PREM 19/1986

MT

PART 3

* In folder attached "Review of U.K. Commodity Policy by the Interdepartmental Policy Committee on Commodities"

CONFIDENTIAL FILING

Movements in Volume of Trade by Commodity

International Tin Council

UK Commodity Policy *

TRADE

PT 1: January 1985

PT 3: June 1986

PREM 19/1986

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
3.6.83		2.10.86					
10.6.86		7.10.86					
12.6.86		13.10.86					
13.6.86		15.10.86					
20.6.86		16.10.86					
23.6.86		20.10.86					
25.6.86		21.10.86					
30.6.86		24.10.86					
3.7.86		27.10.86					
7.7.86		28.10.86					
9.7.86		29.10.86					
15.7.86		29.10.86					
16.7.86							
21.7.86		PT 3 ENDS					
23.7.86							
25.7.86							
28.7.86							
6.8.86							
11.8.86							
14.8.86							
27.8.86							
3.9.86							
8.9.86							
19.9.86							
23.9.86							
25.9.86							
30.9.86							

PART 3 ends:-

HMT to PS/LPC 29/10

PART 4 begins:-

HoC to BANK OF ENGLAND 5/11

RT4.10

CU86

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

29 October 1986

Steven Wood Esq
Private Secretary to the
Lord Privy Seal

Dear Steven

SELECT COMMITTEE ON TRADE AND INDUSTRY: TIN

The Chancellor has seen your letter of 28 October to Mike Gilbertson, recording the Lord Privy Seal's meeting at 6.00 pm on Monday. He is content with the outcome of the meeting, and I see that the Governor's letter to Mr Warren has now been sent.

The Chancellor was, however, concerned that no Treasury Minister (or official) was invited to the meeting. He has asked me to ensure that the Treasury's interest in this subject is not overlooked in future.

I am copying this letter to David Norgrove (No.10) and Mike Gilbertson (DTI).

Yours ever,
Tony Kuczys

A W KUCZYS
Private Secretary

TRADE: Market in Volume — Tin

pt 3.

10 DOWNING STREET

Prime Minister

The proposed letter to the Committee has to be with them by 0900 tomorrow. I said I did not think you would wish to object.

DER
28/10.

CCBG

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215 5422
GTN 215)
(Switchboard) 01-215 7877

PS/ *Secretary of State for Trade and Industry*

CONFIDENTIAL

28 October 1986

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister

Agree now that the Bank should send a list of the ITC documents it holds? (If the Lord Privy Seal and the Chief Whip agree, it should be the best that can be done.)

Dear David,

SELECT COMMITTEE ON TRADE AND INDUSTRY : TIN

You sent me a letter yesterday asking my Secretary of State to consider carefully, with the Lord Privy Seal and the Chief Whip, the manner in which the Governor of the Bank of England should respond to the Select Committee on Trade and Industry's requirements on tin.

At a meeting held by Mr Biffen yesterday evening, with the Chief Whip, my Secretary of State, Giles Shaw and representatives of the FCO, it was agreed that the best course would be for the Governor to respond to the Select Committee along the lines proposed by the Governor in his letter of 24 October to my Secretary of State. But in doing so he should ensure that the list of ITC documents should be further modified, as proposed by the FCO, to make it even more difficult to identify the dates and contents of individual ITC documents. This should help the Government to deal with any similar request from the Select Committee for a list of ITC documents held in the DTI. In addition, it was agreed that the Governor should make it clear, in a covering letter to the Chairman of the Select Committee, that in complying with the Committee's requirements he had consulted Ministers and agreed the lines of his reply with the Government: this was necessary since the Bank only held ITC documents as a result of its position as confidential adviser to Ministers, described in the Memorandum being sent to the Select Committee.

JG2ADN

1786 1986 BOARD OF TRADE BICENTENARY

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It was further agreed that Giles Shaw, who will be appearing before the Select Committee on Wednesday 29 October, will be able to discuss the Bank of England's response with the Committee.

I am copying this letter to Tony Galsworthy (Foreign and Commonwealth Office), Alex Allan (HM Treasury), Steven Wood (Lord Privy Seal's Office), Michael Saunders (Law Officers' Department), Murdo Maclean (Chief Whip's Office), John Footman (Bank of England) and Trevor Woolley (Cabinet Office).

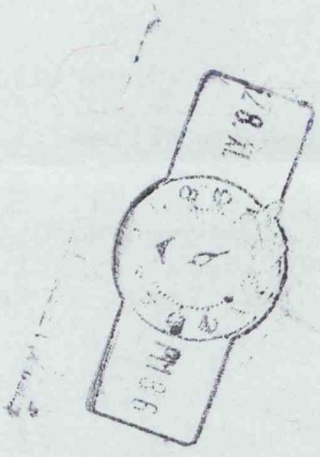
Yours ever,

Michael

MICHAEL GILBERTSON
Private Secretary

JG2ADN

TRADG Tin Council PT3



Q10

Bank of England

With the compliments of
the Governor's Private Secretary

COBG

Bank of England
London EC2R 8AH

The Governor

28 October 1986

Kenneth Warren Esq MP
Chairman
Trade and Industry Committee
House of Commons

NBPW

Dear Mr. Warren,

WILL REQUEST IF REQUIRED

Thank you for your letter of 22 October informing me of the Order made by the Trade and Industry Committee on 22 October. I am enclosing with this letter a list of documents and a memorandum in response to the Order.

As you will be aware the ITC documents held by the Bank were almost all provided to the Bank by the Government, who are themselves under a duty to preserve their confidentiality. I have accordingly consulted Ministers of the relevant Departments so as to ensure that in responding to your Committee's Order I should not cause the Government to be in breach of its obligations in respect of the documents. The Government has agreed to the form of the list of documents attached to this letter, but has requested me not to provide further information about the documents. You will appreciate, therefore, that this list is as far as I am able to go in response to the Committee's Order.

I have also consulted Ministers about the terms of the memorandum.

I am sending copies of this letter and its enclosures to the Foreign Secretary, the Chancellor of the Exchequer and the Secretary of State for Trade and Industry.

Yours sincerely,

R. Leigh-Pemberton

MEMORANDUM

Before reaching its decision to participate in the Sixth International Tin Agreement HMG consulted the Bank of England on a number of relevant matters. As explained in the Bank of England's memorandum to the Treasury and Civil Service Committee of 21 April 1980 it is part of the Bank's role to contribute to the formulation of Government policy on any matters in which its close connections with financial markets and financial institutions give it a distinctive expertise, and it is normal for it to be consulted on policy matters with significant implication for City markets. Representatives of the Bank took part in meetings with Government Departments and exchanged correspondence with Departments. The Bank participated in all these exchanges in its capacity as confidential adviser to the Government and, as the Committee knows, the Government has already declined to disclose to the Committee its internal consideration of this matter. The Bank's relationship with Government therefore obliges it to preserve the confidentiality of its contribution to that consideration.

LIST OF ITC DOCUMENTS IN BANK FILES RELATING TO THE SIXTH INTERNATIONAL TIN AGREEMENT*

Annual Reports of the International Tin Council 1981-2 to 1983-4.

Four buffer stock quarterly statements in the form set out on pages 200 and 201 of the Second Report of the Trade and Industry Select Committee, covering periods between 1. 7.82 and 30. 6.85.

Audited accounts for the ITC for the years ended 30. 6.83 and 30. 6.84.

Between December 1982 and July 1983: two working documents and a draft agenda.

12. 4.83: press communique.

May/June 1983: addition to list of buffer stock approved banks and updated list of approved banks.

May 1984: one document

May 1985: working document.

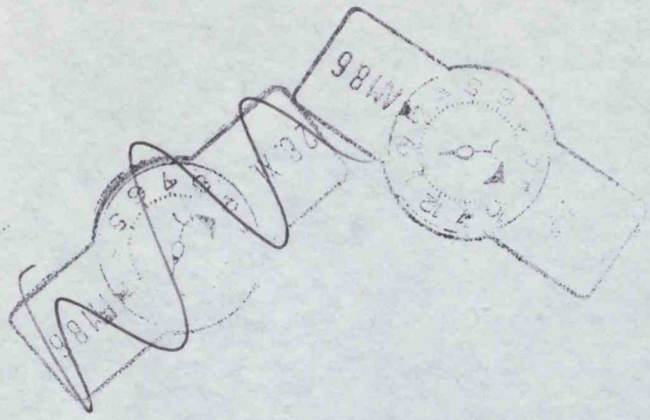
September to December 1985: list of buffer stock approved banks, membership percentages and votes, and one report

October 1985 onwards: twelve documents on aspects of cessation of buffer stock operations.

Copies of correspondence relevant to a specific banking matter occurring after 24 October 1985.

*This list covers all documents relating to the Sixth ITA. Three documents relating to the Fifth ITA have been found, and it is possible that other documents relating to the Fifth or previous Agreements might be on earlier files. Annual Reports relating to earlier years are also held.

So far as the Bank is aware, no ITC documents were seen by Bank staff which are not now on Bank files.



PRIVY COUNCIL OFFICE
WHITEHALL. LONDON SW1A 2AT

28 October 1986

Dear Mike,

SELECT COMMITTEE ON TRADE AND INDUSTRY: TIN

Your Secretary of State and the Minister of State (Industry) discussed the Governor's proposed response to the Select Committee's demands with the Lord Privy Seal and the Chief Whip at 6pm on 27 October. Mr Murray from your Department was present; the FCO were represented by Sir John Freeland and Ms Reed; and Murdo Maclean (PS/Chief Whip), Mr Townley (Cabinet Office) and Mrs Brown (MPO) also attended.

It was noted that the Select Committee has asked the Bank to provide, before its next meeting on 29 October, a list of the ITC documents seen by the Bank and a memorandum on the advice given by the Bank to the Government before the signing of the Sixth International Tin Agreement. The Committee's probable objective was not to press the Bank to disclose the documents in the list but rather to demonstrate that the provision of the list itself was a breach of ITC rules against the disclosure of confidential documents, in order to weaken the Government's case that ITC rules prevented it from disclosing the documents to the Committee. But the references to ITC documents in the list would be so phrased as to make it impossible for the Committee to make this argument. It was agreed that the Bank should be allowed to provide the Committee with a list approved by the DTI who had taken legal advice on its wording. It was felt that the Department itself would have gone as far, if the Committee has asked it for such a list.

On the Committee's second request, it was clear that the Bank would be on strong ground in refusing to disclose the advice they had given to the Government. The Select Committee would not expect a solicitor to disclose the advice he had given to his client, unless the client agreed. The Government, the client in this case, were not prepared to agree to the disclosure, and it was quite in order for the Bank to say that their refusal to make the disclosure followed consultation with the Government.

On tactics, it was noted that the Bank had been asked to respond before the Minister of State (Industry) appeared before the Committee on the morning of 29 October, the day of the Westland debate. It was important that the meeting did not develop into a confrontation, lest the Committee were provoked to make an issue of it in the later debate when the Government's attitude to Select Committees would be under discussion. The Minister of State should phrase his replies carefully, accordingly.

I am copying this to David Norgrove (No 10), Tony Kuczys (Treasury), Tony Galsworthy (FCO), Juliet Wheldon (Law Officers), Murdo Maclean (Chief Whip's Office) and to Michael Townley and Linda Brown.

Yours sincerely
Steven Wood
S N WOOD

M Gilbertson Esq
PS/Secretary of State for Trade and Industry
1-19 Victoria Street
London
SW1H 0ET

GRS 350

Restricted

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TO IMMEDIATE FCO
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INFO IMMEDIATE UKREP BRUSSELS
INFO ROUTINE EUROPEAN COMMUNITY POSTS, UK DEL OECD, UK MIS NEW YORK
INFO ROUTINE WASHINGTON, UK MIS GENEVA

FRAME EXTERNAL

FROM UK REP BRUSSELS

FOREIGN AFFAIRS COUNCIL: 27 OCTOBER

OTHER BUSINESS: COMMODITIES.

SUMMARY.

1. MR CLARK MADE STATEMENT OF UK POSITION ON COMMODITY AGREEMENTS. FRANCE SPOKE IN DEFENCE OF SOME AGREEMENTS AND URGED EARLY APPLICATION OF COCOA AGREEMENT BY EC AND MEMBER STATES.

DETAIL.

2. UNDER OTHER BUSINESS, MR CLARK SPOKE ON THE BASIS OF THIS PREPARED STATEMENT (TEXT BY SAVING TELEGRAM). HE MADE IT CLEAR THAT THE BRITISH GOVERNMENT HAD GRAVE MISGIVINGS ABOUT COMMODITY AGREEMENTS WITH MARKET INTERVENTION PROVISIONS, WHICH HAD NOT WORKED SATISFACTORILY IN THE PAST. IN GENERAL, THE UK WOULD OPPOSE ANY PROPOSALS FOR NEW AGREEMENTS WITH MARKET INTERVENTION MECHANISMS. WHAT WAS NEEDED WAS A DEREGULATORY APPROACH TAKING FULL ACCOUNT OF MARKET REALITIES. THE TOKYO SUMMIT HAD POINTED THE WAY FORWARD: AND THE URUGUAY ROUND INCLUDED COMMITMENTS TO LIBERALISATION OF TRADE IN TROPICAL AND NATURAL RESOURCE BASED PRODUCTS. HE ASKED FOR HIS STATEMENT TO BER CIRCULATED.

3. BOSSON (FRANCE) MADE IT CLEAR THAT HIS GOVERNMENT ATTACHED IMPORTANCE TO A CONSTRUCTIVE EC APPROACH ON COMMODITIES: HE HOPED THE COMMUNITY WOULD NOT BE PARALYSED AS A RESULT OF THE TIN COUNCIL COLLAPSE. SOME COMMODITY AGREEMENTS HAD PROVED THEMSELVES TO BE VIABLE. DIFFICULTIES IN THE NEGOTIATIONS FOR A NEW INTERNATIONAL RUBBER AGREEMENT SHOULD NOT BE INSURMOUNTABLE. THE NEW COCOA AGREEMENT MET THE EC'S ECONOMIC AND POLITICAL CRITERIA. RECALLING THAT THE EC WAS A MAJOR DRIVING FORCE BEHIND THE CONCLUSION OF THE COCOA AGREEMENT, HE APPEALED FOR MEMBER STATES TO ENSURE THAT ENTRY WITH FORCE COULD TAKE PLACE BY THE DUE DATE IN EARLY 1987.

Restricted

4. YOU CONCLUDED, FROM THE CHAIR, THAT IT HAD NOT BEEN INTENDED TO HOLD A FULL DEBATE ON COMMODITIES. IN RESPONSE TO BOSSON, YOU DREW ATTENTION TO MR CLARK'S COMMENTS ON THE COCOA AGREEMENT. THE UK STATEMENT WOULD NO DOUBT BE A BASIS FOR FURTHER THOUGHTFUL STUDY.

MILES

YYYY
ADVANCE
MAUD FCO
RICHARDSON FCO ERD
REID FCO ERD
EVANS FCO ECD
JAY CAB
R WILLIAMS DTI
JOHNSON DTI ITP
CORLEY DTI
LUNN DTI CTPS
FREEMAN ODA
PACKER MAFF
SCOLLEN MAFF
CASE TSY
MAIN
FRAME EXTERNAL
UKREP DIST : SPENCER/THOMAS/KENNEDY : EXT

LMLNAN 0913
FRAME EXTERNAL
ECD (E)

(ADVANCED AS REQUESTED)

NNNN

SM2/13

CONFIDENTIAL

CC/BG

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

27 October 1986

John Footman Esq
PS/Governor
Bank of England
Threadneedle Street
LONDON

NBPM.

Dear John

The Chancellor has seen the Governor's letter of 24 October to Mr Channon.

He agrees that the proposed reply to the Trade & Industry Select Committee is consistent with the line agreed in correspondence early last week. (This is subject to final confirmation that the list of documents does not breach the confidentiality requirements of the International Tin Agreement.)

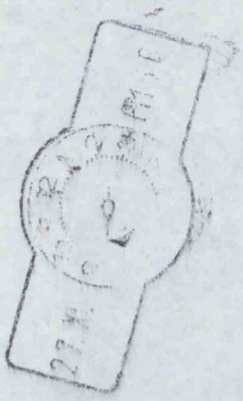
I am copying this letter to private secretaries to the Prime Minister, the Foreign Secretary, the Trade & Industry Secretary, the Lord Privy Seal, the Solicitor General, the Chief Whip, and Sir Robert Armstrong.

Yours ever,

Tony Kuczys

A W KUCZYS
Private Secretary

TRADG Tin Council PT3



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CCBG

10 DOWNING STREET

From the Private Secretary

27 October 1986

Dear Tim,

SELECT COMMITTEE ON TRADE AND INDUSTRY - TIN

The Prime Minister has seen the letter from the Governor of the Bank of England of 24 October to your Secretary of State about the Select Committee on Trade and Industry's request for papers about tin.

The Prime Minister is doubtful about the proposal to give the Committee a list of the International Tin Council documents seen by the Bank of England. She is not sure what would be gained by this. The result might be only to give the Committee a better pressure point for trying to get hold of the documents themselves.

She is also not sure how a distinction would be drawn between the Bank's agreement to give such a list and the position of the Government which in similar circumstances would no doubt be a refusal.

The Prime Minister has asked that your Secretary of State should consider the proposal most carefully with the Lord Privy Seal, the Chief Whip and other colleages.

I am copying this letter to Tony Galsworthy (Foreign and Commonwealth Office), Alex Allan (H M Treasury), Steven Wood (Lord Privy Seal's Office), Mr Saunders (Law Officers'Department), Murdo Maclean (Chief Whip's Office), John Footman (Bank of England) and Trevor Woolley (Cabinet Office).

Yours,

David

DAVID NORGROVE

Tim Walker, Esq.,
Department of Trade and Industry

CONFIDENTIAL

PRIME MINISTER

SELECT COMMITTEE ON TRADE AND INDUSTRY: TIN

The Bank of England are quite properly refusing to show the Select Committee documents from the International Tin Council. But they do now propose to give the Committee a list of those documents.

This seems perfectly silly. If the Committee are not to be given the documents, what is to be gained by telling them what they are? The result will only be to give them a better pressure point for getting hold of the documents themselves. And if the Bank are prepared to give lists of documents which the Committee cannot see, why should not the Government give lists of documents which the Committee cannot see?

It is a bit like giving a sweet to a child and then telling him that he is not allowed to unwrap it.

Agree to express your scepticism to Mr. Channon and to ask him to consider this most carefully with the Lord Privy Seal and the Chief Whip?

Yes

DAVID NORGROVE

24 October 1986

VC2ANF

CONFIDENTIAL

CCEG

Bank of England
London EC2R 8AH

The Governor

24 October 1986

Prime Minister

The Rt Hon Paul Channon MP
Secretary of State for Trade & Industry
Department of Trade & Industry
1-19 Victoria Street
London SW1

Dear Paul,

SELECT COMMITTEE ON TRADE AND INDUSTRY: TIN

will request if required

Essentially as foreseen in your letter to John Biffen of 16 October, and my reply to that letter, the Select Committee on Trade and Industry asked Kit Farrow to state which ITC documents had been seen by the Bank of England. He declined to answer the question without my authority, and the Committee has now ordered the Bank to provide them with -

(a) a list of all International Tin Council documents seen by the Bank of England; and

(b) a memorandum on the advice given by the Bank of England to the Government before the signing of the Sixth International Tin Agreement.

The Committee has asked for the papers in time for its next meeting on the morning of 29 October.

Attached at Appendix A is a list of documents in response to (a) above. The list has been prepared following discussion with officials, particularly from your department and the FCO. It contains the maximum of information which your department advises can be disclosed to the Committee if the Bank is to preserve the duty of confidentiality which the government is obliged to

maintain. On that basis, and subject to a further review of our files now in train, I would propose to make that list available to the Committee, but to decline to provide further information.

Attached at Appendix B is a draft memorandum in response to (b). It makes clear that the Bank is unable to disclose the advice which it has given to Government in the course of fulfilling its role as confidential policy advisers. To do so would undermine the essential relationship between the Bank and Departments.

These responses to the Committee are as agreed in our correspondence to which I have referred. I should be glad to know whether you and the other Ministers to whom I am copying this letter are content that I should proceed in this way. If you are I shall assume that you will, if the need arises, support this action as agreed.

I am sending copies of this letter to the Prime Minister, the Foreign Secretary, the Chancellor of the Exchequer, the Lord Privy Seal, the Solicitor General, the Chief Whip and Sir Robert Armstrong.

Yours ever,

Robin

APPENDIX A

LIST OF ITC DOCUMENTS IN BANK FILES RELATING TO THE SIXTH INTERNATIONAL TIN AGREEMENT*

Four Buffer Stock quarterly reports such as set out on pages 200 and 201 of the 2nd Report by the Trade and Industry Select Committee covering periods between 1. 7.82 and 30. 6.85.

Audited accounts for the ITC for the years ended 30. 6.83 and 30. 6.84.

Working documents dated 13.12.82 and 8. 7.83.

Press communique dated 12. 4.83.

Addition to list of Buffer Stock approved banks dated May 1983.

Draft agenda for a meeting of a Committee of the Council in July 1983.

Document for the Preparatory Committee for the Seventh Agreement, May 1985.

Buffer Stock approved banks, June and September 1985.

Membership percentages and votes, September and December 1985.

Eleven documents on aspects of cessation of Buffer Stock operations, all dating from after 24.10.85.

[documents relating to the banking affairs of a specific person, confined to matters arising after 24.10.85]

Document on the viability of NEWCO, February 1986.

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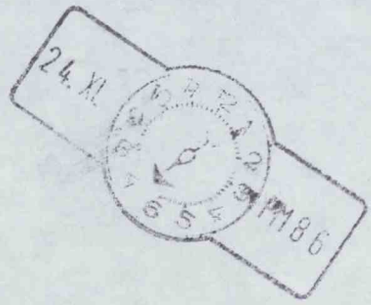
* This list covers all documents relating to the 6th ITA. Three documents relating to the 5th Agreement have been found, and it is possible that other documents relating to the 5th or previous agreements might be on earlier files.

So far as the Bank is aware, no ITC documents were seen by Bank staff which are not now on Bank files.

Before reaching its decision to participate in the Sixth International Tin Agreement HMG consulted the Bank of England on a number of relevant matters. As explained in the Bank of England's memorandum to the Treasury and Civil Service Committee of 21 April 1980 it is part of the Bank's role to contribute to the formulation of Government policy on any matters in which its close connections with financial markets and financial institutions give it a distinctive expertise, and it is normal for it to be consulted on policy matters with significant implication for City markets. Representatives of the Bank took part in meetings with Government Departments and exchanged correspondence with Departments. The Bank participated in all these exchanges in its capacity as confidential adviser to Government and, as the Committee knows, the Government has already declined to disclose to the Committee its internal consideration of this matter. The Bank's relationship with Government therefore obliges it to preserve the confidentiality of its contribution to that consideration.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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
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GTN 215) 5422
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

CONFIDENTIAL

21 October 1986

The Rt Hon The Baroness Young
Minister of State
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

Dear Janet,

Prime Minister
CDP
21/X

INTERNATIONAL NATURAL RUBBER AGREEMENT (INRA)

You will be aware by now that the talks in Geneva to renegotiate the INRA have broken down. The Conference has been adjourned and no dates have been set for further consultations. This result is a good one for us.

The consumers and producers were unable to reach agreement on the core issues of currency denomination and the automaticity provisions and we were helped by the intransigent attitude of the producers. Essentially the producers wanted to move to a single currency, the ringgit, and would have accepted some strengthening of the automaticity provisions to secure this. Alternatively, they would have settled for the status quo on the currency and automaticity formulations in the Agreement. Both options were unacceptable to most consumers.

Of course, the issue has not gone away but the outcome to date is satisfactory. We will be considering the next steps and at the same time taking careful note of the reaction of other major participants.

In the circumstances, I have not picked up the individual points raised in correspondence by John MacGregor and Michael Jopling to whom I am copying this letter. A copy also goes to the Prime Minister.

Yours ever,

PAUL CHANNON

DW1CCV

1786 1986 BOARD OF TRADE BICENTENARY

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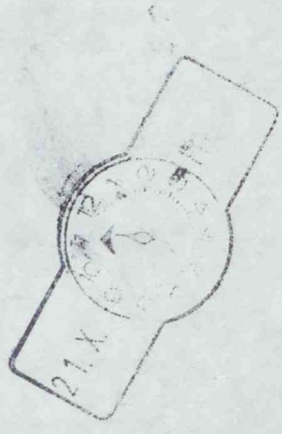


CCBG

Bank of England
London EC2R 8AH

The Governor

21 October 1986

The Rt Hon Paul Channon MP
Secretary of State for
Trade & Industry
Department of Trade & Industry
1-19 Victoria Street
London
SW1H 0ET

NBPM

Dear Paul,

FILE WITH DRD

Thank you for sending me a copy of your letter to John Biffen. I am in full agreement with the arrangements you describe. Kit Farrow will act accordingly when he appears before the Committee tomorrow and, subject to developments, I shall do the same if they should ask to see me.

I understand that your lawyers have examined the Bank's papers and will inform us if there is anything which you would ask us not to disclose because of the risk of prejudicing HMG's position in prospective litigation.

Yours ever,

Robin

TRATE

TIN PT 3



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215)
GTN 215) 5422
(Switchboard) 01-215 7877

PS/ *Secretary of State for Trade and Industry*

21 October 1986

Alison Smith
Lord Privy Seal's Office
Whitehall
London SW1A 2AT

Dear Alison,

SELECT COMMITTEE ON TRADE & INDUSTRY : TIN

I attach a copy of the letter which my Secretary of State has this afternoon sent to Kenneth Warren. You will see that it has been amended in line with the Lord Privy Seal's letter of 20 October.

I am copying this letter and attachment to David Norgrove (No 10), Robert Culshaw (FCO), Henry Steel (Law Office Department), Murdo Maclean (Chief Whips Office), Tony Kuczys (Treasury), John Footman (Bank of England), and Trevor Woolley (Cabinet Office).

Yours ever,

Michael

MICHAEL GILBERTSON
Private Secretary

JG2ABO

1786 1986 BOARD OF TRADE BICENTENARY

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215) .....
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

21 October 1986

Kenneth Warren Esq MP
House of Commons
LONDON
SW1A OAA

Dear Kenneth.

You wrote to me on 16 July following my appearance before your Committee the previous day.

In your letter you referred to the Committee's concern about the future of the RTZ and Geevor mines in Cornwall. As you know, I announced on 8 August that agreement had been reached with RTZ on a plan to develop their Cornish tin mining operations, under which the Government will provide an interest-free loan of up to £15m and guarantee commercial loans of up to a further £10m. On Geevor, my Department has funded an independent consultancy study, which has just been completed. Geevor mine has meanwhile been kept from flooding.

At the Committee hearing on 15 July I undertook to give further consideration to the possibility of providing ITC documents to the Committee on a confidential basis, and to giving evidence to the Committee in private session about the ITC. A thorough and detailed review has been undertaken to see whether the Government could help the Committee in this way.

As you know, the Government would have been willing earlier to make ITC documents available to the Committee if it could have done so without possible prejudice to legal actions that might be brought, and without breaching the confidentiality of ITC proceedings. As both Lynda Chalker and I explained to the Committee on 15 July, we would be far more comfortable if we were in a position to discuss ITC matters freely. However, with the recent commencement of legal proceedings against ITC member governments as well as the ITC itself, the Government's position on disclosure of ITC documents has become if anything even more difficult than it was on 15 July. Hence I have reluctantly had to conclude that I am not in a position to supply the Committee, even in confidence, with any

DW2BDC

1786 1986 BOARD OF TRADE BICENTENARY

material originating from the ITC. The reasons for my coming to this conclusion are set out below : most will already be familiar to the Committee.

First, the Committee will know that Ministers, as a matter of general practice, do not supply material or evidence about matters which are the subject of confidential discussion with other Governments and international bodies. This has long been accepted as a "public interest" limitation on evidence given to Select Committees. The fact that the ITC is an intergovernmental organisation established by an international treaty places HMG under additional obligations. Discussions conducted within the framework of the ITC, before and since the tin crisis broke, are conducted on the basis of confidentiality. As a member country of the ITC the UK is moreover under a legal obligation to its fellow members, arising from the Sixth International Tin Agreement, not to disclose any records of ITC proceedings or evidence about them, unless the ITC itself decides to lift the confidentiality of its proceedings or of particular documents.

As you know, we asked the ITC last winter to agree in the disclosure of ITC material to the Select Committee. The ITC rejected our request. It follows that any disclosure, even in confidence, would be a breach of the UK's international obligations as a member of the ITC. Disclosure would, in addition, establish a highly undesirable precedent, if followed by other countries, for the work of other international bodies or which the UK is a member. This could endanger the confidential character of discussions in international bodies, which is recognised to be necessary for the conduct of international relations in the economic and other fields. We would not want other states to disclose the information which we have communicated to such bodies on an agreed confidential basis.

Second, when I attended the Committee on 15 July a writ had just been served on my Department on behalf of one of the tin brokers, Rayner & Co (Mincing Lane). Since then other proceedings have been started in the UK against ITC members and the Rayner proceedings have advanced further. Disclosure of ITC material to the Committee, even on a confidential basis, could be prejudicial to the conduct of these proceedings, and to the maintenance by the Government in those proceedings of the confidential status of that material.

These considerations lead me reluctantly to the conclusion that I am not in a position to help the Committee by providing further documents, even on a private or confidential basis. I regret having to write in this way, which I know will be disappointing to

the Committee. I would of course be willing to give evidence to the Committee again to see whether there is any further information that I can give without breaching the constraints which I have already explained to the Committee. No doubt you will let me know if you think that would be helpful.

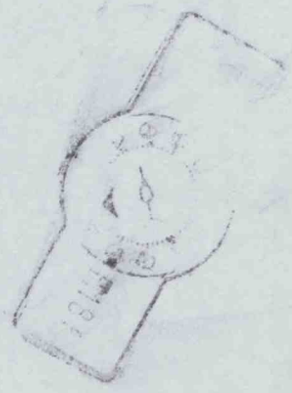
Yours,

Paul

PAUL CHANNON

DW2BDC

Trade: Tin PT3



CC BG

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

21 October 1986

Dear Paul, NBR7

TRADE AND INDUSTRY SELECT COMMITTEE: INQUIRY INTO THE TIN CRISIS

Your letter of 16 October sought my agreement to your proposed reply to the Committee's request for further documents and evidence about the International Tin Council. The documents in question appear to fall clearly within categories that it has long been established may be withheld from Select Committees. I am therefore content that you should continue to decline to make those documents available and that you should reply to the request from the Chairman of the Committee along the lines of your draft letter.

In the interests, however, of doing all we can to avoid a confrontation with the Committee I wonder whether it would be worthwhile for you to offer to appear before the Committee again to see whether there is any further information that they could be given without breaching the constraints on disclosure of information. I realise that a further appearance may be unlikely in practice to take matters any further. But at least the offer would be seen as an attempt to respond as helpfully as possible to Kenneth Warren's request. This could perhaps best be achieved by amending your letter in the way shown in the attached redraft.

You also sought my support for the line which the Bank proposes to take if the Select Committee presses it to provide documents which would not be provided by a Government Department. What you are in effect proposing is that the Bank should in these circumstances be available to avail itself of the same conventions about withholding documents as would be available to a Government Department. Given the damage that could be done to the Government's position and to the Bank's standing as adviser to Government if the documents were released, I agree that we should support the Bank in declining to make these documents available.

You may recall that, when a similar issue arose in 1984 concerning "advice to Ministers" documents held by Nationalised Industries, our arguments for these to be treated as if they were held by a Government Department were not accepted by the Liaison Committee. The Committee on this occasion is unlikely therefore to accept this extension of the conventions 'as of right'. The Bank will accordingly need to present its arguments to the Committee as being based on the broad public interest in the hope that the Committee will understand the Bank's unique position as adviser to Government and the difficulties it would face if required to release these documents. I wonder too whether you would want to consider taking the opportunity of speaking to Kenneth Warren about this when you give him your letter in order to ensure that he understands

Rt Hon Paul Channon MP
Secretary of State for Trade and Industry

the full implications of the situation. As a last resort I agree that we should be willing to defend the Bank's position as well as your own on the floor of the House. But I would want to be sure that we had done everything possible to avoid such a clash.

I am copying this letter to recipients of yours.

Yours
John Biffen

JOHN BIFFEN

AMENDED DRAFT

CONFIDENTIAL

DRAFT LETTER TO THE CHAIRMAN OF THE SELECT COMMITTEE ON TRADE AND INDUSTRY

You wrote to me on 16 July following my appearance before your Committee the previous day.

In your letter you referred to the Committee's concern about the future of the RTZ and Geevor mines in Cornwall. As you know, I announced on 8 August that agreement had been reached with RTZ on a plan to develop their Cornish tin mining operations, under which the Government will provide an interest-free loan of up to £15 million and guarantee commercial loans of up to a further £10 million. On Geevor, my Department has funded an independent consultancy study, which has just been completed. Geevor mine has meanwhile been kept from flooding.

At the Committee hearing on 15 July I undertook to give further consideration to the possibility of providing ITC documents to the Committee on a confidential basis, and to giving evidence to the Committee in private session about the ITC. A thorough and detailed review has been undertaken to see whether the Government could help the Committee in this way.

As you know, the Government would have been willing earlier to make ITC documents available to the Committee if it could have done so without possible prejudice to legal actions that might be brought, and without breaching the confidentiality of ITC proceedings As both Lynda Chalker and I explained to the Committee on 15 July,



we would be far more comfortable if we were in a position to discuss ITC matters freely. However, with the recent commencement of legal proceedings against ITC member governments as well as the ITC itself, the Government's position on disclosure of ITC documents has become if anything even more difficult than it was on 15 July. Hence I have reluctantly had to conclude that I am not in a position to supply the Committee, even in confidence, with any material originating from the ITC, The reasons for my coming to this conclusion are set out below: most will already be familiar to the Committee.

First, the Committee will know that Ministers, as a matter of general practice, do not supply material or evidence about matters which are the subject of confidential discussion with other Governments and international bodies. This has long been accepted as a "public interest" limitation on evidence given to Select Committees. The fact that the ITC is an intergovernmental organisation established by an international treaty places HMG under additional obligations. Discussions conducted within the framework of the ITC, before and since the tin crisis broke, are conducted on the basis of confidentialit As a member country of the ITC the UK is moreover under a legal obligation to its fellow members, arising from the Sixth International Tin Agreement, not to disclose any records of ITC proceedings or evidence about them, unless the ITC itself decides to lift the confidentiality of its proceedings or of particular documents.

CONFIDENTIAL

As you know, we asked the ITC last winter to agree in the disclosure of ITC material to the Select Committee. The ITC rejected our request. It follows that any disclosure, even in confidence, would be a breach of the UK's international obligations as a member of the ITC. Disclosure would, in addition, establish a highly undesirable precedent, if followed by other countries, for the work of other international bodes of which the UK is a member. This could endanger the confidential character of discussions in international bodies, which is recognised to be necessary for the conduct of international relations in the economic and other fields. We would not want other states to disclose the information which we have communicated to such bodies on an agreed confidential basis.

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These considerations lead me reluctantly to the conclusion that I am not in a position to help the Committee by providing further documents, even on a private or confidential basis. I regret having to write in this way, which I know will be disappointing to the Committee. I would of course be willing to give

evidence to the Committee again to see whether there is any further information that I can give without breaching the constraints which I have already explained to the Committee. No doubt you will let me know if you think that would be helpful.

TRADE
TIN
PT3

MR 3/43

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

20 October 1986

The Rt Hon Paul Channon MP
Secretary of State for
Trade & Industry
1-19 Victoria Street
London SW1H QET

SELECT COMMITTEE ON TRADE AND INDUSTRY: TIN

Thank you for copying to me your letter of 16 October to John Biffen. I am content with the line which you propose, and that we should, if necessary, defend it on the floor of the House. The Governor will no doubt confirm that he, too, is content.

Events may move quickly. I would be grateful if your officials, and the Governor's, could continue to keep in touch with mine.

I am copying this letter to the Prime Minister, the Foreign Secretary, the Lord Privy Seal, the Solicitor General, the Chief Whip, the Governor of the Bank of England and Sir Robert Armstrong.

NIGEL LAWSON

for the conduct of the affairs of international bodies, and damage the UK's relations with other Governments; and

(b) disclosure could well prejudice the future conduct of HMG of its defence of legal proceedings arising from the tin crisis.

The Bank has been asked to appear on 22 October and will be represented by a senior official. The Committee have indicated that they will be particularly interested in information which passed between the Bank and the LME and between the Bank and the DTI. The Bank's position is not the same as HMG's. The Governor is not a Minister and its officials are not civil servants, so neither are covered by the conventions under which Departments may decline to answer questions from the Committee.

The Bank considers that the papers which it holds which the Committee might ask for - or about which they might press oral questions - fall in the following categories:

(a) material covered by ITC confidentiality;

(b) papers which relate to the Bank's participation, as adviser to Government, in the preparation and provision of advice to Ministers and the inter-Departmental discussions which are lined to such service. Such papers may have originated either in Whitehall or in the Bank;

(c) information and papers relating to the private affaris of individuals, companies or institutions supplied to the Bank in the course of its surveillance of the LME and which cannot be disclosed without breach of confidence;

(d) others.

It is the intention of the Bank to ask the Committee to accept that it would be inappropriate for the Bank to provide papers or information on any of the categories (a) to (c) above. The general line of argument in relation to (a) and (b) would be that the Bank acts as agent of Government or as confidential adviser to Government on a number of matters of great sensitivity. In this role the Governor has direct access to Ministers, and indeed to the Prime Minister, and its officials are brought into discussion with Departments as though it were a Government Department. If the Government were not to have confidence that information shared with the Bank is as well protected as it is within a Government

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Department the ability of Government to consult it would be prejudiced and the role of the Bank seriously impaired.

In addition, in respect of material in category (a) above, the Bank would rest its arguments wholly on the fact that it only holds confidential ITC material as a result of its being given it by HMG and that it is therefore bound to adopt the same position as HMG. It would not engage in any discussion of the reason for HMG's own decision to withhold ITC material. On category (b) the Bank's approach will be based wholly on the general grounds described in the previous paragraph. I have no doubt that on these matters we should give the Bank full support - not least because disclosure by the Bank might be prejudicial to HMG's position in litigation.

Papers in category (c) are a somewhat different matter insofar as they do not impinge directly on the Bank's relationship with Government. Its role in undertaking surveillance of the commodity markets is non-statutory; rather it has been undertaken on the Bank's own authority, in the public interest and with the consent of the markets. While this surveillance will come to an end so far as the commodity markets are concerned once the Financial Services Bill is brought into effect, in the wholesale money markets it will continue, on a non-statutory basis at our request. If the Bank's role were laid down in statute, as is the case with the supervision of banks, it is reasonable to expect that the Bank would have a specific statutory responsibility to preserve the confidentiality of the affairs of individuals. It seems extremely unlikely that the Select Committee would press for any such information to be disclosed, but if they should I would regard it as proper for us to support the Bank.

The Bank would be ready to disclose to the Committee papers relevant to the tin crisis which do not fall in categories (a) to (c). This will include some information on communications between the Bank and the LME in which the Committee have expressed specific interest. I see no reason at present to question their judgement on this, but my officials will review with them the documents which they would be willing to provide to the Committee to ensure that the Bank do not indirectly reveal advice to Ministers and as far as possible that they do not release material which might be prejudicial to HMG's position in legal proceedings.

It is to be hoped that the Committee will not seek to challenge the arguments set out above, which go to the heart of the Bank's relationship with Government and its role in the City. If the Committee do not accept the Bank's case and seek to require disclosure, the Bank propose that they should not comply immediately. If, after further consideration, the Bank do not

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comply this would no doubt lead to a report by the Committee to the House, in the same way that the Committee may report again to the House on my own refusal to provide additional information. In asking colleagues to agree to the line which I propose to take on my own account, and in asking colleagues to support the approach which the Bank of England proposes, I should therefore make clear that we must be ready to defend our position if the Committee were to bring the matter to the floor of the House.

This matter has come to a head very suddenly because of the short notice given of the Bank's appearance next Wednesday. I am afraid that I must therefore ask for colleagues' agreement to the proposed line by the evening of Monday, 20 October, in order to allow time for the Bank to give the Committee notice of the position it will take, and for me to write to Kenneth Warren.

I am sending copies of this letter to the Prime Minister, the Foreign Secretary, the Chancellor of the Exchequer, the Solicitor General, the Chief Whip, the Governor of the Bank of England and Sir Robert Armstrong.

Yours,

PAUL CHANNON

Paul

JF4AHD

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DRAFT (16.10.86)

CONFIDENTIAL

DRAFT LETTER TO THE CHAIRMAN OF THE SELECT COMMITTEE ON TRADE AND INDUSTRY

You wrote to me on 16 July following my appearance before your Committee the previous day.

In your letter you referred to the Committee's concern about the future of the RTZ and Geevor mines in Cornwall. As you know, I announced on 8 August that agreement had been reached with RTZ on a plan to develop their Cornish tin mining operations, under which the Government will provide an interest-free loan of up to £15 million and guarantee commercial loans of up to a further £10 million. On Geevor, my Department has funded an independent consultancy study, which has just been completed. Geevor mine has meanwhile been kept from flooding.

At the Committee hearing on 15 July I undertook to give further consideration to the possibility of providing ITC documents to the Committee on a confidential basis, and to giving evidence to the Committee in private session about the ITC. A thorough and detailed review has been undertaken to see whether the Government could help the Committee in this way.

As you know, the Government would have been willing earlier to make ITC documents available to the Committee if it could have done so without possible prejudice to legal actions that might be brought, and without breaching the confidentiality of ITC proceedings As both Lynda Chalker and I explained to the Committee on 15 July,

we would be far more comfortable if we were in a position to discuss ITC matters freely. However, with the recent commencement of legal proceedings against ITC member governments as well as the ITC itself, the Government's position on disclosure of ITC documents has become if anything even more difficult than it was on 15 July. Hence I have reluctantly had to conclude that I am not in a position to supply the Committee, even in confidence, with any material originating from the ITC, nor to provide further evidence in private which would go beyond the explanations I have already given to the Committee in public hearings. The reasons for my coming to this conclusion are set out below: most will already be familiar to the Committee.

