



PRIME MINISTER

TEXTILES

We have some difficult decisions to take on textiles.

2 The most urgent question is whether we try to get the EC to renew our existing quotas against American polyester fibre and nylon yarns which expire at the end of the year.

3 Almost as urgent - and whatever we do about the existing quotas - is whether we should seek restrictions on other textile sectors hit by United States competition, when we are under well orchestrated pressure from the industry and constituencies.

4 These specific two questions are related to a third problem of a more general nature, the difficulty of the United States energy price differential.

5 Finally, the retaliation by Indonesia against our use of the MFA "basket extractor" mechanism against them, and threats of such retaliation by Mexico, make it necessary to reconsider the whole way we implement the present MFA.

6 The question in paragraph 4 goes wider than textiles - notably to chemicals - but for the rest they are all textile issues.

7 The simplest issue to my mind is the first. Although a number of major companies, eg Hoechst, British Enkalon and to a lesser extent, Courtaulds, are anxious for us to renew the nylon yarn quota we feel that the broader interests of the textile industry are to ensure that they receive the benefit of low raw material



prices from whatever sources. Indeed we have had several protests from, for instance, Lancaster Carpets and Abingdon Carpets about the impact of the nylon yarn quota on their raw material supplies and hence their output. Additionally, ICI has already announced its intention to close plants at Ardeer and Kilroot in its Fibres Division, and to renew our quotas on polyester fibres from the United States of America would not change this.

8 There is no doubt (President Carter has signed the legal instrument) that if we were to renew these quotas the United States would retaliate against our woollen textile products. On my recent visit to Yorkshire I received widespread pleas from the industry that in its present hard-pressed condition we should not allow this to happen.

9 All the arguments seem to point strongly towards allowing these quotas to lapse. We would have very great difficulties in obtaining EC agreement to their renewal in any event.

10 More difficult are new cases of United States penetration, the most notable and important of which is bed linen where United States penetration has risen from 10% in 1978 and 17% in 1979 to over 40% in the third quarter of 1980 (in the same period total import penetration has risen from 32% to 54%). In some ways this is a classic GATT Article XIX case. You will be aware, however, that the American product is a superb one in great demand by the British consumer, and if we were to start singling out individual textile products for protective action we would place ourselves in an impossible position because before long we would be running a system of managed trading in textiles between ourselves and the United States - with all the complications and traumas of policing such a situation with our largest ally.



11 To jump to the fourth issue namely the existing MFA (paragraph 5), it is becoming clear that our insistence on pushing the Community into a rigorous implementation of the current MFA is beginning to cost us an unacceptable price in terms of lost exports. In the case of Indonesia the figure could already be in the area of £100 million - perhaps more. There are threats from Mexico - potentially a bigger market. We are tremendously vulnerable to a wave of retaliation from the low-cost countries upon whom we increasingly depend for major export possibilities. Generally speaking the more important textile producers, ie Hong Kong, Taiwan, Korea etc are the very countries whose economies are growing at 10% per annum compound and with whom we have the greatest opportunities. At the present time we have a surplus of £2.7 billion on our trade with them in manufactures.

12 I am not saying that we should go for no more basket extractor cases; only that we should from now on handle them more carefully and not push them where the price is too great.

13 That does not mean giving up hope of a tough new MFA next year. On that we would have the support (the Germans, as you will recall from your meeting with Helmut Schmidt, excepted) of most of the Europeans - the EFTA countries as well as the EC - the United States (with a question mark about Reagan), Canada and Australia. We would not in that exercise be exposed - and therefore so appallingly open to retaliation - as we are in our present efforts to enforce the basket extractor arrangement.

14 Failing to act against the United States will make it more difficult to persuade the developing countries to acquiesce in the MFA restrictions against them. Just, however, as MFA II was in effect imposed on the developing countries, the same will in the end, I believe, be true of MFA III. EC inaction against United States imports will be a much used debating point but I doubt if in the end it will much affect the outcome.



