



3

B
CPOI

10 DOWNING STREET

THE PRIME MINISTER

7 July 1980

Dear Nicholas,

Thank you for your letter of 12 June, following our meeting on the previous Monday.

As requested, I enclose a copy of the reply which Keith Joseph sent to the Manchester Chamber of Commerce and Industry on 16 June.

As I made clear at the meeting, we fully appreciate the difficulties facing the textiles and clothing industry, and we are determined to do all we can to help within the framework of our international obligations and our broad economic objectives.

I know the industry is particularly concerned about imports from low cost sources. We shall continue to insist on the most effective and rigorous implementation of the European Community's procedures under the Multi Fibre Arrangement (MFA) and associated arrangements. As you know, we already have over 400 quotas and other restraints on these imports, and over 40 countries are covered. Wherever possible we shall increase our efforts to ensure that the arrangements are properly complied with; and where there is scope for new quotas we shall do all we can to ensure that they are introduced. Moreover, we are determined that the arrangement to follow the present MFA when it comes up for re-negotiation at the end of next year should allow effective and tough restraints to continue beyond 1981.

As far as domestic policies are concerned the best prospect for textiles and clothing, as for industry generally, is that inflation should be brought under control and the right basis created for an efficient and competitive economy. The battle against inflation must

/ remain our

remain our top priority. This means that we cannot reflate the economy artificially, for the main effect would be more inflation. We have made a start in the last few days in reducing interest rates, but our actions in this field will remain conditioned by the need to control monetary growth. And special measures of relief for textiles, even if feasible, would inevitably mean an increase in taxation elsewhere or in public borrowing, which would make the task of bringing public expenditure and inflation under control more difficult.

At the meeting on 9 June you also suggested that energy industries should charge lower prices to the textiles industry, or if that is not possible, that the Petroleum Revenue Tax should be increased and the proceeds allocated to industry. As far as oil is concerned we operate in an international market, and all Community Member States have recognised the importance of oil prices which reflect world market levels. We do not think it would be wise to depart from this principle. As for electricity and gas prices, it would be inequitable to single out the textiles industry for favourable treatment, while lower charges for industry generally would mean higher charges for domestic consumers. Nor is there scope for increasing Petroleum Revenue Tax and allocating the proceeds to industry: this would obviously have an effect on the level of exploration activity in the North Sea and we are satisfied that the tax is set at the right level at present.

You also raised the question of public purchasing of textile products. We are under a European Community obligation to advertise certain contracts for tender, but well over 90 per cent of central Government purchases of textiles and clothing are made from UK sources. We shall continue to watch developments on this front carefully and would certainly like to see public procurement generally used as effectively as possible to improve industrial performance to the advantage of both sides.

In conclusion, I must emphasise that we do not under-estimate the importance of the textiles and clothing industry in any way. I am impressed by the industry's record in improving efficiency

/ and productivity,

and productivity, and its good labour relations and export performance. I can only repeat that we shall continue to do all we can to help the industry within the constraints I have mentioned.

*Y
Laurie*

Raymond

Nicholas Winterton, Esq., M.P.