First, the Committee will know that Ministers, as a matter of general practice, do not supply material or evidence about matters which are the subject of confidential discussion with other Governments and international bodies. This has long been accepted as a "public interest" limitation on evidence given to Select Committees. The fact that the ITC is an intergovernmental organisation established by an international treaty places HMG under additional obligations. Discussions conducted within the framework of the ITC, before and since the tin crisis broke, are conducted on the basis of confidentialit As a member country of the ITC the UK is moreover under a legal obligation to its fellow members, arising from the Sixth International Tin Agreement, not to disclose any records of ITC proceedings or evidence about them, unless the ITC itself decides to lift the confidentiality of its proceedings or of particular documents.



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Second, when I attended the Committee on 15 July a writ had just been served on my Department on behalf of one of the tin brokers, Rayner & Co (Mincing Lane). Since then other proceedings have been started in the UK against ITC members and the Rayner proceedings have advanced further. Disclosure of ITC material to the Committee, even on a confidential basis, could be prejudicial to the conduct of these proceedings, and to the maintenance by the Government in those proceedings of the confidential status of that material.

These considerations lead me reluctantly to the conclusion that I am not in a position to help the Committee further, even on a private or confidential basis. I regret having to write in this way, which I know will be disappointing to the Committee.

From: The Chairman

A

COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A 0AA
01-219 5467 (Direct Line)
01-219 3000 (Switchboard)

RECEIVED
17 JUL 1986

TRADE AND INDUSTRY COMMITTEE

16 July 1986

Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
1 Victoria Street
Department of Trade and Industry
London
SW1

My dear Paul.

I am writing on behalf of the Committee to thank you and your officials for coming to give us evidence yesterday.

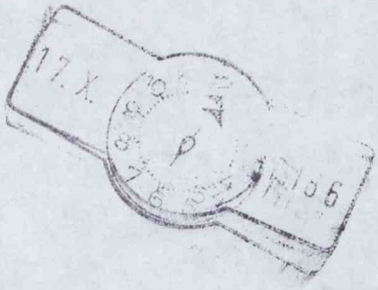
I know we have different views about the amount of information that can be disclosed, but I should like to thank you for the flexible way you are dealing with us and for offering to consider further the possibility of giving us papers in confidence.

May I reiterate the Committee's concern that a speedy solution be found to help the RTZ mines and to prevent Geevor from flooding.

Yours ever.

Ken.

Kenneth Warren MP
Chairman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Foreign and Commonwealth Office

London SW1A 2AH

From The Minister of State

16 October 1986

1. CDP
2. NBPZ.

Dear Paul,

INTERNATIONAL NATURAL RUBBER AGREEMENT (INRA)

In Geoffrey Howe's absence abroad I should like to comment on some of the suggestions in John MacGregor's letter of 7 October about the renegotiation of the INRA. I have also seen Michael Jopling's letter of 13 November.

In his letter of 2 October Geoffrey Howe agreed with your analysis of the problem we face and acknowledged the possibility that we might not succeed in avoiding a new Agreement. Reports from Geneva suggest that the Conference is unlikely to conclude on 17 October by adopting a text, but we should not be too sanguine. So far, however, we have given nothing away. Thanks in part to our insistence on realistic controls and rigorous economic criteria, consumers are standing firm. Producers are doing likewise. The Conference President's efforts to obtain concessions have made little headway.

We should certainly consider what kind of statement the UK delegation might make if, contrary to expectations, the Conference were to establish the text of a new Rubber Agreement. It may be helpful to look at two scenarios: (i) a text that complied fully with the UK's conditions; and (ii) a text which incorporated some of our conditions but fell short in certain respects.

In the unlikely event of scenario (i), I can see no scope for, and no advantage in, a statement of the kind John MacGregor suggests. The most it would be possible

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The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
1-19 Victoria Street
London
SW1

to say in such circumstances would be that our acceptance of the text was necessarily ad referendum. It would not be right, having laid down conditions for a negotiation and then successfully secured them, to call in question the entire exercise at the moment of its conclusion. And it would be too late.

Scenario (ii) is more difficult. If our Community partners, together with such other consumers as the Americans and Japanese, were able to accept a text which met some but not all our conditions, we should need to consider realistically the practical options before us. We do not have a veto at the Conference and a priori could be outvoted on a subsequent proposal for the Community to join the Agreement. It would be open to us, as with the Cocoa Agreement, to seek to muster a blocking minority within the Community against membership, ie against the decision which the Council would need to take to join the Agreement. But we should recognise that our partners will not easily be convinced that a Rubber Agreement which largely corresponds to the Community's mandate should be rejected. When we have been able to assess the outcome of the Conference, we must weigh very carefully the costs and benefits to UK interests of attempting to persuade them to do so.

Any statement in the event of scenario (ii) must take account of these factors. Unless specifically mandated as Presidency to do so by our partners, it would be improper for the UK to comment publicly on the question of Community signature of a new INRA. Nor should we seek to draw the Conference's attention to any divisions that may exist between Community member states. We negotiate within a common position, and differences of view should be aired in internal Community discussion. There are also wider UK interests to be considered. The annual EC/ASEAN Ministerial meeting begins in Jakarta on 20 October. British investment in South East Asia which includes investment in the rubber industry and our wider commercial and trade interests in the region, have been painstakingly built up in recent years. We do not wish to make ourselves a target for any discrimination.

I conclude therefore that our negotiators must fight hard throughout the Conference. If faced with scenario (ii), a UK statement should be confined to an expression of regret that not all our conditions had been accepted; and that, given its defects, we should have to

/study

study the text especially carefully in order to decide whether it would be possible for the UK to join. Anything stronger, as suggested by John MacGregor, would put at risk our short term interests and would be unlikely to secure support either for opposition to membership of the INRA or for our longer term deregulatory policies.

I am sending copies of this letter to the Prime Minister, Michael Jopling, John MacGregor and Sir Robert Armstrong.

Yours ever

Janet

Baroness Young

TRADG Tin PTS



CYBG

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215)
GTN 215) 5422
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

CONFIDENTIAL

15 October 1986

DW no sec
NBOM
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The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Office
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

Dear Secretary of State

INTERNATIONAL NATURAL RUBBER AGREEMENT (INRA) RENEGOTIATION

When I wrote to you on 30 September I promised to keep you in touch with developments as the renegotiation proceeded.

I have not written before now because there has not been to date much by way of movement to report. Our negotiators are still firmly pursuing the objectives we set in May and are having some success in bringing others alongside us both within and outside the Community. The Germans and the Belgians are getting tougher whilst the USSR seems generally helpful. We are maintaining close contact with the Americans and Japanese on the core issues of price and automaticity. The consumer position is currently cohesive and holding up well, despite some calls for greater flexibility. Producers are being intransigent and currently digging their heels in on designating the current reference price as the one to be carried over to a new agreement. A threatened resignation by the Conference Chairman if more progress was not made by yesterday afternoon did not materialise, but may still be a possibility. The latest development is that MacIntyre, the Deputy Secretary General of UNCTAD has been holding bilateral talks with major producers and consumers, floating the idea of extending the present agreement. The EC has indicated however that it has no further compromise proposals to offer.

DW3BEK

1786 1986 BOARD OF TRADE BICENTENARY

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All the above said, time is now running out for this session and events may move quickly. It is difficult to forecast how things will go. But our negotiators will keep Departments in touch by telegram.

I am copying this letter to the Prime Minister, Michael Jopling and John MacGregor.

Yours sincerely,

Michael Gilbertson

pp PAUL CHANNON

(Approved by the Secretary of State and signed in his absence)

DW3BEK

CCBG.

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

DN no see

NBPM

CDP 13/2

From the Minister
CONFIDENTIAL

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
London SW1

13. October 1986

Dear Paul

INTERNATIONAL RUBBER AGREEMENT (INRA)

30?

I was interested to see your letter of 29 September to Geoffrey Howe. It is indeed disquieting that following so soon after we agreed a deregulatory approach towards commodity policy we look like being faced with yet another agreement with economic clauses.

Nevertheless, as we have pointed out in COREPER, the new Cocoa Agreement at least sets an up to date standard for those major elements of an agreement which our commodity review paper had identified as crucial if we were to find ourselves, against our wishes, drawn into negotiations. These include a price reflecting the long term trend, effective and veto-proof price adjustment mechanisms, and insulation against currency fluctuations by denomination in the SDR (on which I note there appears to be increased interest within the Community). The same goes for explicit prohibition on borrowing and limitation of members' liabilities. In the cocoa negotiations the imminent liquidation of the stock accumulated during the 1980 Agreement was undoubtedly a major factor in impelling producers towards finally accepting - after a virtual breakdown in the negotiations - our rigorous conditions on these points. From what you say, the same could apply in rubber. I do recognise the problems you face in rallying others to our position, and of course each commodity has its special factors. However, I believe the cocoa precedent will be as difficult for others to ignore as it is for us. More generally, if our new overall approach on commodities is to prove successful we must not slip backwards on rubber compared to what was achieved on cocoa.

As John MacGregor has pointed out our forthcoming statement on our deregulatory approach will be important in the rubber context and like him I think it would be helpful if we could consider this in draft. As well as our general points I have some specific concerns. In particular reference was made in the review to CAP

/ commodities, on which ...

commodities, on which there has been some movement recently and which, therefore, could prove important for us in the near future. It will be important that any statement protects our position adequately on this aspect.

I am copying this to the Prime Minister, Geoffrey Howe and John MacGregor.

MICHAEL JOPLING

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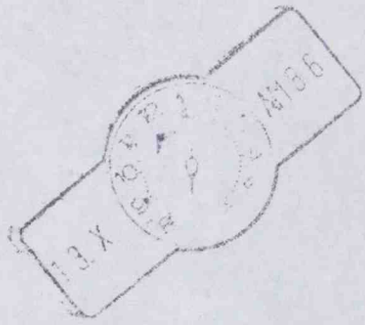

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cc PC

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H OET

7 October 1986

Dear Paul,

INTERNATIONAL NATURAL RUBBER AGREEMENT

I have seen your letter of 30 September to Geoffrey Howe and Geoffrey's reply of 2 October. Following from Charles Powell's letter of 25 September, I trust that a full statement of our objections to market intervention commodity agreements will be made to our Community partners, as foreshadowed in recent statements to COREPER, as soon as possible. But as far as rubber is concerned, I note that you now see little prospect that the strategy on which we embarked in May for reverting to a free market in rubber by the non-renewal of this Agreement will work.

It may not be entirely true to suggest that producers will settle on any terms. We know that Malaysia in particular has reviewed its approach to commodity agreements in the light of tin, recognising that there may be draw-backs for producers too. Concentrating on the price issue which you mention probably provides the best opportunity to unite consumers on a harder line, and at the same time alienate producers from a further agreement. Even at the risk of causing some offense, I agree with Geoffrey that a vigorous attempt must be made, even at this late stage, to persuade others round to our way of thinking.

If consumers and producers nevertheless reach agreement, we must be ready to argue the deregulatory case against eventual signature and seek to persuade our Community partners and the US accordingly. Our policy statement, on which I set much importance, will provide the starting point for this initiative. (I hope Ministers will have a chance to consider this in draft.) The 12 month period from agreement to signature which you mention also includes UNCTAD's Ministerial meeting for which we have already settled on a deregulatory approach. I therefore hope that the rubber negotiators will bear this broader background in mind, and will firmly reserve the UK position, if agreement is reached, so that a platform is retained for applying the deregulatory approach to the rubber case

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in the longer term. I suggest they should say:

(a) that they accept the decision on the text with regret;

(b) that the UK's position on deregulation is well-known (they should restate it);

(c) that they will carry the text back to London for study;

(d) but that it is by no means a foregone conclusion that the Community will decide to sign; at least two EC countries (UK and Belgium) have serious reservations.

In talking to Community partners, they should

(e) make it clear that the UK will seek to persuade the Community to reject the agreement.

I am copying this letter to the Prime Minister, Geoffrey Howe, Michael Jopling and Sir Robert Armstrong.

Yours ever,

JOHN MacGREGOR

CCBG

1. CDP
2. NBPM.

FCS/86/234

SECRETARY OF STATE FOR TRADE AND INDUSTRY

International Natural Rubber Agreement (INRA)

1. Thank you for your letter of 30 September about the forthcoming rubber renegotiation conference in Geneva.

2. I agree with your analysis. We must face the possibility that this session will adopt a new International Rubber Agreement. The new Cocoa Agreement has demonstrated that producers will make major concessions in order to prevent the breakdown of negotiations. For their part, most consumers believe that the present INRA has worked and is not in need of radical improvement. There is scope for compromise, and this may make it impossible for us to secure all the tough economic provisions on which we are insisting as an undeclared means of securing the break-down of the negotiations.

3. I also agree that we should nonetheless continue to press vigorously to secure the improvements we consider essential. In this we may not be wholly without allies. Spain and Belgium agreed to sign the Cocoa Agreement only after much soul-searching. With their support, we could muster a blocking minority in the Community. We shall need to consider how best to achieve this, in capitals as well as in the margins of the conference.

/4.

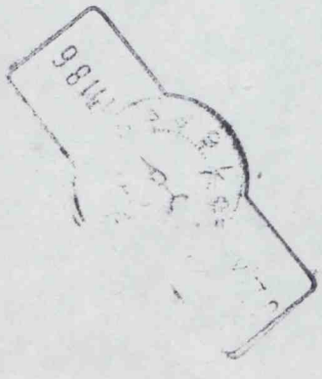
4. At the same time, as you say, we must be prepared for the worst. The UK appears to be alone in working to avoid a new Agreement. In our review of commodity policy we acknowledged that on rubber, like cocoa, we were locked into a Community negotiating position which we could not unilaterally abandon. If we cannot muster a blocking minority in the Community, we will have no alternative to joining a new INRA. Moreover, our wider interests could suffer if we were to protest too much. Producers have already recognised the UK as the main impulse behind a hard line within the Community. I do not suggest that we seek to disabuse them; merely that we should bear in mind the effects of resisting a new agreement to the last for our commercial, economic and political interests in Malaysia and the other ASEAN countries. We should fight very hard, but be ready to surrender gracefully if defeat is inevitable.

5. I am sending copies of this letter to the Prime Minister, Michael Jopling, John MacGregor and Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

2 October 1986



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

30 September 1986

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Affairs
Downing Street
LONDON
SW1

Prime Minister?
Mr Channon believes it may be difficult to avoid a new rubber agreement.
DCS
30/9

Dear Geoffrey,

INTERNATIONAL NATURAL RUBBER AGREEMENT (INRA)

October 6

As you know, we are about to enter the third and very possibly final session of the renegotiation of the INRA. This was, of course, along with Cocoa, in hand before the collapse of the Tin Agreement and our adoption of the deregulatory approach to commodity policy. You will also recall that at the last session in May the UK placed a general reserve at the start of the negotiations whilst we took a view on what attitude our negotiators should take. However, in view of our need to stay with the EEC mandate it was finally agreed that a series of tough objectives should be pursued with the covert hope that these would eventually prove unacceptable to producers and other consumers and that negotiations would break down.

To date the discussions have been inconclusive and there were still evident divisions at the end of the last session between the attitudes of producers and consumers and indeed within the consumer camp - which our negotiators will attempt to widen. I have to say however that the prospects of avoiding a new Agreement do not look very good.

Extensive lobbying efforts made in the intervening period, particularly with the US and selected EEC Member States have not proved successful. The reality is that the UK is still alone in its desire not to negotiate a new INRA.

DW1BZG

1786 1986 BOARD OF TRADE BICENTENARY

999-1

As regards our more detailed objectives we do have support in the EEC and from others on the question of removal of references to borrowing. But support on the core questions of price levels and automaticity will prove much more difficult to get and we will need to work hard to maintain our few allies on this. We are also arguing for the use of SDR's, and we have presented a series of amendments on liabilities. The SDR argument is likely to prove difficult to pursue.

As a whole the outlook is pretty bleak. Although our recent statement in COREPER on Cocoa, where we expressed our misgivings about the market intervention to commodity trade will help our position generally and in particular in preparation for UNCTAD VII, it may have the effect of weakening the potential for our Rubber negotiators to bring other EEC Member States alongside our position. Our previous covert position was already being rumbled and now that we are more out in the open it will be more difficult to bring others to accept our specific objectives as they may well be seen as attempts to block progress in the negotiations.

We already know that the producers are likely to back down from their earlier position on price and will probably drop their proposals for slackening of automaticity. To avoid the current Agreement's Buffer Stock being deposited onto the market they might settle for virtually anything. If so, given the Cocoa Agreement and the new life that some would see it as bringing to the Integrated Programme for Commodities, consumers will be under pressure and the cracks may well show. Although the UK will fight on this, again we may find that we are out on a limb. It goes without saying, however, that since we have adopted a policy of deregulation, we should oppose vigorously the successful conclusion of the negotiation and our negotiators must aim for even tougher targets than last time and continue to hope that the negotiations will founder. Indeed there are some difficulties that the producers continue to face and it is always a possibility, although a diminishing one, that there could be a further breakdown in the negotiations. Even though it is generally agreed that 12 months are needed for signature and ratification and the present agreement expires in October next, no doubt UNCTAD would try to squeeze in another session. But we also need to brace ourselves now for the possibility that a new INRA may emerge during the current session commencing on 6 October and that the power of the UK to prevent this is restricted.

DW1BZG

This is all very disagreeable. As we have already recognized it is difficult to pursue specific objectives when we are locked into an EEC position. I am very much afraid, therefore, that we will have to prepare ourselves for the reality that we will not be able to achieve all that we would wish. I will of course keep colleagues in touch with developments as the negotiations proceed.

I am copying this to the Prime Minister, Michael Jopling, John MacGregor and Sir Robert Armstrong.

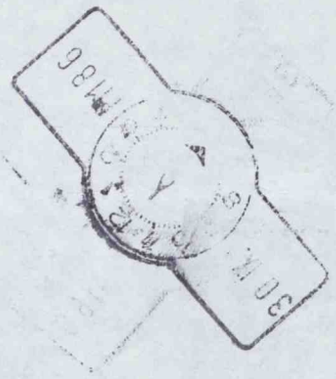
Yours,

PAUL CHANNON

Paul

DW1BZG

999-49



MTS

cc PC.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

25 September 1986

Dear Ivor,

INTERNATIONAL COCOA AGREEMENT

The Prime Minister has considered Mr Jopling's letters of 18 and 24 September to the Trade and Industry Secretary about the International Cocoa Agreement, as well as the comments of the Foreign and Commonwealth Secretary, the Chief Secretary and Mr Channon.

The Prime Minister remains very reluctant to see us join this Agreement, particularly when Ministers have only just agreed that we should oppose agreements which interfere with the free operation of the market. She notes, however, that the main requirements we set for a Cocoa Agreement have been met and that there is a clear majority in the Community in favour of membership. She is ready therefore to accept the view of colleagues that, in this case, the United Kingdom has no practicable alternative to joining. But we should oppose any further such agreements vigorously. For this reason, the Prime Minister thinks it essential that we should make a firm statement of our objection to commodity agreements which operate by intervention in markets and our hope that the Community will not get drawn into negotiation of further such agreements. She would wish us to do so both in the context of the discussions on cocoa and more generally by a formal statement in the Council.

I am copying this letter to Private Secretaries to the Foreign and Commonwealth Secretary, Chief Secretary, Trade and Industry Secretary and to Sir Robert Armstrong.

yours sincerely

Charles Powell

Charles Powell

Ivor Llewelyn, Esq.,
Ministry of Agriculture, Fisheries and Food.

6

10 DOWNING STREET

Charles

David Williamson is now pressing for the PM's views on Corea.

David.

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

From the Minister's
Private Office

Charles Powell Esq
10 Downing Street
LONDON SW1

25 September 1986

Dear Charles

As you requested, I enclose a note on certain aspects of the 1986 Cocoa Agreement. I understand that you have also spoken to Frank Scollen about all this.

Yours ever

Ivor

C I LLEWELYN
Private Secretary

1986 COCOA AGREEMENT

PRICE

1. The 103c median price is closely related to the long term trend price for cocoa. It represents a 3c concession by consumers since negotiations on price began in 1984 and over 30c concession by producers. It is 2c under the UK mandate. Recent market prices have been near to this level - 1984 average was 108c and the 1985 average, 102c. The 5-day average price for 23 September was 101c. It is important to note that in the 1986 Agreement these and the market indicator prices will be expressed in SDRs - a crucial UK objective - and the operation of the Agreement will thereby be insulated from the adverse effects of dollar fluctuation. Effectively, denomination in the SDR in July has meant that in real terms, owing to dollar movements, the price has not increased from the 100c level which was on the table in February 1986 when negotiations broke down.

[They wanted 135c]

2. The lower intervention price (i.e. compulsory buying in price) of 85c is a consequence of the price defence band of 36c being centred around the median price. In order to increase the effectiveness of the buffer stock manager's intervention on the market, he is allowed the discretion to buy at 88c.

LEVY

3. The present financial resources of the International Cocoa Organisation which continue to be supplemented by the levy are sufficient to cover purchases of the maximum capacity of the

buffer stock. However, before they are depleted or the buffer stock capacity is reached there is provision for a supplementary withholding of cocoa from the market by producers (but under control of the Buffer Stock Manager). Under no circumstances can there be any borrowing

FINANCE AND LIABILITIES

4. The Agreement contains in Articles 7 para. 2 and 22 para 5 (copies herewith) precise wording on borrowing and financial liabilities tabled by the UK delegation after clearance by FCO and MAFF lawyers.

TROPICAL FOODS DIVISION

MINISTRY OF AGRICULTURE,
FISHERIES AND FOOD

25 September 1986

EXTRACT: INTERNATIONAL COCOA AGREEMENT, 1986

Article 7

Powers and functions of the Council

1. The Council shall exercise all such powers and perform or arrange for the performance of all such functions as are necessary to carry out the express provisions of this Agreement.

2. The Council shall not have power, and shall not be taken to have been authorized by the members, to incur any obligation outside the scope of this Agreement; in particular it shall not have the capacity to borrow money, without however limiting the application of article 33,* nor shall it enter into any trading contract for cocoa except as provided for specifically in this Agreement. In exercising its capacity to contract, the Council shall incorporate in its contracts the terms of this provision and paragraph 5 of article 22 in such a way as to bring them to the notice of the other parties entering into contracts with the Council, but any failure to incorporate such terms shall not invalidate such a contract or render it ultra vires the Council.

3. The Council shall, by special vote, adopt such rules and regulations as are necessary to carry out the provisions of this Agreement and are consistent therewith, including its rules of procedure and those of its committees, the financial and staff regulations of the Organization and rules for the administration and operation of the buffer stock. The Council may, in its rules of procedure, provide for a procedure whereby it may, without meeting, decide specific questions.

4. The Council shall keep such records as are required for the performance of its functions under this Agreement, and such other records as it considers appropriate.

* This refers to the possibility of establishing a relationship with the Common Fund – if it ever comes into effect.

EXTRACT: INTERNATIONAL COCOA AGREEMENT, 1986

CHAPTER VI - FINANCE

Article 22

Finance and liabilities of members

1. There shall be kept two accounts - the administrative account and the buffer stock account - for the administration and operation of this Agreement.

2. The expenses necessary for the administration and operation of this Agreement, excluding those attributable to the operation and maintenance of the buffer stock instituted under article 30, shall be brought into the administrative account and shall be met by annual contributions from members assessed in accordance with article 23. If, however, a member requests special services, the Council may decide to accede to the request and subsequently may require that member to pay for them.

3. Any expenditure which is attributable to the operation and maintenance of the buffer stock under article 34 shall be brought into the buffer stock account. The liability of the buffer stock account for any expenditure other than that specified in article 34 shall be decided by the Council.

4. The financial year of the Organization shall be the same as the cocoa year.

5. A member's liability to the Council and to other members is limited to the extent of its obligations regarding contributions to the administrative budget and to the financing of the buffer stock as specifically provided in this Agreement. Third parties dealing with the Council shall be deemed to have notice of the provisions of this Agreement regarding the powers of the Council and the obligations of the members, in particular, paragraph 2 of article 7 and the first sentence of this paragraph.

6. The expenses of delegations to the Council, to the Executive Committee and to any of the committees of the Council or of the Executive Committee shall be met by the members concerned.



PRIME MINISTER

INTERNATIONAL COCOA AGREEMENT

You had a number of supplementary questions on the International Cocoa Agreement. I attach answers provided by the MAFF. If possible, and if you are satisfied with the MAFF's answers, we ought to signify our readiness to participate in the Agreement at a European Community meeting in Brussels today so that the matter can be considered by the Foreign Affairs Council soon.

Agree that we should join?

Yes C.D.P.

CHARLES POWELL

25 September 1986

PRIME MINISTER

INTERNATIONAL COCOA AGREEMENT

You said that you would like to go further into the pros and cons of membership of the International Cocoa Agreement before deciding whether we should join.

The objectives which we set earlier this year - and frankly believed that the producers would never accept - were:

- a reference price below 105 US cents/lb; — why this figure?
- automatic adjustments in the price range of up to 13 cents/lb, related to changes in the level of the buffer stock and exchange rate fluctuations;
- membership must include at least 80 per cent of exporters (by volume) and 70 per cent of consumers;
- there should be no provision for borrowing.

The attached note by MAFF shows that these objectives have been very largely achieved viz:

- a reference price of 103 cents/lb;
- denomination in a currency basket, the SDR;
- veto-proof price adjustment;
- an explicit prohibition on borrowing;
- inclusion of a UK text on liabilities and financial responsibilities;
- 80 per cent producer participation;
- procedures for orderly liquidation if necessary.

Where the agreement falls short - but not much of our objectives - is:

- there will be somewhat less than 70 per cent consumer participation. But this does not affect the economic provisions since the levy to finance the Agreement is charged on exports to consumers whether they are members of the Agreement or not;
- the automatic price adjustment is in a range up to 12 cents/lb (rather than 13 cents). But the reference price is lower than we would have settled for;
- the Agreement refers to the possibility of taking advantage of financing from the Common Fund. But since there isn't a Common Fund and won't be, this is theoretical.

The Foreign Secretary, the Trade and Industry Secretary and the Chief Secretary have all now commented. All three acknowledge that, while we would prefer to have no Agreement, we have little choice but to join this one since the conditions laid down have been met in all important respects; and can do so without any significant risk to our interests. It is proposed that we should make a formal statement of our objectives in principle to agreements involving intervention in markets.

Agree that we should join on this basis, and subject to going through our Parliamentary procedures?

CHARLES POWELL

24 September 1986

LOGABH

CCBG

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

→ CDP

The Rt Hon Paul Channon MP
Secretary of State for Trade & Industry
1 Victoria Street
LONDON SW1

24 September 1986

with CDP?

INTERNATIONAL COCOA AGREEMENT 1986

Thank you for your letter of 23 September. I have also seen Geoffrey Howe's and John MacGregor's comments. I note that we are now agreed that in COREPER on 25 September we should acquiesce in UK and EC signature of the new Agreement before 1 October, while resisting provisional application until our necessary Parliamentary procedures have been completed in the usual way. We are also agreed that in lifting our reserves we should make a statement for the minutes making clear our disappointment on the major cocoa issues concerned. I suggest we leave officials to draft a suitable text.

You raise the question of how we can now register our underlying position and in particular our preference for a deregulatory approach. I agree that a well-publicised general statement of our position could be useful. However, for several reasons I do not believe that it would best advance our case to make such a statement in the context of discussions on cocoa. We agreed a negotiating mandate on cocoa which took account both of our views on deregulation and of the stage that the cocoa negotiations had reached and the need for the UK to be seen to take a coherent line in international negotiations. Consequently, in the cocoa negotiations we consistently took a very hard line, but obviously on the basis that if our demands were met we would be prepared to co-operate in a new Agreement. To make a statement of the sort you suggest in the cocoa context could give the impression that we had negotiated in bad faith and were peeved because, unexpectedly, our demands had been met and our ploy of wrecking the negotiations had failed. This may not be far from the truth but it is hardly something we would wish to advertise. The unfortunate impression created would be sure to distract attention from the important points in our general deregulatory approach which we wish others to take on board. In any case however ingenious our wording there must be some apparent incongruity in making a fundamental statement of disapproval while at the same time apparently accepting the very thing disapproved on in a specific instance. Further there is the

/point that the ....

point that the timing of the EC discussions on cocoa are such that a statement could only be made in COREPER and although we could ask for it to be recorded in the Council minutes, this would hardly make the impact we would like among other Ministers.

I suggest that the best course is for us to proceed as already agreed on cocoa, but to make our overall position on deregulation clear separately. In the Community the best course would be to make a formal statement in the Council itself setting out our views. (We would of course need to explain incidentally how this fitted in with our position on cocoa). It would seem this would best be done by you or perhaps by Lynda Chalker in the Foreign Affairs Council. I hope we can proceed accordingly by taking advantage of a suitable occasion in the next few months.

I am copying this letter to the Prime Minister, Geoffrey Howe, John MacGregor and Sir Robert Armstrong.

MICHAEL JOPLING

Seen by CDP

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

From the Parliamentary Secretary

PERSONAL

C D Powell
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

23 September 1986

Dear Charles,

As you requested I am enclosing a background note on the Cocoa agreement and earlier correspondence which sets out in greater detail how the Agreement operates.

Yours sincerely,

Gill Tishler.

G Tishler
Private Secretary

Mr Packers minute of 27.1. to Miss Tishler refers.

Mrs Adams
Mr Mason
Mr Thomas.

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
1 Victoria Street
London SW1

29 January 1986

RENEGOTIATION OF THE INTERNATIONAL COCOA AGREEMENT

The Fourth, and probably final Conference to renegotiate the Cocoa Agreement will start in Geneva on 10 February. The UK is the world's fifth largest importer, with imports valued at £279 in 1984. There is also considerable employment in cocoa and chocolate processing in the UK. A Cocoa Agreement could have a significant impact on the market. The negotiation is therefore one of importance to us.

This renegotiation has been going on for 2½ years and the general UK line is well established and understood by EC and consumer group partners. However, in view of the importance of the subject and concerns raised about commodity issues by the recent collapse of the Tin Agreement, I thought it worthwhile to write to you about the line I propose we should take at the Conference.

Only an Agreement which is economically soundly based will work and be worth having. In essence that means we must continue to insist on a realistic price range which reflects the long term trend of market prices. and which is automatically adjustable to take account of both rapid buffer stock buying and significant movements in exchange rate relativities. We will also need to stand firm on our insistence that there needs to be a high level of membership if we are to agree to participate in any new Agreement. The current Agreement requires 80% of exports and 70% of imports to be covered before it enters into force. We must ensure that those targets also feature in any new Agreement. Following international pressure the current Agreement was in practice brought into effect with significantly lower participation. We will have to make it clear that we would strongly resist participating on that basis again.

We will undoubtedly come under pressure at the Conference to make concessions for the sake of reaching agreement. I believe we will have to be very firm in resisting such pressure. Maintenance of our line, on which we expect the support of a number of like-minded consumer countries will, of course, not make the achievement of a new Agreement easy. Indeed it seems quite possible that the

attempt to negotiate an Agreement with economic provisions will be unsuccessful. We could then find ourselves, as with sugar, with a purely administrative Agreement or, less likely, with none at all. I believe we could be quite content with either outcome.

I enclose a copy of the submission which has been put to me, which contains a detailed proposal for the UK negotiating position which I have accepted. I understand that your officials have been closely involved in the preparation of the submission and generally support the recommended approach. Perhaps you would let me know fairly quickly if you have any comments. The negotiators will, of course, report back to us if a package develops which goes beyond what I propose.

Copies of this letter go to Geoffrey Howe and John MacGregor.

MICHAEL JOPLING

RESTRICTED

RENEGOTIATION OF THE INTERNATIONAL COCOA AGREEMENT

Purpose of the Submission

1. To seek the Minister's approval for the United Kingdom's line to take at the next UN Conference for the renegotiation of the International Cocoa Agreement, starting on 10 February 1986.

Background

Earlier Cocoa Agreements

2. Following extensive negotiations the first Cocoa Agreement entered into force in 1972, and the second in 1975. Throughout the life of both Agreements market prices were above the price ranges set.

The 1980 Agreement

3. The 1980 Agreement came into force after further protracted negotiations. As negotiated the Agreement requires that membership comprise countries representating 80% of exports and 70% of imports. Eventually it became clear that neither the Ivory Coast, the principal importer, nor the United States, the principal exporter, were (for opposite reasons) going to join, leaving the membership requirements of the Agreement unmet. However, the Secretary-General of the UN pressed those prepared to join to allow the Agreement to enter into force and despite some resistance this was eventually accepted. The Agreement entered into force with 72% of exports and 61% of imports represented.

4. The 1980 Agreement was designed to defend a price range of 110 - 150 US cents/lb, using the mechanism of a buffer stock. If the market price fell below 110 cents/lb (the Lower Intervention Price) the buffer stock would buy in cocoa beans to force the market price to rise into the range. If the market price rose above 150 cents/lb (the Upper Intervention Price) the buffer stock would release cocoa beans to force the market price to drop back into the range. The mid-point of the price range (the main focus of the current

renegotiation) is called the reference price. Buffer stock purchases were funded by a levy of 1 and later 2 cents/lb on each transaction involving a member of the Agreement. (The levy is generally paid on export but on imports from non-member producers it is paid by the importer). Money from any buffer stock sales would augment the funds of the Agreement.

5. The 1980 Agreement contained provisions for adjusting the defined price range. There is a provision to lower (or raise) the price range if rapid buffer stock buying (or selling) suggested that the range was out of line with market reality. This proved to be the case shortly after the entry into force of the Agreement in 1981, and 100,000 tonnes of beans were rapidly bought into the buffer stock and the price range lowered by 4¢. This purchase exhausted the funds then available but did not prevent a further slide in market prices. Fortunately, unlike the situation in the Tin Agreement, the buffer stock manager was precluded from taking any further action to support the market either by borrowing money or by purchasing forward. An unsuccessful attempt was made to arrange commercial borrowing for further purchases, but this was not accepted.

6. Although the Agreement provides for the price range to be adjusted to take account of exchange rate movements and despite ample objective justification for action under this head, it proved impossible to find the necessary majority for a decision in the Council.

7. Neither the Council collectively, nor members individually had or have any contingent liabilities under any of the Cocoa Agreements. At present the 1980 Agreement has assets in the form of 100,000 tonnes of beans plus more than 200m US dollars in cash.

8. In EC terms the present Agreement is one of "mixed competence", - both the individual member states and the EC are members. Member states and the Commission are constrained by negotiating directives adopted by the Council. Further, if a new Agreement is acceptable to majority opinion within the EC the Commission would be likely to

bring forward a proposal that the Community join and that member states should do likewise. This proposal could only be blocked if the necessary votes could be found in the Council (unless we tried to use the Luxembourg Compromise). Non-adoption of such a proposal would prevent all member states from joining even if some were very keen to do so. In practice, it is therefore essential for the UK to play an active role in the negotiations, including those in Brussels concerning the EC attitude, if we are to protect our interests.

The Issues

Tactics To-Date

9. Government policy on commodities is to support agreements which are feasible, economically soundly based, and work to the mutual benefit of producers and consumers. Consistent with these principles we have so far worked constructively for a new Cocoa Agreement while insisting that an Agreement must include an economically defensible and adjustable price range, and that before it can enter into force a high level of membership must be achieved.

10. So far in the renegotiation, the EC has fallen into two main groups. One with the UK, FRG and Netherlands as a core, has urged a vigorous approach to the economic provisions of the Agreement. The other, smaller group, led by France, attaches more importance to getting an Agreement than to achieving any particular economic objective. It is not yet clear whether it will be possible to achieve a common position on all outstanding issues before the start of the next Conference, but discussions in Brussels are continuing, and may recur during the Conference.

The Present State of the Renegotiation and Lines to Take on Key Issues

11. On some basic issues a general consensus between producers and consumers has already been established in the negotiations. The main mechanism of a new Agreement is envisaged as a buffer stock which would have a capacity of 250,000 tonnes (including the 100,000 tonnes still in store from the 1980 Agreement). It would be funded, as before, by a 2¢/lb levy. Additionally, if the buffer stock

failed to defend the Lower Intervention Price, producers would be authorised to withhold from the market, in approved warehouses and under the control of the buffer stock manager, up to 120,000 tonnes of cocoa beans. The financing of this is still under discussion, but the EC has been prepared to accept that standard costs of storage and rotation could be paid from the Agreement's funds and costs of transport and insurance could be loaned. The beans would not, however, be paid for, and would remain the producers' property. This represents the present limit of consensus.

12. On the price level, consuming countries offered a reference price of 100¢/lb in October 1984. At the third conference in March 1984, the EC offered a package of measures based on a "final offer" reference price of 105¢/lb but this did not enable agreement to be reached, and the offer is no longer on the table. Producers are not united on the price level. However, they (and consumers) rejected a compromise package proposed at the last Conference including a reference price of 115¢/lb.

13. On price we have two separate, linked, objectives. We want (i) a satisfactory reference price which can be (ii) satisfactorily adapted to take account of developments over the life of the Agreement.

14. It is relevant that the dollar has weakened in the past year or so and the calculation that gave a reference price of 100¢/lb in 1983 would now give 112¢/lb. Market prices for cocoa have recently been in the range of 100 - 110¢/lb. Some in the consumer camp are arguing, therefore, that there is scope for an increase in the consumers' opening bid to a level above 100 - 105¢/lb. However, consumers' offers already made took into account estimates of future production prepared by the Secretariat of the International Cocoa Organisation. In practice, production is far outstripping these estimates, implying lower market prices in future. Work carried out by the Ministry's economists on the basis of the latest data suggests that a 100¢/lb reference price applied without adequate adjustment for the 5-year lifetime of the Agreement would probably become increasingly generous, and be likely to result in both buffer stock

purchases and withdrawals being used to their maximum limits with no possibility of sales from the buffer stock. Even though a reference price of 100¢/lb could look low at the beginning of a new Agreement, it could therefore be too high at its end.

15. On balance we should stick to 100¢/lb as a reasonable offer provided the price range intially set is capable of satisfactory adjustment. Since it has proved impossible in the present Agreement to get sufficient votes to secure optional adjustments, they should be automatic. Two types of adjustment are essential.

16. First, it is very much in our interests that the provisions whereby prices are adjusted automatically in relation to buffer stock purchases be retained from the 1980 Agreement. This would ensure that the reference price dropped by, say, 5¢/lb for every 50,000 tonnes purchased into the buffer stock within a specified period. The reference price would therefore have reduced by 15¢ when the buffer stock was full (250,000 tonnes, of which 150,000 of new purchases). An arrangement of this kind will be very difficult to negotiate satisfactorily, since the Ivory Coast say they will not join any Agreement with such a provision.

17. Second, provision also needs to be made for the price range to be adjusted to take account of exchange rate variations. The 1980 Agreement is denominated in US cents and the United Kingdom industry suffered as a result during most of its lifetime. As mentioned above, the 1980 Agreement had a provision allowing (but not requiring) the price range to be altered in these circumstances, but the Council did not agree to its implementation. So far we have argued with the strong support of our industry, that any new Agreement must provide either for denomination of prices in the Agreement to be made in a suitable basket of currencies (perhaps SDR) or for automatic adjustment of the price range in response to a divergence trigger. Indeed our industry advisers now say that this is the single most important issue for them, and they will object strongly if an Agreement is reached without such an adjustment. Of course one could work against us on occasion: the industry says they prefer that certainty to the

present uncertainty. Unfortunately within the EC Germany is firmly opposed to any such measure, but there are a number of consumers outside the EC - notably the USSR - who share our view. We should continue to argue this point strongly.

Membership

18. Following earlier Ministerial instructions we have made it clear that we would not be prepared to participate in a new Agreement which failed to get very close to the coverage required by the text of the present Agreement, ie one representing 80% of export volume and 70% of imports (paragraph 3 above). We should continue to insist on this point. In practical terms this will mean that an Agreement without the Ivory Coast would not be worth having especially if other major producers such as Malaysia did not join. Similarly, considering consumers, although it is expected that the United States will not participate, if the USSR and their satelites were to withdraw, the criterion would probably not be met.

Financing

19. The economic provisions of the current Agreement are financed by a 2¢/lb levy on trade. A provision exists (never exercised) for securing loans against the value of the buffer stock. Draft proposals from the President of the negotiating Conference provide for the possibility of similar borrowing under a new Agreement, but include a disclaimer of individual members' responsibility for the repayment of loans. The principle of such borrowing was agreed by the EC Council of Ministers in March 1984. However, the disastrous circumstances of the collapse of the Tin Agreement suggests reconsideration of this case would now be wise. Cocoa trading on the terminal markets by the buffer stock manager is expressly prohibited by the Cocoa Agreement, so there is no exact parallel with tin. Any new Cocoa Agreement would in any case be financially viable. Even with the most rapid rate of buffer stock purchasing possible there would only need to be a small contingency provision for temporary borrowing. It is recommended that we should press for the borrowing provision to be dropped. Should this line fail we should argue that a small limit for borrowing, perhaps related to a proportion of annual levy

income, could be defined in the Agreement, and this limit explicitly be precluded from subsequent adjustment by the Council. Under no conditions should borrowing be allowed against the value of the buffer stock. (Officials would agree the terms with HMT, and UK lawyers would need to be satisfied that the text of the Agreement contained no loopholes and that the UK's financial obligations under all circumstances were clearly defined).

Developments since the Third Conference

20. It has become clear that failure of the renegotiation is not unlikely. Even before the collapse of the Tin Agreement, producers seemed to have realised that there is now much less support for the kind of price-supportive commodity agreements concluded in the past (of which the 1980 Cocoa Agreement was typical). It may be that the level of prices we could accept (and which many producers might privately accept), involve such a political loss of face for producing governments as to be insupportable. Liquidation of the buffer stock would occur automatically if a new Agreement with economic provisions was not in force after 1 October 1986. We would need to insist that any liquidation of buffer stock cocoa was on terms acceptable to us. In these circumstances the possibility of producers collaborating in a cartel so as to manipulate market prices successfully seems slim, given their divergent interests.