15 The remaining issue is the wider one of United States energy prices. Here British industry has major grounds for complaint, and I think we can only justify a relatively open market approach to these issues if at the next Summit the European heads of government make a major assault on the new President on this subject. In the meantime I have talked to Davignon and in making an announcement on these quotas I would like to emphasise a new British approach towards the differential energy problem, not least because it covers a much wider range of currently threatened British products (ie chemicals, plastics, paints) than the mere problems of fibres alone.

16 I quite realise that what I have suggested on quotas will evoke a chorus of protest from sections of the textile lobby. Other parts of the textile industry will breathe a sigh of relief but will remain silent. I suspect that privately neither the industry nor the unions really expect us to extend the quotas. I acknowledge that 100,000 jobs are forecast to go this year and perhaps another 135,000 next year. But I must be frank and say that in my view the high tide of protectionism in textiles is past. The industry is smaller than before. At the same time the protests of the developing world are growing louder and more aggressive. Where there is genuine dumping, action can be taken - as it has been on acrylic fibres and polyester filament yarn. For the rest it is absurd to go on giving this industry every bit of protection we can get through Brussels at the expense of the industries where our future lies - including the more competitive sectors of the textile industry (such as woollens) itself. Not to mention the United Kingdom consumer.

17 I have no doubt that Sir Keith Joseph will want to give the views of the Department of Industry, and you may feel it desirable to call an early meeting on this subject. It would be very valuable to me if I could at least clear our action on polyester yarn and nylon carpet yarn before I wind up the debate on the Loyal Address on Wednesday.



18 There is of course a lot of detailed background to all this. A note has been prepared by my officials in consultation with the other Departments most concerned. I have asked for this to be made generally available.

19 I am copying this to other members of E Committee, Humphrey Atkins, George Younger, Nicholas Edwards and Sir Robert Armstrong.

SW .

Department of Trade  
1 Victoria Street  
London, SW1H 0ET

JN

21 November 1980



21 NOV 1980

GEORGETOWN

Trade  
US Fibres  
TL 8/12

CONFIDENTIAL

SK



cc: Trade Ind  
WO HO  
SO Ch. Sec. HMT  
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D/En  
D/Em  
5 December 1980

10 DOWNING STREET

From the Private Secretary

Dear Stuart,

Textiles

The Prime Minister has seen the Secretary of State for Trade's minute of 21 November and the subsequent comments from other Ministers. She recognises the importance of the issues which have been raised. She is also conscious that the questions have Community implications and need to be considered in the framework of the Community's Common Commercial Policy. She hopes, therefore, that the future of the United States quotas can be considered at an early date by OD(E) in the context of our general approach to the application of the Multi-Fibre Arrangement to low cost textile imports.

I am sending copies of this letter to the Private Secretaries to the members of E and OD(E) Committees, to the Private Secretaries to the Secretaries of State for Northern Ireland, Scotland and Wales, and to David Wright (Cabinet Office).

Yours ever

Richard Alexander

Stuart Hampson, Esq.,  
Department of Trade

CONFIDENTIAL

SK



*From the Secretary of State*

Tim Lankester Esq  
Private Secretary  
10 Downing Street

21 November 1980

*Dear Tim,*

TEXTILES

*with TL?*

My Secretary of State has sent a minute to the Prime Minister today on textiles policy. The facts on which he has taken his decision are already available to officials in the Departments principally concerned. For the information of officials in the other Departments whose Ministers have received my Secretary of State's minute, I am now attaching copies of the relevant material.

I am copying this letter and enclosure to the Private Secretaries of all Ministers who have received Mr Nott's minute.

*Yours sincerely,*

*Stuart Hampson*

STUART HAMPSON  
Private Secretary





## ANNEX A

### REQUESTS FOR CONTROLS ON INDIVIDUAL PRODUCTS

The following paragraphs analyse the case for action on the various products where we have received requests for action. (The industry has not asked us to continue the quota on polyester filament yarn).

