

cc Members of OD(E) Committee

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FROM THE  
MINISTER OF STATE  
FOR INDUSTRY AND  
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ACTION TO STEM STATE AIDS FOR TEXTILES

There is a gathering tide of opinion in the UK textiles and clothing industry that the increasing amount of state assistance being given by some of our European Community partners to their industry is distorting the free market of the Community to our disadvantage.

This view was expressed to me most forcefully recently when I met a delegation from the wool textile industry. One source of their ammunition is the Werner Report, which was paid for by the Department of Industry, on the relative competitiveness of the cloth sector of the wool industry. In fact the report is somewhat inconclusive. Further work by the Department suggests that there might in fact not be much of a differential. More particularly, however, the delegation pointed to new measures of assistance recently announced in France, Belgium and the Netherlands. And there is always the rather opaque assistance given by the Italian Government, which often subsidises lame ducks. A summary of the new aid schemes is attached.

There are of course Community rules about state aids enshrined in the Treaty of Rome (Articles 92 to 94) and there are specific Commission guidelines on aids for textiles. The underlying theme is that assistance should be granted only sparingly, that it should not distort competition in the Community market, should not prop up lame ducks and should not create additional capacity where none is needed. The Commission have shown themselves rather weak in enforcing these rules and guidelines. Despite strong representations, especially from ourselves, they approved the Belgian scheme, albeit in modified form. They are not getting very far in discussion with the French about their new measures and seem incapable of doing anything effective about the Italian measures.

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I think that the assertions of the wool textile industry probably have some foundation, especially as regards the newest schemes of assistance. The UK industry has a number of advantages; its wage rates are lower than its Continental counterparts and it has excellent industrial relations. Of course it is affected by higher interest rates, though these are coming down, and what the industry argues is too high and too fluctuating an exchange rate against Continental currencies. Nevertheless, it is the state aids that would probably tip the balance against our firms.

The amount of aid going to the UK textile and clothing industry has decreased substantially in the last two years and will decrease further in August this year when much of Lancashire and Yorkshire, where the cotton and wool sectors are traditionally located, loses its Assisted Area status. In the financial year 1980/81, £88m was offered or paid (£59m of it under the Temporary Short Time Working Compensation Scheme (TSTWCS) compared to over £110m in each of 1977/78 and 1978/79. In 1981/82 to date only £52 million has been offered or paid (about half of it under the TSTWCS).

I am concerned at the growing trend among our Community partners to introduce new assistance for their textile industries. There are obviously beggar-my-neighbour features about this and it is in our interests to try to stop it. We certainly want to avoid joining the circle. The chances are not good that we could launch a successful direct attack on the Commission with a view to cutting back other countries' existing aids. It is always hard to get sufficient evidence to back up such cases. Moreover, we need to remember that some of the schemes have already been approved by the Commission. We could also be vulnerable to counter-attack for some of our own assistance outside the textile sector.

However, the Commission themselves have been unhappy about the increasing scale of textile aids - they agonised for months over the Belgian scheme and are concerned over the latest French plans - and indicated last year that they were about to strengthen their aid guidelines. They promised a paper on the subject; but have failed to produce it.

I believe that we should now urge the Commission at the highest level to tighten up the effectiveness of the existing machinery for controlling aids in this sector; their intended initiative should be implemented forthwith. Ideally, of course, an aids policy should exist as part of a general Community policy for all aspects of the textile industry; but to seek this would be to embark upon interminable discussions. It would be better to concentrate upon aids, where the Commission already have a definite function to perform. We can expect support for more effective Commission action from Germany (who, like ourselves, have no aid schemes aimed specifically at textiles and clothing). Indeed the Germans have lodged a complaint with the European Court over the Commission's handling of the Belgian aid scheme.



Officials have considered the form and content of such an initiative and the attached draft reflects their discussions and the comments of our permanent representatives in Brussels. If you and members of OD(E) agree, Patrick Jenkin proposes to write to Commissioner Andriessen as soon as possible.

I am sending a copy of this letter to colleagues on OD(E) and Sir Robert Armstrong.

