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C.P. 50 (35)

C A B I N E T.

COTTON SPINNING REDUNDANCY SCHEME.

Memorandum by the President of the Board of Trade.

1. My colleagues will recall that a memorandum which I circulated last January (C.P.16(35)) outlined a scheme prepared by a Committee, under the chairmanship of Lord Colwyn, for dealing with surplus capacity in the spinning section of the cotton industry, and indicated that if, as a result of inquiries that were then being made, it appeared that cotton spinners were prepared to dispose of a sufficient amount of plant under the scheme, we should be obliged to propose legislation to put the scheme into operation.

2. Lord Colwyn's Committee have now completed their review of the situation, and at a meeting held on the 20th February last adopted the following resolution:-

"..... it is hereby resolved that, subject to satisfactory terms being obtained, the President of the Board of Trade be asked to prepare immediately, in consultation with the drafting committee, a bill to give effect to the proposals for dealing with surplus capacity in the spinning section which have already been approved by the industry."

In response to this resolution, the proposals have been discussed on my behalf with Lord Colwyn's Committee in Manchester.

3. The scheme provides for a loan not exceeding £2 m. to be raised for the purchase of surplus spindles, and for the loan to be secured on a levy on the surviving spindles over the next fifteen years. My colleagues will remember that it was contemplated that some form of Government

guarantee would be necessary, as the lenders might fear that the number of spindles subject to the levy, and consequently the total amount of the levy, might, at some future date, be reduced to such extent as to involve a partial default in the repayment of the loan. Further consideration has confirmed this view, and (the Chancellor of the Exchequer having expressed his concurrence) it is proposed that the Government should guarantee that if in any year the amount of levy due for collection, plus any surplus in hand from previous years, is less than the amount required for service of the loan, the Treasury will pay the difference.

The precise terms of the guarantee remain to be settled by discussion with the potential lenders - the Bankers' Industrial Development Company - in which the Treasury will, of course, take part. A provisional basis has already been reached in discussions between the Treasury and the Board of Trade. That basis ensures that the Government guarantee will cover what I may call the "catastrophe risk". It would only be called on in the event of a very drastic decline in the spinning industry - a decline which might be due to further heavy loss of trade, or to some unforeseen and unforeseeable industrial development.

4. The levy payable will probably be at a rate between 1d. and 1½d. per spindle, according to the precise terms of the loan to be raised. On an average mill of say 100,000 spindles, the burden will be in the neighbourhood of £500 a year. This is less than the amount contemplated in the original proposals submitted to the industry; but the reduction is largely due to a decision, accepted by the Colwyn Committee, to impose the levy on all spindles, active or idle, and not merely on running spindles. Some

reduction is also due to the effect of the Government guarantee on the probable rate of interest.

5. Legislation to give effect to the scheme now becomes a matter of urgency. It must cover the establishment of a Board to administer the scheme. The Board must have powers to collect the levy imposed by the statute on all spindles, to raise loans on the security of the levy, and to buy and sell spindles. The Bill must also provide for the Government guarantee.

6. The Bill should, I think, be popular - at least while it remains a Bill. In fact, there will be great pressure from the Lancashire Members to proceed with it as rapidly as possible. If the proposal is to be successful, it must be treated as a matter of urgency; the Bill must be passed, the Board must be set up, and spindles must be bought as soon as possible. Accordingly, I ask for authority to proceed with the drafting of the Bill forthwith, and to submit it to the Committee of Home Affairs.

(Intld.) W.R.

Board of Trade,

7th March, 1935.