23. At this stage it seems quite likely that an economic agreement acceptable to a reasonable majority will not be found. The most likely outcome would then be an administrative agreement (as for sugar) with no economic provisions. Such an outcome would be acceptable - even welcome - to the United Kingdom trade and industry.

Recommendations

22. The Minister is invited to instruct officials to proceed accordingly in the various negotiating forums. In summary:-

(i) The United Kingdom should continue to participate in the negotiations, while making it clear that we are opposed to any Agreement which could be economically unsound in

our judgement or would be unbalanced in terms of producer and consumer advantage.

(ii) We should aim for a reference price level of no more than 100¢/lb or, if most other conditions are satisfactory including notably (iii) below 105¢/lb.

(iii) We should press for automatic adjustments in the price range related to changes in the level of the buffer stock and exchange rate fluctuations as essential components of a satisfactory package.

(iv) We should urge strongly that a new Agreement should only come into force if the membership criteria of the 1980 Agreement are met.

(v) We should press for the removal of all provision for borrowing to fund purchases for the buffer stock. If absolutely necessary we might accept some very limited provision for borrowing which would need to be agreed in detail with the Treasury beforehand, but in no circumstances could buffer stock cocoa be used as security.

(vi) We should be prepared, if need be, to encourage discussion of alternatives to an economic Agreement, namely a purely administrative Agreement or failing that none at all.

(vii) We should insist that buffer stock liquidation is effected on terms acceptable to us before agreeing to an administrative Agreement.

FOOD, DRINK AND
MARKETING POLICY GROUP

27 January 1986

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CONFIDENTIAL

CC PC

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Michael Jopling MP
Minister for Agriculture, Fisheries and Food
Ministry of Agriculture, Fisheries and Food
Whitehall Place
London
SW1A 2HH

23 September 1986

Dear Minister,

with CDP

RENEGOTIATION OF THE COCOA AGREEMENT 1986

I have seen your letter of 18 September to Paul Channon.

I regret that it was not apparently possible to get further movement from our EC partners and that we are now left with little choice but to sign the Cocoa Agreement as it stands.

But I strongly support a deferral of the provisional application for as long as possible. It would certainly have been unwise, given susceptibilities about tin, to have tried to rush through our own Parliamentary procedures for ratification during the recess. Equally, we do not want to enchance the status of this agreement by appearing to make special arrangements to put it through. Attempts by the Commission to take advantage of this situation to enhance Community competence must certainly be resisted.

I also support your suggestion that our withdrawal of further objections should be associated with a statement of regret that our partners would not support us to the full. However, I would be prepared to see us go further and state briefly that our objection to the Cocoa Agreement is confined not to points of detail but extends to the methods of intervention in markets by which it operates. We are looking for opportunities to move to a more open position on deregulation (Mr Norgrove's letter of 8 September refers). I believe this occasion is a good one and should not be missed.

CONFIDENTIAL

I am copying this letter to the Prime Minister, Geoffrey Howe, Paul Channon and Sir Robert Armstrong.

Yours sincerely,

Jim Luther

JOHN MacGREGOR

(Approved by the Chief Secretary and signed in his absence)



CONFIDENTIAL

RENEGOTIATION OF THE INTERNATIONAL COCOA AGREEMENT

1. The final text of the new International Cocoa Agreement incorporates the great bulk of the UK objectives identified in the Ministerial correspondence resting with the Minister's letter of 4 July to the Secretary of State for Trade and Industry. These include:

(a) a reference price (now called the median price) below the equivalent of 105 US cents/lb (actually 103 cents/lb);

(b) no obligatory buying above 85 cents/lb;

(c) denomination in a currency basket, the SDR;

(d) a veto-proof buffer stock related price adjustment that could reduce prices by 12 cents/lb within a year in the event of heavy purchasing;

(e) an explicit prohibition on borrowing and on the buffer stock manager operating on the terminal market;

(f) inclusion of a UK text on liabilities and financial responsibility; May I see it?

(g) a requirement for 80% producer participation (which in practical terms must include the Ivory Coast) before the economic provisions can be implemented;

(h) procedures for the orderly liquidation of the agreement in the event that this becomes necessary, including identification of importers' share of any assets.

2. Aspects of the final text which were, or could be held to be, outside the delegation's instructions, were:-

(a) the required level of importer membership for provisional entry into force has been reduced from 70% in the 1980 Agreement, which we would have preferred to retain, to 60%.

(b) there is a reference to the (theoretical) possibility of taking advantage of financing from the Common Fund;

(c) some exhortatory language is included on limiting imports from non-members when supplementary price defence measures are in force. However, this would have no legislative implications;

(d) the buffer stock related price adjustment of up to 12 cents/lb in the course of a year falls short by 1 US cent/lb of our preferred maximum;

(e) the agreement may be extended for one extra year (to 6 years) longer than the present Agreement.

3. The UK has formally reserved its position on all these points, of which (a) and (d) are the most significant. The level of importer membership is an essentially political matter: a high level would enhance the Agreement and its decision-making, but it does not directly impinge on the economic provisions. The buffer stock levy is charged on all exports, to members and non-members alike. A 70% requirement would have gone beyond the actual level of importer participation in the 1980 Agreement, which excludes the USA. It was generally seen as excessive, taking into account the new and more important requirement for 80% producer participation. The width of the band for adjusting the price range in response to rapid buffer stock purchases was also a matter of negotiation against the background, first, of the major concessions which the principle of such adjustment represented for producers and, secondly, of the achievement of a median price very close to the long term trend level and some 30 cents/lb below the producers' opening bid.

4. Entry into force of the new Agreement depends on when the respective threshholds for producer and importer participation are reached. It now seems probable that 80% of producers will notify provisional application by the specified date of 1 October, but unlikely that 60% of importers willhave done so. In anticipation of this the Council of the outgoing 1980 Agreement recently used its powers to institute a four-month interim period, to

31 January 1987. This period will provide an extended opportunity for meeting the requirements for entry into force of the new Agreement and for transferring to it the (frozen) buffer stock arrangements.

5. The interim period has therefore removed the need to notify provisional application of the new Agreement before expiry of the old one. We have accordingly resisted pressure within the Community to take this course. Together with Italy and Ireland we have indicated that our provisional application can be notified only after completion of Parliamentary procedures. Successive discussions in Council Working Group and COREPER have now focused attention on the more urgent issue of signature, at least, by the Community and its member states before 30 September. The great majority of member states is in favour. A Ministerial decision is being sought.

Tropical Foods Division

23 September 1986

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215 5422
GTN 215)
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

23 September 1986

CONFIDENTIAL

The Rt Hon Michael Jopling MP
Minister of Agriculture, Fisheries and Food
Ministry of Agriculture, Fisheries and Food
Whitehall Place
LONDON
SW1

Dear Michael,

INTERNATIONAL COCOA AGREEMENT 1986

Thank you for your letter of 18 August in which you consider the question of UK membership of the new international cocoa agreement. Although you have not dealt directly with the specific points on the new agreement that I made in my letter to you of 22 August, I share your view that we must now address the question of potential EC/UK membership.

I am disappointed that we were not able to muster enough support in the Community for our opposition to the agreement and agree with you that in practice we now have no practical option but to join it. This clearly has implications for the forthcoming renegotiation of the natural rubber agreement, where we have even fewer allies. It also seems to me to have important implications for our general policy on commodities on which we have just reached agreement. While I understand the reasons for hurrying and the limitations on our own freedom of action, it will sit very badly with our wish to further a deregulatory approach if we appear to be rushing into a new commodity agreement in the company of the Community. This is particularly so, since, as we saw at the recent UNCTAD Trade and Department Board, the Commission and some member states have been heralding the new agreement enthusiastically as "a new type of commodity agreement".

I certainly agree with you that we should record our principal disappointments on the specifics of the new agreement which would

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1786 1986 BOARD OF TRADE BICENTENARY

include such things as price level, price adjustment and the level of consumer participation. But I also think we need now to go further and register our underlying reservations about instruments such as this which interfere with the working of the free market. It seems to me that something on these lines is now necessary if we are to preserve our credibility in the various international discussions that will take place this autumn on commodities in which we will be presenting more openly our deregulatory approach.

I recognise that coming out more openly with our real views on the cocoa agreement at this stage may have repercussions on the credibility of the line we agreed to take in the renegotiation of the natural rubber agreement ie. basically the same tactics as we followed on cocoa, trying to destroy the agreement from within by pressing proposals which would prevent agreement. This is unfortunate but I believe we must accept this risk if we are to maintain our overall policy objectives.

Clearly it is for you to decide how best to achieve this in the discussions in the Community but my officials stand ready to help with the drafting of a text.

I have now seen Geoffrey Howe's response to you in his minute of 22 September and note that he shares my view that a more forthcoming statement of our position would be appropriate.

I am copying this to the Prime Minister, Geoffrey Howe, John MacGregor and Sir Robert Armstrong.

PAUL CHANNON

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1906

FCS/86/223

MINISTER OF AGRICULTURE, FISHERIES AND FOOD

International Cocoa Agreement 1986 (ICCA)

1. Thank you for sending me a copy of your letter of 18 September to Paul Channon about the International Cocoa Agreement.

2. I agree that we should now accept the principle of UK membership of the Agreement, and that we should state our willingness to sign before 1 October. Although there are a number of procedural difficulties to be resolved before the way is clear for signature by the Community and its member states, our reservations on the detail of the new Agreement are not shared by a blocking minority of member states. There is nothing to be gained from insisting on these reservations any further, and if we tried to do so we could reach the point where our partners held the UK responsible for any delay in their own and the Community's signature of the Agreement.

3. I am glad to note however that we can be confident of securing our objective of ensuring that member states are given time to complete normal constitutional procedures before the Community notifies provisional application of the Agreement. Thanks partly to our own lobbying in capitals and with the Commission, the majority of member states opposed the Commission's proposal for the Community to notify provisional application even if some member states were unable to do so. As a result, the Commission conceded this point at COREPER on 18 September and will now probably bring forward a proposal for signature only.

/4.

4. The question arises how UK membership of the new ICCA is consistent with the deregulatory approach to commodity policy recently endorsed by Ministers. It would have been desirable to avoid a new Cocoa Agreement altogether. But the officials' review acknowledged that renegotiation of this Agreement had already begun and that we were negotiating within a Community position. The review also set out the minimum requirements we should need in any such price stabilising agreement. Our negotiators on cocoa were able to persuade the Community to insist on virtually all these requirements which in turn, rather unexpectedly, were accepted by the negotiating conference. This is a first step towards recognition of the importance of ensuring financial probity and following market trends in commodity matters.

5. In order to promote deregulation, and to convey to our EC partners and others our opposition in principle to this type of instrument, I suggest that we should do more than state our reservations about certain of the ICCA's provisions for the minutes of the Council of Ministers. Both in the Community, and as appropriate elsewhere, we should let it be known that despite our readiness to join the Cocoa Agreement, we have fundamental reservations about the wisdom and practicality of seeking to regulate commodity trade and that we question the value of the market intervention approach to solving the problems faced by primary producers. We are, however, prepared to join the 1986 Cocoa Agreement because it satisfies the economic, financial and other criteria that we believe essential to the viability of instruments of this kind.

/6.

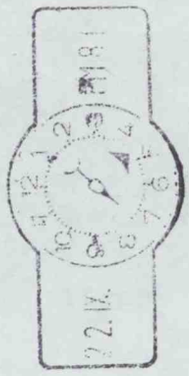
6. I am copying this letter to the Prime Minister, Paul Channon, John Macgregor and Sir Robert Armstrong.

C R Budd (Private Secretary)

PP (GEOFFREY HOWE)
(Approved by the
Foreign Secretary and
signed in his absence)

Foreign and Commonwealth Office

22 September 1986



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(1)

PRIME MINISTER

I would rather go into this a little more deeply. The same arguments were used in the Tin agreement. If there is no financial responsibility - what is in the agreement? or

INTERNATIONAL COCOA AGREEMENT

The attached letter from Mr. Jopling proposes that we accept the principle of UK membership of the International Cocoa Agreement.

Against our expectations, the producers have collapsed and accepted most of our conditions for membership. The price range is satisfactory to the trade. No borrowing is permitted. There is no question of financial responsibility upon governments if the agreement folds.

A clear majority in the European Community - including the Germans and Dutch who would in normal circumstances be the most likely to support a free market approach - are in favour of membership. So we could be outvoted if we opposed.

On the other hand, we have just agreed a deregulatory approach to commodity agreements, with the aim of avoiding them so far as possible. It is a bit illogical that our first act after reaching this decision should be to agree to join an agreement. But negotiations on the Cocoa Agreement were already virtually over by the time the new policy was agreed.

Most or possibly all of your colleagues concerned are likely to agree to, or acquiesce in, membership.

Agree that we should join the Agreement, if this is the unanimous view of your colleagues?

CDP

C.D. POWELL

19 September 1986

CC/G

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
LONDON SW1

18 September 1986

Dear Paul,

INTERNATIONAL COCOA AGREEMENT 1986

When I wrote to you on 11 August I suggested that a decision on UK (and EC) participation in the new Cocoa Agreement should be considered when the prospects for its entry into force became clearer. Matters have clarified during the meeting of the International Cocoa Council in London which finished last week.

Two important points emerged at this meeting. First, using its powers under the outgoing Agreement, the Council has established a bridging arrangement which maintains its financial resources in being while holding the market intervention provisions in suspension until 31 January 1987 at the latest. The bridging arrangement will cease when the provisions for entry into force for the new Agreement (ie when members representing 80% of exports and 60% of imports have signed and agreed to provisional application) are satisfied or on 31 January 1987 whichever is the later. This means that we have a few months during which, for example, any necessary constitutional procedures can be satisfied, which meets a need of several potential members including the UK. Second, and crucial to our participation, several leading producers have already signed and agreed to provisional application and others, including the Ivory Coast, have formally declared they will do so shortly.

In the margins of the Cocoa Council, a meeting was held of the relevant EC Council Working Group. It considered a formal Commission proposal that before 1 October the Community and its member states should sign the new Agreement and notify its/their intention to apply it provisionally. It became clear that most other member states are satisfied that the new Agreement conforms with the Community's Mandate agreed in 1984, and are convinced of the political advantages of joining. Even the Germans and Dutch our traditional allies in these negotiations, seem to have concluded the political advantage now lies with embracing the new Agreement with enthusiasm. Only Belgium apart from ourselves hesitates about signature. However, some other member states, while believing that the Community and they must join, have constitutional procedures

/which preclude ....

which preclude their accepting provisional application before 1 October. Hence there is at present no qualified majority for the present Commission proposal. Discussion will resume in COREPER on 18 September and there will be the opportunity of a further discussion on 25 September which would allow a decision to be taken before 1 October.

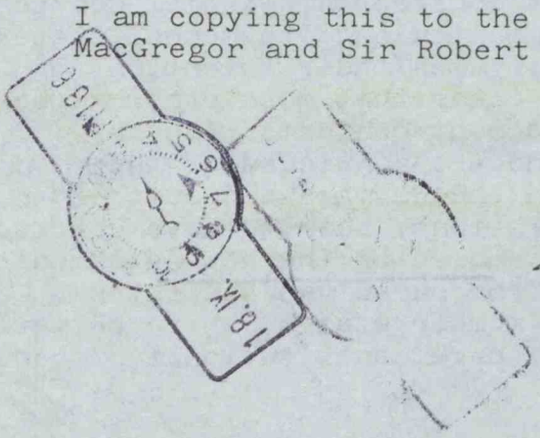
Unfortunately there are signs that the Commission intend to try to use the discussions in the EC on the Cocoa Agreement to extend Community competence in International Agreements in a way that would be unacceptable to us, according to our long-estab- lished position. We must, of course, resist this firmly.

We need now to face the central question of potential EC and UK membership. We are all agreed that the main aims in our negotiating mandate have been met; those areas where we have placed reservations are essentially of a secondary order and for us to refuse to join as a result would lack all credibility. Further, I believe that opinion in the Community is such that it is clear we would in any event be forced to join at an early date. The Commission and other member states will be conscious that the EC was one of the dominant parties to the negotiations, and are therefore likely to be very keen to secure signature by the EC and member states before 1 October, since from that date the only option is to accede which they may consider implies a lesser status in the Agreement. I would expect all this to be confirmed during the COREPER discussions on 18/25 September.

I, therefore, suggest we should now accept the principle of UK membership. Accordingly, we should state as much at COREPER and say that we can agree to signature by the EC and member states before 1 October, but make it clear that we cannot accept provisional application before that date by the UK for constitutional reasons. Our Parliamentary procedures will take some weeks to complete. Equally we could not accept provisional application by the EC since this would clearly also prejudice our constitutional position. It would then be up to the Commission to bring forward a revised proposal for a decision on signature only. I suggest that while we should be prepared to enter into an informal understanding on provisional application by the UK and EC before 31 January 1987 we could not accept any formal EC instrument until our Parliamentary procedures were completed.

There remains the question of the UK's reserves on specific points. Here I agree with Janet Young that we should record our principal disappointments (on the level of consumer participation and the buffer stock related adjustment) in a statement for the Council minutes.

I am copying this to the Prime Minister, Geoffrey Howe, John MacGregor and Sir Robert Armstrong.



Yours Michael.

MICHAEL JOPLING

SRWAIJ

c Hurt
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FCO

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

8 September 1986

UK COMMODITY POLICY

The Prime Minister has seen Mr. Channon's minute of 30 June and the report by officials about UK commodity policy circulated then, and the subsequent correspondence.

The Prime Minister agrees that the UK should now adopt the deregulatory approach described in the report by officials. We should take a firm line on future commodity agreements, aiming to avoid any further commitments. We should, in the Prime Minister's view, only go along with proposals for further study groups and the like if that is necessary to avoid more extensive commitments.

The Prime Minister is concerned that too low key and private a presentation of the policy could lead in practice to a reversal of the actual decision to go for a deregulatory approach. Her own preference is for more rather than less openness about the UK's position: no one should be surprised or aggrieved by it, bearing in mind our experience of the collapse of the international tin agreement. She has noted that further work is to be done to prepare for future international meetings and that this will provide an opportunity to discuss the presentation in greater detail if necessary.

The Prime Minister is very doubtful about the need for further proposals to help developing countries in this area. But if there were to be any they would need to be judged against the principles underlying the deregulatory approach and should not involve new expenditure commitments.

Generally, the Prime Minister suggests that the collapse of the international tin agreement has shaken confidence in commodity agreements amongst consumers and producers alike, as the surprising degree of movement in the renegotiation of the cocoa agreement illustrated, and we should take every possible advantage of this in the coming months to try to move our Community partners towards our own position.

VC

I am sending a copy of this letter to the Private Secretaries to members of E(A), the Foreign Secretary, the Attorney General, the Governor of the Bank of England and Sir Robert Armstrong.

(DAVID NORGROVE)

Michael Gilbertson, Esq.,
Department of Trade and Industry.

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CCBG

NBPM

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Michael Jopling MP
Minister of Agriculture, Fisheries and Food
Ministry of Agriculture, Fisheries and Food
Whitehall Place
London
SW1A 2HH

8 September 1986

Dear Michael,

RENEGOTIATION OF THE COCOA AGREEMENT

I have seen your letter of 11 August to Paul Channon and Janet Young's and Paul Channon's replies of 26 and 27 August. I share Paul's view that though the terms of the new Cocoa Agreement are unexpectedly favourable it would, ironically, have been far more helpful to our recently agreed "deregulatory" approach to commodity policy if the renegotiations had failed!

I recognise that a qualified majority for accession to the Agreement in the EC would, as you say, virtually oblige us to accede too. I therefore strongly support Paul's and Janet's suggestions that we should make what moves we can to persuade our Community partners that the new Agreement is not good enough. It would clearly be helpful, in the first instance, if others as well as ourselves do not give notice of provisional application of the agreement by the required 1 October date. If we do not adopt this approach we shall find it all the harder to stay out of a new Rubber Agreement if one is renegotiated and our deregulatory policy might be judged to have failed.

I am copying this letter to the Prime Minister, Geoffrey Howe, Paul Channon and to Sir Robert Armstrong.

Yours ever,

JOHN MacGREGOR

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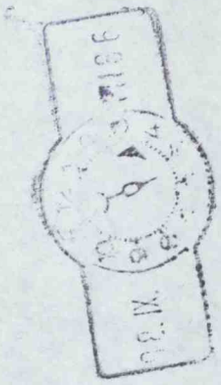


PRIME MINISTER

UK COMMODITY POLICY

You will remember that before the summer Mr. Channon circulated the report of an official group which had studied commodity policy. This identified two main options:

(i) to go on paying lip service to the merits of regulation of commodity markets whilst in practice seeking to steer clear of commodity schemes;

(ii) to adopt a deregulatory approach to commodity policy, saying openly that the Integrated Programme on Commodities (IPC) of UNCTAD had outlived its usefulness and advocating a more market-orientated route towards economic growth.

Officials recommended the deregulatory approach, but pointed out that this could increase the pressure for extension of compensatory finance schemes, and also increase the pressure for greater liberalisation of north-south trade in both directions. They also felt that with a new approach of this kind the UK might need to put forward "constructive proposals to meet developing countries' legitimate concerns". The choice is summarised in paragraph 1.15 of the report at Flag A and the presentation is discussed in section 9, Flag B.

All the Ministers concerned have agreed that the deregulatory approach is right. But some predictable differences have emerged. Sir Geoffrey Howe and, in lower key, Mr. Channon have emphasised the need for care in presenting this change of policy. Sir Geoffrey Howe in particular argued that we should keep the change private, that we should be prepared to go along with proposals for study groups on particular commodities, and with commodity agreements which do not involve market intervention provisions and that we "should not hold out unreasonably against consensus language". His reasons are partly to help relations with developing countries and partly

that he believes a more conciliatory approach of this kind would be more likely to lead to agreement with Community partners on the need to keep out of commodity agreements which involve intervention.

The Chief Secretary on the other hand felt that Sir Geoffrey Howe's approach would risk us being sucked into more commodity agreements of all kinds.

There was at one stage pressure both from the Chief Secretary and from Mr. Tebbit for a meeting to resolve this difference, but the Chief Secretary now thinks that officials can do further work on presentation and substance in preparing for future international meetings (particularly another meeting of UNCTAD next year) and that this will give an opportunity to thrash out differences at Ministerial level if necessary.

It seems right that you should now give your own views. A possible line to take would be:

(i) to agree that a firm approach should be taken on future commodity agreements, supporting deregulation and aiming to avoid any further commitments; we should ~~aim to keep involvement in study groups and the like to an absolute minimum~~ only, going along with further study groups if ~~them only~~ necessary to avoid more extensive commitments;

(ii) to note that further work is to be done to prepare for future international meetings and that this will provide an opportunity to discuss the presentation in greater detail if necessary; but that your own preference is for more rather than less openness about the UK's position: no-one should be surprised or aggrieved by this, bearing in mind our experience of the collapse of the international tin agreement;

(iii) any new proposals to help developing countries in this area will need to be judged against the principles underlying the deregulatory approach and new expenditure commitments will need to be avoided;

(iv) the collapse of the international tin agreement has

shaken confidence in commodity agreements amongst consumers and producers alike, as shown by the surprising degree of movement in the renegotiation of the cocoa agreement, and we should take every possible advantage of this in the coming months to try to move our Community partners towards our own position.

Content to write in these terms?

DRN

David Norgrove
3 September 1986

Yes - we must not let 'presentation' reverse the actual decision

JA2ADW

CONFIDENTIAL

REVIEW OF UK COMMODITY POLICY BY THE INTERDEPARTMENTAL POLICY COMMITTEE ON COMMODITIES

Department of Trade and Industry
Foreign and Commonwealth Office
H M Treasury
Ministry of Agriculture, Fisheries and Food
Law Officers' Department
Cabinet Office
Bank of England

PART I - SUMMARY AND CONCLUSIONS

Introduction

1.1 This review considers whether and in what ways UK Commodity Policy can and should be changed to reflect experience since it was last considered by Ministers collectively in 1983, and especially in the light of:-

(i) The collapse of the International Tin Agreement in 1985;

(ii) Experience with other International Commodity Agreements (ICA);

(iii) The failure of the UNCTAD Integrated Programme on Commodities (IPC) to achieve its objectives;

(iv) The implications for developing countries of the heavy fall in commodity prices in recent years;

(v) Other major developments affecting the external position of commodity producing developing countries;

(vi) The need to develop a UK line for UNCTAD VII next year.

1.2 UK Policy on Commodity Agreements was comprehensively reviewed in 1981 and confirmed by Ministers collectively in deciding the line for the 6th UNCTAD Conference in 1983. Ministers then agreed that the UK should respond positively to the developing countries' concerns over commodity earnings; and should in particular:-

(i) Join individual commodity agreements including price stabilisation agreements, where they are shown to be feasible, cost effective and beneficial to producers and consumers alike;

(ii) Support UNCTAD's Integrated Programme for Commodities (IPC).

1.3 The IPC was established in 1976 in response to developing countries' concerns over low and unstable commodity earnings. (See Parts (V) - (VIII). Its objectives include:-

(i) The encouragement of individual commodity agreements of various kinds, including most importantly those with price stabilisation provisions (buffer-stocks or export controls);

(ii) A Common Fund whose primary purpose is to link together the buffer-stock financing arrangements for commodity agreements (and whose secondary purpose is to finance research and development etc);

(iii) Schemes to provide compensatory finance to developing countries for shortfalls in their commodity export earnings (as distinct from prices).

1.4 We have reviewed each of these elements under the following headings:-

PART II The Economic Arguments for and against International Commodity Agreements (ICA), particularly those with price-stabilisation provisions;

PART III — The Developing Countries and the UN, including the economic importance of commodity earnings to many third world countries, and the political importance which commodity policy has therefore assumed in UNCTAD;

PART IV — European Community and Legal Aspects, including the extent of Community competence;

PART V — The Existing International Commodity Agreements to which the UK is party;

PART VI — The Lessons from the Tin Crisis and experience with other agreements with price intervention mechanisms.

PART VII — The Common Fund, especially continued UK commitment to membership;

PART VIII — Compensatory Finance Schemes, existing and proposed;

PART IX — International Presentation of UK Policy, especially at UNCTAD VII next year and in the preparations for it.

Conclusions

1.5 On economic grounds, both the possibility and the desirability of international intervention to stabilise commodity prices over any sustained period are to be questioned. (See Part II below). Experience bears out these doubts. The price-ranges, set under Commodity Agreements have much more often kept prices up than down, so on balance they have operated against the interests of consumers. They may also have encouraged substitution. Recent experience has suggested that any price stability will be short-lived; and when agreements fail and prices fall suddenly they may cause disruption.

1.6 However, many of the poorest countries in the World are heavily dependent on commodity earnings, which often comprise over 90% of their exports. Many of these have suffered heavily as a range of commodity prices, since 1980, have undergone a deep and prolonged slump. Commodities are a major issue in the UN, especially UNCTAD, where the UK has to adopt a position, along with other developed countries, which takes account of every aspect of our economic relations with the developing world including debt and the Baker Initiative, GATT and the New Round, and new initiatives to encourage private investment and the problems of agricultural surpluses. (See Part III).

1.7 Nevertheless, commodity price-stabilisation schemes have proved an unsatisfactory means for developing countries to sustain their long term growth causing much disruption when they fail. Few are now left. The UK should work to discourage their renewal, and the formation of any new ones. Where they are agreed the UK should seek to avoid joining them. (See Part IV). Somewhat different conclusions might follow for an International Commodity Agreement on a commodity already covered by the CAP because such an agreement could be one instrument for controlling surplus production and reducing the cost of the relevant CAP regime. Any such case would need to be examined on its merits.

1.8 For the Cocoa and Rubber Agreements, where Ministers have already agreed UK objectives for renewed negotiations, these should remain the position of the UK officials if and when negotiations resume.

1.9 However, the above aims must be pursued through the Community. Community Law imposes severe constraints upon a Member State's freedom of action regarding the negotiation of and participation in Commodity Agreements. Decisions in this field are taken by qualified majority. Our first aim should be to carry a majority of Member States with us, failing which we should always work to keep a blocking minority beside us. This will involve compromise with countries whose scepticism of Commodity

Agreements is less profound than our own though the views of some are changing. (See Part IV).

1.10 If, notwithstanding the UK aims recommended above, the EC engages in negotiations on a new or renewed commodity price stabilisation scheme we should seek to ensure that its provisions comply with the economic criteria in paragraph 6.6 below and the financial criteria in 6.7. These take account of the lessons of the tin collapse, which was deficient in both these respects. (See Part VI).

1.11 International Commodity Agreements or arrangements involving no form of economic intervention and no prospect of it raise no substantial policy issues of a general kind and should continue to be dealt with ad hoc on their individual merits. (See Part 5.5).

1.12 The Common Fund Agreement is a dead letter and will probably not come into force. Lest it does, we should canvass among Community partners to see how far they share our view that in the changed circumstances the Common Fund Agreement makes no sense; any suggestion that the Community itself should adhere to it should be discouraged. If there are proposals to activate the Second Account or to create something similar we shall have to consider these. (See Part VIII).

1.13 The UK should continue to make clear in UNCTAD that it does not support and will not join any new facility for compensatory finance. It should point to its participation in the existing IMF and Lome facilities, and to the commodity arrangements (still to be worked out) to establish a parallel facility for some non-Lome poorest countries. Any general proposals for improvement in this area should first be considered in IMF or in IBRD. We should be ready to consider any proposal in this area that may come forward in IMF or IBRD. (See Part VIII).

1.14 There is no requirement for an immediate public announcement of Ministers' decisions on the recommendations above.

Any announcement would anyway need to be carefully phrased, if was not to complicate our EC Presidency and provoke more resistance from our EC partners to our efforts to persuade them to adopt our tough position. But the decisions will need to be explained and defended in the international arena as events require: these will include not only negotiations to renew individual Commodity Agreements, but also more general debates on North-South issues in UN bodies. Commodity issues loom large in such debates, and especially in UNCTAD, whose quadrennial conference takes place next year. UK commodity-policy must be capable of standing up to pressure in UNCTAD, and for this purpose it must be capable of being presented as part of a consistent approach to the developing world. Officials need guidance now on the line they are to take.

1.15 There are two main approaches to this problem of international handling:-

(i) To go on paying 'lip-service' to the regulatory orthodoxies of the IPC in public and in principle while working for all the objectives recommended above in private and in practice. We would probably be rumbled. And we would remain under strong pressure to give effect to some aspects of the IPC, in order to justify the support in principle that we were still professing;

(ii) Alternatively to adopt a 'deregulatory approach' to Commodity policy in its broadest North-South context. This would involve saying openly that the IPC had outlived its usefulness and advocating a more market orientated route to achieving economic growth in place of further efforts to regulate world trade. This would tie in with the Baker Initiative with its emphasis on structural adjustment, and the New GATT Round with its emphasis on trade liberalisation. But it could also mean that we might need to put forward

constructive proposals to meet developing countries' legimitate concerns. And the deregulatory approach would require the liberalisation of North-South trade in both directions, and would inescapably focus attention on the developed-countries'own restrictions on imports from the developing world, notably of food and textiles. Ministers have indicated that they are prepared for these restrictions to be put on the table for negotiation; they should only adopt the 'deregulatory' approach if they wish to confirm this (though even then our EC partners may block our efforts).

1.16 Both the "lip-service" and the "deregulatory" approaches to international handling have important practical consequences. The "lip-service" approach would keep the UK under pressure to adopt commodity schemes of one sort or other: the "deregulatory" approach to liberalise our own trade and to work out effective proposals for UNCTAD and elsewhere. Detailed decisions will probably not be needed until the first half of 1987 on the line to be taken at UNCATD VII. But in the meantime a steer is needed on which of the two approaches Ministers wish to adopt, both for the initial preparations for UNCTAD VII, and for other international exchanges.

1.17 In our view the balance of advantage lies with adopting the "deregulatory" approach now. If we avoid a decision on the basic shift in policy involved in adopting this approach, we risk being completely stuck with the "lip service" approach with too little time at a later stage to persuade others of the benefits of a basic change in direction.

1.18 If Ministers agree to adopt the "deregulatory" approach, officials will follow this line in on-going work from now on, and seek to persuade our Community partners and other Western countries to accept this in working out common positions for presenting to the developing countries. Ministers will be

informed of reactions to our new approach and will be consulted if significant developments occur, in particular in preparation for UNCTAD VII. They will also be consulted if international or domestic pressure suggests that some wide-ranging public announcement is desirable.

PART II - THE ECONOMIC ARGUMENTS

2.1 The general economic argument for commodity price intervention schemes are assessed at Annex A. The fundamental point is that from an economic point of view such schemes can only be justified if there is an identified market failure to which market intervention through a commodity agreement may be an answer. The professed aim of market intervention is to iron out short term fluctuations in prices by setting floor and ceiling prices, but without affecting the long-run trend. The case for doing so is that the prices of commodities are apt to fluctuate sharply in response even to modest variations in supply and demand. This is because neither output nor consumption can be varied significantly in the short run in response to price changes (for example it takes up to seven years to bring new natural rubber capacity into production).

2.2 Price fluctuations can be ironed out through purchases and sales from a buffer stock, which has to be sufficient to absorb fluctuations in supply and demand. In the case of perishable commodities, the buffer stock needs to be turned over regularly. There may also be agreed production or export quotas. Quotas are more likely to raise market prices, act as a barrier to new producers and thus be against the interest of consumers.

2.3 Price stability, if it can be achieved, is valued by both consumers and producers. For producers it can stabilise income and assist long-run planning by reducing uncertainty though at times of supply shortfall eg from crop failure, a rise in price may in itself prevent a sharp drop in income. Consuming industries can plan more easily if they can assume price-stability: it reduces the need for precautionary stockpiles and forward price cover. But support buying imposes a cost on consumers as well as on public funds. Building, holding and operating of the buffer stock have to be paid for. If the floor and ceiling prices are such that the agreement does indeed stabilise price fluctuations without affecting the long-run trend, purchases for the buffer stock at certain times will be matched by

sales at others. But if, as tends to happen, the price range fails to respond sufficiently to pronounced trends, a too rapid accumulation or rundown of stocks would render the economic provisions inoperable. With both a buffer stock and quotas a downward movement becomes more difficult to correct as growing stocks overhang the market. (In recent years the Cocoa and Rubber buffer stocks have only made purchases).

2.4 There are fundamental questions whether price stability is desirable even if it can be achieved. To muffle price changes may be to muffle market signals; price reductions are one of the means by which market forces can moderate a recession; and price increases help to moderate a boom. To cocoon producers and consumers from either may affect desirable commercial flexibility. Use of futures trading can help to protect both producers and consumers from unpredictable movements in market prices eg as a result of sudden climatic changes, without introducing the rigidities and distortions which follow from intervention in markets.

2.5 As to achievability, there is an inherent difficulty in distinguishing short term fluctuations in prices from longer-term trends, except of course in retrospect. To claim that it can be done in advance by agreement within an international group of officials is to claim greater foresight on their part than the operators in the market themselves possess. This inherent difficulty is compounded by a political one. Price-ranges have to be set by agreement among the Member countries. The producing countries often have a more intense interest in getting them up than the consuming countries have in getting them down. As so often, the more concentrated and better organised lobby tends to win the argument. The tin experience was partly the consequence of setting the price range too high, and keeping it there too long.

2.6 The above disadvantages of price-fixing can be reduced if there are effective veto-proof procedures for adjusting the agreed price-range in the light of market movements. But too-ready

adjustment defeats the object of stability. It thus remains doubtful whether a worthwhile degree of price-stability can be achieved for any sustained period without the risk that market developments will overtake the agreed price arrangements. And when an agreed price-range has to be abandoned, the result is more disruptive than the free movement of the market.

2.7 The foregoing paragraphs consider commodity agreements in the context of freely operating markets. However, for some important commodities such as sugar the UK market is subject to a highly regulated CAP regime which imposes substantial costs on consumers and taxpayers. In these cases commodity agreements could lighten the financial burden on the UK by increasing pressure for restraint on production both in the EC and in the World.

2.8 The economic case for <u>compensatory finance</u> is different: here no attempt is made to stabilise the price, and consumers are unaffected: instead fluctuations in <u>earnings</u> (which may be due to price-fluctuations or eg to crop-failures) are compensated from public funds. Such schemes are to be preferred in that they are less distortive of markets, but they are more expensive to governments (if not to consumers). Although there are provisions for repayment in most schemes, these are not always adhered to, so that the arrangements become in effect a form of aid without any guarantee that the funds in question will go to the most needy or be utilised in the most productive way.

PART III - THE DEVELOPING COUNTRIES AND THE UN

3.1 Many of the poorest developing countries are heavily dependent on export of primary commodities. Annex B(i) shows the degree to which a number of these countries rely heavily on commodities to sustain their economies. Countries whose export earnings consist of over 90% of commodities include Ethiopia, Zaire, Malawi, Tanzania, Guyana, Zambia and Chile, while another 61 countries with GDP per capita up to $1500 have a dependence rate of over 50%. The problems are exacerbated by marked swings in export earnings derived from particular commodities. Annex B(ii) shows how the terms of trade of exporters of primary products have fluctuated sharply in the last 15 years but also brings out that in recent years the general trend has been markedly downwards; although the rapid fall in oil prices and the weaker dollar in particular will have improved the picture. This recession has been both unusually deep and lasting, transferring large sums from poor countries to rich ones, and aggravating both protectionism and the debt crisis. Another recent feature has been the changing pattern of demand for commodities, with higher productivity and increasing use of substitutes both acting to depress prices.

3.2 The difficulties now facing developing country producers of primary commodities were emphasised in a recent letter to the Prime Minister from the UN Secretary General. This said:-

> "The prices of primary commodities are at present so low as to deny developing countries the possibility of earning their way out of debt and underdevelopment. Furthermore, excessive fluctuations in those prices are disruptive to sound domestic policies, investment, smooth servicing of debts and even to political stability. The present international mechanisms to support their commodity revenues are modest in relation to needs, and some of them are not functioning. The seriousness of the

problem is recognised in the United Nations discussion but corrective action is lacking. The time has come to act concretely and in the light of changes in the world economy".

3.3 UK policy on commodities has been influenced by political considerations at least as much as economic ones. They were, for example, decisive in the decisions to join the 6th International Tin Agreement in 1982, and to sign and ratify the Common Fund.

3.4 Commodities have been regarded by developing countries as a priority area for international action since the early 1970s. The UN General Assembly's 1974 call for a New International Economic Order (NIEO) for example, emphasised the importance of commodities to LDCs' economic development. UNCTAD became the main forum for advancing aspects of the NIEO in general and commodity-policy in particular. UNCTAD's 1976 Integrated Programme for Commodities (IPC) was an essential part of the effort "to achieve stable conditions in commodity trade, including avoidance of excessive price fluctuations .....taking into account the special needs of developing countries....". OECD countries were willing to agree, since international price-stabilisation agreement for commodities were a familiar instrument of economic co-operation designed to benefit both consumers and producers. They were anxious to demonstrate a constructive response to the calls for a NIEO, and price-stabilising commodity agreements appeared a sensible way of doing so. However, this has led some developed countries to turn a blind eye to defective commodity agreements.

3.5 In this way, support for commodity agreements, and other aspects of the IPC, especially the Common Fund - has become part of a UN litany, and repeating it a test of orthodoxy. Although some OECD countries may privately share the UK's growing reservations about commodity agreements in particular, and the IPC in general, only the USA has so far been willing to admit such reservations in public. Meanwhile, the UK has been constrained to continue to express support for the IPC as a whole whilst

disagreeing with most of its components. A significant recent example was the UN General Assembly Special Session on Africa where we had to go along with a consensus line calling for more ratifications of the Common Fund and embracing commodity agreements as part of an overall approach.

3.6 Because of its importance to most developing countries, policy on commodities needs to be set in the wider context of international economic, trade and development issues, in particular current problems of high indebtedness and trade liberalisation in the GATT. The compatibility of OECD countries' agricultural policies with opposition to market intervention commodity agreements also needs to be considered.

3.7 On debt, recent thinking is encapsulated in the Baker Initiative put forward at the IMF meetings in Seoul in the autumn of 1985, for which there is broad support from both developed and developing countries. The proposals are designed to strengthen the case by case approach to debt issues by giving an impetus to the resumption of bank lending to debtor countries and by promoting the provision of increased IBRD policy-based lending. The Initiative indicated 15 middle income debtors which might benefit. Many commodity producing countries in Africa and South East Asia have yet to be mentioned in this context Agreement has already been reached on the re-cycling of revenues through the IMF Structural Adjustment facility for the benefit of the poor countries. Some progress has been made with the most heavily-indebted countries, eg through increased IBRD policy-based lending, involving the adoption by debtor countries of adjustment policies. Support from the international financial institutions and banks will be conditional on measures to increase the adaptability and flexibility of the debtors' economies, so that they can adjust more readily to changes in the economic environment. The Baker proposals emphasised in particular the increased reliance on market mechanisms, for example, supply side actions to mobilise domestic and foreign investment, labour market reform and the development of financial markets, together with market opening measures to encourage foreign direct investment and

capital flows, as well as to liberalise trade, including the reduction of export subsidies. They emphasised the need for ready adaptation to market forces rather than attempting to resist them eg by fixing commodity prices.

3.8 The prospect of a new GATT Round starting later this year has also sharpened perceptions of trade relations between developed and developing countries. It is hoped that developing countries will play a full part in these. The debt crisis has made it all the more important for developing countries that the developed countries should resist and roll back protection. Developing countries will be unable to create more broadly-based economies or service their debts without strong export sectors. But to allow greater access for LDC manufactured products, developed countries will in their turn expect greater access to the markets of the more advanced developing country exporters. This means that the problems arising out of the commodity slump, which require the dismantling by developed countries of their barriers to the trade of developing countries, will be easier to handle if there is progress by the Newly-Industrialising Countries (NICs) towards "graduating" into the full obligations of the GATT.