*Jenkin*

*Kenneth Baker*

KENNETH BAKER



## STATE AIDS FOR TEXTILES RECENTLY ANNOUNCED BY OTHER MEMBER STATES

FRANCE

## November 1980 scheme

- textiles added to the list of strategic sectors giving easier access to interest-free or low interest loans, and creation of an export promotion centre
- £210 million allocated to projects in 1981
- plan not notified to the Commission

## November 1981

- plan to reduce social charges by up to 12% conditional on textile firms agreeing specific investment and employment targets
- estimate of reduction in industry's costs is £180 million over 2 years
- plan <sup>probably</sup> not officially notified to Commission yet.

- Other - French Government covering losses of Boussac-Saint Freres (major French textile company) since appointment of receiver last June pending re-structuring of company
- £9 million interest-free loan over 15 years to help Prouvost (another major French textile firm) to broaden its capital base. The amount represents 50% of Prouvost's 1981 investment.

BELGIUM

## December 1981

- Commission approval for first year of a proposed 5 year aid scheme to re-structure Belgian textile industry
- £90 million allocated for 1982 mainly in form of grants and low-interest loans
- sensitive products eg man-made fibres excluded from any aid; certain other products categories eg carpets, hosiery, terry towelling, where over-capacity exists need special prior approval before aid can be offered.

NETHERLANDS

- Commission approval in 1981 for £6 million aid scheme to help textile firms develop new products and raise quality.

TEXT OF LETTER FROM SECRETARY OF STATE FOR INDUSTRY  
TO COMMISSIONER ANDRIESEN

STATE AIDS FOR THE TEXTILES AND CLOTHING INDUSTRY

I am writing to express my serious concern at the proliferation in the Community of schemes of Government aid directed specifically towards the support of the textiles and clothing industry. I fully recognise the considerable efforts which the Commission has made over many years to regulate subsidies in this sector. However, in the course of the past year, as the Commission is aware, substantial programmes of assistance involving £300m (540 million Ecus) have been introduced. This causes the United Kingdom great concern.

2 The textile and clothing industry throughout the world has of course been facing severe problems during the recession. Since the beginning of 1980, over 150,000 jobs have been lost in the United Kingdom alone, representing 20% of the UK workforce, production has fallen by 25% and over 700 establishments have closed involving a substantial loss of capacity. We have not introduced a sectoral scheme of Government assistance to ease this transition, because we believe that, within the framework established by the Multi-Fibre Arrangement, such matters should be determined in this sector by the commercial judgement of the companies concerned.

3 It is apparent that some Member States have chosen to embark on substantial programmes of state assistance for their textiles industries and this will inevitably increase competitive pressure on the industries of other Member States, including the UK. There is a real risk that the economic problems, particularly the unemployment, of the Member States giving this aid will simply be shifted elsewhere in the Community.

The situation will be exacerbated by the schemes in the pipeline, of which the Commission is aware.

4 An aids policy of this kind cannot be in the best long term interests of the Community. The Community has provided its industries with the framework of protection afforded by the new Multi-Fibre Arrangement. The industries should now aim to make the necessary adjustments to face international competition without continuing, costly Government subsidies. Firms in Member States with schemes of assistance, on top of the help afforded by the Multi-Fibre Arrangement, will not force themselves to take difficult decisions while they are in receipt of Government subsidies; nor will firms in Member States without such schemes make the necessary adjustments while their confidence in the future is undermined by the belief that their Community competitors are being unfairly strengthened by state aid.

5 The situation I have described above suggests that the guidelines drawn up by the Commission in 1971 and 1977 to regulate aids to textiles and clothing and the arrangements for aids to the manmade fibre sector since 1977 have proved inadequate. I had understood from a report of a multilateral meeting of officials in September last year that the Commission was seriously concerned about the escalation of these aids and intended to take an initiative in this area. The United Kingdom welcomed this. I therefore most strongly urge the Commission to reconsider the effectiveness of the existing machinery for controlling aids in this sector with a view to cutting short what is becoming a dangerous upward spiral of Government subsidisation.

6 I should be glad to discuss this with you if you feel this will be helpful. Alternatively my officials are available to discuss our concerns with your officials in greater detail, if you should wish.