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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

PROBLEMS OF THE TEXTILE AND CLOTHING INDUSTRIES

Memorandum by the Secretary of State for Industry
and the Secretary of State for Trade

BACKGROUND

1 Textiles and clothing is the UK's second largest manufacturing industry. It employs around 760,000, against 926,000 in 1974, and accounts for about 2% of GDP. The industry is regionally concentrated e.g 21% of its jobs are in the North West, 17% in Yorkshire and Humberside: it provides about 32% of manufacturing employment in Northern Ireland. The annex sets out some more statistics.

2 For years the British industry has been declining, particularly in employment terms. The policy of successive governments has in effect been to provide a framework, particularly through restrictions on imports from low cost suppliers, to temper the rate of contraction to socially and economically acceptable limits and offer reasonable market prospects for the rationalisation and investment essential to continuing viable production. Substantial parts of the industry are capital intensive and technologically advanced, and should have a future in the UK.

3 However, the contraction is accelerating. The Department of the Employment was notified of 170 closures in 1979. So far this year 112 have been notified or announced. 25,000 jobs were lost in the last 6 months of 1979. More will go this year: many in the industry envisage a cutback of at least 10%. Current figures for orders, expected output, stocks, etc are all bad. Some sectors of the industry fear a dramatic collapse. These fears cannot be discounted.

4 Agriculture apart, the textile and clothing industry is the most protected in the European Community and is more protected than in the past. But all other countries except Hong Kong also protect their industries; many, including the USA, to a greater extent than the EEC. No developed country can compete with the very low labour costs of the developing world. In recent years the UK industry has also lost out to other developed countries. This has been marked in textile trade with the European Community and in rapidly rising imports of synthetic fibre textiles from the USA. Reasons include the high level of sterling and world-wide excess capacity. The industry put the main causes as

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inadequate control of imports, various forms of unfair trading by our competitors and the particular openness of the UK market exemplified by the ease of selling to large UK retail chains. Inefficiency in the industry does not seem a sole and convincing explanation: it is not without flaws, but neither are competing industries of other countries. The UK industry exports around a quarter of output and has on the whole been in surplus in its trade with the developed world until very recently.

5 Government policies significantly affect textiles and clothing as they affect other industries. VAT rises tend to squeeze demand. Higher interest rates are felt through the industry's long production chain.

THE PROBLEM OF IMPORTS

6 The clothing and textile industry is protected against low-cost imports by the Multifibre Arrangement (MFA) and associated restraint measures. There are formal bilateral agreements with 27 countries, voluntary restraint arrangements with 8 countries which enjoy a preferential trading relationship with the Community, and autonomous restraints on Taiwan and certain state trading countries. Over 60% of all low-cost imports are covered by formal quotas, and about a sixth by voluntary restraint arrangements. Most of the rest can be made subject to quota if imports from a particular source increase. The quotas are vigorously and effectively enforced and new sources of supply have been the subject of 23 actions since we took office. Three new agreements with preferential suppliers have been negotiated.

7 These controls are nevertheless strongly criticised by the industry as insufficiently effective. The main complaints are:-

i) that the quotas all allow growth from year to year, in spite of the current recession,

ii) that quota coverage is insufficiently complete in product and country

iii) that new sources of supply are not checked in good time, or at satisfactory levels, because of a reluctance to operate the relevant procedures effectively

iv) that the effectiveness of quotas is undermined by free circulation within the Community

v) that quotas are evaded by use of false declarations of origin.

8 There is some substance in these critisms. The MFA itself represents a negotiated compromise between the developed and developing countries, and whilst the degree of restraint was adequate for a period of market growth it is inevitably much less so in the present economic climate. Nevertheless there is no doubt that without the MFA the industry's problems would be very much worse.

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9 A separate problem is presented by alleged unfair trading by developed countries. The Italians are widely believed to give secret subsidies to textiles, and the US synthetic textile industry enjoys access to cheap feedstocks as a result of US energy price controls resulting we believe in a price advantage of 10-20% for some products, though the Americans dispute this. Attempts through the Commission to challenge the Italians on subsidies have so far been unsuccessful. Quotas have been imposed on certain US synthetic yarns, but this has by no means disposed of the problem.

INTERNAL POLICY

10 All countries, including the UK, give financial assistance to their industries. Internal policy has been almost entirely of this kind. Almost £200 mns Temporary Employment Subsidy went into textiles and clothing before the Commission prompted its replacement by the Temporary Shorttime Working Compensation Scheme. Substantial assistance has also been going to the industry under the Industry Act 1972 e.g in schemes for investment and rationalisation in wool textiles and clothing. However, for purposes of regional aid most of the Lancashire and Yorkshire textile areas are being downgraded from Intermediate Area to non-assisted status. The relatively low profitability of textiles in particular means that the sector has benefitted less than others from tax reliefs. Financial assistance is regarded by the industry as useful but less important than the assurance of what it would see as a satisfactory trading and marketing framework.

FUTURE MEASURES

(a) <u>Trade Policy</u>

11 The main trade associations have recently advocated the tightening up or introduction of restrictions to reduce imports significantly. These requests need to be considered carefully in the light of our international obligations under the GATT and the Treaty of Rome.