3.9 We need to take account of the way presentation of our commodity policy may affect our relations with other countries. The UK has important bilateral relations with a number of commodity producing developing countries, some of whom may not receive much benefit from any dismantling of trade barriers, particularly if, as in the past, this is concentrated on manufactures. A number of these countries, particularly in Africa, are members of the Commonwealth. Other countries are also important commodity producers and at the same time important markets for our goods. Our line on commodities must therefore take account of any effect our position might have on these countries' relations with us.

3.10 The UK's line on commodity policy therefore needs as far as possible to be welded into a consistent policy towards economic relations with the developing countries generally, taking account

of our policy on aid, our endorsement of the Baker strategy for dealing with wider debt and development issues, and our support for "graduation" by the NICs in the New GATT Round. The primary commodity problems are part of the focus on structural adjustment programmes in the poor countries concerned. They are relevant to the activities of the World Bank, the IMF and the GATT, as well as UNCTAD.

PART IV - EUROPEAN COMMUNITY AND LEGAL ASPECTS

4.1 A critical question is the extent to which HMG's actions are constrained by our membership of the European Community. The report of an interdepartmental sub-committee of Legal Advisers on the extent of the Community competence over the three elements of the IPC is at Annex C.

4.2 Under the Treaty the general principle in relation to commodity agreements (established in an ECJ judgement in 1979) is that their objectives fall within the Community's external commercial policy under Article 113. This means that decision-making on Community participation is by qualified majority. As regards the central issue of the financing of a buffer stock, the Community may undertake responsibility for this itself: even where the financing is left to Member States, with the result that their participation alongside the Community would be necessary, (that is, it is a mixed agreement), it is still possible that they could be obliged by Council Decision to join the agreement and to bear their share of the financing (see paras 14-19 of Annex C). Such a Decision would probably cite Articles 113 and 116, both of which operate by qualified majority. To prevent the adoption of such a Decision it would be necessary to muster a blocking minority in the Council (eg UK, FRG and one other).

4.3 In practice the Council and the Commission have reached a political compromise called "PROBA 20" in which the Community and its Member States take part in international negotiations on IPC commodity agreements on the basis of a common position. As this compromise has operated in practice, the need to reach a common position gives an individual Member State with strong views a considerable opportunity to influence the Community line but can also place it under considerable pressure to compromise. On balance it remains in the UK interest to support the "PROBA 20" arrangements. However once a common position has been agreed by the Council the UK is bound by it (Para 15 of Annex C). Thereafter we could not withdraw from negotiations on a new

commodity agreement, or refuse independently to become a party, so long as it accorded with the Community's common position. General obligations under Community law would make it difficult to sustain a case that a Member State may unilaterally withdraw from an existing agreement (Para 20 of Annex C).

4.4 In general it is in the UK interest to be part of a common EC position. This both avoids unnecessary exposure and helps to increase our influence. While there are some signs of increasing sympathy within the Community (such as West Germany and Belgium) for UK views on commodity agreements, other Member States tend to attach greater weight to the views of developing countries. This could mean that the enforcement of sound financial management, in a specific agreement, could lead to a political battle (but see Part VII below on compensatory finance).

4.5 The Court has not given a ruling on the extent of freedom still enjoyed by Member States under an agreement in respect of which both they and the Community have competence. If a qualified majority of Member States wished to proceed to join an agreement in which the financing of a buffer stock was left to Member States, and the UK did not, there might be grounds to challenge the validity of any Council Decision constraining it to do so. But there is a significant risk that such a challenge would fail. (See para 17 of Annex C). If it did, the result could be the loss also of the degree of de facto freedom that we enjoy under "PROBA 20" and an unwelcome extension of Community competence. It seems unlikely that this risk would be worth taking.

PART V - EXISTING INTERNATIONAL COMMODITY ARRANGEMENTS

5.1 International Commodity Agreements date back to the 1930s. At the time of the establishment of the UNCTAD Integrated Programme for Commodities (IPC) in 1976 a number of them already existed, including the Tin Agreement. The intention of the IPC was to provide a focal point for discussion and negotiation on eighteen commodities. These are:-

bananas	manganese
bauxite	meat
cocoa	phosphates
coffee	rubber
copper	sugar
cotton and cotton yarns	tea
hard fibres and products	tropical timber
iron ore	tin
jute and products	vegetable oils including olive oil and oil seeds

5.2 International Commodity Agreements are of two fundamentally different types:-

(a) those with price-intervention mechanisms - buffer stocks and/or export controls. It is only this type which has substantial economic and financial effects;

(b) those mainly concerned with any or all of consultation, information exchange, research and development and market promotion, but not price-intervention.

5.3 Since 1980 only four price-intervention agreements have entered into force. (Detailed descriptions are at Annex D). Three have involved buffer stocks, the International Natural Rubber Agreement, the International Cocoa Agreement and the 6th International Tin Agreement (Tin also had provisions for export

controls). The fourth, the International Coffee Agreement involves only export quotas. The UK is party to all four agreements. The Rubber and Cocoa Agreements have recently been under negotiation for renewal. In both cases the UK and other consuming countries have insisted on stringent conditions as a result of which the negotiations so far have not succeeded.

5.4 Six International Commodity Agreements without price intervention measures have been negotiated, on Jute, Tropical Timber, Olive Oil, Wheat, Sugar, and Dairy Projects. There have been unsuccessful efforts to construct commodity agreements on Tea, Bananas, Cotton and Hard Fibres. There are also less formal consultation arrangements on a number of commodities such as Lead and Zinc.

5.5 The UK is party to all these agreements without price-intervention (described at Annex E) and the consultative bodies. As long as they do not provide the pretext for agreements with economic provisions to arise, they raise no substantial general questions of policy and should continue to be treated on their individual merits, including their cost effectiveness and taking account of any contingent liabilities that may arise. The caveat applying to CAP agreements (Para 2.7) also applies here. In the case of existing arrangements, some of which contain references to the growth of full scale economic provisions, the opportunity of renewal should be taken to challenge such objectives.

5.6 Among the commodity-agreements that do involve price-intervention, there are fundamental differences in the economic/financial provisions of the Tin, Rubber, Cocoa and Coffee Agreements:-

(i) Only in the Rubber and Coffee Agreements is there a sufficiently high level of producer and consumer members of the agreement. The Tin agreement does not include Brazil, a major low cost producer, or

the US, a major consumer. The Cocoa Agreement does not include the major producer, the Ivory Coast, or the major consumer, the US.

(ii) The Tin Agreement had provisions for buffer stocks and export quotas. The Coffee Agreement relies only on export quotas. The Rubber and Cocoa Agreements include buffer stocks with no export or production quotas.

(iii) Only the Tin Agreement permitted substantial borrowing or dealings in the futures market. The Rubber, Cocoa, and Coffee Agreements preclude dealings in the futures markets, while their borrowing provisions are clear, limited, or not provided for.

(iv) Unlike the Tin Agreement, the operations of the other Agreements are clear and reasonably transparent. Members receive regular reports of activities. The Tin Council was not properly informed of the Buffer Stock Manager's dealings.

(v) Contingent liabilities borne by members of the Coffee, Rubber and Cocoa Agreements are limited. The Rubber buffer stock is funded by cash contribution, Cocoa by a levy on the trade. The Coffee Agreement has no buffer stock. Unlike the case of the Tin Agreement, there should not be significant contingent liabilities arising out of these agreements, whatever happens to the market price.

(vi) The Rubber and Coffee Agreements were based on agreed price-ranges which reflected reasonably well the market trends at the time they were negotiated; Tin much less so.

(vii) Unlike the Tin Agreement, the Rubber and Cocoa Agreements contain some effective veto-proof provisions for price adjustment, under which in defined circumstances the price-range must be adjusted to follow market developments. The size of the coffee quota automatically adjusts to movements in market prices.

(viii) The Cocoa and Coffee Agreements operate in US dollars. Tin operated in Malaysian Ringitts which are closely tied to the US dollar. The Rubber Agreement is based on a small basket of currencies and is thus better placed to deal with currency changes.

PART VI - LESSONS FROM THE TIN CRISIS AND EXPERIENCE WITH OTHER ECONOMIC AGREEMENTS WITH MARKET-INTERVENTION MECHANISMS

6.1 The guidelines approved by Ministers in 1983 before the UNCTAD VI Conference in Belgrade, are given in paragraph 1.2 above.

6.2 Since then experience with commodity agreements and particularly with Tin has provided lessons, both on the desirability of such agreements themselves, and on the particular provisions to be sought if the UK is to participate in them.

6.3 The Tin Agreement failed with such disastrous consequences because it was defective in two separate respects:-

(i) Its price provisions were defective. The agreement attempted to defend a price-range far above what would have been provided in a free market, with no effective veto-proof provision for bringing the price-range into line with the market;

(ii) Its financial provisions were defective, in that executives of the agreement were left free to accumulate contingent liabilities in the course of their operations to support the price, which were not specifically contemplated by its terms and were not transparent to members. Moreover, when shortcomings were suspected the terms of the agreement were such that a small group of countries could block the provision of adequate information by the Buffer Stock Manager.

6.4 By contrast, although buffer stock purchasing under the Cocoa Agreement was suspended in 1982 when financial resources were exhausted and the price could no longer be supported, there were no contingent liabilities for members. Its price provisions were defective, but its financial provisions were not.

6.5 Against this background we have considered the other commodity Agreements to which the UK is party. So far as price levels are concerned there is, and can be, no infallible means of ensuring that a range agreed in advance will not be overtaken by market developments. So far as financial provisions are concerned however, it is possible to ensure that members' financial liabilities to the body and each other are clear, that the body's powers are specific and limited and that members are adequately informed of its activities under the Agreement. In this way it should be possible to avoid significant contingent liabilities.

6.6 As far as the price-provisions and other economic requirements are concerned:-

(i) <u>There should be the widest possible participation covering all major producers and consumers</u>. Without the participation of all major producers and, though less important, consumers, the Agreement may be undermined by outsiders who follow commercial policies which conflict with the objectives and operation of the Agreement;

(ii) (a) if <u>export or production quotas</u> are envisaged, it is necessary to avoid arrangements which will have the effect of raising prices to artificial levels which would be contrary to consumers' interests and at the same time encourage the use of substitutes. It is also important to avoid creation of a two-tier market as a result of lack of participation by significant importers and exporters;

(b) even if these criteria are met, it should be remembered that quotas are rigid by nature and inflexible in practice because of difficulties in negotiating changes in allocations. Existing producers may, for

example, block reallocation of quotas to new entrants, as Brazil managed to do in the case of coffee. Moreover, consumers may be penalised if supply responds insufficiently quickly to market demands;

(c) in spite of these problems, export or production quotas can work to the overall UK advantage eg in the exceptional cases and products already subject to highly regulated CAP regimes where they may result in a reduction of the financial burden on the UK by increasing pressure for restraint on production.

(iii) <u>The initially agreed price range should equate closely to the underlying trend of the market</u>. If prices are set significantly above the underlying market trend the agreement runs the risk of building a large buffer stock right from the outset, and it is unlikely that any price revision mechanism will react quickly enough to halt this process.

(iv) <u>There should be effective, veto-proof mechanisms allowing prices to be adjusted quickly to underlying changes in the market</u>. Although a number of agreements have contained price adjustment mechanisms, they have usually required agreement by the membership before they were triggered. This effectively prevented any change in the Tin Agreement. The Rubber Agreement has provisions for adjusting the price range but these have not had sufficient effect to halt a build-up of the buffer stock. Effective, veto-proof mechanisms are needed which can react to movement in trends. Too frequent an adjustment will however tend to act against the stated objectives of dampening short run price fluctuations.

(v) There should be adequate provisions to take account of currency fluctuations. Most Agreements have been denominated in US$. The Rubber Agreement was set against a basket of currencies. This reduces the risk of currency fluctuation undermining the Agreement.

(vi) There should be clear limit on the size of the buffer stock - at such a level that it cannot build up to a significant proportion of the annual consumption in the commodity. This reduces the ability of the Agreement to run strongly against market trends for any length of time. It also limits the financial commitment. The lower the proportion of annual consumption that the buffer stock represents the less it overhangs the market, as in the case of Tin.

6.7 An agreement which met these requirements would have a reasonable chance of stabilising price-fluctuations for a period of years, provided that the underlying market-trends were not too sharp. However, there could be no guarantee that it would succeed in this. If it failed, the consequences would depend on the financial provisions. These should contain:-

(vii) No facility for borrowing under the Agreement. Failing that, it should be tightly controlled by the members and strictly limited by the Agreement.

(viii) Limitations on forward commodity trading. Futures trading should be precluded in order to avoid a recurrence of the Tin situation. Forward Trading where permitted, should be strictly circumscribed in the Agreement.

(ix) Transparency of operations and full control of the buffer stock by members. Members should get full

and regular reports of the operations of the buffer stock.

(x) Clear and unambiguous financial powers for the Agreement's executives, with contingent liabilities strictly limited and clearly specified. Contingent liabilities were brought into sharp focus by the collapse of the Tin Agreement. In order to avoid similar situations occurring in the future, the Treasury have drawn up a detailed note aimed at identifying the types of contingent liability involved and proposing a framework within which they can be identified at an early stage. This note is at Annex F. It lists four distinct areas where contingent liabilities may arise, namely through:- sources of finance; asset depreciation; termination; and operations of the agreement. In future all international agreements of any kind will be studied to identify potential liabilities. Sponsor Departments are responsible for alerting Ministers and Parliament to any risks, in addition, they are requested to review existing outstanding liabilities (and to review the field of potential liabilities) in the annual public expenditure survey.

(xi) Explicit provisions to deal with any winding up of the Agreement and the international body concerned in the event of insolvency. The need for this provision has been clearly demonstrated in the aftermath of the Tin crisis. It avoids the presumption that agreements will go on indefinitely and is therefore a useful discipline in itself.

PART VII: THE COMMON FUND

7.1 The Common Fund is intended to provide a joint pool of finance for commodity agreements, including existing and new ones. Although the UK and 10 other EC Member States have ratified the Common Fund Agreement, the US has not, and not enough capital has been contributed to bring it into force. When agreed in UNCTAD in June 1980, it was regarded as the centrepiece of the Integrated Programme for Commodities. The UK signed and ratified the agreement primarily for political but also for economic reasons. Other countries, particularly the US, were even more doubtful than the UK about the economic justification for the Fund but nevertheless accepted it. However, some countries, like France, believed that there was an economic case for it.

7.2 The Fund has two accounts (details at Annex G). The First Account was to contribute to the financing of buffer stocks in International Commodity Agreements and indirectly to encourage such agreements. The Second Account was to provide finance for "other measures" such as research and development, market promotion etc. The Fund was to be financed mainly by directly contributable capital (DCC) from Member States, totalling US $470m. Most of this DCC was for the First Account; the Second Account was intended to be financed mainly by voluntary contributions with a target of $280m.

7.3 In ratifying, the UK was committed to a DCC contribution of about $15m ($10m to be paid into the Fund with the remaining $5m on call). On ratifying the UK also pledged a voluntary contribution of £4.27m to the Second Account.

7.4 The Fund will enter into force when 90 countries have ratified and the DCC reaches US $315m. Both criteria must be met. Ratifications have now reached the trigger point of 90 countries (including the EC Member States with the exception of Portugal; the Community is entitled to join in its own right - it has signed but not ratified) but the necessary DCC level has not yet been reached. Although the US, a major contributor, signed the

Agreement, they have publicly announced that they will not rati it. For the Fund to enter into force, therefore, it will require the other major non-ratifiers, the Soviet Bloc, to sign and ratify the Agreement. They have not expressed any intention to do so, but there remains a risk that they might do so with mischievous intent.

Current Situation

7.5 Events since 1980 have undermined the principles on which the First Account was based. The failure of the Tin Agreement and the possibility that there will not be a new Cocoa Agreement with a buffer stock means that only a new Rubber Agreement (if concluded) would be qualified to associate with the Fund. The First Account could not operate as intended on this basis.

7.6 Apart from our commitments to the initial financing of the Fund, contingent liabilities may arise in the course of the Fund's operation.

7.7 There is therefore a case for examining whether the UK can disengage from the Fund Agreement.

Legal Position

7.8 The position under International Law is that although it is unusual for a Contracting State to withdraw its instrument of ratification before an Agreement has entered into force, it is possible and not unprecedented.

7.9 But would withdrawal of the UK's ratification (or alternatively its subsequent withdrawal from the Fund after it had entered into force) be compatible with Community Law? This question is dealt with at Annex C, but in summary there is a risk that having regard to Community practice in this area the Court might hold that continued participation in the Agreement was required. The risk would be reduced if the UK could prevent the

Community itself from adopting a Decision enabling it to become a Party to the Fund. This would require us to muster a blocking minority of Member States (eg UK, FRG and one other).

International Considerations

7.10 Whilst British doubts have grown about the Fund's merits and the substantial costs of its entry into force, we have felt inhibited in speaking out against it internationally when other developed countries have preferred to let sleeping dogs lie. An additional consideration for us is that some countries argue that even if the Common Fund does not come into existence the problems will still remain and that the funds pledged to that Account should be used independently to provide assistance in solving them. We would need to consider such proposals on their merits and when they arise.

7.11 We could expect no support in the Community at this stage to withdraw from the Common Fund. Other Group B countries (with the exception of the US) appear to be content to run the small risk of its entering into force in its present form in order to avoid the political difficulties of changing their mind, even though privately most admit that the Common Fund in its existing form is now a dead letter.

7.12 Thus both the political and legal arguments appear for the moment to weigh against unilateral withdrawal of HMG's ratification. At the same time we need to do what we can to reduce the risk of the Fund coming into force. This points to working in the Community and Group B for a consensus that the Fund now makes no sense. If this canvassing is successful, a number of EC and Group B countries may emerge willing to withdraw their ratifications and willing to prevent the Community itself from joining the Fund. If not, unilateral withdrawal could be reconsidered but it would then be necessary to reassess the risks of being taken to the European Court of Justice.

7.13 The search for compromise could lead to a proposal that the Second Account alone should come into force. If so the UK should resist it. The Second Account is tied in with the Common Fund as a whole.

PART VIII - COMPENSATORY FINANCE

8.1 Compensatory financing mechanisms differ from price stablisation agreements in that they leave prices free while compensating producers for fluctuations in their earnings. In some cases eg STABEX the whole of their cost thus falls on public funds. International schemes of this sort exist already, but ambitious and comprehensive further ideas to compensate shortfalls in commodity earnings have been on the UNCTAD agenda for years. At UNCTAD VI in 1983 the UK was among the countries supporting a resolution that these should be further explored by experts.

8.2 Existing schemes include the IMF's Compensatory Finance Facility (CFF) which derives in part from a UK initiative, and which provides financial assistance to developing countries (not just producers of primary commodities) who experience balance of payments difficulties arising from export shortfalls that are temporary and beyond their control. The IMF recognises export shortfalls caused by either demand or supply factors such as "a decline in world demand or a crop failure brought about by natural calamity". Users of the CFF must at a minimum satisfy the IMF that they will co-operate with the IMF in efforts to solve their balance of payment difficulties (for upper tranche drawings they must in addition demonstrate a record of co-operation). Most claims on it concern shortfalls in agricultural earnings. The CFF plays a useful role and if proposals came forward to enlarge it we would be prepared to consider them.

8.3 The other major compensatory finance schemes are the EC's STABEX and SYSMIN Schemes under the Lome Convention. These are designed to stabilise earnings from exports by African, Caribbean, and Pacific States to the Community of certain products when they are affected by fluctuations in either prices or quantities. STABEX covers 66 ACP States and 48 agricultural products. It has been proposed to introduce a similar scheme for four of the poorest, non-Lome countries. Countries can make claims in respect of individual commodities when export earning fall below the permitted level while meeting the dependency criteria.

8.4 The UNCTAD Secretariat has been peddling a proposal for a new facility on a worldwide basis, designed to finance shortfalls in commodity export earnings by soft loans; and also to finance structural adjustment projects designed to reduce price fluctuations. These proposals are narrower than the IMF and STABEX schemes in that they would only cover the 18 commodities on the UNCTAD Integrated Programme for Commodities. But they are broader in being less conditional; and in applying to a wider range of countries, with less stringent stipulation as to their dependency on the commodity concerned. It is estimated to cost US$10bn at 1982 prices over 5 years. Under pressure from the G77 to adopt such a scheme at UNCTAD VI, the EC countries, including the UK supported the establishment of an 'Independent Group of Experts' to consider the need for any additional compensatory financing facility. The Group reported in 1985. Its conclusions had the merit that they concentrated on the causes rather than the effects of supply instability; and they suggested that loans triggered by export earnings shortfalls in specified commodities should be applied to reduce these causes. But views still differ on the need for a new scheme. The US, Canada, Australia and New Zealand have now started to distance themselves from any further work in UNCTAD on this issue. But the EC countries have not, and risk being dragged into unwelcome commitments by allowing discussion to continue until there is no way back.

8.5 UK spokesman continue to argue that in the light of the existing IMF and STABEX schemes, together with the World Bank schemes for structural adjustment loans, there is no need for any new compensatory financing facility. This position has recently been put in writing to the UNCTAD Secretariat in the terms at Annex H.

8.6 The UK's scepticism is not shared in the Community and the West Germans have their own expensive proposals for a "global STABEX". The majority of the Community wish to present an open mind on the need for a new facility, mindful that the failure of price-stabilisation agreements and the Common Fund leaves the

cupboard rather bare, and anxious to be seen "doing something" for developing countries suffering from the effects of low commodity prices at UNCTAD VII next year.

8.7 The extent of Community competence on compensatory financing would depend on its detailed objectives and nature. The Community (as distinct from its Member States) could consider joining such a scheme, either if it fell within the Common Commercial Policy or if it was agreed that the Community should fund it as aid, as happens with STABEX. In the first case this could be decided by qualified majority, in the second unanimity would be required.

8.8 Thus there is reason to fear that the current discussions on compensatory finance in UNCTAD, though overtly exploratory, may slowly jostle EC countries into a position where, without major political embarrassment, they cannot back out of incurring heavy financial commitments. Officials therefore recommend that the UK continue to warn that it is not persuaded of the need for a new compensatory finance facility, and does not contemplate subscribing to one. If despite such warnings a new scheme emerges and gathers support, Ministers could consider whether it would be in the UK interest to leave the discussions having regard, among other considerations, to the Community implications.

PART IX - INTERNATIONAL PRESENTATION

9.1 If Ministers accept the recommendations in this report, which amount to a marked change in previous policy, questions of announcement and presentation arise. There is no need to make any immediate announcement unless Ministers wish. Indeed, given our imminent assumption of the EC Presidency there is advantage in lying low. It may be harder to move the Community attitude on commodity issues closer to our views if an announcement is made now whch sets out a policy known to a tougher than that of our partners. The decisions will fall to be implemented, explained and defended:-

(i) When individual commodity agreements come up for renewal (as the Cocoa and Rubber ones have in recent months);

(ii) In the regular business of specialist UN bodies concerned with commodity-policy (eg the UNCTAD Committee on Commodities);

(iii) When ad hoc resolutions in UNGA and other UN bodies include questions of commodity policy (eg the Resolution passed at the recent UNGA Special Session on Africa);

(iv) At UNCTAD VII due next year;

(v) As the Community, and the developed countries generally, prepare common positions for (ii)-(iv).

9.2 It was because of the importance assumed by commodity questions in these bodies, and in the wider debate about economic relations between North and South, that HMG went along with the IPC etc in spite of doubts (which some other countries shared) about their wisdom and practicability. Western countries generally were influenced by developing country pressure for the adoption of the IPC and opposition to it appeared frought with

political and perhaps commercial dangers. If Ministers abandon this line of least resistance, now that its drawbacks stand more clearly revealed; how should that decision be presented, and what are its implications for the stand HMG takes regarding general economic relations between North and South?

9.3 There appear to be two main options. The first is to carry on paying lip-service in public to the principles of the IPC while working behind the scenes to frustrate it in practice. This would involve (as in the recent cases of Cocoa and Rubber) stipulating what we hope will be unattainable conditions for the renewal of International Commodity Agreements with price-stabilisation provisions, while professing still to support them in principle. It would involve eg continuing to lend our name to UN resolutions which reaffirm the principle of price-stabilisation, while working to ensure that they come to nothing in practice.

9.4 The advantage of this course is that it would avoid any overt change of policy. This is a great advantage. But it has several disadvantages. First it would involve dealing with our partners in bad faith. The pretence would have to be kept up for a long time, and would almost certainly be rumbled sooner or later. Second it would involve continuing to encourage by our lip-service the view, which cannot ultimately be in our interest, that the development of poor countries would be helped by ever-greater regulation of the international economy. And third, lip-service to the principles of the IPC would keep us under pressure to deliver: if not one thing (eg price-stabilisation) then surely another (eg compensatory finance) etc etc. So we should still be on a slippery slope.

9.5 The alternative is the deregulatory approach. This would involve admitting openly that the attempts to regulate world commodity markets had misfired because they were misconceived; and arguing that poor countries and rich ones should adopt a more market-oriented route to economic growth, involving deregulation: freer trade and investment: structural adjustment.

This would involve welcoming private inward investment to diversify their economic base, and to build up a broader spread of export industries (though the capacity of some developing countries to diversify and attract private investment should not be overrated).

9.6 One advantage of the deregulatory approach is that of credibility: it would involve advocating for the economic development of LDCs much the same sort of reorientation of policy as we have adopted for our own. Another is that it would tie in with several concurrent international developments. The Baker Initiative with its emphasis on trade liberalisation and structural adjustment. The New GATT Round as the forum for negotiating a balanced programme of trade liberalisation. The new Multilateral Investment Guarantee Agency (MIGA) as one means of easing the path for private equity investment in LDCs. The Tokyo Summit statement on the need to tackle agricultural surplus production. The IBRD/IMF Structural Adjustment Facility.

9.7 The deregulatory approach however has two important disadvantages. First it would take time to sell to our Community partners and to other consumer countries (though less so in the USA). Secondly, it would focus attention on the developed countries' own trade and investment policies affecting LDCs, and notably on their trade barriers to many LDC products, particularly food and textiles. The deregulatory approach should not be adopted therefore unless Ministers are prepared to put these trade barriers on the table for negotiation: in the case of textiles they have of course already decided to do so, and as a result of a British initiative, the Community is already committed to dealing with the phasing out of the MFA in the New GATT Round. In other respects too the deregulatory approach fits in with HMG's policies: we are working for reform of the CAP, partly to reduce the international friction it causes. Moreover HMG has, by virtue of abolishing exchange controls, and its promotion of the MIGA, a good record of freeing private British capital to flow to those developing countries that welcome it. In these respects HMG's

policies already take account of some of the foreseeable pressures that could result from the adoption of a deregulatory approach in UCTAD.

9.8 Officials will be seeking Ministers' endorsement of all the briefs for UNCTAD VII during the first half of 1987. At that time they will work up detailed proposals for Ministerial approval on both substance and presentation of commodity issues taking into account proposals by the UNCTAD Secretariat and views of other countries. In the meantime, however, a steer is needed on the line to be taken on HMG's behalf in the continuing business described in para 9.1 above.

ANNEX A

THE ECONOMICS OF COMMODITY AGREEMENTS

1 Over the years, commodity agreements have taken a variety of forms ranging from those which have provided only for information sharing and research and development to those which have involved active intervention in the market. In what follows, the emphasis is on agreements which provide for active market intervention by means of a buffer stock and/or export quotas.

2 For any agreement to be justified on economic grounds, there would have to be an identified market failure for which the effects of an agreement would be preferred to either unrestrained operation of market forces or other forms of Government intervention.

3 The prices of some commodities may be subject to sharp fluctuations in response to modest changes in supply or demand. This stems from the low short term elasticities of supply and/or demand common to many commodities. This gives rise to calls for commodity arrangements aimed at reducing the extent of price fluctuations.

4 Why might sharp and market commodity price fluctuations represent a market failure? One possible reason is that traders and potential traders in commodities may face difficulties in obtaining information about supply and demand. Another reason is a possible divergence between private and social risks. Thus, a lack of sufficiently developed markets for the sharing of risks in investments associated with the commodity may mean that risk-averse private interests are deterred from involvement in the market.

5 It is usually argued that more stable prices for commodities (which may be inputs into industrial processes) are desirable because they reduce the degree of uncertainty for producers and consumers, and therefore allow (or encourage) appropriate levels

of investment in the producing and downstream industries. Additionally, it is often contended that commodity agreements result in greater security of supply and cheaper supply over the long term if producing countries are faced with more stable prices. It is important, however to remember the other influences which could continue to disrupt supply (for example, weather variations, wars).

6 It has however, to be said that hard evidence of market failure in the commodity field is rather limited. In normal circumstances most commodity markets work pretty efficiently with participants being made to hedge and use foward markets to reduce risk. Even where there is a history of price fluctuations, it is not clear why the information available to a buffer stock manager should be any more complete than that available to other market participants (of whom many perform similar roles) nor is he better able to make use of it.

7 Where a commodity agreement with provision for market intervention is being considered, attention needs to be given to the precise rules governing intervention behaviour if the market failure is to be overcome in an efficient way. Essentially, the objective should be to ensure that the market price is able to follow a path consistent with long term market clearing. This implies that on average buffer stocks should be kept at a very low level.

8 In assessing the pros and cons of commodity agreements with market intervention, it is important to recognise that consumers and producers will be affected in rather different ways and their attitudes may consequently differ. Moreover, the implications of an agreement with only a buffer stock are usually different from one which includes export quotas. For example, a buffer stock acts directly on price and much less on supply. Quotas act directly on supply and only indirectly on price, and are only satisfactory to the extent that they can be adjusted to market developments.

9 In the main potential disadvantages of price intervention commodity agreements to consuming countries reflect the failure of agreements to achieve their stated or presumed objectives, namely that the prices of commodities follow their long term market clearing paths. There are practical problems in operating agreements which suggest that such failures are almost inherent. First, it is inherently difficult to distinguish short-term price fluctuations from longer term trends, except in retrospect. Moreover, political factors may frustrate attempts to adjust the floor and ceiling prices in response to market conditions. This may be particularly problematic where downward price adjustments are involved with the result that commodity prices tend to be supported through the accumulation of buffer stocks.

10 If commodity agreements maintain market prices above the natural market clearing level a transfer of resources from consuming countries to producing countries results. Such resource transfers confer benefits on producers through, for example, the greater ability of LDC's to service debts and/or to sustain a higher level of imports and is a form of direct aid. However, the lack of transparency of the transfer may well lead to a sub-optimal allocation of aid. This is aggravated under a quota systems where "aid" is liable to be allocated according to often arbitary and indefensible criteria. Recipients may also allocate such receipts in a sub-optimal manner.

11 An agreement which supports prices in the short term will lead to a distortion of relative prices and this may cause further misallocations of resources in at least two respects. First, it may undermine the principle of comparative advantage by protecting less efficient producers from competitors (a particular problem if quotas are involved). Secondly, it may distort the allocation of resources to invest, for example, by raising returns to producers of the protected commodity. Thirdly, in so far as a commodity agreement led to an appreciation of the exchange rate, there might be losses of output and employment in the non-cartelized sector to set against any gains in the agreement protected sector.

12 An agreement made for one commodity may encourage producers to argue for agreement for other commodities, or if this fails, to consider cartel formation if there is a prospect for maintaining prices above long term market clearing levels.

13 For producing countries greater stability of prices is usually seen as a means of stabilizing income. This may not be the case, particularly in agricultural commodities where good crops are associated with low prices and vice versa.

14 For consumer countries participation in a price intervention commodity agreement will often involve the commitment of national resources to a relatively unproductive use (involving both Exchequer and resource costs).

15 If an agreement succeeds in sustaining prices in the short/medium term above longer term market clearing levels, supply will be over stimulated while consumers will be encouraged to substitute other commodities for the one in question with the result that the agreement cartel breaks down as individual members seek to maximise their own interests. In the shorter term there is a danger that clearing levels may solidify the market shares to the advantage of inefficient producers. This will normally be the case with agreements including quotas.

16 Finally and theoretically, it can be argued that commodity agreements could reduce the level of economic activity in the consuming (industrialised) countries leading to a reduction in demand for the commodity over and above that due to the relative price effect. However, the group of commodity agreements presently in place is unlikely to have much effect on the level of economic activity because the commodities covered by agreements are relatively insignificant.

Summary

17 Many of the inherent shortcomings of commodity agreements referred to above such as the attempt to support unrealistically

high prices are clearly evident in the operation of the CAP. The CAP regime for certain important commodities in structural surplus, such as dairy products cereals and sugar, already imposes substantial costs on UK consumers and taxpayers in the form of excessive prices, price support, and often stocks. It is a major objective of UK policy to promote significant improvements in CAP arrangements. In these circumstances carefully designed commodity agreements which acted in such a way as to reduce excessive world production and bring production and consumption more into balance could reduce the CAP burden on the UK consumer and taxpayer.

18 The desirability of commodity agreements largely depends upon whether or not the market intervention is needed to counteract market failure, and if so, whether the market price remains close to the long term market clearing level. It seems unlikely though that the economic case for any commodity agreement will be very strong since markets appear to function reasonably efficiently except where they are already regulated by agricultural policy such as CAP. If an agreement is desired nonetheless, there are a number of conditions that need to be met if it is to operate so as to minimise any adverse economic effects of intervention and to allow the price to follow a course consistent with long term market clearing, as follows:

(i) participation covering all principal producer and consumer countries;

(ii) floor and ceiling price adjustment mechanisms under which neither producers nor consumers have undue influence and which can react quickly to underlying changes in the market or other relevant economic conditions such as currency fluctuations;

(iii) a clear limit on the size of the buffer stock and/or effective quota adjustment provisions;

(iv) a clear limit on the borrowing powers of the council and a known and agreed cap on the liabilities of participants;

(v) transparency of operation and full control of the buffer stock.

Extent of Commodity Dependence by developing country according to income level 1978-1983

ANNEX B(1)

Country GDP/per capita in 1982 I	Extent of commodity dependence a/ (%) 1983 II	Commodities involved b/ III
I. Below $500	COUNTRIES LISTED IN ASCENDING ORDER OF GDP PER CAPITA	
Democratic Kampuchea (79)	47.9	Fish, Rubber, Timber
Bhutan* (102)	n.a.	Jute
Lao People's* Dem.Rep. (103)	51.5	Coffee, Timber
Bangladesh* (115)	33.7	Fish, Jute, Non-bovine Meat, Tea
Ethiopia* (137)	94.6	Coffee, Cotton, Hides and skins, Vegetable oils and oil seeds
Chad* (147)	63.6	Cotton, Fish
Nepal* (153)	49.6	Cereals, Jute, Milk and butter, Roots, Timber
Mali* (157)	78.0	Cotton, Vegetable oils and oil seeds
Burma (162)	97.0	Cereals, Fish, Rubber, Timber, Tin
Zaire (182)	95.8	Coffee, Copper
Burkina Faso* (185)	83.3	Cotton, Bovine meat, Hides and skins, Vegetable oils and oil seeds
Guinea-Bissau* (191)	67.8	Timber, Vegetable oils and oil seeds
Equatorial Guinea* (195)	90.4	Bananas, Cocoa, Coffee, Fish, Timber
Mozambique (200)	73.8	Cotton, Fish, Sugar, Tea, Vegetable oils and oil seeds
Malawi* (213)	95.6	Cereals, Sugar, Tea, Tobacco, Vegetable oils and oil seeds
Uganda* (229)	94.6	Coffee, Cotton
Afghanistan* (232)	34.9	Cotton, Fruits, Hides and skins
Comoros* (237)	82.9	Spices, Vegetable oils and oil seeds
Lesotho* (240)	73.1	n.a.
India (244)	38.0	Cereals, Fish, Iron ore, Jute, Tea
United Rep. of Tanzania* (247)	92.1	Coffee, Cotton, Hard fibres, Tea, Tobacco, Vegetable oils and oil seeds
Rwanda* (251)	93.1	Coffe, Tea, Tin
Burundi* (261)	95.0	Coffee, Cotton, Tea
Mauritania (265)	95.7	Fish, Iron ore
Central African Republic* (270)	77.7	Coffee, Cotton, Non-bovine meat, Timber, Tobacco

Country GDP/per capita in 1982 I	Extent of commodity dependence a/ (%) 1983 II	Commodities involved b/ III
I. Below $500 (continued)		
Cape Verde* (278)	80.6	Bananas, Fish
Benin* (288)	77.3	Cocoa, Coffee, Cotton, Fish, Vegetable oils and oil seeds
Somalia* (295)	95.1	Bananas, Fish
Sri Lanka (304)	62.0	Rubber, Tea, Vegetable oils and oil seeds
Togo* (307)	69.6	Cocoa, Coffee, Cotton, Phosphates, Vegetable oils and oil seeds
Haiti* (315)	38.5	Bauxite, Cocoa, Coffee, Hard fibres
Madagascar (324)	95.2	Coffee, Fish, Spices, Sugar
Sao Tome* and Principe (331)	47.9	Cocoa, Vegetable oils and oil seeds
Pakistan (336)	29.0	Cereals, Cotton, Fish
Angola (341)	5.6	Coffee
Kenya (351)	66.8	Coffee, Fruits, Tea
Niger* (354)	94.7	Cereals
Gambia* (357)	57.2	Fish, Vegetable oils and oil seeds
Maldives* (360)	66.1	Fish
Sierra Leone* (375)	68.9	Bauxite, Cocoa, Coffee, Fish, Vegetable oils and oil seeds
Yemen* (382)	3.5	Coffee, Cotton
Vanuatu* (389)	83.4	Bovine meat, Cocoa, Fish, Vegetable oils and oil seeds
Liberia (395)	98.8	Cocoa, Coffee, Rubber, Iron ore Timber
Guinea* (404)	97.5	Bauxite, Cocoa, Coffee, Vegetable oils and oil seeds
Democratic Yemen* (419)	3.0	Cotton, Fish
Senegal (430)	70.9	Fish, Phosphates, Vegetable oils and oil seeds
Kiribati (433)	10.7	Vegetable oils and oil seeds
Sudan* (462)	98.1	Cereals, Cotton, Hides and skins, Roots, Vegetable oils and oil seeds,

Country GDP/per capita in 1982 I	Extent of commodity dependence a/ (%) 1983 II	Commodities involved b/ III
II. $500 - $1 000		
Guyana (523)	98.1	Cereals, Bauxite, Sugar
Samoa * (532)	76.8	Bananas, Cocoa, Roots, Timber, Vegetable oils and oil seeds
Zambia (562)	98.5	Copper
Indonesia (589)	16.0	Timber
Tonga (604)	65.8	Bananas, Roots, Spices, Vegetable oils and oil seeds
Solomon Islands (634)	82.4	Fish, Timber, Vegetable oils and oil seeds
Djibouti* (636)	0.8	-
Ghana (657)	68.5	Bauxite, Cocoa
Morocco (678)	62.0	Fish, Fruits, Phosphates
El Salvador (698)	74.0	Coffee, Cotton
Honduras (708)	82.0	Bananas, Bovine meat, Coffee
Papua New Guinea (712)	84.8	Cocoa, Coffee, Copper, Timber, Vegetable oils and oil seeds
Egypt (721)	25.0	Cotton
Thailand (748)	66.0	Sugar, Rubber, Fish, Roots
Philippines (769)	47.0	Copper, Sugar, Timber, Vegetable oil and oil seeds
St. Christopher & Nevis (805)	54.4	Sugar
Botswana* (824)	15.2	Bovine meat, Copper, Hides and skins, Non-bovine meat
Cameroon (825)	60.0	Bauxite, Cocoa, Coffee, Timber
Zimbabwe (834)	58.8	Cotton, Tobacco
Dominica (837)	50.2	Bananas, Vegetable oils and oil seeds
St. Vincent & the Grenadines (838)	70.4	Bananas, Roots
Nigeria (862)	4.3	-
Ivory Coast (885)	87.3	Cocoa, Coffee, Timber
Swaziland (892)	80.8	Fruits, Sugar
Grenada (956)	69.0	Bananas, Cocoa
Lebanon (970)	27.0	Fruits
Belize (971)	68.2	Fish, Sugar

Country GDP/per capita in 1982 I	Extent of commodity dependence a/ (%) 1983 II	Commodities involved b/ III
III. $1 000 - $1 500		
Nicaragua (1013)	86.0	Bananas, Bovine meat, Coffee, Cotton
Bolivia (1062)	45.0	Tin
Saint Lucia (1082)	60.3	Bananas, Vegetable oils and oil seeds
Mauritius (1087)	68.5	Sugar
Jordan (1109)	50.0	Phosphates
Costa Rica (1113)	72.0	Bananas, Bovine meat, Coffee
Turkey (1114)	54.0	Cotton, Tobacco
Guatemala (1133)	66.0	Bananas, Coffee, Cotton, Sugar
Peru (1179)	63.0	Copper, Fish
Tunisia (1219)	11.0	-
Dominican Republic (1261)	76.0	Cocoa, Coffee, Sugar
Congo (1337)	4.1	Timber
Algeria (1393)	1.0	-
Jamaica (1414)	80.3	Bauxite, Sugar
Colombia (1424)	72.0	Bananas, Coffee
Ecuador (1445)	29.0	Bananas, Cocoa, Coffee, Fish
Chile (1457)	91.0	Copper, Fish, Fruits
Cuba (1494)	86.0	Sugar

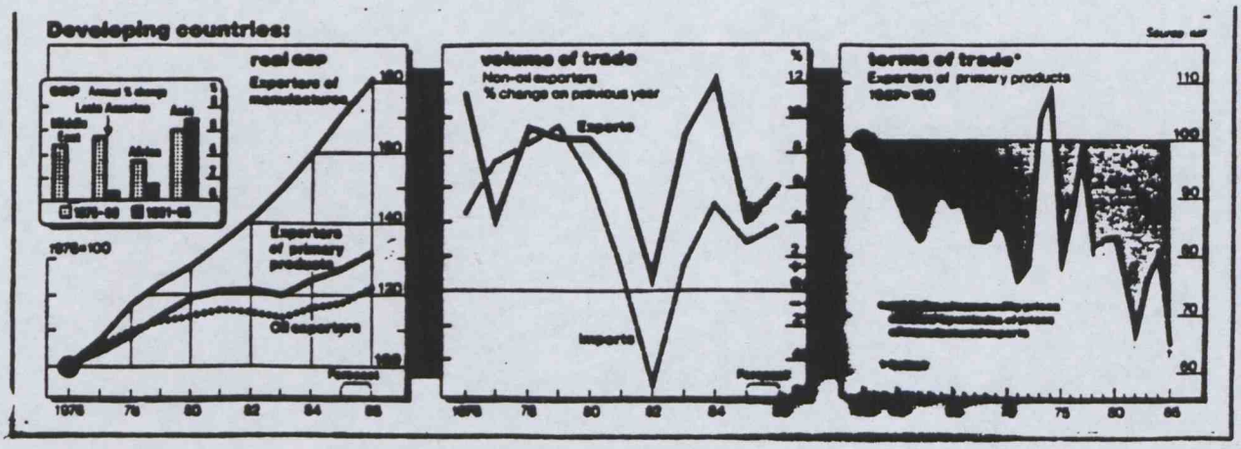
Sources: UNCTAD secretariat calculations; data provided by the Commission of the European Communities and World Bank.