2 To summarise, we would say that the case on nylon carpet yarn is not strong - (there are doubts that the quota will be fully used) - but the industry has asked for its continuation at lower levels. The strongest case is on sheets and pillowcases; and <sup>on</sup>warp knitted fabric is reasonable though not cast iron. The polyester fabrics, which also show a high penetration, are the subject of an anti-dumping case; and the industry would prefer to follow this course. We do not consider that the import penetration figures on man-made fibre tufted carpets would justify action in its own right (though there could be complications if the nylon carpet yarn quota were to be extended). And, as yet, the penetration figures on T-shirts and sweaters are far too low. We would, therefore, recommend to Ministers that the cases on polyester sheets and pillowcases and on warp-knitted fabrics were the only ones which could be said to meet the Article XIX GATT criteria for emergency safeguard action. The MFA criteria - which are less stringent - would permit action on a wider range of these products. As noted in the paper, if this route is used, then bilateral consultations might be opened with the US on the whole range.

3 Here are the detailed statistics, analysed on the basis of the Article XIX criteria:-



### Polyester Filament Yarn

The quota was fixed at 9053 tonnes for the year. Imports in the first nine months of 1980 from sources subject to quota were 10,042 tonnes. However, some 3540 tonnes of these imports were re-exports. It therefore seems likely that in the year as a whole imports from quota sources will, quite legitimately, exceed the quota levels by some 4500 tonnes. The US estimate for 1980 exports to the UK was 30,000 tonnes. An additional factor has been the recently announced closures and redundancies in ICI plants which means that overall ICI have now reduced their capacity in this area by some 50%. Even before the ICI announcement, estimated UK production for the first nine months of 1980 had fallen to 16,600 tonnes against 39,164 tonnes for the whole of 1979. It is reckoned that total employment in the man-made fibres industry may be as low as 17,500 by next year as against 33,000 in 1977.

The detailed figures indicate that the rise in import penetration in 1980 (92.7% for nine months as against 67.2% in 1979) appears to have been caused largely because of a significant fall-off in the UK market; it is not caused by increased imports as such.

The Commission imposed a provisional anti-dumping duty in August of this year on imports of polyester filament yarn from the US. The industry say they would prefer a final duty to import restrictions





### Nylon Carpet Yarn

It is not certain that this year's quota will be fully used. Imports from sources subject to quota reached 4300 tonnes in the first nine months of 1980 against a quota of 7,500 tonnes for the year.

Imports from the US in January-September 1980 reached 3,892 tonnes, a market penetration rate of 23.5% against 15.5% for the same period last year. Total imports are some 10% down on the comparable period in 1979, but penetration is up from 67.6% to 81.7% due to a faster rate of decline in UK consumption and production, with the sharp drop in UK carpets output. Very little nylon carpet yarn from the US is re-exported; of 3,892 tonnes of imports, only 163 tonnes were for re-export in 1980

Some manufacturers who did not qualify for import licences because of their relatively new use of the US yarns have had difficulty in securing the supplies they wanted but, overall, there is no clear evidence that British carpet manufacturers have suffered seriously from lack of imports. This is not surprising since at Commission insistence the quota was fixed at a level related to imports in the second half of 1979 (producing a 1980 quota figure larger than the level of total imports in 1979).

ICI report that UK prices were virtually constant during 1979 and the early part of 1980 (resulting in decreasing margins); in the second and third quarters of 1980 poorer trading conditions have forced prices down towards the level of US imported yarns in order to retain market share. ICI prices for set yarns in Q1 1980 were on average 215p/kg, and 202p/kg by end Q2/early Q3. US imports have remained at around 185-190 p/kg over the period, with higher dollar prices being offset by



lower sterling prices as the US dollar has weakened. With cost inflation, UK margins in 1980 have been seriously affected.

ICI have made a trading loss on nylon carpet yarn for the last 2½ years, and the cash flow position remains poor despite efforts to reduce the amount of cash tied up in working capital. The real trading loss per unit in the first quarter of 1980 was seven times as large as that of the first quarter of 1978.

