

15 Dec

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MRS. THATCHER

I enclose a paper on import controls by Terence Higgins which, as you will see from the formal covering note, has also been sent to Sir Keith Joseph and the "economic Shadows". It was not possible to put this paper on the Shadow Cabinet agenda today because Terence Higgins, as I think you may know, has an (obviously) important meeting with the textile industry.

If it proves necessary to hold a meeting of the economic Shadows (or a wider meeting) to discuss any Government pre-Christmas economic package, I imagine you will want this paper on the table.

Caroline
Yes - have a meeting
steering committee
Monday?
at

CHRIS PATTEN

10th December, 1975

- 1) Shadow list in it
- 2) *to* expected es
- 3) notes in it (pamphlet 4/4)

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MRS. THATCHER

I attach a paper on import controls by Mr. Higgins.
He would be grateful for any comments you may have.

Perhaps you could let me know if you would like this
paper put on the agenda for the Shadow Cabinet meeting on
17th December,



CHRIS PATTEN

10th December, 1975.

c.c. The Rt. Hon. Sir Keith Joseph Bt. M.P.
The Rt. Hon. Sir Geoffrey Howe Q.C. M.P.
The Rt. Hon. James Prior M.P.
Michael Heseltine Esq. M.P.
Mrs. Sally Oppenheim M.P.
John Nott Esq. M.P.
David Howell Esq. M.P.

*Statement*IMPORT CONTROLS

(A. Paper by Mr. Terence Higgins MP)

Since colleagues agreed my paper on import controls of 25th June, 1975, pressures on the Government from the Trade Unions and Labour Party have greatly increased. Their demands are no longer for action against "dumping" but for widespread protection.

Our policy has been to combine opposition to any restraint on fair competition with support for faster, more effective action against "dumping".

I am convinced this is right. Import controls (other than on "dumped" goods) would:

- 1) Invite retaliation. Protectionist pressures overseas are great, and there is a real danger of a trade war with "beggar my neighbour" policy turning the present world depression into a slump.
- 2) Reduce consumer choice and make inflation worse; imported goods have exerted a downward pressure on prices and inflationary wage claims.
- 3) Not provide "a breathing space" in which British industry was regenerated, but reduce competition and lead to degeneration. Eventually increasing costs would create the unemployment which protectionists assert they are seeking to cure.
- 4) Take us a significant step closer to a socialist siege economy.

It seems likely the Government statement on import controls, foreshadowed at Business questions, will attempt to reduce Trade Union and Labour Party pressures for widespread controls by the introduction of "selective" "temporary" controls. Recent Ministerial Speeches have failed to make clear whether such action is only to be taken against "dumped" goods. They have implied it will be wider than this.

We need to decide how to react both in general and in specific cases to any Government statement. In general, I recommend we should not change our present position, but press strongly for faster, effective measures against "dumping".

The Government's attempt to introduce a new class of protection for industries which are viable when trade is good but not when it is depressed, cannot be justified. There is never a problem resisting protectionist pressures in a boom. The whole point of GATT is to prevent increased import controls from endangering trade further when it is depressed and turning a depression into a slump.

Even if the Government has succeeded in getting EEC/US agreement to limited measures at, or following, Rambouillet so that the danger of immediate retaliation is removed, such action is bound to jeopardise the success of the present round of multilateral trade negotiations. Objections 2 to 4 above would also remain valid.

Detailed implications for specific industries and my recommendations are set out in the appendices. They cover the main sensitive items: textiles and clothing, footwear, motorcars and television tubes.

Import Controls - GATT Regulations

The General Agreement contains at least nine safeguard clauses, the most relevant being Article 19 on "emergency action on certain imports". It authorises emergency import-restricting measures on the conditions that:

- a) actual or threatened injury to domestic industries, due to unforeseen developments and to the effect of obligations under the GATT, is shown,
- b) the countries concerned consult each other, and
- c) the import restraints are imposed in a non-discriminatory fashion.

Most of the numerous import restraints imposed in various countries over the last decade for the purpose of protecting industries against injurious external competition - the very purpose for which Article 19 in the GATT treaty was originally intended - were imposed either under the more permissive Arrangement Regarding International Trade in Cotton Textiles or without any GATT approval at all. Advocates of import controls have argued that in these cases they have not provoked retaliation. But the controls have been either of short duration or imposed by less significant trading nations than the UK.