*/ Least developed countries.

a/ Exports of primary commodities (not including oil).

b/ Commodities averaging in 1981-1983 over 1.5 per cent of total exports for least developed countries, over 2.5 per cent for other low income countries (below $500), and over 5 per cent for all other developing countries.

Annex B(11)


Developing countries:
real GDP
Exporters of manufactures
Exporters of primary products
Oil exporters
1976=100
volume of trade
Non-oil exporters
% change on previous year
Exports
Imports
terms of trade*
Exporters of primary products
1987=100
1976
78
80
82
84
86
75
80
85

Annex C

COMMUNITY COMPETENCE : COMMODITIES

1 The aim of this paper is to determine the extent of Community competence over commodity agreements, the Common Fund and Compensatory Financing. It is necessary to summarise briefly the relevant provisions in the EEC Treaty, the case-law of the Court of Justice and the practice on commodity agreements before assessing the legal position on the division of powers between the Community and the Member States in this area.

I. THE EEC TREATY

2 The provisions of the EEC Treaty which are relevant to the question of competence for commodity agreements are Articles 5, 113 and 116. In view of their importance, these Articles have been set out in their entirety below.

Article 5

Member States shall take all appropriate measures, whether general or particular, to ensure fulfilment of the obligations arising out of this Treaty or resulting from action taken by the institutions of the Community. They shall facilitate the achievement of the Community's tasks.

They shall abstain from any measure which could jeopardise the attainment of the objectives of this Treaty.

Article 113

1 After the transitional period has ended, the common commercial policy shall be based on uniform principles, particularly in regard to changes in tariff rates, the conclusion of tariff and trade agreements, the achievement of uniformity in measures of liberalisation, export policy and measures to protect trade such as those to be taken in case of dumping or subsidies.

2 The Commission shall submit proposals to the Council for implementing the common commercial policy.

3 Where agreements with third countries need to be negotiated, the Commission shall make recommendations to the Council, which shall authorise the Commission to open the necessary negotiations.

The Commission shall conduct these negotiations in consultation with a special committee appointed by the Council to assist the Commission in this task and within the framework of such directives as the Council may issue to it.

4 In exercising the powers conferred upon it by this Article, the Council shall act by a qualified majority.

Article 116

From the end of the transitional period onwards, Member States shall, in respect of all matters of particular interest to the common market, proceed within the framework of international organisations of an economic character only by common action. To this end, the Commission shall submit to the Council, which shall act by a qualified majority, proposals concerning the scope and implementation of such common action.

During the transitional period, Member States shall consult each other for the purpose of concerting the action they take and adopting as far as possible a uniform attitude.

II CASE-LAW OF THE ECJ

3 The most important case on commodity agreements is Opinion 1/78 on the draft International Agreement on Natural Rubber, concluded in 1979. The Court held that commodity agreements are instruments of commercial policy coming within Article 113 of the EEC Treaty. In the Court's view, a highly developed commercial policy cannot be restricted to measures of trade liberalisation but must extend to measures aimed at regulation of the world market,

even though they might have development aid features or repercussions on economic policy. Thus, the Court held that the mechanism of a buffer stock falls within the common commercial policy as its purpose is to regulate trade.

4 The Court stated that the Community's competence in any particular case depends on the objectives of the individual agreement. If the objectives of the agreement as a whole fall within the concept of commercial policy, then the Community will have exclusive competence notwithstanding the presence of specific clauses relating to other matters, such as technological assistance. In the case of specific arrangements for the financing of a buffer stock, the Community will be exclusively competent where the financing is a matter for the Community. If the Member States are responsible for financing, then they must participate in the agreement alongside the Community, which will not have exclusive competence. While precise arrangements as to financing remain to be determined, Member States must be allowed to participate in the negotiation of the agreement. It follows from the Court's Opinion that if the Council were to decide by a qualified majority under Article 113 to enter the financing of an agreement with a buffer stock in the Community budget, the participation of Member States would be excluded.

5 In the case of the Rubber Agreement, the Court found that the financial arrangements for the financing of the buffer stock occupied "a central position in the structure of the Agreement", though the Court was careful to leave the decision as to financing to be settled by the Community authorities. In the event, Member States were made responsible for the financing and both Community and Member States therefore became parties to the Agreement.

6 It would appear from Opinion 1/78 that provisions for the administrative budget of a commodity agreement with an institutional structure do not in themselves settle the question of the competence of the Community and the Member States. The mere fact that financial obligations are imposed on Member States does not imply Member States' competence : the nature of these obligations and their place in the structure and objectives of the agreement have to be determined in each case. This is in line with

Opinion 1/75 (OECD costs), where the Court declined to attribute any importance to the fact that the financial burdens of an agreement were to be borne directly by the Member States.

III PROBA 20

7 The practice of the Community authorities has developed somewhat differently from the case-law of the Court of Justice. In 1981 the Council, in agreement with the Commission, adopted the PROBA 20 arrangements which enable the Member States to participate with the Community in certain international commodity agreements on the basis of a common position. The agreements covered are those relating to IPC Commodities (the UNCTAD integrated programme for commodities). Products within the CAP are excluded. The Common Fund Agreement is also excluded.

8 Under the PROBA 20 arrangements, agreements are signed and concluded jointly by the Community and the Member States, who jointly participate in the operation of the agreements on the basis of a common position.

9 It would follow from Opinion 1/78 that, in principle, certain commodity agreements could have been concluded by the Community on the basis of Article 113 without the participation of the Member States. However, the Council and the Commission have accepted that all the agreements covering IPC commodities are to be mixed. It must be stressed that the PROBA 20 arrangements do not have the force of law. They represent a political compromise. They have been accepted by the UK along with other Member States as being in our general interests, but if their application to a particular agreement were to be challenged in the ECJ, it would be open to the Court to find that aspects of those arrangements were not compatible with Community law.

IV COMMODITY AGREEMENTS

10 Existing Agreements may be divided into three categories:

i) Agreements on IPC commodities with regulatory provisions ie rubber, cocoa, tin and coffee. These Agreements are mixed. In the case of cocoa, the

financing of the buffer stock is not from contributions from Member States, as in the two other Agreements with buffer stocks but from levies on cocoa;

ii) Agreements on IPC Commodities but without regulatory provisions ie jute, timber. These also are mixed Agreements;

iii) Agreements on CAP products ie olive oil, sugar. At present these do not have regulatory provisions. The Community alone is a party. There is a third Agreement - on wheat - within this category, but because there are development aid aspects, Member States are parties to it along with the Community.

11 Although the first two categories of Agreements are treated in the same way under Proba 20 (ie both Community and Member States participate in the Agreements), Member States' claim to competence for the Agreements with regulatory provisions has a strong legal basis only as regards the financial provisions; in the absence of the Proba 20 arrangements the Community would have a good claim to exclusive competence for the Cocoa Agreement, which is not financed directly by Member States.

Negotiation and conclusion of IPC Commodity Agreements by Community and Member States

12 In practice, a negotiating mandate for the Commission, and a common position for Member States, are usually adopted by means of an informal decision of the Council entered in the Council minutes, rather than by formal Decision citing a Treaty base. Even where a common position for Member States has been adopted by an informal decision, the decision constitutes a binding Community act. It is therefore in the interests of Member States to seek to prevent the adoption of a decision (formal or informal) if they wish to block Community action. In the absence of agreement on a common position, neither the Commission nor the Member States can participate in the negotiation of a commodity agreement.

13 As regards signature of an Agreement, the practice is that if the Community objectives set out in the common position have been successfully met during the negotiations, the Commission will

propose a Decision to be adopted by the Council relating to signature of the Agreement. The previous practice was that the Decision, which would be taken under Article 113, would relate to signature (and, at a later stage, provisional application and/or ratification) by the Community alone. Signature, provisional application and ratification by Member States was not dealt with by Community legislation. Decisions adopted while that practice was still current relate to Tin (82/809), Cocoa (81/850) and Rubber (82/254). Under the Commission's new practice the Council Decisions in question are taken under Articles 113 and 116 and impose obligations on both Community and Member States to sign and provisionally apply the Agreement in question: see Coffee (83/539), Jute (83/328), and Tropical Timber (COMM(84)339 Final). In the case of the last two Decisions the UK successfully resisted the inclusion of wording proposed by the Commission imposing an obligation on Member States to ratify. For the Tropical Timber Decision wording was agreed which does not explicitly impose an obligation to provisionally apply the Agreement; Member States simply state their intention to apply the Agreement provisionally.

Analysis

14 On the basis of the above brief summary of law and practice the following conclusions may tentatively be put forward.

15 In negotiations regarding a new commodity Agreement, the UK will be bound by any common position which has been agreed by the Council. If the UK wishes to withdraw from the negotiations, it may not do so if its withdrawal would prejudice achievement of the objectives of the common Community position (by, for example, reducing the level of imports/exports to be included in the Community's total) or if its withdrawal might prejudice the eventual question of whether the UK would sign the Agreement (on which see below). The legal obligation to avoid prejudicing the Community's common position arises from Articles 113 and 116, on which the Community's common position is implicitly based, and, more generally, from Article 5 of the EEC Treaty. There would not seem to be a positive legal obligation upon the UK to be represented at every meeting of a negotiating conference. However,

complete withdrawal from the negotiations would have to be examined in the context of the Community's common position and of the question whether the UK was free to decide not to participate in any new Agreement resulting from the negotiations.

16 The freedom of a Member State to act independently of the Community as regards becoming a party to a new Agreement has to be assessed in the light of each specific Agreement and its position under Community law. It is clear however that if the Council were to adopt a Decision under Articles 113 and 116 enabling the Community to sign and obliging the Member States to sign also, the United Kingdom would be obliged to act in accordance with the terms of that Decision, unless it was prepared to challenge the validity of the Decision in the European Court of Justice. The same applies to a Decision on provisional application.

17 It has become the practice for the Community and Member States to coordinate their position within international organisations of an economic character under Article 116 on matters of particular interest to the Common Market but which lie outside Community competence. On this basis, it is arguable that it is legitimate to use Article 116 to compel Member States to sign a mixed commodity agreement with financial provisions for which Member States remain competent. However, an alternative argument could be advanced to the effect that Article 116 may only be used where the Community has failed or is unable to exercise its own competence over matters which fall within the common commercial policy. It may not be used where competence is reserved to Member States. This argument is consistent with the Rubber Opinion, where the Court held that if Member States financed the buffer stock under a commodity agreement this would imply "the participation of those States in the decision-making machinery or, at least, their agreement with regard to the arrangements for financing envisaged and consequently their participation in the agreement together with the Community". In the event, however, of a challenge in the European Court of Justice to the validity of a decision adopted under Articles 113 and 116 obliging Member States to sign an agreement with regulatory provisions, there is a significant risk that the Court might rule that Member States were bound by such a decision. Moreover, even

if the Court were to hold that a decision under Articles 113 and 116 was not binding on Member States, there is a risk that the Court might resile from the position it took in the Rubber Opinio and find that the financing of an agreement with regulatory provisions should be implemented through the Community budget in accordance with Article 199 of the EEC Treaty, in which case the Member States would lose their competence to participate in the agreement. It must be stressed that the extent of these risks (an whether or not they are worth taking) can only be assessed on the facts of each particular case.

18 Unless the United Kingdom were prepared to challenge in the Court of Justice any decision taken under Articles 113 and 116, it would have to seek to prevent the adoption of such a decision. Measures under Articles 113 and 116 can be taken by qualified majority. It would therefore be necessary for the United Kingdom to secure a blocking minority (leaving aside the possibility of invoking the Luxembourg compromise) to prevent the adoption of a Decision obliging it to sign the Agreement in question. As regards ratification of the Agreement the position is more complex. Although the Commission hold the view that an obligation to ratify a commodity Agreement may be imposed upon Member States by a Council Decision under Article 116, the UK and some other Member States have so far successfully resisted the adoption of any such Decision on the ground inter alia that an obligation to ratify would infringe the constitutional requirements of States and their Parliaments. This argument should stand a good chance of succeeding before the ECJ.

19 It is unfortunately the case, however, that the Council has adopted two Decisions obliging Member States to apply provisionally an Agreement (Coffee and Jute), and provisional application is scarcely distinguishable in its practical legal effect from ratification. Thus, while there would very likely be sufficient support to oppose the adoption of a Council Decision imposing an obligation to ratify an Agreement, the same would not necessarily be the case in respect of an obligation to apply an Agreement provisionally. The United Kingdom would be obliged to comply with such a Council Decision in accordance with its terms.

20 A Member State may unilaterally denounce or withdraw from an Agreement only if its withdrawal does not conflict with its obligations under Article 5 of the Treaty to facilitate and ensure the fulfilment of the Community's obligations, including obligations under the Agreement entered into by the Community under Article 113. Since the provisions of commodity agreements are frequently interlocking, and it is not possible for the Community to carry out its obligations under such agreements without the participation of all Member States (and vice versa), it may be difficult to argue that a Member State is free to denounce an agreement unilaterally.

V COMMON FUND

21 A Common Fund for Commodities is to be established by an Agreement which was opened for signature in 1981, but is not yet in force. The Common Fund would contribute through its First Account to the financing of international buffer stocks within the framework of international commodity agreements, and through its Second Account would finance and promote measures other than stocking.

22 The United Kingdom has already ratified the Common Fund Agreement. If the United Kingdom wished to withdraw from the Agreement, it would first have to consider its position under international law. Although it is unusual for a Contracting State to withdraw its instrument of ratification before an Agreement has entered into force, it is not unprecedented. As a matter of international treaty law it would be possible to withdraw ratification before entry into force, although it would be advisable to consult the Depositary first (the UN Secretariat).

23 There remains the question whether withdrawal of the UK's ratification (or its subsequent withdrawal from the Agreement under Article 30) would be compatible with Community law. The Community signed the Agreement on 21 October 1981. The Council seems to have agreed that the Community should participate "alongside the Member States as from the start of the Fund's operations". The same informal Council Decision concerned the way in which the Community was to participate in the Agreement.

24 Although, therefore, Community competence for the Agreement cannot be challenged, the extent of Community competence is unclear. It seems to have been agreed that the Community should not contribute to the Second Account, unless the Council otherwise agreed, (but the 1986 EC Budget shows token entries in budget items 9700 and 9701 for a Community contribution to both the First and Second Accounts). Irrespective of competence arising from its financial contributions, the Community may have a claim to competence by virtue of its participation in the commodity agreements which may associate with the Common Fund.

25 An argument may be advanced arising from the nature of the Agreement itself that it is not legally essential for all Member States and the Community to be parties to the Agreement together. Under such an argument the respective powers of the Community and Member States are parallel, and all of the obligations of the Agreement may be undertaken without the necessary presence of all of the Member States. There would be no logical or legal incoherence if only the Community or only some Member States contributed to one or other Account in the Common Fund, and enjoyed the corresponding rights in its machinery (though the Commission might argue that such a situation was politically incoherent and reduced the international standing of the Community as an entity).

26 Even if such an argument can be substantiated on the facts, however, it is clear from the Council decision referred to above that it was intended and agreed that the Community and Member States should participate together in the Agreement. (Eleven) Member States have ratified or acceded to the Agreement. Quite apart from the political risks inherent in unilateral action of this nature, the possibility cannot be excluded that the ECJ, were it to become seised of the case, would be disposed to treat joint or continuing participation in the Agreement as one of the Community's tasks the achievement of which each Member State was obliged to facilitate under Article 5 of the Treaty of Rome. The risk would be reduced if the UK were able to marshal a blocking third to stop the adoption of a Decision enabling the Community to become a Party to the Agreement. Action by the UK to withdraw its instrument of ratification should therefore not be undertaken without prior consultation with other Member States and the Community, after which the position should be re-examined.

VI COMPENSATORY FINANCING

27 The objective of compensatory financing is to reduce instability in commodity export earnings of developing countries. The means to achieve such reduction have not yet been agreed upon. It appears likely that any scheme would as a minimum provide compensation for shortfalls in export earnings.

28 A system of compensatory finance will be within Community competence if it is capable of coming within the common commercial policy (CCP). The common commercial policy covers measures concerned with the regulation of trade. In the view of the United Kingdom and of the Council Legal Services the test of whether a trade measure is capable of coming within the common commercial policy is whether its objective is to regulate trade. However, the Commission's view is that the scope of Community competence depends on the effects of the measure.

29 Insofar as compensatory financing was restricted to the goal of providing compensation for shortfalls in export earnings, it could be argued that since it is not its aim to regulate the conditions or volume of world trade, it would not fall within the CCP. It appears, however, that compensatory financing might also tackle the causes of instability in export earnings (see 1984 UNCTAD report of experts on compensatory financing). It could be that measures taken for this purpose might have a bearing on the regulation of trade. If the payments went to restructure the industry so as, for example, to reduce oversupply of the commodities in question, the objective might be to alter trade movements. In such a case, it would appear that the scheme would fall within the common commercial policy.

30 Another factor that is relevant in considering where competence lies is the source of the finance. The compensatory financing scheme known as STABEX, contained in the Lome Convention, is financed by the European Development Fund, to which Member States are the contributors. Commission involvement in STABEX can be said to be on behalf of Member States and in respect of their money; it does not indicate Community competence for this or other

similar schemes. It has however apparently been agreed within the Community to extend STABEX-type operations to a number of developing countries not covered by the Lome Convention. This will be financed from the Community budget under provision for aid to non-associated countries. (The covering Regulation for the budget line is made under Article 235.)

31 In summary, if a compensatory financing scheme were restricted to compensating for shortfalls in export earnings, the scheme might not fall within measures coming within the common commercial policy. If it were agreed that the Community should fund the scheme as aid, the Community would have competence to that extent. If a compensatory financing scheme were to be negotiated which had wider objectives than compensation, those objectives would have to be examined to see whether they were concerned with the regulation of trade and therefore were capable of coming within the common commercial policy.

ANNEX D

COMMODITY AGREEMENTS WITH PRICE STABILISATION PROVISIONS

Detailed descriptions of the four agreements are set out below.

International Tin Agreement

2 This came into force in 1982 with a buffer-stock mechanism, backed by export controls where necessary. At the outset of the agreement the UK contributed £7.8m to the buffer stock and paid an annual administrative contribution of some £50,000. It was beset by the following problems from the start:-

(a) surplus of production over consumption;

(b) price range set higher than free market level; and no automatic mechanism to review it (it could only be altered by agreement);

(c) inadequate participation, allowing only provisional entry into force of the Agreement with consequent reduction in the buffer-stock ceiling, so the ceiling on the buffer-stock was too low in spite of its being buttressed by production quotas;

(d) imprecise borrowing limits.

3 The market price of tin was on or near the floor, and the buffer stock manager (BSM) was buying, from the outset. Under the terms of the agreement the BSM was permitted to borrow sufficient to finance a stock of 20,000 tons of tin metal. No limit was placed on his forward transactions. The lending banks placed a limit on the facility offered to the BSM, but there was no limit on the borrowings from brokers. The failure to control the BSM's forward dealings deferred, but also aggravated, the crash. The collapse came when the price fall left his forward dealings uncovered, his borrowings not secured, and his credit exhausted.

On 24 October 1985 dealing in tin was suspended on the LME. The agreement collapsed but the International Tin Council remains formally in existence. No decision has yet been taken on its future.

The International Rubber Agreement (INRA)

4 The principal objective of the Agreement was to reduce the degree to which natural rubber prices fluctuated in the short-term whilst at the same time ensuring that prices continued to follow the long-term market trend. To this end provisions were included in the Agreement for a degree of automatic adjustment of the price range to reflect movements in the market. Partly as a result of this the rubber agreement, unlike tin, has not had to defend completely unrealistic prices and average monthly prices have varied less during the Agreement than they did during the 70s. It has however accumulated a buffer-stock of 360,000 tonnes which suggests strongly that up to the present this increased price stability has been obtained by providing an element of price support.

5 The maximum financial liability for the UK is limited to the cash requirements of financing the buffer-stock (which has a defined ceiling). To date the UK has invested £5.75m and the maximum additional call for the UK is approximately £2.25m.

6 The Agreement is currently being renegotiated. The first session was inconclusive. The second session, also ended inconclusively, on 23 May and a third session has been scheduled for 6-17 October 1986. The UK line for these sessions has been considerably strengthened to take account of the lessons learnt from the tin collapse eg by calls for greater automaticity in price adjustment and a lower starting point for the reference price.

International Cocoa Agreement

7 The current Agreement came into operation in 1981 with a buffer-stock as the intervention mechanism. It also contained a provision to lower (or raise) the price range if rapid buffer-stock buying (or selling) indicated that the range was out of line with market reality. This proved to be the case shortly after the entry into force of the Agreement, and 100,000 tonnes of cocoa beans were rapidly bought into the buffer-stock and the price range lowered by 4 US cents/lb. This purchase exhausted the funds then available but did not prevent a slide in market prices. Buffer-stock purchases have been suspended since 1982. There have been no sales.

8 The moribund Agreement currently has assets in the form of 100,000 tonnes in the buffer-stock plus more than US $200m in cash collected as a result of the 2c/lb levy on transactions involving members of the Agreement.

9 The Agreement is currently being renegotiated. Four Sessions have taken place. At the most recent, in February 1986, the UK and other consumers adopted a tougher approach on the outstanding questions of price adjustment. Apparently as a result of this hardening of position the Ivory Coast, the largest producer, announced that they would not participate in any new cocoa Agreement and withdrew from the Conference.

10 During consultations in the margins of the Executive Council (2-6 June 1986) the Ivory Coast professed itself ready to return to the Conference. There are considerable doubts however that the final round of negotiations in Geneva (7-11 July 1986) will result in an Agreement with economic provisions. If there is no such Agreement there may be pressure for a non-economic Agreement to maintain a forum for the exchange of information.

International Coffee Agreement

11 The current Agreement came into operation in 1983 in succession to the 1976 Agreement and with unchanged economic provisions. Export quotas are the main instrument for ensuring that prices remain within a target range of 120-140 US cents/lb, which is reviewed annually. Quotas are adjusted automatically in response to movements in the indicator price. The Agreement provided an effective floor to the market after the reintroduction of quotas in 1980, but its inability to hold prices within the ceiling was demonstrated in 1984 and the limited value of a dollar denominated price range was underlined in 1984-85, when European prices were rising as the dollar indicator fell. It has constrained supply to the market but provided no assurance of steady supply within the quotas; and it has diverted surplus production into a heavily discounted non-member market, leading to serious trade distortions.

12 In early 1986, serious damage to the Brazilian crop because of drought led to prices not only soaring above the target range, but staying there. Under the Agreement's provisions therefore, export quotas were automatically suspended with effect from 19 February 1986. Quotas will only be introduced if and when the market price returns to the target range. This return to a free market should allow supply and demand - in total and for specific coffee varieties - to adjust to a pattern more in line with market realities.

ANNEX E

INTERNATIONAL COMMODITY AGREEMENTS (WITHOUT ECONOMIC PROVISIONS)

1 International Jute Agreement

Concluded 1982. Entered into force January 1984 for 5 years. All major producers and consumers are members.

The main features of the agreement are to improve the structural conditions in the jute market and to maintain and enlarge existing markets as well as developing new markets for jute through projects on research and development, market promotion and improvements in market transparency.

2 International Tropical Timber Agreement

Concluded 1983. Entered into force April 1985 for 5 years. Wide membership including all major producing and consuming countries. No agreement yet on Headquarters or Executive Director.

Main aim of agreement is to provide a framework for all work on all aspects of the tropical timber trade. Main provisions are to promote research and development, improve market intelligence, to encourage re-forestation and the development of national conservation policies. These aims will be met through the implementation of projects in these areas.

3 International Sugar Agreement

Concluded 1984. Entered into force January 1985 for 2 years only. All major producers and consumers are members.

The agreement is of an administrative nature only and is aimed at improving the statistical output of the International Sugar Organisation in order to provide a sound base for negotiations for a future agreement with economic provisions. There have been some informal consultations between the EC and other major sugar

producers, but these have so far failed to find any common ground. It is therefore likely that the current agreement will be extended when it expires in December 1986.

4 Internataional Olive Oil Agreement

Agreement concluded 1979. Entered into force January 1980. Expires in December 1986 having been extended for 2 one-year periods. Re-negotiating session scheduled for June 1986. It is likely that any new agreement will follow the same terms of the existing one. Many major consumers and producers are members. The Community dominates world trade in olive oil, producing and consuming about 75% of world production.

The existing Agreement's aims are concerned with measures to expand the international trade in olive oil and to promote research and development activities.

5 International Wheat Agreement

Agreement concluded in March 1986 and scheduled to enter into force in July 1986 for 5 years. This new agreement will replace the 1971 Wheat Agreement.

All the major producers and consumers are expected to join the agreement which will principally provide a forum for consultation and the exchange of information designed to increase market transparency.

6 International Dairy Agreement

Concluded under the Tokyo Round of Multilateral Trade Negotiations. Entered into force 1 January 1980, unlimited duration. Most of the major producers and consumers are members.

Main aim of the Agreement is to achieve the expansion and liberalisation of world trade in dairy products, through the provision of a comprehensive information and cooperation mechanism.

7 Arrangement Regarding Bovine Meat

Also concluded under the Tokyo Round of Multilateral Trade Negotiations, and entered into force on 1 January 1980 for an unlimited duration. Most of the major producers and consumers are members.

Its main aim is to promote the expansion, liberalisation and stability of the international meat and livestock market by facilitating the progressive dismantling of obstacles and restrictions to world trade.

Types of Contingent Liability

4 The tin experience has prompted an examination of where contingent liabilities may arise in international agreements:

(a) Sources of Finance

If the body is empowered to augment the funds directly contributed by member states, eg through borrowing, a liability could arise in the event of default. The agreement may not specify limits to the kinds or amounts of additional financing. This may be provided by contributions from Member States or from external sources. Whether or not the Agreement specifies the contributions to be made by members there may be further liability. That liability may be 'joint and several', meaning that one member may be sued for recovery of all the debts of the body, subsequently claiming from others their share of the 'joint' liability. But recovery may be a lengthy process entailing financing costs, and total recovery may be difficult in practice. If the UK was sued for all the debts, this cost would score as public expenditure. If the joint liability was subsequently recovered, this would probably score as negative public expenditure.

(b) Asset Depreciation

The UK has made a percentage contribution to the finances of a body which is ultimately refundable from liquidated assets. The absolute size of the refund will be less than the initial payment, involving a loss, where the assets have depreciated. A special case would be the fall in value of an accumulated commodity stockpile which drives down the market price at which the remaining stock is valued. Liquidating the stockpile may itself be responsible for the depreciation. The public expenditure treatment depends on the exact nature

of the transaction. The likely effect is a net public expenditure cost equal to the difference between the payments and proceeds of the liquidation.

(c) Termination

There may be no clear provisions for the distribution of assets and/or liabilities when the body is wound up, either prematurely or at the end of the period for which the agreement is in force. The order in which residual assets (including uncalled payments due from parties to the agreement) must be used to meet outstanding liabilities may not be specified. No formula may be provided for distributing the remaining net assets or liabilities among the parties to the agreement. As in (b), the likely effect is a net public expenditure cost equal to the difference between the initial cost and the monies recovered. But again this would depend upon the detailed transactions involved.

(d) Operations in Connection with the Agreement

Regardless of the limits on national liabilities written into an agreement, courts may hold Member States liable in certain circumstances for losses incurred outside the apparent scope of the agreement regulating the body to which they belong and over which they should exercise control. In this context particular care will be needed to control the acts of agents acting for the body. Where the Government is held responsible for the liabilities incurred, these losses would normally score as public expenditure.

5 The list is unlikely to be exhaustive, given the variety of forms in which contingent liabilities could arise. For example, they could occur in the absence of reserves accumulated for the purpose in the case of property deals, leases and redundancy payments to the staff of the international body concerned. Where the uncertainty of calls on the Exchequer goes beyond the timing of budgetted contributions circumscribed in the agreement, there

is a contingent liability to be evaluated as such and reported to Ministers and where necessary to Parliament. Departments are responsible for alerting Ministers and Parliament to any risks. In addition they are requested (Prime Minister's minute of 23 May 1986) to review outstanding contingent liabilities (and to review the field of potential liabilities) in the annual expenditure survey).

Evaluating Contingent Liabilities

6 In evaluating the possible public expenditure consequence of all forms of contingent liability, full account must be taken of the legal and political framework of the agreement. The UK may see the budgetary implications of a bodies' activities in a particular light. But the view may not be shared by a sufficient number of other parties to the agreement. Contingent liabilities on the UK expenditure programmes may not therefore depend on whether the UK can take unilateral action to prevent costs arising to the agreement (with possible implications for member governments), but rather on whether the parties acting collectively within the decision-making rules of the Agreement are likely to do so. The politics may be complicated by conflicts of interest among member states (as between producers and consumers in commodity agreements for example) or the division of votes among a large number of small members which halts effective decision making. EC competence makes it particularly important to identify the essential UK interests early on so that they may be incorporated in the Commission's negotiating mandate. To carry the Community, it may be necessary to take the case through all stages up to the Council of Ministers. The UK may in the end have an interest unique among EC members which must be protected even at the high political cost of invoking the Luxembourg veto.

7 Political difficulties increase the uncertainties and risks. They suggest that it might be preferable in practice (and if necessary at some political cost) to preclude a liability by so far as possible securing a form of agreement which prevents it arising in the first place (although it may not be possible to

limit all potential liabilities in this way). In practice political constraints are likely to make it impossible to adjust the terms of an agreement (and its associated liabilities) once the agreement enters into force. Nor will it often be an attractive option politically to withdraw from an agreement at a later stage even if such a step would eliminate a contingent liability.

8 The phase of initial negotiations leading to an agreement with terms which Ministers are asked to endorse is therefore crucial. A checklist of actions by the Treasury and other Departments may be useful to ensure that no obvious points are missed when officials assess a new agreement. Such a list is provided at the end of this note. A collective recognition of the possible public expenditure significance of contingent liabilities should also sharpen the analysis presented to Ministers by highlighting the areas of financial danger in particular policy proposals, and ensuring that proper legal scrutiny has been applied bearing the more likely contingencies as well as the "worst case" in mind. But once identified, none should be acceded to in the negotiations, either passively or by active agreement, without testing the political costs of its removal. Contingent liabilities reported to Ministers should therefore be the minimum possible subject to stated political contraints.

A Checklist of Actions

(i) Departments study the outline of draft international agreements to identify potential contingent liabilities.

(ii) Treasury to be consulted at an early stage with an evaluation of contingent liabilities which it may prove necessary ultimately to accept.

(iii) Departments to consult legal advisers (FCO/DTI or MAFF) on the draft terms of the agreement,

establishing what legal changes may be necessary to minimise all contingent liabilities.

(iv) Treasury to advise on whether Parliament needs either to be informed or give assent to the contingent liabilities in question separately from assent to the text of the Agreement from which they arise.

(v) Submission to Ministers on joining, amending or extending an international agreement should contain a full statement on contingent liabilities cleared interdepartmentally stating why it is considered necessary to accept them, what the potential public expenditure implications are or how they would be financed.

(vi) Departments should continue to monitor the outstanding contingent liability and make any necessary reports to Parliament. If further contingent liabilities are spotted or are proposed to be incurred subsequent to an agreement coming into force, the steps leading up to Ministers being consulted should be repeated again.

ANNEX G

COMMON FUND FOR COMMODITIES

1 The Agreement to establish the Common Fund for Commodities was adopted by consensus in UNCTAD on 27 June 1980. The following is a highly simplified account of how the Common Fund is intended to work under the Agreement.

2 The Fund has two Acocunts which are operated almost entirely separately. The First Account is in effect a Bank for financing buffer stocks operated by International Commodity Organisations (ICOs - the bodies established to implement International Commodity Agreements - ICAs). ICOs have to choose whether to be members of the Common Fund. Those which become members are required to deposit their cash surpluses with the First Account. The Second Account (sometimes known as the "second window") is more akin to an aid fund which is intended to support commodity development measures such as research and development and measures to improve productivity.

The First Account

3 The First Account is to have directly contributed capital of *$470m divided into shares of $10.000 each. Thirty seven thousand are paid-in shares and ten thousand are payable shares. The UK is to subscribe $10.51m in paid-in shares and $4.59m in payable shares. The paid in capital is to be subscribed in the form of promissary notes. The payable shares are only called up if the Fund gets into difficulties.

4 The First Account would remove the need for national contributions to ICA buffer stocks. The DCC would allow borrowing at reasonable rates which should theoretically, reduce the demands on the members of commodity agreements. When an ICO associates with the Fund under an Association Agreement it must determine its "Maximum Financial Requirements" (MFR) for buffer stocking. When it is not holding stock is must deposit with the Fund in cash one

third of its MFR, and give guarantees of the remaining two thirds of the MFR. This is called "guaranteed capital" When the price of a commodity falls to the intervention level and the ICO buys stock, it first draws down its cash deposit and then it borrows the balance of its requirements up to the limit of the MFR from the Fund. The credit worthiness of the Fund is assured by its capital, the guarantees from the ICO members and by holding the warrants for the stocks acquired.

5 Though the Common Fund was a major element in the Integrated Programme for Commodities, under which 18 commodities were nominated for negotiation of possible Commodity Agreements, there are only two commodity agreements involving buffer stocks which are at present possibilities for association with the Common Fund - rubber and cocoa.

6 The voting arrangements are a complicated compromise between the UN system of one vote per country, and that of the older financial institutions where voting is proportionate to financial contributions. Each country has 150 basic votes plus additional votes related to directly contributed capital plus eventually further votes related to guarantee capital. The Agreement lays down which decisions may be taken by simple majority vote, or by a qualified majority of two thirds or by a highly qualified majority of three-quarters. It was expected that Group B would hold just over 40% of the total votes and the G77 around 44%

<u>The Second Account</u>

7 In addition to $70m of DCC targetted, a target of $280m was set for voluntary contributions. So for $255m has been pledged ensuring that the condition of 50% of the target before entry into force has been met.

8 In December 1980 the United Kingdom pledged a sterling amount then equivalent to $10m (£4.27m). The Second Account may only borrow on concessional terms. The Second Account was intended to offer loans and grants for commodity development measures aimed at

improving the structural conditions in markets and at enhancing the long-term competitiveness and prospects of individual commodities'. Funds must be channelled through an International Commodity Body (ICB) which must be an intergovernment organisation open to all Member States of the UN, concerned with trade, on/of promotion and consumption issues? a specific commodity. The membership must represent an adequate (undefined) share of exports and imports of the commodity. The ICB must have an 'effective decision making process that reflects the interests of its participants' and be in a position to discharge its responsibilities in connection with the Fund. This would probably rule out study groups and maybe some Food and Agriculture Organisation Inter-Governmental Group of Experts.

9 Projects currently under consideration in various fora pending availability of finance could easily absorb all Second Account contributory resources if they were all approved. An UNCTAD Secretariat document prepared for the December 1985 Committee on Commodities listed all the projects and costings, totalling $519m. Many important issues are still to be resolved on the detailed operation of Accounting: eg selection procedures and criteria, loan terms, the eligibility of projects in individual countries benefitting individual countries (OECD countries argued these were not covered). These must be resolved before it will be possible to judge whether funds are likely to be well spent.

10 The Second Account is in effect an aid agency.

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* All these figures were expressed in the Agreement of Units of Account, after conversion at the exchange rate at the date of the Agreement of $1.32.

ANNEX H

COMPENSATORY FINANCING OF EXPORT EARNINGS SHORTFALLS

COMMENTS BY THE UNITED KINGDOM

At the conclusion of the 14th Special Session of the UNCTAD Trade and Development Board in June 1985 the Secretary General was requested to convene an Inter-governmental Group of Experts (IGE) to analyse "the need for a new facility as well as to undertake further work on the rules and modalities of any additional complementary facility". Comments were requested from Member States of UNCTAD, as well as the World Bank and IMF, for consideration by the IGE. This note should be read in conjunction with the letter from the EC and its Member States dated 4 May. The United Kingdom would like to emphasise the following elements which are particularly important.

2. It is the view of the United Kingdom that no case has yet been made out to justify a new compensatory financing facility in addition to the facilities provided by existing arrangements. The IGE Report concentrates on the effects of supply instabilities on fluctuations in export earnings. These are indeed important. However, the remedy for the resulting payments problem does not necessarily involve providing assistance to improve commodity production and its supporting infrastructure and services. Within particular countries there is an individual requirement to encourage the best use of scarce resources (including land and finance) in accordance with regularly updated perceptions of what is the most effective development strategy overall. That may, for instance, require action to encourage production of one commodity in place of another, or of domestic food supplies in place of exportables. A facility aimed only at commodity-related investment is not therefore the most appropriate instrument to deal with these issues. Measures taken to deal with the consequences of unwanted instabilities also have to conform with other rigorous priorities. Parastatal marketing controls and organisations, for instance, are being sharply questioned in many countries because of the strain they put upon budgets at the expense of basic services like health and education. This means that such devices, however appropriate they may seem when looking purely at the problems of a single commodity, may be ruled out for wider and more important reasons.

3. Against this background it appears unrealistic to suppose that a single, unified approach will be able to address the very differing and changing problems of both individual countries and their commodities. Each country's problems and resources need to be examined so that countries can chart the course best calculated to permit them to resume and to expand their overall growth, in a

way which also serves to meet the fundamental human needs of their people. This requires the closest comprehension of the overall problems of each country, and not solely those which appear to relate to its commodities. To take one example from the purely commodity aspect an irrigation scheme or some similar investment may appear to be necessary to correct supply instability. Yet the most urgent need for that country overall may well be for a quicker-yielding investment less subject to sociological and other difficulties of implementation and less likely to impose an extra recurrent burden upon its staff and budget.

4. The communication from the European Community and its Member States referred to the recent developments and extension of the STABEX system, which will tackle the instability of export earnings from commodities for a wide range of countries. The IMF operates a compensatory financing facility (CFF) for shortfalls in export earnings where these are judged temporary and largely attributable to circumstances beyond the control of claimants. The World Bank and other established international financial institutions lend for development and economic reconstruction and, in the commodity area, look particularly at the choices between different types of economic activity open to producers whose means, labour and time is often tightly constrained.

5. As a result of a long process of evolution described in the Expert Group Report well established and substantial facilities already exist to assist countries to recover from shortfalls in export earnings. These include the financing of structural adjustment down to sub-sectoral level, as well as explicitly for rehabitation of commodity production. Although we endorse the World Bank view that focus on individual commodities is not the best approach to structural adjustment, the Bank itself does rightly support such investments as part of an overall country strategy where this is appropriate, as it has done for instance for the copper tailings leach plant in Zambia. The very strength of the existing schemes is that they cover the problem of fluctuation in export earnings simultaneously from a number of directions. The contribution which each of the established agencies already makes can only be usefully appraised from an overall perspective which acknowledges the multi-facetted aspect of the existing scheme.

6. The UK considers that having regard to existing facilities a new facility is likely to be counterproductive. Overlapping jurisdictions, acknowledged by the Experts' Group in its discussion of double compensation, would confuse the outlook for the various agencies and add to uncertainties for borrowers as well as lenders. The reviews of existing facilities by the international organisations concerned (for which there is provision for example in the IMF's procedures)

help to ensure that the various schemes are capable of meeting the real needs of developing countries. The UK considers that the IGE should give greater weight to further consideration of the range of existing schemes and the contribution they can make towards the overall objective, consulting with the established bodies as necessary for this purpose. Supply side instability should be further studied, drawing where possible on the expertise of existing bodies.

7. The UK remains willing to contribute constructively to discussions of the Expert Group's report. We believe that this should focus on a detailed appreciation of the contribution which the existing agencies can make and an in-depth analysis of supply side instabilities. The UK will review its continued participation in this exercise in the light of the further work, including consideration of these points.

LONDON

16 May 1986


30. VI

2 PPS

CONFIDENTIAL

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Secretary of State for Trade and Industry

27 August 1986

The Rt Hon Michael Jopling MP
Minister of Agriculture
Fisheries and Food
Whitehall Place
London
SW1

MBM

Dear Michael,

RENEGOTIATION OF THE COCOA AGREEMENT

Thank you for your letter of 11 August about the renegotiation of Cocoa Agreement. Like you I am surprised by the outcome. In one sense it is unexpectedly favourable: but in another it would have been better in terms of our broader policy objectives for no agreement to have materialised.

In spite of the merits of the Agreement now reached we need to assess it, I suggest, against the criteria I put forward in my letter of 6 February. I then made 5 specific points on the line we should take:

(a) On the question of price. I was concerned particularly at the level at which support buying could take place: I said that I was sure that no support buying should be permitted above 85 cents. The final Agreement appears to allow support buying at 88 cents.

(b) I suggested that automatic price adjustment provisions were essential and should be sufficiently flexible to absorb a major fall in the market. At the time we were working on a proposal which provided for 5 cent reductions at each 50,000 tonne purchase into the buffer stock. The final Agreement includes a mechanism which provides for 6 cent reduction at each 75,000 tonne purchase This is worthwhile flexibility but not quite as much as we were hoping for.