There seems little point in continuing the quota at existing levels and little chance that the Community would agree to its renewal at a lower level (as the industry has requested).

NYLON CARPET YARN

NIMEX Ex 5101.08; Ex 5101.09; Ex 5101.11; Ex 5101.13

(Tonnes)

OP

	1977	1978	1979			1980						
			JAN-DEC	JAN-SEPT	Q4.	JAN-SEPT	Q1.	Q2	Q3	JULY	AUG.	SEPT
TOTAL IMPORTS	16322	17746	19118	13553	5565	13501	4963	3923	4615	1381	1431	1803
of which												
EEC	13913	14969	13295	10060	3235	9094	3019	3140	2935	722	908	1305
CANADA	-	-	604	305	339	343	137	22	184	42	68	74
USA	2215	2714	5015	3102	1913	3892	1738	743	1411	590	405	416
SWITZERLAND	45	35	55	41	14	15	-	1	14	14	-	-
TOTAL EXPORTS	5514	5815	6830	5058	1772	6932	2064	2611	2257	920	523	814
UK PRODUCTION	22133	19704	15392	11539	3853	9966	3429	3949	2588	960	708	920
UK MARKET	32941	31635	27680	20034	7646	16535	6328	5261	4946	1421	1616	1909
IMPORT PENETRATION												
TOTAL	49.5%	56.1%	69.1%	67.6%	72.8%	81.7%	78.4%	74.6%	93.3%	97.2%	88.6%	94.4%
US	6.7%	8.6%	18.1%	15.5%	25.0%	23.5%	27.5%	14.1%	28.5%	41.5%	25.1%	21.8%
US + CANADA	6.7%	8.6%	20.4%	17.0%	29.5%	25.6%	29.6%	14.5%	32.2%	44.5%	29.3%	25.7%



### Man-made Fibre Tufted Carpets

These were included in the UK's original request for action to the Commission. Our request was rejected on the grounds that the import penetration figure of 8.5% was too low to justify action under the Community's international trading obligations. However, the Commission did recognise that if import trends continued to rise and damaged domestic industry, safeguard action would have to be taken. Import levels in 1980 have fluctuated widely: a substantial fall in the middle months of the year was followed by a large increase in September. There are estimates that 1980 US imports will be double those of 1979. In fact, import penetration from the US and Canada in the first nine months of 1980 reached 11.3%. It seems unlikely that the Commission would consider this high enough to justify import restrictions, particularly as part of the rise in penetration is due to a fall in the UK market, and there has been a greater rise in penetration over recent years from other members of the Community than from the US and Canada. Imports from the EC now take some 14% of the market compared with 11% in 1979 and from USA about 11% compared with 5% in 1979.

Employment in the UK carpet industry has fallen quite sharply. In 1975 37,500 people were employed in carpet manufacturing in UK (excluding N. Ireland). This went down to 33,400 by 1977 and by August 1979 to 31,500. By August 1980 the figure was down to 25,400.

The Report of the British Carpet Manufacturers' Association for 1979-80 noted that in the first four months of 1980 three carpet manufacturers went into receivership and that few companies expected to make a profit in 1980. This prediction appears to be confirmed by company results available in CT Division which show some large modern carpet manufacturers in loss and most of the remainder showing extremely low profits on turnover.

## MMF TUFTED CARPETS.

NIMEX 5802-14

(000, \$ m)

