technicality in the rules as they affect different sorts of products - to take action unilaterally. The Council could, after a period of 4 to 6 weeks, require the removal of any restrictions we imposed, but we could act initially without the approval of either the Commission or the Council. It is - the Commission say - now for us to decide whether to use this right or not.

This faces us with a difficult decision. Objectively there is a good GATT case for Article XIX action at least on bed linen. As against this, the Americans would have a right to be compensated or to retaliate, probably against our wool textiles. The sector or sectors involved are not really that large in trade terms - eg on bed linen we are talking about American imports running even now at an annual rate of only some £10/12m (wholesale value). And generally we would not be making any easier the whole difficult task of managing, with the help of the new US Administration, to prevent the channels of trade between Europe and North America being clogged up by a wave of self-defeating protectionism.

✓ I think we now need an urgent collective view on this matter and I shall shortly be submitting a paper to OD(E) for this purpose. But I thought you should have this advance warning.

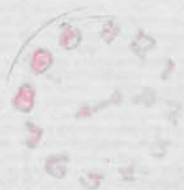
I am copying this minute to the Secretary of State for Industry, the Foreign Secretary, the Chancellor and Sir Robert Armstrong.

Department of Trade  
18 March 1981  
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10 DOWNING STREET

*From the Private Secretary*

19 March 1981

*BF to check when brought  
to OD(E)*

The Prime Minister was grateful for your Secretary of State's minute of 18 March about US textiles, and she agrees that he should bring forward a paper urgently to OD(E).

I am sending copies of this letter to Ian Ellison (Department of Industry), George Walden (Foreign and Commonwealth Office), John Wiggins (H.M. Treasury) and David Wright (Cabinet Office).

T. P. LANKESTER

Stuart Hampson, Esq.,  
Department of Trade.

*JH*

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