12 As regards the developed countries, 70% of our imports come from the European Community and any restrictions would of course be illegal under the Treaty of Rome. The measures against US synthetic yarns were accepted only very reluctantly by the Community, and despite growing concern in other Member States any proposal to extend them would almost certainly still be resisted by the Commission and some other Member States and lead to retaliation by the US. The Community is acutely aware of the potential consequences for the world trading system of any spread of restrictions on trade between developed countries, and would be reluctant to agree to further restraints. Member States retain limited rights under the relevant Community legislation to take unilateral action against third country imports. But use of these rights would present legal as well as political problems.

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13 As regards the developing countries, it is true that if the Community could be persuaded to implement existing arrangements more quickly and more stringently then stricter control of the growth of imports could be achieved. But even this would only marginally improve the present position. To meet the industry's demands it would be necessary substantially to re-negotiate the existing MFA agreements (which run to the end of 1982). Even if it were consistent with our wider trading interests to do this (and many of the suppliers of low-cost textiles are important customers for our exports) the agreements were negotiated by the Commission on behalf of the Community as a whole and there is no prospect of the Community agreeing to such a move. Nor would the Community be ready to agree to the imposition of tighter restrictions on the Community's preferential trading partners. Any move to tighten restrictions on trade in textiles further would also have implications for the Community's relations with the Third World generally.

14 Administration of the MFA is the responsibility of the Commission. Whilst therefore we will continue to press for rigorous enforcement of the existing restraints, this by itself will do no more than maintain the present position. The successor to the MFA is still two years away and it is the firm view of the Secretary of State for Trade that it is bad negotiating tactics to commit ourselves to any detailed position now. However the Secretary of State for Industry feels it might help to improve confidence if the Government were to state firmly that it would try to ensure that the successor to the present MFA will link access more closely to actual market conditions (i.e access should be lower during periods of recession). Such a statement would echo present US policy, but would not be well received by the developing countries, by the Commission, or by some other Member States. And it is doubtful how far a more restrictive MFA would be negotiable.

15 There are some other measures that are being considered. The whole question of non-tariff barriers is being looked at separately. The Department of Industry is considering a consultants study on the causes, including any unfair trading practices, of increasing imports of certain textiles from the Community. The Department of Trade is considering the possibility of compulsory origin labelling for textiles and clothing to encourage customers to buy British. Strengthening Customs and Excise to devote more effort to the enforcement of origin rules would help check fraudulent trading, but this would present obvious problems of staffing.

(b) <u>Economic and Industrial Policy</u>

16 The broad industry view is that the exchange rate needs to be lowered to around \$1.90/1.95 = £1 for them to have a fair chance of competing. Many in textiles and clothing would like to see preferential interest rates for the industry. Both these steps, even if practicable, would clearly run counter to the Government's policies for national economic recovery. In affecting intra-Community trade, preferential interest rates would probably also breach Community rules of competition.

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17 As for financial assistance, the industry should be encouraged to make as much use as it can of Industry Act regional or selective aid under the more restrictive criteria now in force: Lancashire and Yorkshire would welcome a decision to let them after all retain Intermediate Area status after August (or even to upgrade them to Development Areas). But any such change in assisted area status would benefit industry other than textiles, be unfair to non-assisted areas where the rate of unemployment is higher and create considerable pressure for other changes which would nullify the Government's objective of spreading regional assistance less thinly. Direct revenue support to the industry beyond the shorttime working scheme would apart from anything else be costly in public expenditure: it would help the industry in the short term but its long term effects would be uncertain.

CONCLUSIONS

18 The agreements under the MFA and the associated restraint measures will continue to be the main source of protection for our industry until they expire in 1982.

19 The Government will continue to seek ways of improving the enforcement of these agreements.

20 Other new measures, such as origin marking, the strengthening of procedures to detect fraud and unfair competition (including use of consultants) are being planned (see para 15 above).

21 Government is committed to renegotiation of the MFA. To date we have resisted pressures to reveal our negotiating hand. It is for consideration whether the Government should make a firm statement of intention to ensure that the successor to the present MFA will link access more closely to market conditions (see para 14 above).

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Department of Industry
and
Department of Trade

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TEXTILES AND CLOTHING: SOME SELECTED STATISTICS

Consumers Expenditure	1974	1977	1978	1979
	(1975=100)			
Clothing	98.8	98.6	104.4	107.7
Household textiles and soft furnishings	97.5	105.9	112.3	115.5
UK Output	(1975=100)			
Textiles	105.9	100.9	99.3	96.5
Clothing	98.7	103.0	106.1	106.8

(Note: output in 1979: £8.500 million)

Imports	(£ million, current prices)			
Textiles and clothing (including man made fibres)	1153	1970	2461	2989
Exports				
Textiles and Clothing (including man made fibres)	1122	1966	2085	2297
Crude Trade Balance				
	- 31	- 4	-375	-692

(Note: trade with low cost countries accounts for the bulk of the deficit)

Employment in Textiles and Clothing	June 1974	June 1977	June 1978	Dec 1979
	(thousands)			
	926	926	796	763

Capital Investment in Textiles and Clothing

1970-1979

£2000 million (at 1975 prices)

Import Penetration		1977	1979
By Value:	Textiles (including man made fibres)	28	33
	Clothing (including footwear)	26	30
By Weight:	Textiles and Clothing (excluding fibres)	about 54%	

(Note: In 1979, imports from low cost countries accounted for about one-third of total imports by value, and, excluding man made fibres, about half by weight.)