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DW5AUH

1786 BOARD OF TRADE BICENTENARY

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(c) I agreed that it was essential that the target figures for participation should be met. I am glad that we have maintained a reservation on the reduced requirement for consumer participation. Continued American abstention which is apparently expected must surely undermine the credibility of the Agreement.

(d) I am particularly glad that you have achieved satisfactory texts on borrowing forward transactions financial liabilities and provision for orderly liquidation. These are of course the key financial provisions. I am though disappointed that it was necessary to make special mention of the Common Fund.

(e) I had understood that the buffer stock in the new Agreement was to he limited to 250,000 tonnes. I was disappointed to see that it had not been possible to avoid a provision to allow for the buffer stock to be increased by a further 100,000 tonnes if the Agreement is extended after its initial 3 year period.

I agree that we need not finally decide now on UK participation in the new Agreement. But we must surely be clear what attitude to take towards it in discussions in the Community. These will probably start very soon. I feel sure we must work to persuade our Community partners that although this Agreement is a major improvement the improvement is not sufficient for Community countries to join it. As you say, unless we can convince some of them we may be required to join it ourselves. I am therefore pleased to note that your officials have lodged a number of reservations on which we might build some credible resistance.

I see there is likely to be a breathing space before the new Agreement can take effect during which we could maintain the status quo. This should provide time for us to make a concerted effort to muster a blocking minority in the Community.

I would hope therefore that in the discussion of any bridging mechanisms before the 1986 Agreement can take effect we would not be committing ourselves to them - still less to the new Agreement.

I am copying this to the Prime Minister, Geoffrey Howe, John MacGregor and to Sir Robert Armstrong.

Yours, Paul

PAUL CHANNON

DW5AUH

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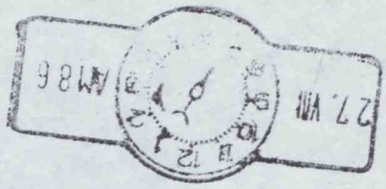

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Secretary of State for Trade and Industry

27 August 1986

The Rt Hon John MacGregor OBE MP
Chief Secretary to the
Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Dear John.

ASSISTANCE TO RTZ'S CORNISH TIN MINES

Thank you for your letter of 14 August about the funding of the assistance to RTZ's tin mines.

I note that in addition to my Department's contribution of £7m from its PES provision, £1.8m will be provided by way of a PES transfer from the Department of Employment and £6.2m as an addition to my Department's PES baseline, to meet the unsecured non-recourse Government loan not exceeding £15m to RTZ.

Subject to later developments, which might require a different expenditure profile, I accept your proposal that the Department of Employment's PES transfer should be £0.9m for each of the years 1987/8 and 1988/89; together with additions to my PES baseline of £2m in 1987/88 and £4.2m in 1988/89. All these adjustments would be made during the course of the present Survey round.

Given that any repayments will accrue to my votes, I agree to reducing my PES baseline for the years in which repayment occurs pro rata in the non-DTI share of the costs of financing the non-recourse loan.

As regards the question of meeting the costs of a claim arising from the Government guaranteed loans, I will certainly try to find the funds by way of offsetting savings from my PES provision; equally, I understand that should circumstances make that impossible, you are not excluding the possibility that the funds might have to be met by a call on the Reserve.

I am copying this letter to the Prime Minister, David Young and to Sir Robert Armstrong.

Yours,

DW1BVQ

PAUL CHANNON

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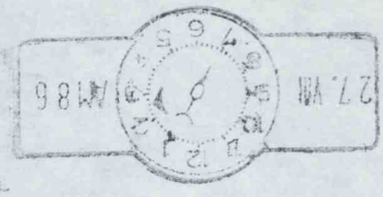

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Foreign and Commonwealth Office

London SW1A 2AH

From The Minister of State

26 August 1986

Dear Michael,

RENEGOTIATION OF THE INTERNATIONAL COCOA AGREEMENT

In Geoffrey Howe's absence on leave I should like to comment on some of the points in your letter of 11 August to Paul Channon about the outcome of the Conference to renegotiate the International Cocoa Agreement.

Like you, we had assumed that the producers would reject our conditions and that the Conference would fail. The collapse of the producer position requires us to address the unwelcome task of planning the next move in extra time after what we had hoped was to be the final whistle. As you acknowledge, the number of positions available to us is limited.

The text of the new Agreement conforms closely to the mandate endorsed by Ministers in February. There can be no guarantee that it will ensure the operation of a price stabilising regime without financial stress or undue interference with market forces. But there are several important points in its favour. Finance is generated from the cocoa trade rather than the Agreement's members, and borrowing is not permitted. The price range will be denominated in SDR's, thus avoiding the adverse effects of currency fluctuations - something to which I understand the British cocoa industry attaches great importance. There is provision for more automatic price adjustment. Unlike the 1980 Agreement, the new

/Agreement's

The Rt Hon Michael Jopling MP
Minister of Agriculture, Fisheries and Food
Whitehall Place
LONDON SW1A 2HH

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Agreement's economic provisions cannot in any circumstances be brought into force unless at least five producers accounting the 80% of world cocoa exports have joined. The new Agreement makes clear that there would be no question of financial responsibility upon governments if the Agreement eventually fails or is wound up: so there is no prospect of a repetition of the tin fiasco. I therefore consider that the new Agreement offers the prospect of a more economically sound and financially prudent instrument than any other Agreement in this field, and to that extent meets the conditions laid down in the interdepartmental review of commodity policy.

But the most stringent economic provisions will not enable an Agreement to operate effectively unless a substantial percentage of producers and consumers participate. The 80% producer membership requirement for both provisional and definitive application of the new Agreement is in my view satisfactory. This figure means that unless Cote D'Ivoire joins, the economic provisions of the Agreement will remain inoperative, even if those producers and consumers who have joined decide to bring the Agreement into force with lower membership percentages than the text requires. We should nevertheless insist within the European Community that notification of provisional application by the Community and its member states should be contingent upon similar action by Cote D'Ivoire. This will present a tricky problem of timing and tactics. Even if, however, the Community found itself outmanoeuvred in that Cote D'Ivoire backed off at the last moment, the consequence would be an administrative Agreement shorn of all its market intervention provisions.

The 60% requirement for consumer membership does not correspond to our target of 70%. To achieve that figure would require the USA (which represents 22.5% of world imports) to join the new Agreement. They are unlikely to do so but we are in touch with them. It will also be worth lobbying the Malaysians to try to persuade them to join the new Agreement, thus increasing the producer total by a further 6%.

/Now

Now the negotiation of the Agreement is over and both consumers and producers have accepted the text, the probability is that our Community partners will be ready to join it as it stands. This raises the question of the UK's reservations on a number of the Agreement's provisions, for which it appears we have little support within the Community. We should explore the prospect of mustering a blocking minority of our Community partners on these provisions. But even if we were able to persuade a sufficient number of our partners to accept our position of substance, I doubt that they would be prepared to obstruct Community membership of the Agreement over issues that they regard as comparatively minor. If this proves to be the case we will be required to join the Agreement along with the Community's other member states. At that point we should signal our doubts about the points on which we have reserves by making a statement for the minutes of the relevant Council meeting, and then lift the reserves.

I agree that we can defer a final judgement until after the September meeting of the Cocoa Council. But the Commission is likely to bring forward proposals for the Community and member states to sign and provisionally apply the new Agreement before the 1 October deadline. If a qualififed majority of our partners favours membership, and the UK therefore has to join the Agreement, it will be desirable - particularly in view of the UK Presidency - to act quickly in order to complete the domestic procedures necessary for provisional application by 1 October. With Parliament in recess, we shall need to find alternatives to our normal scrutiny procedures. Meanwhile it would be prudent to instruct officials at the Cocoa Council to seek support for deferring any meeting that might be called by the UN Secretary-General until December. Our aim would be to ensure that, if we and the Community decide to join the Agreement, there would be no bar to the UK being invited to this meeting, which will be restricted to those who have joined the Agreement.

I am copying this letter to the Prime Minister, Paul Channon, John MacGregor and to Sir Robert Armstrong.

Yours ever

Tarah

Baroness Young

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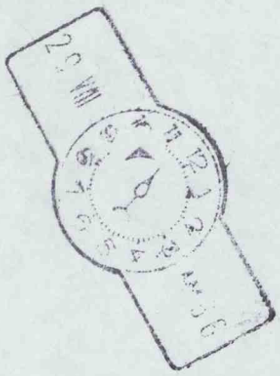

CCBG

SECRETARY OF STATE FOR EMPLOYMENT

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The Rt Hon John Macregor MP
Chief Secretary
HM Treasury
Parliament Street
LONDON SW1

MLEA

ASSISTANCE TO RTZ's CORNISH TIN MINES

I am content with the arrangements set out in your letter of 14 August to Paul Channon. For the record however, whilst I undertook to help on this occasion and accept that averting the redundancies will reduce the calls on my department's programmes, such as the Community Programme and the Enterprise Allowance Scheme, which would otherwise have occurred in W Cornwall, I must point out that these are cash limited national programmes and have to be managed as such. I would not wish my assistance on this occasion to be regarded in any way as establishing a precedent.

I am copying this letter to the Prime Minister, Paul Channon and Sir Robert Armstrong.

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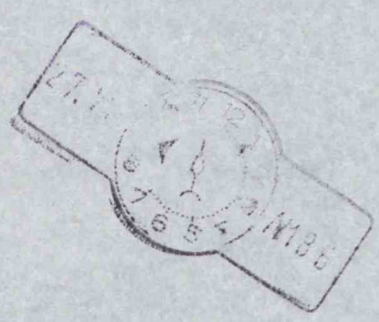

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CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
LONDON
SW1E 6RB

NBPM.

14th August 1986

Dear Paul,

ASSISTANCE TO RTZ's CORNISH TIN MINES

I am writing to confirm the basis on which I agreed that the maximum call on your Department's PES provision in respect of the non-recourse Government loan to RTZ would be £7 million.

As far as the distribution of the remaining £8 million is concerned, I understand that in the light of the Prime Minister's summing up of the discussion which suggested that some contribution should be made by the Department of Employment, David Young is prepared to offer a PES transfer totalling £1.8 million. Though I would have much preferred to see only a third of the total come from outside existing PES provisions, I am reluctantly prepared to meet the remaining balance of £6.2 million as an agreed addition to your PES baseline. We agreed that this was an exceptional case and could not be cited as a precedent for future Section 8 cases.

We did not discuss the question of who should meet the costs of repaying the Government guaranteed loans in the event that the project failed and the mines closed. The total contingent liability here is £10 million and I understand that, depending on the closure date, this liability could crystalise in 1989-90. Clearly we would need to consider how such a liability could be financed if and when it materialised. However, given the prospective public expenditure position, I would expect you to make every attempt to find the money from within your existing PES provision.

On the phasing of these payments, I understand that the agreement with RTZ provides some flexibility over the financial years in which the payments will be made. This is something

we will need to review nearer the time in the light of your department's own spending position and the prospects of public expenditure as a whole. Subject to this point, it is likely that the first payment of £5 million will be paid in 1987-88 and the second tranche of £10 million in 1988-89. On this basis, I propose that the Department of Employment should make a PES transfer of £0.9 million for each of those two years. There will be additions to your PES baseline of £2.0 million in 1987-88 and £4.2 million in 1988-89. All these adjustments will be made at the end of the Survey.

Finally, special arrangements in respect of the repayments will be needed to take account of the financing arrangements we have now agreed. Any repayments will, of course, accrue in the first instance to your votes. But I would expect a reduction in your PES baseline for the years in which repayment occurs proportionate to the non-DTI share of the costs of financing the non-recourse loan.

I am copying this letter to the Prime Minister, David Young and to Sir Robert Armstrong.

Yours ever,

JOHN MacGREGOR

cc/c

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

CONFIDENTIAL

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1M OET

11 August 1986

RE-NEGOTIATION OF THE COCOA AGREEMENT

When Peggy Fenner wrote to you on 25 July she said I would write again when the Conference was over to inform you of the outcome and to give you my assessment of it. At the final session of the negotiating Conference on 1 August the text of the new agreement - the International Cocoa Agreement 1986 - was adopted. A copy has gone to your officials together with a detailed account of the negotiations and an analysis of the text.

We had hoped and indeed expected that by encouraging the adoption of the toughest possible position within the consuming countries' camp, the producers, and particularly the Ivory Coast, would be confronted with a package they would reject, and that the Conference would therefore fail. We were largely successful in encouraging a strong consumer stance, but to our surprise, when confronted with it, producers' resistance, including even that of the Ivory Coast, collapsed.

The proposed agreement contains the following elements which we had identified as being of importance to us:-

(i) the price range is centred on the equivalent of US 103 cents/lb (ie below 105 cents/lb);

(ii) there is no obligatory buying above a price equivalent to 85 cents/lb;

(iii) the price range of the agreement is denominated in the SDR basket to take account of currency fluctuations;

/(iv) when ....

(iv) when 75,000 tonnes is purchased/sold into the buffer stock within 6 months, a 6 cents/lb equivalent price adjustment downwards/upwards is triggered; thus a price cut of 12 cents/lb can occur before the buffer stock is full;

(v) the Buffer Stock Manager is forbidden to operate on terminal markets;

(vi) producers representing 80% of exports (ie including the Ivory Coast) have to join the agreement before the buffer stock provisions can be implemented;

(vi) UK texts which prohibit borrowing and limit the financial liability of members of the Council;

(viii) provisions for orderly liquidation should this ever be necessary, safeguarding the interest of consumer countries in a share of the proceeds.

In the few cases where the text could be held to run counter to our agreed line the delegation have recorded a reservation. I need only mention two. One relates to consumer participation in an Agreement, where we tried to secure the adoption of the same provisions as in the 1980 Agreement namely a requirement that consumers accounting for 70% of imports should participate. The text (on which only the UK has a reservation) allows provisional application with 60% consumer participation. There is also provision for the Agreement to make use of the financial possibilities of the Common Fund. But this will have no practical effect; as our Review put it "the Common Fund is a dead letter".

In terms of attaining our objectives the outcome is much more satisfactory than I would have thought possible beforehand. As I have explained before I am not enthusiastic about a Cocoa Agreement. If we could start entirely afresh I would not want any Agreement. But as we recognised in the Review we must have regard to the constraints imposed on us by the EC dimension and we must also maintain some negotiating coherence and credibility. The outcome is so close to the consumers' position that it is virtually certain that, as matters stand, a qualified majority in the EC will, in due course, whatever our position, be found for EC accession. In that case we would be virtually forced to accede also.

However, we have not reached that stage yet. If producers representing 80% of exports and consuming countries representing 60% of imports have not given notice of at least provisional application of the agreement by 1 October, and this seems most unlikely, there will be a hiatus thereafter. But in order to deal with this likely gap and retain the buffer stock resources, the Council of the 1980 Agreement, meeting in early September, will consider the legal framework for a transition period. Also, some time after 1 October the Secretary-

/General of ....

General of the UN is likely to call a meeting to consider the way forward as provided for in the new Agreement. I propose that at these meetings the UK delegation should work to ensure that any decisions are compatible with the legal requirements, but should not oppose in principle the installation of some bridging mechanism before the 1986 Agreement can take effect if, as seems likely, it is the general wish to provide one. This bridging mechanism should maintain the status quo, ie it should certainly not allow the market intervention provisions to be activated in any way.

Because of this residual uncertainty I suggest we should not finally decide now on UK participation in the 1986 Agreement, although as I indicate the probability must be that we will need to accede. After the September/October meetings matters should have clarified sufficiently to allow me to put forward a specific recommendation. However, I would not propose at this stage that if the point arises we should seek to circumvent normal UK Parliamentary procedures for putting into force an international agreement.

I am copying this to the Prime Minsiter, Geoffrey Howe, John MacGregor and to Sir Robert Armstrong.

MICHAEL JOPLING

TRADS Volume of Trade P3

BF 2/9/86 || David S/r

I told Pohay Unit that on the strength of the papers, I wasn't prepared to minute out with the PMs views - Did you intend to put them back in at some stage?

CONFIDENTIAL

MR NORGROVE

5 August 1986

UK COMMODITY POLICY

Tony Lane (DTI) called to ask me if the Prime Minister might circulate a note summarising the conclusions of the exchange of notes that followed Paul Channon's submission of 30 June.

If you think this is appropriate 'form' you might simply send a note to Paul Channon making the following points:

1. It is agreed that a firm approach will be taken on commodity agreements to support deregulation and avoid any further commitments. Efforts should be made to bring our community partners onside.

2. Given the presentational problems of this approach, it would be helpful if it could be offset by a package of constructive proposals that suggest alternative ways to help developing countries cope with low commodity prices. Officials should explore such options, bearing in mind the need to keep these a free market approach and avoid any new expenditure commitments.

3. The Prime Minister would like to be informed of the final proposals.

pp. NORMAN BLACKWELL

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TRADE: Movement in volume of Trade: Pt3

SUBJECT cc MASTER

fa Tin.

NOTE OF A MEETING BETWEEN THE PRIME MINISTER AND CONSERVATIVE MPs ON CORNISH TIN

At short notice, the Prime Minister agreed to receive Robert Boscawen (Somerton and Frome), David Mudd (Falmouth and Camborne) and David Harris (St Ives) to discuss the problems of the Cornish tin industry. She saw them in her room in the House of Commons at 9.30pm on Thursday, 24th July. Robert Hicks (Cornwall SE) was also present.

The meeting was an informal one. The Members all spoke of the serious political repercussions, as they perceived them, of the Government failing to provide financial support for keeping RTZ and the Cornish tin industry going. David Mudd referred to the fact that the Malayan Government provided production subsidies of some 6% for the cost of extracting tin in Malaya. Bob Boscawen referred to the importance historically of tin extraction in Cornwall and also to the drop in the numbers employed in the three RTZ mines (South Crofty, Wheal Jane and Pendarres) from 1500 in January this year to 850 at the present time. But even with this diminished manpower, RTZ's mining activities still contributed £20 million a year to the Cornish economy.

Robert Hicks referred to the internationally-renowned School of Tin Mining in Camborne, and pointed out that the instruction given in the school in Cornish mining techniques was based on the use of British technology and equipment, and produced a useful after-flow of exports to countries whose nationals had been trained in the School. The closure of the tin mines under possible threat in Cornwall would make a mockery of the School, and probably lead to its demise.

../..

David Mudd also raised the question of the RTZ aluminium smelter in Warrington. He understood that it required a minimum throughput of tin to keep it going profitably. If no tin was mined in Cornwall, the Warrington smelter might have to close down. This was yet further evidence of the need to sustain tin output in Cornwall.

All the Members at the meeting stressed that, whilst they were realistic in understanding the sharply diminished prospects for tin production and extraction in Cornwall, nevertheless they felt that politically it was essential to keep the Cornish tin extraction industry going for the future. Rationalisation might be unavoidable, but the elimination of the Cornish tin industry was unacceptable. They all expressed the hope that the Prime Minister might be able to support some sort of a compromise in providing for the future of the industry.

The Prime Minister listened carefully to the representations made, and undertook to give full weight to what had been represented to her. She pointed out that RTZ was an extremely rich, international company and could well afford, in her view, to contribute more to the long-term viability of the Cornish tin industry; she understood that the Cornish operations represented something like half of one percent of the RTZ turnover. Any money which went in support of the operations of this prosperous commercial corporation would be money unavailable for pressing improvements in, e.g., school books and building maintenance.

MICHAEL ALISON
28.7.86

009/2985

CONFIDENTIAL

ECBG

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1

NBPN.

28 July 1986

Dear Paul,

UK COMMODITY POLICY

I have seen the Foreign Secretary's minute of 15 July in which he suggests that a meeting to discuss the basic approach to commodity policy is unnecessary since we are at one.

I very much welcome the clear statement in his latest minute of his support for the deregulatory approach and his agreement that we should start now on the process of influencing our Community and other consumer partners towards the same approach. In the light of that I agree that an early meeting is unnecessary. However, given that the handling may be tricky, I hope officials can now press ahead with preparing for future international meetings, in particular UNCTAD, to reach conclusions on instructions etc in good time to allow any differences to be referred to Ministers.

I note that officials will need to consider the possibility of putting forward "constructive proposals to meet developing countries' legitimate concerns." As you say a number of programmes and facilities are already in existence which can help developing countries cope with the effects of low commodity prices. In looking to see whether more needs to be done, officials will also need to examine whether any such proposals would represent a good use of available aid resources.

I am copying this letter to the Prime Minister, Geoffrey Howe, members of E(A), Michael Havers, Robin Leigh-Pemberton and to Sir Robert Armstrong.

Yours ever,

JOHN MacGREGOR

CONFIDENTIAL

TRADE
TIN
PT 3



P 02201

PRIME MINISTER

Cornwall: Assistance for Tin Mines

flag A. – E(A)(86) 43

CONCLUSIONS

1. You will wish the Sub-Committee to reach conclusions on whether or not to offer RTZ grant assistance of up to £15 million, together with HMG loan guarantees of a mimumum of £5 million, and a maximum of £10 million, to develop RTZ's tin mines in Cornwall.

BACKGROUND

2. In June RTZ sought grants of £26 million and Government guaranteed loans of £33 million to finance the development of the company's two mines in Cornwall, Wheal Jane and South Crofty. DTI officials made clear to RTZ on 24 June that the Govenrment would not provide the full support requested. RTZ issued to all workers redundancy notices due to expire on 31 July but have announced a delay in the closure of the mines until 18 August to allow for the completion of discussions with the Government. They have also considered alternative proposals to maintain some tin production, but at a reduced rate. The result is a project - which would cost £31.2 m by 1990 - whereby RTZ's Wheal Jane mine would continue in operation; South Crofty would, however, cease commercial production but would be developed so as to resume full production in 1991. An application for £20 million for the Geevor mine, where geological conditions are more difficult, has been rejected, and practically all the 400 people employed there have been made redundant.

Proposals

3. Mr Channon proposes that the Government provide from the Reserve:

a. grant assistance of £15 million (£5 million in 1987/88 and £10 million in 1988/89) towards the RTZ project under Section 8 of the Industrial Development Act (the terms of this Section are sufficiently wide for what Mr Channon has in mind);
b. loan guarantees of a minimum of £5 million and a maximum of £10 million (depending on the accuracy of RTZ's forecast of tin prices).

4. Mr Channon's arguments are as follows:

a. Employment

The project will, if successful, safeguard 860 jobs in a travel to work area (Redruth- Camborne) where, if the RTZ mines were to close, male unemployment would reach 33 per cent. (However, employment over the next four years will be some 400 lower than its level of 1020 at the end of May 1986).

b. Economic Viability of project

RTZ are putting up £7 million of their own money initially; DTI think RTZ will be able to achieve the proposed cost reductions, and so double the productivity of these mines by 1991. On RTZ's highly speculative tin price forecasts, the project has a net present value (npv) of £3.1 million when discounted at 10 per cent.

c. Political Considerations

Tin has a high political profile in Cornwall, and closure will be highly contentious against the background of the collapse of the International Tin Council (ITC). Mr Channon thinks the Government will look mean if assistance is not provided, given the previous offer to contribute the larger sum of £50 million towards resolving the problems of the ITC.

d. Public Expenditure Costs

The expected Exchequer costs of closure would be almost the same in total as the grant payments to RTZ envisaged, a point to which the Select Committee on Trade and Industry have drawn attention. (However, if the price of tin fails to rise in accordance with RTC's forecasts, and the project has to be abandoned in 1988 or 1989, the Government would presumably bear those costs in addition to the assistance which would have been provided in the meanwhile.)

5. The Chief Secretary's counter arguments are:

a. The level of assistance proposed is well above normal cost per job limits and does not fulfil the normal Section 8 criteria;

b. The viability of the project is extremely uncertain. RTZ believe Wheal Jane and South Crofty can operate profitably if the tin price is £6,000 a tonne; at the moment it is £4,000 a tonne (as against over £8,000 a tonne before the collapse of the ITC last October). The viability of the project is very sensitive to the tin price. If the price of tin falls 10 per cent short of the RTZ projection, the result is an npv deficit of £17.5 million.

c. The extent of the commitment required from HMG. RTZ want the Government to underwrite the whole of the financial risk, beyond their initial £7 million between August 1986 and the end of 1988. The project is for review towards the end of 1988; if it is unsuccessful, the contribution of the DTI and RTZ put at £25 million £13.6 million respectively; and the Government would then have to increase at that stage the Exchequer costs of closure.

6. The Secretary of State for Employment - who supports Mr Channon's proposals - wrote to the Chief Secretary, Treasury on 23 July (not copied to all E(A) members) putting forward a

6. The Secretary of State for Employment - who supports Mr Channon's proposals - wrote to the Chief Secretary, Treasury on 23 July (not copied to all E(A) members) putting forward a special employment package in the event of Mr Channon not prevailing. Lord Young accepts that the cost of these measures would have to be met from within the existing resources of the Department of Employment. But he wants an exemption from the rules for the Enterprise Allowance Scheme (EAS) to enable up to 130 miners currently in employment to be eligible for the scheme some 8 weeks after being made redundant. In addition, Lord Young asks that RTZ should provide small loans to new business to cushion the effect of any redundancies.

7. This issue is in a number of ways comparable with the proposal to accelerate the Ministry of Defence's frigate orders. It is clear that the DTI cannot meet the costs without offsetting reductions in their programme with a comparable, if not greater, adverse impact on employment elsewhere. The same holds true if financing from the Reserve has the effect of crowding out some other element of expenditure in another Department's programme for which, in principle, room could otherwise have been found. In that case the decision must turn on whether it is more important to maintain a particular type of employment in West Cornwall than to give a comparable measure of assistance spread over other parts of the country.

Fall Back Position

8. If the Committee decide that the case for the scheme proposed by Mr Channon is not acceptable; the obvious fall back would be to invite the Employment Secretary to develop bis package within existing resources with Mr Channon and the other Ministers concerned so that it can be announced at the same time as the rejection of the RTZ proposals.

HANDLING

9. You will wish to invite the Secretary of State for Trade and Industry to present his proposals and the Chief Secretary, Treasury to respond. The Secretary of State for Employment may wish to comment on the employment implications. The Minister of State, Foreign and Commonwealth Office may have views on EC aspects. The Chancellor of the Duchy of Lancaster and the Chief Whip may wish to comment on the political aspects.

J B UNWIN

25 July 1986
Cabinet Office

002/2984

CONFIDENTIAL

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Michael Jopling MP
Minister of Agriculture, Fisheries and Food
Ministry of Agriculture, Fisheries and Food
Whitehall Place
London
SW1A 2HH

25 July 1986

Dear Minister,

RENEGOTIATION OF THE COCOA AGREEMENT

I have seen your letter of 18 July to Paul Channon describing progress in the current cocoa negotiations, together with Paul's reply of 22 July.

It is to be welcomed that a firm consumer line has brought about a greater degree of realism on the central price mechanisms of the new draft agreement. There now seems to be a widespread dissatisfaction among our EC partners and elsewhere with previous approaches to commodity issues, and a greater readiness to consider fresh approaches. I hope we shall be able to capitalise fully on this in shaping the tactics of our future approach.

For the remainder of the cocoa negotiation, it remains in my view most important to secure the whole of the package of safeguards which were identified in the inter-departmental group's study of tin. This includes the excision of borrowing powers, a sound contingent liability position with which your lawyers are content and appropriate levels of membership. I too share Paul's concern at reports that Malaysian production may quickly grow to a point where it could undermine a new cocoa agreement. I agree that we should do all we can to persuade notable absentees from the negotiations, including the US on the consumer side, to join in now, and should look carefully again at our position should they refuse to do so.

In the longer term, the cocoa negotiation seems to me to illustrate again the dangers of operating according to the "lip service" approach based on second best conclusions. Even if specific objectives for a new agreement are secured in

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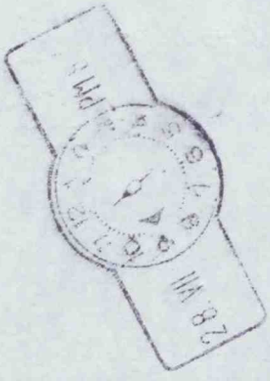
negotiations, there probably remains a degree of financial risk in such international agreements managed jointly by mutually antagonistic interests which any amount of careful planning could not anticipate. Even the prospect of a new cocoa agreement is encouraging the belief in some quarters that existing UNCTAD methods of managing commodity trade are basically sound, and will ultimately come to enjoy the same degree of support as they did before. In line with a general move towards a deregulatory approach on which we are now agreed, every opportunity should be taken to overturn this interpretation. Otherwise, it may add an additional complication to the task of formulating and putting across our own approach in the context of the rubber negotiation later this year and UNCTAD VII in 1987.

I look forward to considering your recommendation on the draft cocoa agreement when the current round of negotiations is concluded.

I am copying this letter to the Prime Minister, Geoffrey Howe, Paul Channon and Sir Robert Armstrong.



Yours sincerely,

Jim Luther

pp JOHN MacGREGOR

(Approved by the Chief Secretary and signed in his absence)

SRWAHE

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PRIME MINISTER

TIN

The extent of RTZ's demands, and the conditions they want to impose, show the riskiness of attempting to underwrite continued tin production in Cornwall. I have asked DTI to be sure that Mr. Channon is briefed to answer questions about the possibility of keeping open only one of the RTZ mines.

Lord Young has begun to prepare an employment package in case the tin mines close. He accepts that the cost would have to be met from within his existing resources. Arguably, the Chief Secretary could be pressed to provide extra money, recognising that he was prepared to provide £50 million to rescue the Tin Agreement. However, I would with regret not recommend this. The presentational benefit of providing new money would inevitably be nullified when people compared the figure of £50 million with the amount of the new money, which would necessarily be less than £10 million (given that RTZ are "only" asking for a grant of £15 million).

DUTY CLERK

pp (DAVID NORGROVE)
25 July 1986

CONFIDENTIAL

CCP/C

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

From the
Parliamentary
Secretary

DN/ to see
CDP
25/7.
pa

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1M OET

25 July 1986.

CONFIDENTIAL

My dear Paul,

RENEGOTIATION OF THE INTERNATIONAL COCOA AGREEMENT: GENEVA, JULY 1986

WILL REQUEST IF REQUIRED

Thank you for your letter of 22 July to Michael Jopling. Since he is out of touch today I am replying on his behalf.

As Michael stated in his letter of 18 July when the current negotiations are concluded he will write again to colleagues with recommendations on the position we should adopt on the result. Meanwhile our delegation will, of course, argue forcefully for an outcome that is compatible with their instructions. These are defined in the papers attached to Michael's letter of 29 January to you as supplemented by his letter of 4 July. The considerations you mention in your letter were all fully evaluated in that context. In addition, of course, the paper on the review of commodity policy which you minuted to the Prime Minister on 30 June explicitly recognised (in paragraph 1.8) that the negotiating mandate previously agreed for the cocoa negotiations should stand.

On a more detailed point I agree that when the negotiations are concluded we may need to consider, inter alia, whether to lobby other countries, notably the US and Malaysia, to join a new Agreement. But we will need to take careful account of a number of factors before we do so including the possibility that we could in future wish to reject similar pressure to join International Commodity Agreements. Michael will, if appropriate, deal with this factor when he writes again, but our first impression is that, whatever the specific merits, it could be difficult to reconcile our present line on commodity issues with active pressure on other states to join Agreements.

I am copying this letter to the Prime Minister, Geoffrey Howe, John MacGregor and Sir Robert Armstrong.

Yours ever,

Peggy

PEGGY FENNER

Caxton House Tothill Street London SW1H 9NF

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CONFIDENTIAL

The Rt Hon John MacGregor MP
Chief Secretary
HM Treasury
Parliament Street
LONDON SW1

23rd July 1986

Dear John,

WEST CORNWALL

Paul Channon and I recently discussed the possibility of putting together a package of employment measures to help West Cornwall in the event of further redundancies in the tin mining industry. I attach a note, which Paul Channon has already seen, outlining a possible package.

I accept that the cost of these measures would have to be met from within my Department's existing resources. I have in mind, however, a possible approach to RTZ to see whether they would be able to put a limited amount of money into the area to encourage enterprise, as Shell have done in other areas.

We might also approach other Departments who could assist in developing businesses in West Cornwall. One possibility would be for the Ministry of Defence to encourage Culdrose to purchase locally. Another would be for MAFF to encourage ADAS to offer advice on rural development in the area.

The scale of such a package would depend of course on the decision about whether to offer RTZ grant assistance to develop their mines in Cornwall and I shall be pursuing all this further with colleagues once that decision is known. We may need to act quickly, however, if a package of measures is to be announced at the same time as the decision on the RTZ application, and there is one element of the package on which I need to seek your agreement.

As you know under the current rules for the Enterprise Allowance Scheme, applicants must be receiving unemployment or supplementary benefit at the time of application and have been out of work for 8 weeks. This means that tin miners in West Cornwall who were made redundant in April will not qualify for the scheme until the autumn since they are not eligible for benefit while getting wages

in lieu of notice. And the same problem will arise in connection with any RTZ employees who are made redundant on this basis. I should like to make a limited exemption from the eligibility rules of the scheme for tin miners, and other people in West Cornwall, to allow them to enter EAS 8 weeks after being made redundant.

The number of people involved is likely to be small. Even if one in ten of the redundant tin miners applied for EAS, we are talking only about 130 people at most. And there are no other large scale redundancies in prospect in the area. As I have said, I intend to absorb the costs involved within my existing resources as we are of course only bringing forward expenditure which is likely to be incurred anyway.

I have no doubt that we can make a strong case for a special package of measures to help the area, including a change in the EAS eligibility rules, and could resist pressure from other areas for similar treatment. I hope therefore you will be able to agree to this change.

Yours,

I am copying this letter to the Prime Minister, Geoffrey Howe, Paul Channon, John Biffen, John Wakeham and Robert Armstrong.

CCBG

AI EMPLOYMENT PACKAGE FOR CORNWALL

1 The scale of tin-mining redundancies in West Cornwall calls for a package of employment measures.

2 Employment measures are already available in the area and additional resources could be diverted to West Cornwall (defined in this case as three local travel to work areas - Falmouth, Helston, Penzance and St Ives. These extra resources could be used

- to expand existing schemes (Annex 1)

- to alter the rules of existing schemes and so change their impact (Annex 2).

- or to introduce new initiatives (Annex 3)

3 The aim of the package is to provide a flexible range of schemes which will meet the needs of the people who have been made redundant. Assistance is concentrated on those who might start up their own businesses and aims to meet their needs through advice, training, premises and financial support.

4 The package should be co-ordinated by a DE/MSC official located in one local organisation, such as the West Cornwall Enterprise Agency. Private sector involvement should be encouraged by expanding the coverage of the existing Falmouth Community Action Programme.

Tourism

- REU and West Country Tourist Board (WCTB) could make special efforts to encourage applications for section 4 grants but no further resources needed

- English Tourist Board (ETB) could be invited to consider possibility of setting up Tourism Development Action Programme (TDAP) in the area but no extra resources would be needed

- ETB could be asked to encourage WCTB to expand marketing of tourism in the area and look at new ways of selling West Cornwall eg through joint ventures with British Rail and the private sector. This would mean diverting resources from elsewhere in the region.

ANNEX 1

Existing schemes - extra resources for West Cornwall

1 Job finding advice - extra staff resources are needed to improve the job finding service and perhaps provide a mobile service. /Perhaps 2 or 3 staff/

2 Enterprise Allowance Scheme - additional needs could be met by transferring resources within the region.

3 Community Programme - Extra places could be provided in West Cornwall by switching 250 places within the region. Such places might concentrate on renovating workshops (to help new small firms) and environment schemes (to help tourism). Extra places might be provided by switching resources away from other regions

4 Training for Enterprise - more training, particularly enterprise training and training for skills could be used. For example, one possibility would be to provide a two day training facility for EAS entrants. The extra resources needed might amount to £100,000, and might be met by switching resources within the region.

5 Small Firms Service - extra resources could be put into the local SFS services. One possibility would be to increase the Business Development Services which include a free business check-up for small firms and which might, if appropriate, then refer firms on to the consultancy services available under the DTI's Business Improvement Services.

ANNEX 2

Existing schemes - rules changed to cover redundant tin-miners in West Cornwall

1 Enterprise Allowance Scheme

- redundant tin-miners will not qualify for EAS until the autumn since they are not eligible for benefit while getting wages in lieu of notice

- tin-miners could be made eligible for EAS by changing rules of eligibility so that they could enter EAS 8 weeks after being made redundant. Such wider eligibility would need to cover anyone made redundant in the area. This rule change would have to be agreed with the Treasury.

2 Job Clubs

- length of time on the unemployment count is a condition of job clubs too.

- redundant workers in West Cornwall might be made eligible for job clubs. Alternatively, a version of Restart courses might be given to the redundant tin miners together with a job club follow up - at the cost of extra staff /1 person/.

ANNEX 3 New employment initiatives in West Cornwall

1 Loans to small businesses. There is a need to provide small loans, between £1,000 and £10,000?, which are only provided with difficulty by commercial banks. Granting such loans would require an assessment system and finance. An assessement system might be provided through a panel of local businessmen, perhaps drawn from those involved in the Falmouth Community Action Programme. Such an assessment system would need to be separate from the SFS or West Cornwall Enterprise Agency (although perhaps follow-up counselling from either could be condition of such loan). Finance might be sought from RTZ for a loan fund on the Shell Enterprise model.

2 Small Workshops

Small workshops for start-up businesses are often cited as an essential part of encouraging the birth of firms. CP renovation of local authority workshops may help in West Cornwall English. Industrial Estates have a presence in the area but their requirements for rates of return means high costs for small workshops. DTI might subsidise EIE to provide small workshops in West Cornwall?

Also if DTI help to fund Control Data Corporation's plans for small workshops, some might be sited in West Cornwall?

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COMMERCIAL IN CONFIDENCE

EQBR

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1E 6RB

23 July 1986

Dear Paul,

ASSISTANCE TO RTZ's CORNISH TIN MINES file mtn DEN.

Thank you for your letter of 16 July seeking my agreement to Section 8 assistance to develop RTZ's tin mines in Cornwall. My officials have now discussed the details of this case with yours. I have therefore considered your proposal both in relation to the points raised in your letter and the more detailed information which emerged from that meeting.

The prospective closure of the RTZ Mines clearly presents us with difficult political and presentational issues. But, it is precisely these type of difficult cases where we need to be sure that proposals for spending public money meet the agreed criteria. On the basis of the information available to me I cannot accept that the RTZ project fulfils the Section 8 (or, indeed, Section 7) criteria. The key areas of weakness seem to be in relation to the viability of the project and the national economic benefit to be derived from the investment of public money.

As far as viability is concerned, this depends crucially on the world price of tin. While there is a reasonable expectation that the price of tin will eventually have to rise, the precise timing and scale of any increase are extremely uncertain. I understand from discussions between our officials that there is agreement amongst them that the price forecasts on which the RTZ project are based are optimistic. The viability of the project is, however, very sensitive to the tin price. Thus, if prices were, on average, £500 lower than forecast (a fluctuation of only 10 per cent) then the project is only marginally viable. The RTZ project is therefore of very doubtful viability.

COMMERCIAL IN CONFIDENCE

This is underlined by the condition which the company have imposed on their participation i.e. the right to review the tin price and progress with the project at the end of 1988 and to withdraw from further investment at that point if the price does not match up to original forecasts. This means that the Government is being asked to bear practically the whole of the risk of this investment in the crucial period of uncertainty over the future of tin prices. My officials suggested to yours a reduction and/or rephasing of the drawdown of the grants to match more closely the incidence of expenditure in line with the normal guidelines. I understand that RTZ were not prepared to accept any further risk exposure and would not agree. If RTZ were to decide to close down in 1988 then we would have effectively financed nearly the whole of RTZ's capital investment up to that point (some £21 million out of a total projected spend of £31.2 million up to 1990). Assuming the additional £5 million loan guarantee is called, the company's additional exposure at end 1988 would be only £4 million.

As far as national economic benefits are concerned, only if the top end of the range of price assumptions is achieved will there be any national economic benefits, valued at £3.1 million over the period 1986-2000. A 10 per cent across the board reduction in prices leads to a resource loss of £17.5 million.

There are no overriding industrial grounds for supporting the project. There is no strategic value to the metal, and the Cornish tin ores will remain in the country even if not used, and so will be available for future exploitation. I note in this connection that RTZ were prepared to reclaim Wheal Jane in 1980. So, provided that tin prices again reach levels which make Cornish mining economic, there is no reason why the ore should not eventually be exploited.

Against the above background, it seems clear that the project does not meet the criteria governing the use of Section 8 assistance. I understand that your officials have admitted as much in their meeting with mine.

This leaves the regional considerations on which you place considerable emphasis in your letter. I accept that the employment consequences of closure of these two mines are very significant as far as Cornwall is concerned. However, I would emphasise that they are no greater than in respect of the number of other very difficult decisions that we have faced in recent years. And even on the most optimistic scenario the cost per job safeguarded exceeds the Section 7 limits: a less than totally successful project would lead to cost per job figures double the agreed limits.

You say in your letter that you are unable to meet the costs for proposed assistance within your existing PES provision for Section 8. For the reasons set out in my letter of 11 July, I cannot accept this. If it is decided to give some measure

of assistance to RTZ then that project must either displace other Section 8 cases or be financed from savings elsewhere on your cash limited votes.

I am copying this letter to the Prime Minister, Geoffrey Howe, John Biffen, John Wakeham and to Sir Robert Armstrong.

Yours ever,

JOHN MacGREGOR

Trade; Tin; Pt 3



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
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(Switchboard) 01-215 7877

JU 7
Secretary of State for Trade and Industry

22 July 1986

CONFIDENTIAL

The Rt Hon Michael Jopling MP
Minister of Agriculture,
Fisheries and Food
Ministry of Agriculture,
Fisheries and Food
Whitehall Place
London SW1

Dear Michael.