COP

	1977	1978	1979			1980						
			JAN-DEC	JAN-SEPT	Q4	JAN-SEPT	Q1	Q2	Q3	JULY	AUG.	SEPT
TOTAL IMPORTS	4631	9775	16,672	11,384	5288	16,460	5277	5897	5306	1310	1496	2500
of which:												
EEC.	4152	8029	10,483	7,498	2985	9152	2582	3151	3417	900	961	1558
CANADA	1	256	1003	559	444	718	325	167	226	74	38	114
USA	79	1137	4716	2998	1718	6254	2220	2522	1512	292	433	777
SWITZERLAND	1	3	18	12	6	3	1	2	-	-	-	-
TOTAL EXPORTS	98,295	23,935	19508	14545	4963	10,257	2963	3381	2713	1052	766	1075
UK PRODUCTION	98,453	90,980	100,667	75,500	25167	56,526 <sup>E</sup>	23135	17295	16,076 <sup>E</sup>	5366 <sup>E</sup>	5365 <sup>E</sup>	5365 <sup>E</sup>
UK MARKET	74,859	80,830	97,831	72,337	25,492	62,749	24,449	19814	18,489	5624	6075	6770
MARKET PENETRATION												
TOTAL	6.2%	12.1%	17.0%	15.7%	20.7%	26.3%	21.6%	27.8%	28.7%	23.3%	24.5%	36.9%
US	0.1%	1.4%	4.8%	4.1%	6.7%	10.1%	9.5%	12.7%	8.2%	5.2%	6.9%	11.8%
US-CANADA	0.1%	1.7%	5.8%	4.9%	8.5%	11.3%	10.8%	13.6%	9.4%	6.5%	7.6%	13.5%

(E) Estimated figure.





### Polyester sheets and pillowcases

Recent industry representations have concentrated on this sector and the figures so far presented provide the best case we have for further import restrictions under Article XIX of the GATT. UK production has fallen from about 5 000 tonnes in the first nine months of 1979 to about 4 000 tonnes in the first nine months of 1980. US penetration has increased from 10% in 1977 to 32.8% in the first nine months of this year and total import penetration from 23.9% to 48.2%. Employment in this sector is estimated at 3671. To date, there has not been a particularly significant fall-off in the number of employees in the UK in this sector (4,276 in 1977 and 3,671 to date in 1980). At the present time however, some 2,900 people are on short time working - 79% of the current labour force - and the number of man-days lost in this respect - 80,000 in the period Jan-Aug 1980 is expected to increase by a further 120,000 in the last 4 months of this year.

Manufacturing costs in the USA lie in the range £2.23 to £2.32 per single sheet. (In fact, single plain dyed US sheets are available in bulk in the UK as low as £1.80 each). A corresponding sheet produced by an efficient UK manufacturer costs about £3.20.

This low cost competition from the USA has had a serious effect on the profitability of UK firms. Thus the UK market leader's profitability in index terms has slumped from 100 in the first half of 1978 to minus 13 in the second half of this year. Even this understates the deterioration in profitability since the factory concerned has received Government financial assistance exceeding £750,000 per annum.

The UK industry contends that, because of the sudden emergence of the USA as a disruptive supplier, the recent very high level of capital investment in this sector in the UK is now very seriously at risk. The loss of this high technology sector would be a serious blow since it could otherwise offer long-term profitability and employment.





### Warp Knitted Fabrics

The figures in this area also appear to provide a good basis for a case under GATT Article XIX. British Celanese have been experiencing considerable problems as a result of certain US imports in this sector (mainly in the rayon lining area). UK production has decreased significantly (from 7,255 tonnes in 1979 to 3,558 tonnes in the first nine months of 1980) and US and Canadian import penetration has increased from 7.3% in 1977 to 36.4% in the first nine months of 1980.

At the same time the UK yarn producer's (British Celanese) sales to warp knitters have been affected by increasing imports of triacetate yarn for warp knitting, primarily from Belgium but to a lesser extent from the USA.

Comprehensive employment statistics are not available. However, within the Warp Knitters' Association, which represents a major part of the industry, there have been 2 company closures and 2 major re-structurings so far this year resulting in the loss of 1,940 jobs out of a total Association membership of 4,930 ie about 40%.

Examples of UK and US prices for various grades of fabric are as follows:

	<u>UK Price</u>	<u>US landed price</u>
84 Decitex Tricel	232p/kg	164p/kg
Brushed acetate and triacetate	186-200p/m	160p/m
Velour	225p/m	185-190p/m

In order to retain markets, UK manufacturers are selling at a loss. Thus British Celanese are selling Tricel at 222p/kg and Carrington Viyella are selling velour at 210p/m. Even so, UK prices are not competitive with those of the USA.