Once import controls are justified under the GATT, there is no machinery for enforcing their removal when conditions change. Apparently controls may endure as long as they are necessary to prevent or remedy injury to industry.

Article 19 also refers to "any product being imported in such increased quantities as to cause or threaten serious injury". This is a sine qua non in the justification of protection. In Jan-Sept 1975 total imports of textiles were down by 3.4% in cash terms, of radios by 5.3% and in the case of T.V. tubes the industry's figures show that penetration levels at 52% on the first half of this year were well down on the 1975 level of 65%. In these areas the Government could not justify action under the GATT. Clothing imports in the first nine months of 1975 over the same period of 1974 from all countries are up 18.1%. From Hong Kong the increase was 12.8%, from Korea 60.9% in money terms. While Labour could not "legally" proceed against textiles as a whole, it could select certain fields for "legitimate" bridging action under GATT and could certainly knock together a case for action on clothing. It seems likely that this is the course of action that the Government will take.

Article 12 of the GATT, the other main safeguard clause, permits, under certain circumstances, protective measures to defend a nation's balance of payments against damage by imports. But Britain's non-oil trading balance has not of late been in serious enough condition to warrant invoking this article and the Government does not appear inclined to do so.

Even action within the GATT may provoke retaliation if the country against which action is taken feels that insufficient consultation has taken place. They can then retaliate in discriminatory fashion to the extent of the injury sustained. This retaliation can be against whatever products the injured country selects. It appears Mr. Wilson faces difficulties from the IMF and our trading partners in Europe and America who feel they have been consulted inadequately about the prospect of import controls and certainly less fully than he claimed after Rambouillet.

Quotas, Tariffs or Import Deposits

A Bill is only required for import deposits. Tariffs or quotas could be enforced by order. The Labour Government of 1964-70 introduced import surcharges in the period 1964-66, and in November 1968 introduced the Customs (Import Deposit) Act 1968, which imposed an import deposit scheme which lapsed in 1970. Both experiments, in particular the surcharge, were markedly unsuccessful. The Government is not likely to be enthusiastic about another such Bill.

Opportunity to debate quotas or tariffs could only arise on statutory instruments but no doubt we could press for extra time to debate such measures.

EEC

Under Article 135 of the Treaty of Accession the UK must apply to the EEC Commission for authorisation for emergency protective measures against imports. The Commission's duty is then to "determine without delay the protective measures which it considers necessary."

Britain would not have to prove that damage to a sector of industry was caused as a result of joining the Common Market, or even that the damage was caused by EEC members, but she would need Commission approval. The Government appears to have kept the Commission informed of its plans, but opposition among our partners to any import control measures has been increasing. If there were a disagreement between member nations the issue would be decided at the European Court, but it appears likely that the Commission might concede certain controls under stringent conditions and time limits. This line would probably be acceptable to the IMF which would insist on similar strict conditions in the event of any concession on import controls.

Appendix 1

Textiles and Clothing

This is the most difficult case. It is important to distinguish between cotton and synthetics on one hand and wool on the other. Action on cotton and synthetics could have adverse repercussions on wool exports, UK import restriction on finished products could reduce exports of fibre and cloth. The size of the cotton and synthetics industry is far smaller than it was 20 years ago. It has long been highly protected both by quotas and tariffs. Despite rationalisation and heavy investment it is still not competitive when trade is depressed.

The continued negotiation of the multifibre agreements under which other countries will take more cheap imports and exporting countries will agree to self-limitation of exports should help UK industry. At the end of November the EEC was conducting negotiations with South Korea, Brazil, Mexico, Columbia and Japan; agreements were awaiting signature with Hong Kong, Singapore, Malaysia and Macao; preparatory moves towards agreements with Yugoslavia, Rumania, Hungary and Poland were being made. Taiwan, which no longer has official relations with the EEC, is subject to autonomous EEC restrictions.