RENEGOTIATION OF THE COCOA AGREEMENT

Thank you for your letter of 18 July bringing me up to date with progress in these negotiations. I have indeed seen the reports of a breakthrough on the price elements. As you say, there does seem to have been a significant climb down by producers.

I note, however, that a number of key issues have yet to be considered in the negotiations, and that among these are critical points concerning contingent liabilities and borrowing, and also the degree of participation in the agreement. On the first of these I understand that the EC has now accepted language put forward by our delegation which your officials consider satisfactorily meets our concerns to have no borrowing in the agreement and to circumscribe strictly any contingent liabilities. I am sure that we must hold firm on these elements in the subsequent negotiations with other consumers and then with the producers.

The question of participation has particular relevance in the light of the difficulties with non-participation of important producers in the International Tin Agreement. I was glad to see that you emphasise the need to secure guaranteed participation by producers accounting for 80% of exports of cocoa. As I understand it, this would mean that the Ivory Coast would have to

1786 1986 BOARD OF TRADE BICENTENARY

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join but Malaysia with its rapidly expanding production would not. You will no doubt have seen the press comment that the absence of Malaysia poses dangers for the operation of the buffer stocks on the lines of tin.

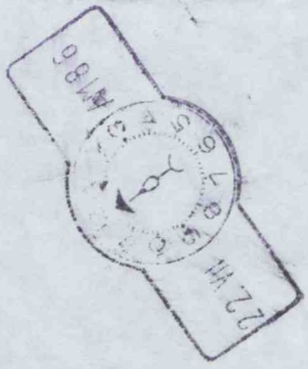
On the consumer side the target of 70% enshrined in the existing agreement reflects awareness that the US was most unlikely to join. It is, however, unsatisfactory that the Americans would simply stand aside in this case when their willingness to participate and compromise in the renegotiation on rubber is one of our main problems in securing improvements in that agreement. I do not suggest that we attempt formally to make either Malaysian or US participation a condition for the Community's willingness to join a new cocoa agreement but I do feel we should consider seriously whether these countries might not be persuaded to throw their weight behind an agreement, assuming one acceptable to us emerges.

I realise that, with the compromises over price which producers have already made, it will not be easy to get the conditions we want on other outstanding points. But we have to bear in mind the implications of these negotiations for our commodity policy as a whole as well as the forthcoming renegotiation of the rubber agreement.

In view of the general policy implications I am copying this letter to the Prime Minister as well as to Geoffrey Howe, John MacGregor and Sir Robert Armstrong. I understand that the Prime Minister and the Cabinet Office have received copies of your letter to me of 18 July.

PAUL CHANNON

1786 1986 BOARD OF TRADE BICENTENARY



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CONFIDENTIAL

MR NORGROVE

22 July 1986

CORNISH TIN: THE RTZ PROPOSAL

Despite the employment sensitivities, there are strong arguments for rejecting the DTI proposal for £15m grants and up to £10m guaranteed loans to keep open the RTZ tin mines. Firstly, the commercial viability of the project is highly questionable and, as currently structured, would leave the Government extremely exposed in the event of failure. Secondly, the granting of what, in these circumstnaces, would effectively be a subsidy for uneconomic operations, is not an efficient use of government funds and would create a dangerous precedent for government intervention in other declining industries.

Commercial Viability

The questionable viability of the Cornish tin mines reflects their relatively high production costs on a world scale - currently around £6,000-6,500 per tonne against a world range from under £4,000 per tonne (eg Brazil) to a few marginal mines at over £8,000 per tonne. The RTZ proposal envisages capital investment of £31.2m over the next 5 years to reduce the cost of production at Wheal Jane and South Crofty to £5,000-5,500 per tonne. This investment only has a commercial return under the assumptions put forward by RTZ that the price of tin rises from its current level of £3,910 per tonne to at least £6,500 per tonne in the early 1990s. In a free market, this implies sufficient demand to re-employ most of the existing high cost world capacity, with no significant development of new lower cost capacity in the interim.

Projecting the future price under these assumptions is obviously highly risky. A slightly less optimistic scenario which DTI economists accept as quite plausible (with the

price below £6,000 per tonne until 1994) produces results which are clearly unacceptable. Given these risks, the most telling point is RTZ's apparent lack of confidence in their own proposition, evidenced by the fact that:

1. They have made it clear to DTI that, in the absence of grants at the level requested (a minimum 50% of the expenditure), they would have no hesitation in closing the mines.

2. Their condition for proceeding is that the capital grant is loaded into the first two years, with an option for them to withdraw in 1988 if the viability then looks questionable. In this way their total exposure up to the review date is between £7m and £9m against a potential Government exposure (including loan guarantees) of £25m.

The absence of tight conditions for the project review in 1988 is particularly concerning since, in adverse market circumstances, it opens up the danger of the company applying continuing 'De Lorean' type pressure to raise the Government aid component to maintain employment and 'protect the prior investment'.

Precedent for Government Subsidy

If the commercial viability of the project is questionable, any Government aid must be viewed as primarily an employment maintenance measure. As such, the cost of the grant is not much higher than the gross cost of employing an equivalent number of people on the community programme for 5 years. However, if the project fails, there will have been much less contribution to permanent employment than a scheme aimed at retraining the long-term unemployed or supporting new enterprise development. Furthermore, it is not clear why this particular area should get special

treatment outside the normal budget for employment creation measures when factories and facilities are continuing to close in other high unemployment areas.

In addition, if the measure is seen as subsidising existing, non-viable jobs as opposed to stimulating new enterprise, the precedent could weaken the Government's whole argument on the need for restructuring the economy out of non-productive activity - and make it more difficult to hold the line, for example, on closing marginal coal pits where similar arguments could be made. To break the PES limits in such a situation would make the precedent even more damaging.

Conclusion

This project can only be backed with confidence in a situation where the agreement with RTZ has a substantially low grant element and a higher exposure for RTZ to underline their own management commitment. Unfortunately, DTI have made it clear that RTZ are unlikely to renegotiate.

In these circumstances, the Government should reluctantly turn down the proposal and position the closure as the inevitable consequence of a long run decline in Cornish mining - where employment has dropped continuously from a peak of 18,500 in the 1870s to only 1,500 before these closures.

Norman Blackwell

NORMAN BLACKWELL

SG/U66

CCBG

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6460
Switchboard 01-213 3000 GTN Code 213
Facsimile 01-213 5465 Telex 915564

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
1 Victoria Street
London
SW1H 0ET

NBPM.

21 July 1986

Dear Paul,

ASSISTANCE TO RTZ'S CORNISH TIN MINES

I have seen your letter of 16 July to John MacGregor and I hope that his reply to your proposal is favourable. As I mentioned at my meeting with you, it would greatly help if RTZ could provide some assistance to develop local enterprise and so cushion those redundancies which do occur. The clear need is to provide small loans to new businesses as Shell do in some areas. This does not require large scale finance but the Government does not provide such small loans under present schemes.

I would hope that this could be raised with RTZ before the present negotiations are complete.

I am copying this letter to the Prime Minister, Geoffrey Howe, John Biffen, John MacGregor, John Wakeham and Sir Robert Armstrong.

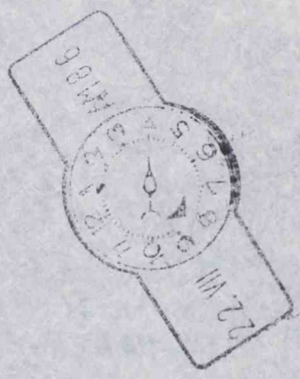
Yours,

Norman

TRADE

TIN

PT 3



Prime Minister

To be aware that, against all expectations, there is the prospect of a renewal of the cocoa agreement.

DEV
25/7

CONFIDENTIAL

The Rt Hon Paul Channon MP
Secretary of State for Trade & Industry
1-19 Victoria Street
London
SW1H 0ET

18 July 1986

Bad news

RENEGOTIATION OF THE COCOA AGREEMENT: GENEVA 7 - 25 JULY 1986

1. I wrote on 4 July about our line at this negotiating conference. It seemed then to be highly unlikely that the very tough EC line which we had been successful in securing could prove acceptable to producers.

2. However, as you will have noted from recent telegrams and press reports, a package has been put together on the price elements of an economic agreement which is in general very satisfactory. In particular our negotiating aims have been met on the level of the reference price, on the need to take account of currency fluctuations (all prices are to be denominated in SDRs), on provision for automatic price adjustments if there are rapid changes in the level of the buffer stock, and on the prices at which intervention can take place. All this represents a major climbdown by producers.

3. Nevertheless there are a number of other issues yet to be discussed in the conference some of them very important for us, including the need to avoid contingent liabilities, to have no provisions for borrowing and to secure a guaranteed participation by producers accounting for 80% of exports. These other points should be settled by 25 July when the conference must end. The UK view on these issues has been firmly registered in EC co-ordination by our delegation.

4. After the conference has finished and it is possible to take an overall view of the package on the table I will write again to colleagues with recommendations on the position we should adopt towards any draft Agreement. However, I thought you might find it helpful to be alerted now to the fact that after all the conference might reach a positive conclusion and one which is consistent with our negotiating aims.

5. I am copying this letter to Geoffrey Howe and John MacGregor.

MICHAEL JOPLING



CCB6

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215 5422
GTN 215) .....
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

COMMERCIAL IN CONFIDENCE

16 July 1986

(HORAM BLACKHALL)
Any PW comments
by tomorrow please (18/7).

The Rt Hon John MacGregor MP
The Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Dear John,

ASSISTANCE TO RTZ's CORNISH TIN MINES

As foreshadowed in my minute of 3 July to the Prime Minister, RTZ have put forward alternative proposals for support for their tin mining operations in Cornwall. I am now seeking your agreement to make an offer to RTZ of grant assistance of up to £15 million, together with a guarantee on loans of up to £10 million, to develop RTZ's tin mines in Cornwall.

In asking you to agree to this exceptional level of support, I have of course taken into account the points you raise in your letter to me of 11 July. RTZ's revised project will result in profitable tin mining operations in Cornwall in the 1990's, on reasonable assumptions about the recovery of the tin price from its current depressed level. If, as I expect, the project is successful, it will provide 860 jobs for a grant of £15 million. This needs to be compared with the Exchequer costs over the next five years of £21 million if the RTZ mines both close. I know the dangers of using Exchequer costs in this way, but the Select Committee on Trade and Industry have repeatedly emphasized the point and this was echoed by Cornish MPs in the debate in the House on 7 July. Alternative employment will be difficult to find, if the RTZ mines close, but I would not be recommending support for this project if RTZ and my Department did not consider that there were good prospects for viability once the present period of uncertainty over the tin price is past.

JF2BOL

1786 1986 BOARD OF TRADE BICENTENARY

COMMERCIAL IN CONFIDENCE

I set out below a description of the project and the case for support: my officials are ready to discuss the project in more detail with your officials.

The project is for RTZ's Wheal Jane mine to continue in operation and for South crofty mine to cease commercial production but to undertake a development programme with a view to starting up full production again in 1991. This project would secure 640 jobs between now and 1990 and potentially a total of 860 jobs from 1991 onwards.

The total capital required by the project would be £31.2m by 1990, and the company are seeking once and for all grant assistance of £15m and HMG loan guarantees of a minimum of £5m, and a maximum of £10m. The additional loan of £5m, and therefore HMG's exposure to a guarantee, would be drawn down at RTZ's option if their tin price forecasts for 1987 and 1988 (£4,500 per tonne) prove optimistic.

The commitment of RTZ's management to this project is impressive and we have little doubt that the company will be able to achieve the cost reductions sought and that, barring reductions in the forecast price of tin (which is where the risk lies), the project will be successful. Furthermore, under the ownership of RTZ the mines have access to funds and it is reasonable to assume that they would be protected against future short-term price falls which might arise.

This assistance cannot all be offered under Section 7 of the Industrial Development Act because Wheal Jane is just outside the Assisted Area. Hence our proposal to use the powers in Section 8.

We have considered the application carefully and have concluded that the regional, social and wider national case for providing the assistance is strong. The Select Committee stressed this also in their reports on the tin crisis. The large majority of tin miners concerned live in the Redruth-Camborne area, which like much of Cornwall has stubbornly high long-term male unemployment.

If the RTZ mines close, one man in every three in that travel-to-work area would be out of work, a rise of two fifths. The figure in Cornwall overall would rise from 21 per cent to 25 per cent. Only a few of the miners would be able to find different jobs locally and the costs in human and financial terms would be high and persistent. Elsewhere Cornish tin provides secure feedstock for RTZ's smelter on Humberside (another area of high unemployment) at a time when the smelter's other sources of supplies are at risk.

I would add that if skills in hard rock mining can be kept alive in

1786 1986 BOARD OF TRADE BICENTENARY

JF2BOL

COMMERCIAL IN CONFIDENCE

Cornwall, new metalliferous projects will be able to get going more easily when times are better, as there will be a pool of skilled workers to draw on.

As expected, the assistance to RTZ would be outside normal guidelines, and so require Treasury approval. Also, as I warned in my minute to the Prime Minister of 3 July, I cannot accommodate this support within my Department's budget. I realise how difficult it will be for you to agree to additional funds in advance of the PES round but the timing of RTZ's redundancy notices means decisions cannot wait. My total provision for Section 8 support is only about £10m a year and you will know from my PES bids that I have already offered up all my available offsetting savings. I cannot therefore proceed with an offer to RTZ unless you can agree to provide an additional £5m in 1987/88 and £10m in 1988/89. You will readily appreciate the political difficulties the Government would face if RTZ's application was turned down for budgetary reasons, when it was public knowledge that the Government was prepared to offer £50m - from the Contingency Reserve - to rescue the ITC. I also need your authority to enter into the loan guarantees of a minimum of £5m which could rise to £10m depending upon the price of tin. I should add that the approval of Parliament and possibly the EC Commission will also need to be sought.

In short, the tin mines in Cornwall have a high profile politically and the decision we make will be widely reported and commented upon, either favourably or unfavourably.

I should be grateful therefore if you would approve the proposed offer to RTZ and agree that the amount required should come from central funds, using contingency provision if necessary.

May I please have your reply as soon as possible and preferably by 21 July so that we can complete negotiations with RTZ in time before their workers' redundancy notices expire on 31 July.

I am copying this letter to the Prime Minister, Geoffrey Howe, John Biffen, David Young, John Wakeham and Sir Robert Armstrong.

Yours ever, Paul

JF2BOL

PAUL CHANNON

1786 1986 BOARD OF TRADE BICENTENARY

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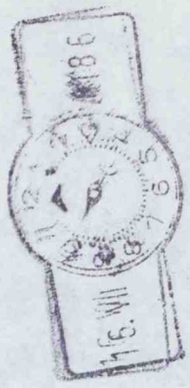

TRADE

TIN

PT 3

FCS/86/192

SECRETARY OF STATE FOR TRADE & INDUSTRY

Interdepartmental Review of Commodity Policy

1. John MacGregor sent me a copy of his letter of 9 July to you. I have also seen Michael Jopling's letter of 4 July on the same subject. It seems that we are all agreed on the report's main conclusions. But in the light of John's remarks, I should repeat that I agree with the new deregulatory approach that the report proposed. There is no difference between us on commodity agreements with market intervention provisions. We should certainly make our partners face the discrepancy between their performance during the tin crisis and their tendency to go soft on present and future commodity agreements. We shall accordingly work with you to convince our EC and other consumer partners of the merit of our approach; to avoid taking part in new agreements of this type (there are none in sight); and to resist the renewal of existing agreements unless they meet our strict criteria, even if this leads to some negotiations on renewal breaking down.

2. But I must take international realities into account. In my judgement, they affect both the substance of our new policies and the way in which we elect to present these. On substance I remain convinced that, to quote paragraph 1.15 (ii) of the report, "a deregulatory approach ... could also mean that we might need to put forward constructive proposals to meet developing countries' legitimate concerns". Paragraphs 3.7-3.10 and 9.8 are also relevant; the latter notes that officials now

/need

need to work up detailed proposals on both the substance and presentation of commodity issues. I agree. The resolution adopted at the UN Special Session on Africa also had much to say on the need for international support of Africa's development efforts and adjustment programmes. But world commodity prices are low and a sharp upward movement in them is unlikely: this affects not only UK exports but developing countries' ability to repay their debts to UK and other creditors. We therefore need to work up supportive policies for the developing countries around such general themes as structural adjustment and diversification; help for research and development, marketing, processing and distribution; and transparency of marketing operations. We should start clearing our minds about any measures and how they might be financed. IFIs and bilateral aid programmes are of course already active in many of these fields and we can seek to claim credit for what we and others are already doing.

3. John says that participation in study groups carries the risk of being drawn inexorably into further commodity arrangements, and in his letter of 9 July to you on tin, which I have just seen, refers to recent experiences with jute and bananas. Of course some producers would like more fully-fledged agreements. But I detect no sign whatsoever, in the current climate, that consumer countries are prepared to go down this road. We are in good company here: our partners may hesitate to follow us in being ready to sacrifice existing commodity agreements but they are not about to enter into new ones. I remain convinced that study groups can further market transparency and the deregulatory approach we all favour, and I am content with the recommendation in the report that we consider study groups on a case-by-case basis.

/4.

4. We have corresponded already about the very special case of a possible tin study group. I note that you and John are convinced that a study group would be of little value to the UK. I therefore agree that, given the attitude of others to the ITC's default, we should absent ourselves from any new tin group.

5. We now need to send instructions to our posts on our approach to commodity policy and to consider how far we can take advantage of our EC Presidency to steer Community thinking in the right direction. I am as ready as John to lobby our Community and other consumer partners. But I remain of the view that private pressure will be more effective than public statements; and that as Presidency we shall achieve more by persuasion than by confrontation. To take only the French, I see no point in allowing them to contest our new approach in public and to pose as the friends of the Third World in the run-up to UNCTAD. We shall achieve more by using our allies in the Finance Ministry and elsewhere to expose the hypocrisy of arguing for generous commodity agreements after what happened over tin.

6. As I see no fundamental difference between us on the issues the paper has raised, I suggest that there is no need for a meeting on this subject.

/7.

7. I am copying this minute to the Prime Minister, the Attorney General, members of E(A), the Governor of the Bank of England and Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

15 July 1986

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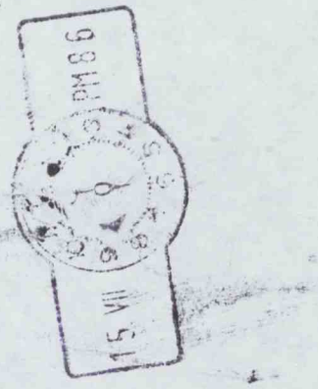

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ccBG

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

Tel No: 233 3299
7471

14 July 1986

The Rt Hon Paul Channon MP
Secretary of State for Trade and
Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1 0ET

NBPN

Dear Paul.

UK COMMODITY POLICY

Thank you for sending me a copy of your minute of 30 June to the Prime Minister. I have also seen the subsequent letters to you from Michael Jopling and John MacGregor, and the minute from Geoffrey Howe.

I share the view of others that we should now adopt a deregulatory approach. But, as is made apparent in paras 1.15 to 1.17 of the Review, there are important practical consequences of this view for our handling of the run-up to UNCTAD VII. Geoffrey is right to warn of the pressures in maintaining the credibility of our response to the economic problems of developing countries. But we should not pretend that the problem can be tackled or alleviated by way of price intervention; nor should we disguise the pressing need for structural change in the economies of many developing countries.

The UK's Presidency is an opportunity to persuade others towards our view on the underlying economic argument; and to reduce the "lip-service" which is given to the regulatory approach. This will both help to reduce the pressure on us, and avoid our becoming isolated on the issue. At the same time, however, we should be clear about the parallel need for efforts to liberalise trade and to promote the economic changes which are the alternative for developing countries to their now-invalid dependence on primary products.

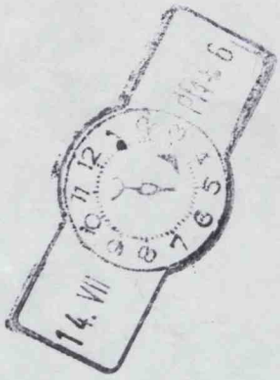
I agree with John MacGregor that it may well be desirable to have an early Ministerial discussion of the issues raised.

I am sending a copy of this letter to the Prime Minister, Geoffrey Howe, members of E(A), Michael Havers, Robin Leigh-Pemberton, and to Sir Robert Armstrong.

Yours ever,

NORMAN TEBBIT

TRADE: Commodity Policy: Pt 3.



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Prime Minister

It seems likely that that the Treasury will resist strongly the assistance to RTZ which Mr Channon proposed.

DRN 11/7.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London SW1

11 July 1986

Dear Paul,

TIN: CORNWALL

I have seen a copy of your minute of 3 July to the Prime Minister, reporting on negotiations with RTZ and Geevor on possible regional assistance packages to maintain some tin production in Cornwall. I have also seen her Private Secretary's acknowledgement.

While I appreciate the difficulties for the region that the loss of this production would create, I am very concerned at the possible expenditure implications of the developments outlined in your minute. As you make clear, it is unlikely that assistance to RTZ or Geevor would meet the normal criteria of viability. Moreover, the level of assistance required to maintain any significant production at the RTZ mine would involve payments well above normal cost per job limits.

You also say that you are unlikely to be able to accommodate the costs of the assistance package within your existing departmental budget. This is against a background of a substantial forecast overspend on regional assistance for 1986-87 and a bid for additions to the PES baseline for next year on which I have already written to you. The normal rules for considering assistance require:

(i) a very thorough and searching scrutiny, with which I should expect my officials to be closely involved, to ensure compliance with RSA/RDG criteria in respect of cost per job, viability etc. From the information in your minute there must be serious doubts about the viability of supporting an investment which can only produce tin profitably at a price some 50 per cent above the current market level;

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(ii) the costs of any package should be contained within your department's baseline; and

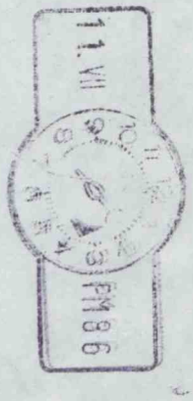
(iii) to the extent that there are wider arguments for exceeding cost per job guidelines, any grant should be subject to the conditions laid down in my letter to you of 24 October 1985 - ie a reduction in cash limited expenditure equivalent to the amount by which the proposed grant exceeds the maximum permitted under the guidelines. You will recall that this requirement was specifically endorsed by the Prime Minister (her Private Secretary's letter to yours of 28 October 1985.)

For the reasons given in your minute I cannot see that it is at all likely that a proposal to assist the Cornish tin mines would satisfy these conditions.

I am copying this letter to the Prime Minister, Geoffrey Howe, John Biffen, John Wakeham and to Sir Robert Armstrong.

Yours ever,

JOHN MacGREGOR



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CIBS

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Secretary of State
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1E 6RB

NBPN

9 July 1986

Dear Paul,

FUTURE ARRANGEMENTS FOR TIN

I have seen your letter to Geoffrey Howe of 20 June and his reply of 27 June on the question of participation in an international Tin Study Group.

I have already expressed my own scepticism about our membership of such a group (my letter of 2 June) though leaving you to judge the merits. The review of commodity policy to which Geoffrey refers suggests that UK participation in study groups should be decided on that basis. Your view is that a Tin Study Group would prove of doubtful value to the parties involved (including our own industry). Moreover, as the commodity review suggests, we must be vigilant to prevent any study group in the commodity area assuming new contingent liabilities or providing a focus for the re-growth of economic provisions. Recent experience for example with Jute and Bananas shows how groups once established can point the discussion and focus pressure towards agreements with economic provisions. There is no need to open up this possibility for tin.

As you suggest in your letter, we also need to consider what signals we would be sending out in the wider context of commodity policy. Following the current exchange of correspondence, we may yet need to spend more time considering each other's views on the interdepartmental study. But it seems to me that to refuse participation in this Study Group provides a most opportune way of signalling that we are prepared to look case by case with a new eye at any individual proposal in the commodity area, and that our support for old dogmas should not be taken for granted. This is surely the least that a new approach to commodity policy arising out of the tin crisis ought to entail. Given the history of the tin episode, the risks of causing offence are minimal.

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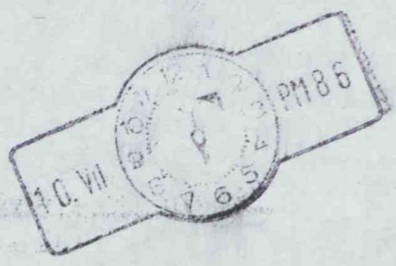
I therefore support your view that we should state as early as possible that the UK does not wish to participate in any future arrangements related to tin. Quite apart from the signals, the International Tin Study Group seems to have no useful purpose; and we should also bear in mind the special implications of any actions we take in the tin area for the time being.

I am copying this letter to the Prime Minister, Geoffrey Howe, Michael Jopling, Michael Havers, Robin Leigh-Pemberton, (Bank of England) and Sir Robert Armstrong.

Yours ever,

JH

JOHN MacGREGOR



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CC BG



Treasury Chambers, Parliament Street, SW1P 3AG

NBPM at this stage

The Rt Hon Paul Channon MP
Secretary of State
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1E 6RB

9 July 1986

Dear Paul,

UK COMMODITY POLICY

You sent me a copy of your minute dated 30 June to the Prime Minister on commodity policy, together with the interdepartmental review report. I have also seen Geoffrey Howe's minute of 3 July. The exercise has provided a welcome opportunity to work out the implications of the tin crisis for future policy towards commodity agreements, and to consider commodity policy against current developments in international economic relations, in particular relations with developing countries.

I very much share your conclusion that a change is now needed, and that the balance of UK interest lies in letting markets operate as opposed to intervention. I therefore fully endorse the conclusions in paragraphs 1.7 - 1.13 of the review, which are consistent with the line we are taking on other international economic issues e.g. international debt, and take account of experience over tin and more broadly. Commodity agreements represent an outdated response to the problems of world development. We have moved on into a period which demands positive adjustment by the ldcs themselves, which is inherent in the Baker Plan. We also need to be alive to the risk of incurring contingent liabilities about which the Prime Minister has recently reminded us. The guidance in Annex F to the report will serve as a valid reminder of what this entails.

On handling, I think the report is right in endorsing the deregulatory approach; the "lip-service" alternative would not only be dishonest, but would hamper any attempt to persuade others to adopt the course we think right. We should not - I suggest - play this down too far. Commodity policy in future must be judged by whether it is deregulatory in purpose and

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Movements in Vol. of Trade: TRADE PT3.

effect, or not. And we should be prepared to say so publicly on occasion. I do not deny that tactical considerations may sometimes entail a cautious approach. But I am concerned at the tone of Geoffrey Howe's letter, which implies that we should modify our basic position in international negotiations. It seems to me that this runs the risk of being drawn inexorably into further commodity agreements - for example through participation in study groups - despite the recommendations of the review. It was precisely this wish to speak softly to the other countries, and to avoid giving offence, which got us into such a mess on tin. If others were to suggest using the contribution to the Second Window pledged from ODA funds in the way Geoffrey suggests we would obviously need to consider this bearing in mind all the pressures on the Aid Programme.

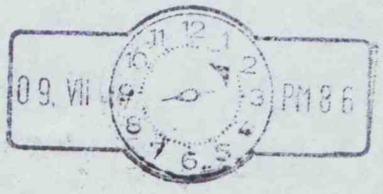
Handling issues will come up in the cocoa renegotiations later this month and rubber renegotiations in October. Although the competence of the Commission may constrain what we are prepared to do unilaterally, this makes it all the more important to sell our approach effectively to EC partners. (It may also be appropriate to consider whether the EC presidency gives us any special opportunities to do this). Since officials will need clear instructions on the line to take, and since I suspect there is some difference between the line you propose and that favoured by Geoffrey Howe, an early Ministerial meeting may be desirable.

I am copying this letter to the Prime Minister, members of E(A), Geoffrey Howe, Michael Havers, Robin Leigh-Pemberton,(Bank of England) and Sir Robert Armstrong.

Yours ever,

JOHN

JOHN MacGREGOR



cc B/G
& return
please

CABINET OFFICE

B/F with the report in
two days I asked for

With the compliments of

that please

J. B. UNWIN

70 Whitehall, London SW1A 2AS
Telephone 01 233

66/7

Mr Wiggins

c. Mr Norgrove

No 10.

CC 69

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Qz.05172

This confirms our view that the Chancellor's proposals are broadly acceptable & that there is no cause for the Prime Minister to be advised to intervene against them

MR UNWIN

UNITED KINGDOM: COMMODITY POLICY

The Secretary of State for Trade and Industry has now sent forward to the Prime Minister the report of the interdepartmental policy committee which has reviewed United Kingdom commodity policy. I consider that the policy proposal in this document - with the gloss given by the Foreign and Commonwealth Secretary in his minute of 3 July - is feasible within the Community. It would be realistic, however, to recognise that a harsher line on commodity agreements, particularly those with market intervention mechanisms, is likely to increase pressures for wider application of compensatory finance arrangements. This point is recognised in paragraph 8.8 but is not fully reflected in the conclusion at paragraph 1.13. I do not think that this is simply a question of the line which we might take in UNCTAD. The most likely development is that we could cut back support among member states for interventionist commodity agreements but are less likely to simultaneously get unanimous support within the Community for a very restrictive line on compensatory finance.

7/VII

From the point of view of the Community's agricultural and import policy the new deregulatory approach will put a certain spotlight on any import restrictions. It is worth keeping in mind, however, that the Community is by far the largest importer of agricultural products from developing countries and a very large percentage of those imports enter free of any duty or levy. Of the 18 products in the UNCTAD integrated programme for commodities only 2 agricultural products are subject to import restrictions for protectionist reasons

and of these one, sugar, is subject to a special regime providing access for a considerable quantity of cane sugar from developing countries.

D F Williamson

D F WILLIAMSON

7 July 1986

10 DOWNING STREET

From the Private Secretary

7 July, 1986.

Dear Mike,

TIN: CORNWALL

The Prime Minister was grateful for your Secretary of State's minute of 3 July on the latest position on Cornish tin.

I am sending copies of this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Lord Privy Seal, the Chief Secretary, the Chief Whip, and Sir Robert Armstrong.

Yours,

David

(David Norgrove)

Michael Gilbertson, Esq.,
Department of Trade and Industry.

Prime Minister 2

To be aware that the review of commodity policy is now in. It looks a sensible piece of work. I suggest await the comments of others before you intervene.

DRN 4/7.

Para 1.15 of the report sets out the preferred option (flagged).

PRIME MINISTER

4 July 1986

EEC would go the wrong way

UK COMMODITY POLICY

1. The DTI proposals on UK Commodity Policy represent a major shift in policy to introduce the Government's general principles of free market operation into international commodity trading. We believe this change is essential to avoid building another hugh CAP-type problem and, while recognising the international aspects, would urge you to resist the Foreign Office desire to fudge the issue at this stage.

2. The essence of the DTI proposals are to persuade our EEC partners to join us in withdrawing support for UNCTAD's Integrated Programme for Commodities (IPC). The main programmes under IPC are:

(1) Operation of price stabilisation programmes for certain commodities, including the purchase of 'buffer stocks' or operation of export quotas. (Agreements to date have covered only Rubber, Cocoa, Tin and Coffee - the last without buffer stocks.)

(2) Financing of research and development programmes aimed at expanding markets for commodities.

(3) Provision of compensating finance for shortfalls in export earnings (as distinct from prices).

3. Recent experience with Tin as well as with the CAP makes it evident that, from an economic viewpoint, such agreements are dangerous and unworkable. Rather than stabilising prices, they inevitably lead to prices being fixed above the market clearing level, and create a situation where producers are encouraged to overproduce - building up a surplus stockpile which sooner or later forces painful and costly adjustment. Furthermore, the high reward for commodity production will tend to focus resources in these countries even more on commodities - inhibiting the needed diversification of their economies into other areas. These agreements are therefore certainly not in the interests of consuming countries and neither are they in the long-run interest of producing countries. The development of financial markets offering futures contracts provides a far more effective way of providing near term price security, while ensuring long-term market adjustment.

4. A shift in position on commodity agreements must recognise, however, that the LDCs will view the price guarantee element of these schemes as an implicit form of aid. For many countries which are heavily dependent on commodity earnings, these agreements have a very high economic and political significance. Furthermore, as the paper itself and Geoffrey Howe's note both point out, the current low price of most commodities means that many of these countries now have significant debt burdens.

5. As with the CAP, however, the answer is not to fudge the issues or seek meaningless consensus language; unless we get the issue on the table, we may find ourselves drawn into agreements we do not want - or find ourselves having to back down on recently agreed commitments. Instead, we should make clear our objectives and seek the co-operation of the EEC and the LDCs in working towards better solutions. Put crudely, if the developed countries are agreed that it is desirable to financially assist commodity-dependent LDCs there are more direct, efficient - and probably less corrupt - ways of doing it than through subsidising commodity cartels.

6. We recommend, therefore, that the Government should make clear its view on the need to deregulate commodity markets but - to avoid a backlash - should ensure that it presents this as 'part of a consistent approach to the Third World'. One way to achieve this could be to pursuade the EEC to set up a working group to make recommendations on actions the EEC could take to assist these countries outside of commodity market intervention. In particular, this group would need to consider:

We should need to ensure that this could not turn into an aid lobby. It seems a dubious idea.. Z

- the effectiveness of the futures markets as a primary trading vehicle;

- the links between deregulation on commodities and general tariff reductions in GATT;

- direct ways of assisting these countries in achieving structural adjustment to reduce their dependence on commodities.

In this way we could preserve a helpful but more rational approach to the problems of LDCs, while avoiding the pitfalls of further commodity agreements.

Norman Blackwell

NORMAN BLACKWELL

CCBG

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

CONFIDENTIAL

The Rt Hon Paul Channon MP
Secretary of State for
Trade and Industry
Department of Trade and Industry
1 Victoria Street
London
SW1

4 July 1986

Dear Secretary of State

UNITED KINGDOM COMMODITY POLICY

Thank you for sending me a copy of your minute of ~~30~~ 27 June to the Prime Minister, covering the review which officials, including my own, have conducted into the whole range of commodity policy questions.

My particular concern is with commodity agreements, a fair number of which actually or potentially fall under my responsibility. I can confirm that the conclusions set out in Part I of the Review make sense in the light of my experience of such agreements and are acceptable to me as policy objectives. I agree with you that we need to be careful in how we present our policies if we are to have maximum effect. Further the possibilities are significantly circumscribed by the EC dimension as the paper shows. Inevitably circumstances vary and probably we will need to look into the arguments in depth on each occasion a proposal is made. This in no way detracts from the desirability and usefulness of having identified objectives of principle beforehand.

The review recommends that where Ministers have recently approved mandates for negotiations, as they have done for natural rubber and cocoa, these should stand. I am sure this is right. I have never had any enthusiasm for a new Cocoa Agreement and we have in effect anticipated the line more recently adopted for rubber and now recommended generally by the review. I will be writing to

/ you separately to ...

TRADG Movements in Volume PT3

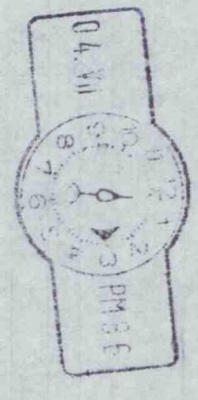
you separately to bring you up to date on the detail.

I am copying this letter to the members of E(A), the Foreign and Commonwealth Secretary, the Attorney-General, the Governor of the Bank of England and Sir Robert Armstrong.

Yours Sincerely

C Henderson

for MICHAEL JOPLING
(Approved by the Minister and signed in his absence)



OR.

CCBO

CONFIDENTIAL

Prime Minister 2

The prospects for keeping open any one RTZ mines, even on a reduced basis, look poor.

DCR
4/7

JU753

PRIME MINISTER

TIN: CORNWALL

You may wish to know the position we have reached on the applications by RTZ and Geevor for assistance to continue their tin operations in Cornwall.

RTZ

2 RTZ were advised by my officials on 24 June that the Government would not provide the full support requested in the company's detailed application for assistance received on 6 May. This application sought grants of £26 million and Government guaranteed loans of £33 million to finance the development of the company's two mines in Cornwall, Wheal Jane and South Crofty. An indicative offer of £11.5 million grant was made to RTZ to support the development of South Crofty mine, but the RTZ representatives flatly rejected this and suggested that if the full support which they had requested was not forthcoming, the only option might be to close down both RTZ mines in Cornwall, with the loss of about 900 jobs.

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CONFIDENTIAL

3 RTZ have taken the position that the company will put no more of its own money at risk in its Cornish tin operation. RTZ have written off the assets of the Cornish tin mines, given all the workers redundancy notices which expire on 31 July, and have made provision for the redundancy and closure costs. The reasons for these moves are all too evident. The price of tin has remained below £4,000 per tonne for several months, compared with over £8,000 before the collapse of the ITC last October. RTZ are losing about £3,000 on every tonne of tin they produce, and their losses are currently £1 million a month. RTZ consider that both Wheal Jane and South Croft mines could operate profitably at a tin price of £6,000 a tonne, but in order to reach this position a great deal of capital investment is required, particularly at South Crofty.

4 As an alternative to complete closure of their mines, RTZ are now preparing alternative proposals to maintain some tin production, but at a reduced rate, and some further development of the mines, over the period to end 1988, as a way of keeping options open for expansion of tin production on a commercial basis if the tin price has risen sufficiently by then. RTZ have agreed to provide us with outline proposals by 4 July, and will discuss them with officials on 7 July. RTZ have indicated that these alternatives could (depending on the option) preserve

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between 25 and 60 per cent of the 900 jobs at RTZ's mines. The costs at perhaps up to £20 million would be very much lower than that of the RTZ original application. A substantial proportion of the sum would need to be financed by loans rather than grants. It may be possible to negotiate with RTZ a package of assistance which would maintain some production jobs in Cornwall. I am not, however, confident that a cost effective package can be agreed.

5 There is therefore a real possibility that tin production in Cornwall will cease from 1 August, if we cannot negotiate an acceptable arrangement with RTZ. In any case it is clear that assistance to RTZ would be outside normal guidelines for assistance, and would require separate approval by Treasury and probably by Parliament and the EC Commission. It is also unlikely that I would be able to accommodate any exceptional support which was agreed with RTZ within my Department budget.

GEEVOR

6 The Geevor mine ceased production early in April and most of the workers were made redundant earlier this month following rejection of a £20 million proposal for grant aid for development of the mine. The £1 million package of assistance (Business Improvement Services) to help develop alternative employment in

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the area, agreed in earlier correspondence with the Treasury, was implemented on 1 July.

7 Geevor has a new Chairman, Mr Nassar, a businessman with interests in Nigeria who bought an 18 per cent stake in the company in February. He has retained a small team at the mine and so far kept the pumps going. He believes that Geevor could produce tin economically if the price rises to £6,000 a tonne, but recognises that there is no commercial logic in mining tin at current low prices. He is seeking limited assistance towards the cost of maintaining the mine in a state which would enable it to reopen in a few years time, if the price of tin rises sufficiently to make it economic to do so.

8 More immediately Mr Nassar has asked the Government to provide half the £300,000 further finance needed to keep Geevor on care and maintenance while longer term options are investigated. Mr Nassar was told on 2 July that the DTI would not provide the £150,000 requested, because we could not see a viable project emerging. However, given the strength of his conviction that he could cut costs, we offered to pay for a consultant to study long term plans for Geevor over the next few weeks. Mr Nassar's reaction is awaited.

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9 I am copying this to Geoffrey Howe, John Biffen, John MacGregor, John Wakeham and Sir Robert Armstrong.

PC

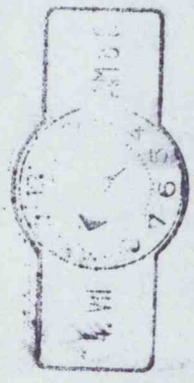
PAUL CHANNON

3 July 1986

Department of Trade and Industry

1786 1986 BOARD OF TRADE BICENTENARY

999-49



CCBG

PV comments in the
interest by the week-end
please.

FCS/86/176

SECRETARY OF STATE FOR TRADE AND INDUSTRY

Interdepartmental Review of Commodity Policy

FLEWITH DRN

1. Thank you for sending me a copy of the very thorough report attached to your minute of 30 June to the Prime Minister.

2. Most consuming countries, and even some producers, would agree that the Integrated Programme for Commodities has failed to achieve its objective in the 10 years since it was adopted. I therefore agree that we should adopt a new, deregulatory, approach as advocated in paragraph 1.15.

3. But deregulation is not a panacea. It also contains risks: as you say, we need to safeguard our wider trading interests, and to carry our Community partners with us. Presentation is also important, especially at a time when commodity prices are so low (copper and lead prices relative to manufacturing prices are said to be lower than in 1930), with little prospect of early improvement.

/4.

4. The developing countries face a serious problem. Low commodity prices retard their economic progress. This diminishes their ability to buy essential imports and to service their substantial debts. In both cases, we in Britain stand to lose. Structural adjustment and diversification of economies are the classic response, and an increasing number of countries are reaching agreement with the IMF. But the benefits of adjustment are neither instant nor even; not all countries are able to diversify; and even when diversification has been achieved, many developing countries' manufactured products meet tariff barriers and other constraints on market access.

5. In arguing for deregulation, therefore, we run the risk of not being able to deliver what we advocate. We can deploy the argument that the UK favours liberalisation of the MFA and has been vigorously advocating the new GATT round as a means of securing tariff reductions and progressive removal of other restrictions. But not all our EC partners (France, for example) support our position. It will in any case be three or four years before the GATT negotiations result in any agreement. In the meanwhile our credibility in the eyes of Commonwealth primary producers will be at stake in negotiations on individual commodity agreements.

6. I therefore advise against undue public emphasis on the outcome of our review: this would complicate our EC Presidency role and stiffen the resistance of others. We must continue to put forward our economic arguments, but in private, not public.

/7.

7. Opposition to existing arrangements will be more acceptable if it can be coupled with positive action to assist primary producers in the short term. Study groups and commodity agreements without market intervention provisions are good examples: they help to improve the transparency of market operations and thereby to reinforce deregulation, and the costs of participation are usually low. I believe that we should favour such agreements provided that the fine print is satisfactory.