British Celanese have estimated that their total loss of profit on yarn sales to UK warp knitters in 1979 because of increased US import penetration was about £750,000.

It should be noted that there has been some fall-off in the UK market which could argue partly against the justification for action. But the rise in penetration cannot be attributed solely to this.

WARD KNITTED FABRICS OF REGENERATED TEXTILE FIBRES (OTHER THAN STITCH BONDED)

ANEX 60.01-81; ANEX 60.01-89

(Kouzes)

COP

	1977	1978	1979			1980						
			JAN-DEC	JAN-SEPT	Q4	JAN-SEPT	Q1	Q2	Q3	JULY	AUG.	SEPT
TOTAL IMPORTS.	461	714	1602	898	700	1730	639	702	389	112	132	145
of which												
EEC	88	178	108	83	25	41	14	17	10	5	1	4
CANADA	1	-	76	51	25	145	36	75	34	7	23	4
USA	251	381	1382	738	644	1502	565	603	334	99	105	130
SWITZERLAND	6	4	11	7	4	25	10	5	10	1	3	6
TOTAL EXPORTS.	2529	2275	1295	1045	250	760	203	281	276	121	68	87
UK PRODUCTION	5503	5980	7255	5586	1669	3558	1223	1149	1186E	396E	395E	275E
UK MARKET	3035	4399	7562	5439	2123	4528	1659	1570	1299	387	459	453
IMPORT PENETRATION												
TOTAL	13.4%	16.2%	21.2%	16.5%	23.2%	38.2%	38.5%	44.7%	29.9%	28.9%	28.8%	30.0%
US	7.3%	8.7%	18.3%	13.6%	30.3%	33.2%	34.1%	38.4%	25.7%	25.6%	22.9%	28.7%
US + CANADA	7.3%	8.7%	19.3%	14.5%	31.5%	36.2%	31.2%	43.2%	28.3%	27.4%	27.9%	29.6%

Figures for 1977 & 1978 include stitch bonded materials  
 1977. 60.01-8184 + 8978 ; 1978 60.01-8100 + 8900 ; 1979-1980. 60.01-8199 + 8999



### Heavy weight woven Polyester Textured Fabrics

The EC market for these fabrics is now about 100 million square metres per year, of which the UK accounts for about half. Figures supplied by the UK industry show total import penetration rising from 51% in 1977 to an estimated 62% this year. During the same period penetration of US imports has risen from 2% to 14%.

Estimated UK employment in the manufacture of these fabrics rose from 825 in 1977 to 1000 in 1979, but fell back to 800 in the first half of this year. Samuel Courtauld and Carrington Viyella have both announced closures of several modern weaving mills this year, part of the production of which was devoted to heavyweight textured polyester fabrics. A further 350 jobs will disappear if Samuel Courtauld has to withdraw from this market.

Average market prices at current values charged by EEC producers of dyed fabrics have fallen from 111 pence/metre in 1977 to 105 pence/metre in the second half of this year. Without the disruption caused by US imports prices were expected to have remained fairly constant in this period. Between 1979 and the second half of this year, actual prices of dyed fabrics imported from the US have fallen from 90 to 80-85 pence/metre, ie some 20-25% below those of EC producers.

The initial effect of the low-priced fabric on the market has been to depress prices to a level where none of the major EC producers is profitable, (for example, Samuel Courtauld are losing around £15,000 a week). In the first half of this year, EC producers were operating at 80-85% capacity. For as long as US fabric is available at unrealistically low prices, the losses being made by EC suppliers are likely to increase until they are forced out of business altogether.

UK production and employment in this area are both relatively small.

The industry has now decided to mount an anti-dumping case which is expected to be opened shortly by the Commission. The industry feels that imposition of a significant anti-dumping duty would be more in their interests and this route is being followed in the interim.