1975 has seen a drop in fibre imports, reflecting the reduced level of activity in the textile industry. Imports of textile yarn and fabrics have also fallen away. The value of exports has declined even more than imports. Exports of continuous filament yarn have failed to approach the record levels of Jan-June 1974 and carpet exports are markedly down. Reductions in imports of cotton yarn and cloth both in value and quantity were offset by increases in imports of woollen and man-made woven fabrics and knitted fabrics.

The multifibres agreement can have a beneficial effect through the legitimately negotiated restriction of imports. We have supported it and the continued surveillance of textile imports.

If the Government introduces additional restrictions unilaterally they could endanger the multifibres agreements. But demands from the British textile and clothing industries for protection against real or imagined foreign "dumping" have been widespread, particularly from manufacturers of certain finished articles of clothing.

I recommend that we should not support further controls on textiles. I seek my colleagues' agreement to this line, plus a demand for a full Government enquiry into the alleged "dumping" of textiles. The alternative would be not to oppose the Government if they only take action against certain textile imports which is i) within GATT ii) with the agreement of our trading partners and iii) shown to involve serious injury to the industry. Whether they can do this without destroying the multifibre agreement is very doubtful.

Appendix 2

Footwear

The footwear industry which has seen some 8,000 jobs disappear in the last year is also very anxious about foreign penetration levels. In volume terms imports have increased from 34% of the market in 1974 to just under 40% in the early part of 1975.

(Jan-Sept)	£'000	Exports	Imports
1973		24,407	62,272
1974		34,304	81,682
1975		37,152	94,337

The industry has for a year been pressing for short term controls and desires a blanket quota system. Reports indicate that the Government may demand pre-entry licensing under which importers must produce evidence of orders received. This is a purely theoretical control on imports whose effects are psychological; this should not provoke our opposition. Large scale controls might again affect our exports which though far behind our import levels have been increasing at a similar rate.

Here again we could call vigorously for investigations into "dumping". In particular we should press for Government investigations into the increased imports from Communist countries; although total imports have declined somewhat this year in volume terms they are well up on 1973 and up on money terms on 1974.

I recommend we should take the same line as that proposed for textiles.

Not handled in committee
Tob.

Peter
Adrian

Side of budget definite

John
Adrian

Robert
[Signature]

Appendix 3

Motor cars

The SMMT have expressed themselves opposed to the idea of extensive import controls. Their anti-dumping application against Japan is proving difficult to substantiate. Cars are the weakest point in a motor sector otherwise healthy in trade terms. Imports in the first 10 months of 1975 are up to £225.4 million an increase of over 45% on 1974 in money terms. Exports at £406.8 million were up over 15% on 1974. Imports from Japan in the first nine months more than doubled over 1974.

Import controls on cars clearly cannot be divorced from the Leyland and Chrysler issues. But their problems are certainly not likely to be solved by reducing competition, given the effect of this on wage levels and costs. Moreover, Leyland's recent problems have been caused by lack of cars rather than lack of sales. Import controls would not help and could well endanger Leyland's important export market. In the United States, in particular, there has been much evidence of a desire to control car imports.

I recommend we should not support import controls on cars but colleagues will want to consider this in the light of broader considerations on Leyland and Chrysler.

Appendix 4

T.V. Tubes

The main firms involved support the principle of free trade but in anticipation of increased imports feel that some action is necessary to check further Japanese penetration.

The market is depressed as a result of 25% VAT and stricter hire purchase terms. Home market deliveries are down 29% on last year. A Department of Trade investigation into alleged "dumping" this year was inconclusive, but import surveillance is being maintained. The industry wishes any import quotas to be extended to colour sets to avoid evasion of tube quotas. The companies have a real fear of retaliation if the Government does not handle the matter with delicacy.

As the import share of the UK market in the first six months of 1975 (51.7%) was well down on the 1974 figure (65.3%), there is little prima facie justification for a claim for protection and imposition of controls would be a major breach of GATT regulations.

I recommend we should oppose import controls on television tubes and press for a more intensive Government investigation into "dumping".

MRS THATCHER

I gather this is a paper
which will eventually
come to Shadow. If you
have got time Mr Biggins
would like your views
on it.

CS

Canoe box
box with no
opinion
of
Spud ok.

For the file

Called
Nicholas Pave
at CRD and
told him
not to
send around
N. Hiss's
paper.

J.

9/12/45.