Knitted Products: Tee-shirts etc. Jumpers etc, and Knitted fabrics

1. In August 1980 the Knitted Industries Federation (KIF) Ltd asked for basket extractor action against the US on these items. Import penetration for the first 6 months of 1980 is as follows:

	Knitted shirts and T-shirts	Jumpers, pullovers, cardigans	Knitted fabrics (not elastic)
US Import Penetration 1st 6 months 1980	2.9%	4.5%	5.6%
(1979)	(0.8)	(1.4)	(N/A)

2. US prices for some products are below those of the low cost countries; for example, the US average price for tee-shirts is 86p per garment, compared with \$1.41 from Hong Kong and 94p from Portugal; jumpers from the US are an average of \$1.67 compared with £2.45 from Hong Kong and \$1.86 from South Korea. The KIF have made the point that action should be taken against the USA to avoid antagonising third world countries whose products are subject to restraints. But these figures do not demonstrate a case for action at present.



## The UK's international obligations

### 1) GATT

Article XIX of the GATT permits import restrictions to be imposed where a sudden surge in imports is damaging the domestic industry. In most of the cases (polyester filament yarn; nylon carpet yarn; tufted carpets) there has been a fall in the UK market of an order which would make it difficult to prove that it was the imports (rather than the UK recession and domestic situation) which was causing the damage. There would also be some doubts in the case of warp knitted fabrics. This is not the case in relation to bedlinen or polyester fabrics. The level of imports in the remaining sector of sweaters, T-shirts etc has not been examined in depth as the penetration levels are too small to justify action.

### 2) Multi-Fibre Arrangement

In theory, action could also be taken under Articles 3 or 4 of the MFA. In this case the criteria for action are less stringent than under Article XIX of the GATT. In practice with one exception (US/Japan) the MFA has never been used between one developed country and another.

There are no emergency powers governing the use of the Multi-Fibre Arrangement and it is necessary in all cases for prior consultations to be held with the exporting country before restrictions are agreed or imposed.

## The Community Dimension

### Article XIX

It is normally necessary to seek prior Community approval under legislation 926/79 before any import restrictions are imposed. For the so-called liberalised products (including nylon carpet yarn) it is in practice always necessary to proceed by this route since any use of emergency powers by an individual Member State fall after 6 weeks unless they are confirmed by a positive vote in the Council.

However, as most of the products now concerned are "unliberalised" in Community terms, it would be possible for the UK to declare an emergency situation and to make use of Community emergency procedures in Article 14 of Regulation 926/1979. This means that the UK could impose quotas on the products in question - tufted carpets; polyester bedlinen; and warp knitted fabrics - which would remain unless the Community took a positive decision by qualified majority to discontinue them. This decision would have to be taken within six weeks.

### The MFA

Because there is no right of unilateral action under the MFA; and given the Commission's rights in negotiating external trade arrangements with third countries, the Commission itself would have to undertake any of these consultations. An attraction of using



the MFA is that there is no provision for compensation or retaliation in the MFA (although all GATT rights and obligations are unaffected by it) and it would be difficult for the US to take retaliatory action without prejudicing all its own bilateral MFA agreements with developing countries.

#### Community Reactions

Preliminary discussions with the European Commission (though not based on specific figures) suggest that the Commission would be unlikely to support us in any extension of the existing quotas into 1981; or of any extension of the quotas into new product areas. While Commission support is in theory less critical in relation to non-liberalised products than it was in the case of the polyester yarn and nylon carpet yarn quotas (where the products were liberalised) the lack of such support would inevitably lead to counter proposals from them which could produce majority agreement among Member States and thus bring about the demise of any unilateral quotas. Only the French and Irish would be likely to support us if we took unilateral action. There seems little doubt that we would be refused an application for action on a non-emergency basis by the Commission and the Community either in respect of Article XIX action or action under the Multi-Fibre Arrangement.



21 NOV 1980