8. There will be pressure from other governments (in particular those within the Community) for us to join in giving assistance, in accordance with our public commitment to contribute to the Second Account of the Common Fund, to research and development, market promotion, processing and distribution. This would at least have the virtue of being sensitive to the views of the primary producers, and be consistent with our own market-oriented approach.

9. The developed countries will want to make much of structural adjustment at UNCTAD VII, as they did at the recent UNGA Special Session on Africa. This means that domestic policy reform in developing countries will assume a higher profile. But such reforms need to be encouraged by domestic reforms in developed countries too (including adequate resource flows and liberalisation in GATT). We acknowledged this at the UNGA Special Session on Africa, and committed ourselves "to making every effort to provide sufficient resources to support and supplement the African development effort".

/10

10. To sum up: I am sure that the right approach for us is to devise a positive set of policies based on sound economic argument, persuade our Community partners to adopt them, and with them seek to influence the developing countries. Meanwhile UK representatives at international meetings, especially during our Presidency, should not hold out unreasonably against consensus language similar to that which we joined at, for example, the UNGA Special Session on Africa. To do so would detract from our longer term effort to promote deregulation.

11. I am sending copies of this minute to the Prime Minister, the Attorney-General, members of E(A), the Governor of the Bank of England and Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

3 July 1986

TRADE

TIN

PT 3

JU744
Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215 5422
GTN 215) .....
(Switchboard) 01-215 7877

2 July 1986

CONFIDENTIAL

Alison Smith
Private Secretary to the
Lord Privy Seal
Privy Council Office
Whitehall SW1A 2AT

TF
Looks OK.
DCN
2/7.

Dear Alison,

TIN DEBATE: 7 JULY 1986

I attach a copy of the suggested Government Motion for this debate. It has been cleared by my Secretary of State.

Given time constraints, I fear I shall have to ask for any comments you or other copy recipients may have, by 11.00am. tomorrow morning, Thursday 3 July.

I am copying this letter and attachment to David Norgrove (No 10), Joan McNaughton (Lord President's Office), Robert Culshaw (FCO), Jill Rutter (Treasury), Ivor Llewelyn (MAFF), Paul Thomas (MPO), Murdo McLean (Chief Whip's Office), and Michael Stark (Cabinet Office).

Yours ever,
Michael

MICHEAL GILBERTSON
Private Secretary

Enc

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999-1

MOTION FOR TIN DEBATE

That this House endorses the Government's response to the Report of the Trade and Industry Select Committee on the Tin Crisis; regrets the difficulties brought upon the Cornish tin industry, the International Tin Council's creditors and others as a result of the failure of the International Tin Council to reach agreement with its creditors despite the considerable efforts made by the Government, and welcomes the Government's package of measures to help employment in Cornwall.

CONFIDENTIAL

PRIME MINISTER

UK COMMODITY POLICY

I am now able to send you the results of the review of UK commodity policy. This was undertaken in the light of the tin crisis, and it deals particularly with commodity agreements aimed at stabilising prices. But it also covers other important aspects of commodity policy like the UNCTAD Common Fund and compensatory finance.

2 Part I summarises the report and its conclusions. The most important recommendation is that we should change our traditional willingness to go along with intervention in markets as a means of helping developing countries. We must ensure that the lessons of the failure of the tin agreement are fully taken into account in commodity negotiations. I recommend that we should adopt this new approach.

3 It will be important, however, that this is done in such a way as not to endanger our wider trading interests, especially our exporting interests in such commodity-producing countries as Malaysia and Indonesia. Other developed countries, including a number in the Community, will be only too happy to exploit to their commercial advantage any over-exposure on our part on this issue. We will need to be subtle in our approach, to achieve our aims without getting into unnecessary difficulties.

JF4ACE

999-49

CONFIDENTIAL

4 The paper brings out that for all practical purposes we have to carry the Community with us. This is both an advantage and a disadvantage. It means that to some extent we can shelter behind a Community position rather than expose ourselves to criticism, and possible retaliation, from commodity-producing countries. We shall need to work hard to convince the other Community countries to go along with our line. This will be difficult. It will also take time. Nonetheless, as we agreed on rubber, we must make every effort to bring Member States and other western countries to accept our approach.

5 I am copying this letter and the enclosure to members of E(A), the Foreign Secretary, the Attorney General, the Governor of the Bank of England and Sir Robert Armstrong.

PC

PAUL CHANNON
30 June 1986

DEPARTMENT OF TRADE AND INDUSTRY

JF4ACE

999-49

VCCBG

Foreign and Commonwealth Office

London SW1A 2AH

From the Secretary of State

27 June 1986

NBPN.

Dear Paul

Future Arrangements for Tin

Thank you for your letter of 20 June. It is encouraging that the ITC has recommended against a 7th International Tin Agreement, and has decided that any future international cooperation on tin should take place outside the framework of the 6th International Tin Agreement and its Council. This suggests that the lessons of the 6th ITA have been well learnt.

I remain doubtful about the wisdom of announcing now that we do not wish to take part in something as innocuous as an international tin study group. We shall be considering our attitude to traditional components of commodity policy in the interdepartmental review, which I understand is virtually complete. There are difficult problems and priorities to be weighed. I believe that, at least until we have taken decisions on the basis of the review, we should join in exploratory discussions of non-economic arrangements and reserve our opposition for proposals clearly contrary to overall UK policy and interests. I hope therefore that you will feel able to instruct the UK representative to express scepticism about a tin study group but to keep our options open.

/I

The Rt Hon Paul Channon MP

I am copying this letter to the Prime Minister, the Chief Secretary, the Minister of Agriculture, Fisheries and Food, the Solicitor General, the Governor of the Bank of England, and to Sir Robert Armstrong.

GEOFFREY HOWE

TRADE : TIN : PE3.

CONFIDENTIAL FILE

DA
(02)
bc BG
PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

25 June 1986

INTERNATIONAL NATURAL RUBBER AGREEMENT: RENEGOTIATION

The Prime Minister has seen your letter to me of 23 June about the renegotiation of the International Natural Rubber Agreement and has noted the Foreign Secretary's views.

(DAVID NORGROVE)

R.N. Culshaw, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

ECL

CC BG PF

Foreign and Commonwealth Office

London SW1A 2AH

23 June 1986

Dear David,

Prime Minister!
Agree to note the Foreign Secretary's views?
DRN 24/6.

Yes no

International Natural Rubber Agreement: Renegotiation

The Foreign Secretary has seen your letter of 12 June at Flap to Michael Gilbertson about the renegotiation of the International Natural Rubber Agreement.

He shares the Prime Minister's lack of enthusiasm for commodity agreements and agrees that Ministers should take appropriate opportunities to ensure that their Community colleagues understand the UK's position. There will be opportunities for this in the margins of the European Council, at the July Foreign Affairs Council and in bilaterals, although as always we must be careful to distinguish between UK national positions and (after 1 July) our Presidency role.

Like the Secretary of State for Trade and Industry, however, Sir Geoffrey Howe believes that we must face the possibility that our Community partners, and indeed the United States, will be ready to accept the renewal of this particular agreement without all the amendments that we have hitherto identified as necessary. In these circumstances it would be extremely difficult for us to refuse to join the new Agreement, for the reason set out in paragraph 3 of the Secretary of State for Trade and Industry's minute of 4 June. Sir Geoffrey Howe therefore considers that, while we should continue to urge our amendments upon our partners, we should not use up too much credit in attempting to persuade them to adopt every aspect of our own approach. He believes that, at some stage in September, Ministers will need to review the prospects for the third session of the INRA conference, in order to decide how hard to continue to press the various improvements that we seek.

Yours ever,

(R N Culshaw)
Private Secretary

David Norgrove Esq.
PS/10 Downing St

TRADS Movements in Volume PT3

DRN. See letter from you to DTI
See letter 12/6/86 (Cat Flap) –

I spoke to DTI today. They advised that the reply will be contained in the European Council briefing provided by Foreign Office.

Thanks.

Gaynor
23 June 1986

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215)
GTN 215) 5422
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

CONFIDENTIAL

20 June 1986

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs,
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

NBPM.

Dear Geoffrey,

FUTURE ARRANGEMENTS FOR TIN

Thank you for your minute of 2 June. I have also seen the letters of 2 June from the Chief Secretary and the letter of 3 June recording the Prime Minister's views.

I accept that as you state in paragraph 5 of your minute there are wider questions to be taken account of in considering our attitude to future arrangements for tin.

I also accept that study groups do not have the same potential to incur contingent liabilities as commodity agreements with economic provisions. However, I am far from convinced that a tin study group would bring about any very notable benefits either to the participating countries or to the industry concerned.

I therefore believe that on balance the advantage in this case lies in our stating from the outset that we do not wish to take part in any future arrangements on tin. This would have the advantage of underlining our view that a radical rethink of commodity policy is required, and it might induce others who would otherwise be reluctant to speak out, to do so on the same lines.

I therefore propose to instruct our representative that when this subject is discussed in Brussels, we should state that the

JF1BEE

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UK does not wish to participate in any future arrangements relating to tin.

You may also like to know that at its session held from 29 May to 4 June, the International Tin Council passed a resolution recommending to members that it would not be necessary or appropriate that there should be a 7th International Tin Agreement. In making this resolution the Council noted that the question of the extension of the 6th International Tin Agreement was a separate matter and was being separately considered by the Council. The Council also decided that any future international cooperation on tin should take place outside the framework of the Sixth ITA and its Council. Such cooperation should not include market intervention measures.

As I said in my letter of 28 May, I regard it as important that we should if necessary for legal reasons be able to keep the 6th International Tin Agreement and/or the International Tin Council in being after the Agreement is due to expire on 30 June 1987. Lawyers from our Departments are carefully considering this point with the Treasury Solicitors in the context of the UK possibly being sued on a joint and several basis.

I am copying this letter to the Prime Minister, the Chief Secretary, the Minister of Agriculture Fisheries and Food, the Solicitor General, the Governor of the Bank of England, and to Sir Robert Armstrong.

PAUL CHANNON

JF1BEE

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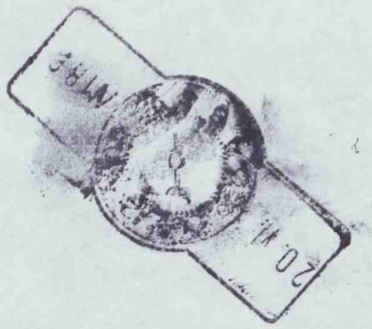
TRADE Movements in Volume PT3



CONFIDENTIAL

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

13 June 1986

TIN: RTZ APPLICATION FOR ASSISTANCE

The Prime Minister was concerned to see from yesterday's briefing for Parliamentary Questions that RTZ's application for assistance for its Cornish tin mines could take a month or more longer to process. The Prime Minister believes that this application should be processed with all possible speed so that the uncertainties can be ended.

(David Norgrove)

Michael Gilbertson, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

CONFIDENTIAL

BM2AQ 9

bc: PC
B. Griffiths

10 DOWNING STREET

From the Principal Private Secretary

12 June 1986

INTERNATIONAL NATURAL RUBBER AGREEMENT - RENEGOTIATION

The Prime Minister was grateful for your Secretary of State's minute of 4 June about the renegotiation of the International Natural Rubber Agreement.

The Prime Minister has noted that we could be in a difficult situation in October if an agreement acceptable to all other Community member states seemed possible. She understands this difficulty, but believes that we have time between now and October to ensure that our own tougher stance is more widely shared within the Community. She hopes that your Secretary of State with the Foreign Secretary will lobby vigorously. Mrs. Thatcher would be willing to raise this in informal bilaterals in the margins of the European Council at the end of this month and I should be grateful if briefing could be prepared accordingly.

I am copying this letter to Tony Galsworthy (Foreign and Commonwealth Office), Jill Rutter (Chief Secretary's office), Michael Saunders (Attorney General's office), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and Michael Stark (Cabinet Office).

(DAVID NORGROVE)

Mike Gilbertson, Esq.,
Department of Trade and Industry

CONFIDENTIAL

DFG.

10 DOWNING STREET

Prime Minister!

Agree that Mr Channon, with Sir G Howe, should lobby for a tough line, and that you would be willing to raise this in the margins of the European Council at the end of the month?

DLW
11/6.

Yes mt

132/6

Mr Norgrove

I suggest that the Prime Minister minutes as below, or you on her behalf.

Pls please.

CONFIDENTIAL

Qz.05116

11/VI/86.

MR UNWIN

cc: Mr Norgrove, 10 Downing Street

INTERNATIONAL NATURAL RUBBER AGREEMENT: RENEGOTIATION

There is not the slightest reason to throw in the towel on our objective of putting forward such tough conditions for a renewed international natural rubber agreement that it founders. This remains true for the October session as it was true for the session which ended without agreement on 23 May.

2. It remains true that the producers are asking for too much, not only in the view of the United Kingdom but in the view of many other participants; that the United Kingdom will be holding the Presidency of the European Community during the October session; and that we should be lobbying to hold the Community to a firm line. We can set this lobbying in train and I think that a supplementary brief for informal bilateral contacts between the Prime Minister and some other Heads of Government in the margins of the European Council on 26-27 June would be worthwhile.

3. I suggest that the Prime Minister might reply to the Secretary of State for Trade and Industry on the lines of the attached draft.

D F Williamson

D F WILLIAMSON

10 June 1986

CONFIDENTIAL

CONFIDENTIAL

Draft minute for the Prime Minister to send to the Secretary of State for Trade and Industry

INTERNATIONAL NATURAL RUBBER AGREEMENT: RENEGOTIATION

I was grateful for the report in your minute of 4 June and I have noted that the second session of the conference to renegotiate the international natural rubber agreement ended without agreement on 23 May.

~~We have already decided our policy at the Ministerial meeting on 9 May. You indicate~~ The Prime Minister has noted that we could be in a difficult situation in October if an agreement acceptable to all other Community member states seemed possible. ~~I~~ The understands this difficulty but ~~we do~~ believes that we have time between now and October to ensure that our own tougher stance is more widely shared within the Community. ~~I~~ The Prime Minister considers that ~~you~~ your Secretary of State should, in consultation with the Foreign and Commonwealth Secretary, set in hand such lobbying. I shall be willing myself to refer to our views in informal bilateral contacts in the margins of the European Council on 26-27 June. I should be grateful for appropriate briefing in due course.

I am sending copies to the Foreign and Commonwealth Secretary, the Minister of Agriculture, Fisheries and Food, the Chief Secretary, Treasury, the Attorney General and Sir Robert Armstrong.

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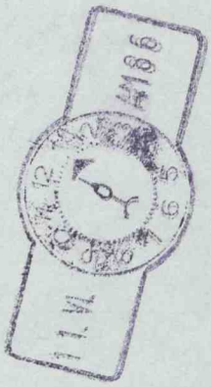

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NBPN at this stage

From; J B UNWIN
5 June 1986

MR WILLIAMSON

cc Mr Norgrove
Mr Wiggins

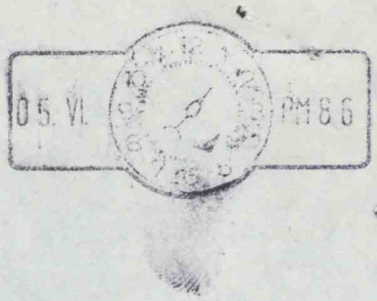
INTERNATIONAL NATURAL RUBBER AGREEMENT: RENEGOTIATION

The Trade and Industry Secretary's minute of 4 June to the Prime Minister on the second renegotiating session on 23 May is remarkably uninformative and, reading between the lines, seems to offer only a slender prospect of achieving our objectives in October. There is no specific plan for further lobbying - only a vague reference in paragraph 4 to the need to influence other Member States to adopt a tough line.

2. Is there any more we can do in the EC? Is this something that the Prime Minister could be briefed to raise at the European Council at the end of this month, given (as I understand it) the fairly thin agenda? The legal advice too seems to be firmer and more discouraging than hitherto. Again, is there any scope for further soundings on this in Brussels?

3. I should be very grateful for your comments, and also if Mr Norgrove could stay his hand until we have considered this further. Given the history of unimpressive handling of this area in DTI, we may well need to press the Department to pursue this more skillfully and vigorously.

J B UNWIN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PRIME MINISTER

INTERNATIONAL NATURAL RUBBER AGREEMENT - RENEGOTIATION

The second session of the Conference to renegotiate the International Rubber Agreement ended without agreement on 23 May. A third session has been scheduled for 6 - 17 October 1986. The current INRA ends in October 1987 and the proposed October 1986 session is probably the last effective opportunity to conclude a successor Agreement because of the time needed by Governments to ratify any new agreement.

2 The interdepartmental review of Commodity Policy should be ready very soon and we will be able to take this into account both in our stance within the Community and in our preparations for the third negotiating session in October.

3 One very important factor which we will have to bear very much in mind is our position in relation to the Community. Legal advice is that, if an agreement were to materialise in October which was acceptable to our Community partners, but not to us, we could not, at the end of the day, refuse to join in unless we were prepared to face legal proceedings in the European Court. This would be very difficult. Such a move would obviously require very careful consideration, all the more because there

1786 1986 BOARD OF TRADE BICENTENARY

does seem to be a significant possibility that we would fail. Whether we did or not, there is also a considerable risk that we might lose some of our existing freedom in this and other areas. There is also the added complication that we would in effect be taking on the rest of the Community at the same time as we are holding the Presidency.

4 In this intervening period we should therefore seek to influence other Member States to adopt a tough line. But this will not prove easy, as although support was forthcoming from some Member States for a tough line on INRA, others, notably France, Italy and to some extent Germany, advocated a very flexible approach and were clearly prepared to compromise at some point in order to secure a new agreement.

5 The UK delegation at the second session did well in stiffening resistance to attempts by the Conference chairman, abetted by the US delegation, to promote an unsatisfactory compromise, and their efforts were under-pinned by an extensive lobbying campaign in capitals.

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6 I am copying this minute to the Secretary of State for Foreign and Commonwealth Affairs, the Chief Secretary, the Attorney General, the Minister for Agriculture, Fisheries and Food and to Sir Robert Armstrong.

P.C.

PAUL CHANNON

4 June 1986

Department of Trade and Industry

1786 1986 BOARD OF TRADE BICENTENARY

Mr. Hurd: Where is the right hon. Gentleman for Manchester, Gorton (Mr. Kaufman)? We need him badly. The hon. Member for Hammersmith (Mr. Soley), in an amazing way, followed up his attack yesterday on Sir Kenneth Newman with an extraordinary attempt to turn this into a party political issue. Anyone reading or listening to his remarks must think that they bear no relation to reality. The only serious point he made was his first point. In that respect, he misread the nature and intention of the so-called peace convoy. However many sites were provided for those people, at the public expense, I do not think that they would stay in them or abide by the law.

Sir David Price (Eastleigh): Does my right hon. Friend accept that, as the law stands at the moment, this remains a Hampshire problem? Hampshire has a good record of resettling gipsies and travellers, but this is asking a bit much. Does my right hon. Friend agree that it is a national problem needing a national solution?

Mr. Hurd: The chief officers of police in Wessex and the Government agencies involved need to continue to put their heads together. I understand from my right hon. Friend the Secretary of State for the Environment that it is not thought that the peace convoy comes within the definition of the Caravan Sites Act 1968.

Geevor Tin Mine

3.55 pm

Mr. David Harris (St. Ives) *(by private notice)* asked the Secretary of State for Trade and Industry if he will make a statement on the Geevor Tin Mine.

The Minister of State, Department of Trade and Industry (Mr. Peter Morrison): After detailed and careful appraisal, the Department has reluctantly concluded that Geevor Tin Mine's latest proposals do not offer sufficiently robust prospects of commercial viability to justify financial assistance on the scale requested. The company has been notified of this decision.

Mr. Harris: I accept that my hon. Friend had to make a very difficult decision, and that Geevor was clearly the most vulnerable Cornish mine, but does he realise that the decision has caused those in west Cornwall deep dismay? I visited the miners last night and they were in a stunned state that was, I am afraid, giving way to anger. One can understand that.

Will my hon. Friend say something more about the £1 million of assistance that the Government are making available to west Cornwall? Will he also say something about the office that he is setting up? Can he hold out some hope to the rest of the Cornish tin industry? Does he agree that the decision does not sound the death knell for the tin industry but that, hopefully, other mines will survive the crisis and perhaps one day, who knows, Geevor will come back to life?

Mr. Morrison: I agree that the decision was very difficult. We have debated the situation in Cornwall, and particularly in west Cornwall, several times and it is, indeed, very difficult.

My hon. Friend referred to the business improvement services. We hope that within a few weeks we shall be able to set up an office in close proximity to Geevor with three officials to administer the scheme. I cannot at present say precisely where it will be. My hon. Friend asked about the future of the Cornish tin industry. As the house knows, other applications are being processed.

Mr. David Penhaligon (Truro): Does the Minister accept that his decision has destroyed a community, a lifestyle and a tradition, and will inevitably lead to an unemployment rate of 50 per cent in the area? Precisely why did the application fail? The Minister said that it was not vigorous enough. How did it fail the test of commercial viability? In reality, is not the message that if those 300 miners bought clapped-out vehicles that did not have MOTs, some wigwams, and semi-trained dogs, and camped out in Hyde Park, the House and Britain's journalists would show far more interest in this tragedy?

Mr. Morrison: The hon. Gentleman has done Cornish tin miners, and particularly those at Geevor, less than a service. All hon. Members have rightly paid great attention to the predicament in which the tin miners find themselves. But the hon. Gentleman grossly exaggerated, when he said that there would be 50 per cent. unemployment, although I accept that the figure is very high and that we are talking about a very depressed part of Cornwall. The application was turned down, like many other applications for regional grants, on grounds of

[Mr. Morrison]

commercial viability. We must have certain criteria. If the hon. Gentleman was in my position, he would have them, too.

Mr. Robin Maxwell-Hyslop (Tiverton): My hon. Friend will know that the Select Committee on Trade and Industry recommended, after a very thorough investigation, that there should be support from public funds for Geevor's programme in order to enable it to produce tin at a reduced price. He could have made the decision that Geevor's future was not viable only bymaking certain assumptions about the future price of tin. What assumptions did he make about the price of tin in three and five years' time? The present price reflects the fact that banks have unloaded their tin warrants, which were the securities for their loans on money advanced to the London metal exchange. Is my hon. Friend aware that, following the absurdly high prices caused by the cartel arrangement, tin production has fallen by about 40 per cent? I repeat —what assumption did my hon. Friend make about the world price of tin in three and five years' time, without which he could not have made any judgment about the viability of Geevor, Pendarves, South Crofty or Wheal Jane?

Mr. Morrison: Of course I am aware of the Select Committee's recommendations on Geevor, and my right hon. Friend the Secretary of State intends to reply very shortly to the Select Committee.

My hon. Friend asked what assumptions we made. We looked at the assumptions in the Geevor application for the price of tin at the stage when the company would wish to produce from the current Geevor mining operation. That price was on the best advice that my Department has, within the band of what the price would be in five years' time. At this stage, in view of the fact that applications are being processed and looked at, in particular that from Rio Tinto Zinc, it would be inappropriate to say precisely what the price was.

Mrs. Gwyneth Dunwoody (Crewe and Nantwich): Is the Minister aware that the cost of flooding those mines, in terms of employment and the viability of communities, is far higher than the sum of money that he was being asked to contribute to keep them open? Is he also aware that, once the mines are flooded, he will have handed down the ultimate death sentence to the whole area? I hope that he will be able to sleep at night after that.

Mr. Morrison: I am very much aware of the point that the hon. Lady makes about the community. I am also aware of her point about turning off the pumps. That was why I was prepared to put up a matching £40,000 to keep the pumps operating for a further four to five weeks while we looked at the second application. We wished to see whether there was any proper way to operate the mines commercially in the future.

Mr. David Mudd (Falmouth and Camborne): Does my hon. Friend accept that the Government are facing a major crisis with petty cash solutions? My hon. Friend has suggested that £1 million will be made available to the St. Ives and Penzance areas to bring them through this crisis, a sum that is to be spread over four years. My hon. Friend has told us that it will be administered by three civil servants, who will no doubt require office and back-up accommodation, so that we are talking about an input of probably less than £180,000 each year for the next four years to solve this massive crisis. Can my hon. Friend come up with something more promising, hopeful and positive?

Mr. Morrison: I am sorry that my hon. Friend does not welcome this substantial sum of money. We expect that in the first year £250,000 will be spent. Three officials in the right area to advise on any request is the right number to administer the scheme.

Mr. Doug Hoyle (Warrington, North): Does the Minister agree that he has looked at this problem in the short term rather than in the long term and that this is a short-term solution? Will he re-read the report of the Select Committee on Trade and Industry, which pointed out that if the grant had been made to the mines, they would have been competitive against the prices that might be prevailing in five to 10 years? Would not this have been a practical solution? Does he further agree that the £1 million, spread over four years, will provide only candyfloss and ice cream jobs, which are purely seasonal, when what are needed are real jobs and real help?

Mr. Morrison: I assure the hon. Gentleman that, when we looked at the Geevor application, we did not consider it only in the short term. I appreciate his point, but, because of the current state of the tin market, that would not have been a solution by any stretch of the imagination. We were looking forward five years out from now.

As to the point about business improvement services, the hon. Gentleman will be aware from his experience in our part of the country that the scheme is popular. I am sorry that he does not welcome the scheme, even though he may not agree that it goes as far as he would like it to.

Mr. Kevin McNamara (Kingston upon Hull, North): When are we likely to have the decision on the RTZ application? Is the hon. Gentleman aware that the majority of people employed in those pits are members of my union, and they feel that the decision announced yesterday sounds the death knell for the whole of the Cornish tin industry?

Mr. Morrison: To deal with the hon. Gentleman's second question first, he should not draw any particular analogy from yesterday's decision with any future decision, because each application will be considered on its merits. I hope that we shall be able to give a decision in the next five or six weeks. I would not wish to be precisely tied to that date, because it is important for the company and its employees that we should explore every possible avenue.

Mr. Tony Marlow (Northampton, North): I have every sympathy with the problems of the distressing situation that my hon. Friend the Member for St. Ives (Mr. Harris) and his constituents face, but is it not the case that £25 million was being requested to sustain 375 jobs? Is that not at the rate of about £60,000 per job and, with the best will in the world, is that not rather above the odds for providing Government money to sustain employment.

Mr. Morrison: I am not in a position, because the applications are dealt with commercially and in confidence, to confirm or deny the figures that my hon. Friend has given. The cost per job would have been very expensive indeed.

Mr. Dennis Skinner (Bolsover): Is there not a big difference between saving the jobs of a few bankers at Johnson Matthey, which cost the taxpayer £100 million, and the 300 jobs that are due to be lost in the Geevor mine? Have not the Government a strange list of priorities when they have before them a paper from the oil industry in which the companies say that, because of the fall in oil prices, they will need some special tax relief from the Government to exploit the small pools of oil in the North Sea——

Mr. Speaker: Order. We are talking about tin.

Mr. Skinner: I am drawing an analogy, Mr. Speaker.

The Government are prepared to back the oil barons but not to protect the jobs of 300 miners in Cornwall and prevent the many more hundreds of redundancies that will follow if other pits close. Is not the job of a miner just as important as those of the bureaucrats in the Common Market? We have just paid £250 million to bail out that clapped-out organisation the Economic Community. Are not the jobs of the miners as important as those of the bankers at Johnson Matthey? The Government will use the test of viability to suit the casino economy, but they will not do so to look after people's jobs.

Mr. Morrison: The hon. Gentleman as always, makes a cheap party political point. If he had been involved, as I have been in the past two months, in all the work put into looking at the first and second applications to see whether it was possible to help, he would not have put such a question.

Mr. Alan Williams (Swansea, West): Is this not a tragic and sad end to an inglorious catalogue of Government blunders and failures? Does the Minister remember that the Select Committee condemned the Government for giving a warning of the impending tin crisis in such imprecise terms as to be worthless? Is he aware that the Committee deplored the Secretary of State's refusal to give full answers to questions, the same evasiveness that was repeated today when the Minister refused to give us information on the future of tin prices?

Does the Minister also recollect that the Select Committee stated categorically that the Cornish tin industry is worth saving and went on specifically to recommend that Government aid be given to Geevor? Why are the Government so contemptuous of a Select Committee when the cost of aid is less than the cost of the unemployment?

Have the Government no sense of the absurd? Does not the Minister realise that an offer of £1 million aid is so derisory as to be a gross insult? Will he recognise that today Geevor has been condemned to die, and the people of Cornwall will never forgive the Govemnent for their lack of preparedness, lack of interest, and their pathetic ineffectiveness?

Mr. Morrison: The right hon. Gentleman anticipates the response to the further applications. As he is aware, because I have said so, the only response so far given is that to the application on Geevor. My right hon. Friend the Secretary of State will soon be replying, as is the parliamentary convention, to the recommendations of the Select Committee.

I would like, as much as the right hon. Gentleman, to give a grant to Geevor so that the mine could become commercially viable. It just did not prove possible. I do not think that, over the next three or four years, the recipients of the £1 million will consider it the gross insult which is suggested by the right hon. Gentleman.

Swan Hunter (Redundancies)

Mr. Ted Garrett (Wallsend): I beg to ask leave to move the Adjournment of the House under Standing Order No. 10 for the purpose of discussing a specific and important matter that should have urgent consideration, namely,

'the announcement of redundancies today at Swan Hunter shipbuilders.'

I do not wish to detain the House for too long, but, in accordance with Standing Order No. 10, I wish to seek your permission, Mr. Speaker, to draw the attention of the House to the announcement this afternoon that Swan Hunter is to declare immediately 825 employees redundant. Some time should be allocated by the House to debate this matter.

The apathy of the House, the Government and indeed the nation is something which disturbs me very much, bearing in mind that we are still a maritime nation. Unless we take seriously the decline in shipbuilding, particularly in Tyneside and Wallsend, we are on a course which will mean the extinction of our maritime fleet, our defence capabilities and, of course, ultimately shipbuilding. On this premise alone, Mr. Speaker, I hope that you will approve my request for a debate on this matter.

Mr. Speaker: The hon. Member asks leave to move the Adjournment of the House for the purpose of discussing a specific and important matter that he thinks should have urgent consideration, namely,

"the announcement of 1,000 redundancies today at Swan Hunter shipbuilders."

As the hon. Gentleman knows, the only consideration I have to bear in mind is whether to give this matter precedence over the Orders set down for today or tomorrow. I fully understand the importance of this matter to him and his constituents. I regret that I do not consider the matter which he has raised as being appropriate for discussion under Standing Order No. 10 and, therefore, I cannot submit his application to the House.

Mr. Peter Shore (Bethnal Green and Stepney): We have listened to your ruling, Mr. Speaker, and I have no desire to challenge it, but this is clearly a major new development. We have just heard a statement about the redundancy of 350 people—tragically unnecessary—and the closure of the Geevor mine. Surely with the Leader of the House listening to what has been said, we can expect a full statement tomorrow on the matter which has been raised by my hon. Friend.

Mr. Speaker: That is not a matter for me.

Sunday Times (Report)

Mr. Tam Dalyell (Linlithgow): On a point of order, Mr. Speaker. It is within your knowledge that yesterday I raised with your office a possible point of order arising out of a report in the *Sunday Times* that the debate on Friday, resulting from my luck in the ballot, is to be squeezed out by the device of talking all through the night on the Channel Tunnel procedural motion. Let me say straight away that I acquit the Leader of the House of any such manipulation. I go further and acquit the Government Whips of having been in any way involved. My understanding is that Mr. Bernard Ingham took it on himself, in order to help press colleagues, to say that what was suggested in the *Sunday Times* should indeed take place.

Should a civil servant, however eminent and powerful, take it upon himself to make judgments on the business of the House of Commons? Is that his competence?

Mr. Speaker: I saw the report in the *Sunday Times* and I read it with interest. It is, of course, press speculation and I have no idea whether Mr. Ingham is responsible, but he is not a Member of this House and I have no jurisdiction over him.

Later—

Sir Kenneth Lewis (Stamford and Spalding): On a point of order, Mr. Speaker. With regard to the point of order raised by the hon. Member for Linlithgow (Mr. Dalyell)—I am sorry that he has gone—many of us would be quite happy to have his motion debated on Friday because it would be defeated by many votes. If the hon. Gentleman wants the debate, he may have it.

Mr. Speaker: As far as I am concerned, the motion is on the Order Paper and I shall be here on Friday.

file

EC

bc: Prof. Griffiths

10 DOWNING STREET

From the Private Secretary

3 June 1986

Dear John,

SELECT COMMITTEE ON TRADE AND INDUSTRY: REPORT ON THE TIN CRISIS

The Prime Minister has seen your Secretary of State's letter of 30 May to the Lord Privy Seal to which was attached a draft response to the Select Committee on Trade and Industry's Second Report on the tin crisis.

The Prime Minister is content with the proposed reply, save that she would wish the second half of paragraph 14 to be deleted: this carries the implication that commodity agreements, even if not justified on their own merits, could be justified when set in a wider context.

I am copying this letter to Rachel Lomax (H.M. Treasury), Tony Galsworthy (Foreign and Commonwealth Office), John Turner (Department of Employment), Michael Saunders (Law Officers' Department), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food), Murdo Maclean (Chief Whip's Office), John Footman (Bank of England) and Michael Stark (Cabinet Office).

Yours,

David.

(David Norgrove)

John Mogg, Esq.,
Department of Trade and Industry.

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Q10

CCBG

JU441
Secretary of State for Trade and Industry

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3 June 1986

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

NBP7

Dear David,

SELECT COMMITTEE ON TRADE & INDUSTRY: REPORT ON THE TIN CRISIS

I attach for your information the final version of the Government response to the Select Committee on Trade & Industry's second report on the tin crisis, which was sent to the Committee this afternoon.

I am copying this letter and attachment to Robert Culshaw (FCO), Jill Rutter (Chief Secretary's Office), John Turner (Employment), Ivor Llewelyn (MAFF), Alison Smith (Lord Privy Seal's Office), Murdo McLean (Chief Whip's Office), John Footman (Bank of England), Henry Steel (Law Officers Department), and to Michael Stark (Cabinet Office).

Yours ever,
Michael

MICHAEL GILBERTSON
Private Secretary

999-1

SECOND REPORT FROM THE TRADE AND INDUSTRY COMMITTEE ON THE TIN CRISIS

INTRODUCTION

This Memorandum is submitted by the Secretary of State for Trade and Industry in response to the Committee's Report on the Tin Crisis (HC 305-I).

2 The Government welcome the Committee's decision to hold an Inquiry into this matter. As an international organisation, with membership comprising 22 sovereign states and with its Headquarters in the UK, the International Tin Council has failed to meet its financial obligations. This failure has damaged the interests of its creditors, the Cornish tin industry and the London Metal Exchange and has caused severe disruption to the international tin market, the effects of which inevitably will be felt for some years to come.

3 The Committee points out (HC 305-1, paragraph 75) that this commodity agreement had the effect of keeping prices artifically higher than they would otherwise have been in a free market. The Government fully appreciated this risk when it decided to join the Sixth International Tin Agreement in 1982, but considered that the benefits of joining outweighed the possible disadvantages. Once in membership, with very little support, the UK made a determined effort to reform the Agreement and to improve transparency and monitoring of the economic provisions of the Agreement. Had these strenuous and determined endeavours been successful, the eventual collapse might well have been predicted and prevented.

4 The Government agree entirely with the Committee that the reasons for the collapse of the Agreement must be examined to see what lessons should be drawn for the future. However, the Committee understates the vigorous efforts made by the Government after the suspension of trading. Indeed the Government took the lead in the efforts to reach international agreement to bring about an orderly resolution of the crisis and by determined diplomacy, got close to a negotiated agreement. Although accepting no legal liability, the Government agreed in the course of negotiations to contribute £50m over and above that proportion of ITC's debts which it might have expected to pay under the usual subscription arrangements. Had it been feasible to reach a settlement through the injection of this additional sum, quite apart from the general benefit of maintaining order in international financial dealings, the Cornish tin producers,

999-49

the London Metal Exchange, and the creditors of the ITC would all have benefited. It was through no fault or negligence of the Government that this attempt to reach a negotiated agreement failed.

5 The Committee raise a number of matters in its report; these are dealt with in separate sections below.

CONSTRAINTS ON THE INQUIRY

6 The Government recognise that the Committee was faced with a number of constraints in conducting this inquiry. In deciding what information should be provided, Ministers and officials acted in accordance with international obligations, legal considerations and established conventions relating to the disclosure of official information to Parliamentary Select Committees within constraints acknowledged by the Committee. In the circumstances both Ministers and officials co-operated with the Committee's inquiry as fully as possible.

7 There were in particular three constraints under which officials gave evidence. Two of the constraints were special to the circumstances of this inquiry: the confidentiality of ITC proceedings and the possibility of legal actions concerning some of the events in question. The Committee recognise (HC 305-I, paragraph 9) that it would not be appropriate for Ministers or officials to comment on matters which are, or may become, subject to legal proceedings. In addition there is the normal constraint on all officials giving evidence to Select Committees that they do so on behalf of and under the instruction of their Ministers.

8 The instructions given by Ministers and followed by officials in the course of this inquiry were no different from the rules that are and have for a long time been generally applicable when civil servants give evidence to Select Committees. These rules are set out in the Memorandum of Guidance for Officials Appearing Before Select Committees, (GEN 80/38) which is available to the Committee. They make clear the categories of information which officials must not disclose to Committees. These include, in particular, advice that has been given to Ministers.

9 The purpose of such a rule is clear and well understood. It is necessary in order to preserve the basis of confidence between Ministers and their advisers. Such confidence is not only necessary for the effective working of Departments: it also underlies the basic principle that it is Ministers and not officials who are responsible to Parliament for the activities of their Departments.

10 This principle is well established and was recognised in the First Report of the Select Committee on Procedure Session 1977/78 [HC 588-I] and in the Memorandum by the Clerk of the House to that Committee, which sets out at length the basis on which officials give evidence to Select Committees. The Government cannot therefore agree with the view of the Committee that these well established conventions should have been set aside.

11 The Committee asserts (HC 305-I, para 8) that it was "unnecessarily obstructive" of Ministers and officials to refuse to comment on certain ITC documents which had come into the Committee's possession. The Government cannot accept this view. The documents in question came to the Committee without the consent of the ITC. The rules governing the confidentiality of the ITC's proceedings make it clear that no one may disclose to third parties any ITC papers or proceedings without the consent of the Council. The same restriction applies to quoting from or referring to the contents of such documents or reports in oral or written evidence. In order to assist the Committee, officials twice requested the ITC to agree to release the information requested by the Committee. Those approaches were emphatically rejected. The Committee also stated that these documents came from US sources having been released under the Freedom of Information Act. Since the Committee reported, the US Government have denied that they authorised release of the ITC documents under the Freedom of Information Act or otherwise.

12 The Committee has called upon the Leader of the House "to provide time for the House to express its view on the refusal of the Secretary of State for Trade and Industry to provide full answers to our questions on the role of the Government in the tin crisis. We look to the House to support our legitimate demand." (HC 305-I, para 14). As has been explained above, both Ministers and officials co-operated with the Committee to the greatest extent possible within the constraints by which they were bound. The House will have an opportunity to express its views on this aspect in any debate which may take place on the Committee's report as a whole.

THE INTERNATIONAL TIN COUNCIL

13 The Government agree with the Committee that the ITC should have exercised greater control over the extent of the Buffer Stock Manager's forward dealings. It was for this reason that the Government tried, without success, to ensure that the Council's members had access to more information about the nature of the Buffer Stock Manager's transactions.

JF3ALO

14 The Government have noted the Committee's comments (HC 305-1 paragraphs 34-35 and 45) about the consequences which follow if a commodity agreement maintains artificially high prices. There are of course important lessons to be drawn from the failure of the Sixth International Tin Agreement in particular in relation to international commodity agreements with market intervention provisions.

15 Policy on International Commodity Agreements and associated matters has always been one of the main items of the business of the UNCTAD. It is the practice of members of the European Community to speak on these questions on the basis of a common position. In preparation for the UNCTAD Ministerial Conference in the summer of 1987, the Government have been considering the policy on commodity agreements and the other aspects of the UNCTAD Integrated Programme for Commodities.

16 The Government accept the Committee's recommendation that "as a matter of urgency the Government should look into all international trading organisations of which it is a member and make sure that their liabilities are clarified and publicly understood" [HC 305-1 para 52].

17 Indeed, even before the Select Committee reported, the Government had begun a study of their responsibilities to other international trading organisations and similar bodies. As a result, we are reasonably satisfied that none is likely to develop problems such as those which occurred with the ITC but they will be kept under close review. However, experience over tin has shown that it is not always easy to identify potential liabilities with precision in advance or to quantify the extent of the risk which may change over time if the role or operation of the organisation changes. The object must be to minimise these risks and to avoid incurring fresh ones whenever possible. We shall ensure that contingent liabilities in regard to such bodies are reviewed regularly (as well as being reported to Parliament in accordance with existing practices) and that full account is taken of changing circumstances.

18 We have noted the Committee's view that "if prosperous countries walk away from their collective debts because of a cloak of immunity there can be no reason for us to expect poorer nations to pay their debts". (HC 305-1, paragraph 46). The Government greatly regret the failure of the ITC to reach a settlement with its creditors and would be very concerned if their failure were to be taken as a precedent by any country.

JF3ALO

19 The Committee states that "the ITC is discredited and that if it continues at all it will do so only as a gatherer of statistics, although the need for this role is debatable". (HC305-1, paragraph 48). We agree that there is no prospect of the Council resuming its trading operations and, even were that option open, it is not one which the Government would wish to pursue.

THE GOVERNMENT'S ACTIONS

20 The Committee makes a number of criticisms of the Government's actions in relation to a warning given to the LME and to the conduct of the ITC.

21 In paragraphs 49 and 50 of their Report the Committee concluded that the LME Chairman was only given a warning of the possibility that the Buffer Stock Manager might not be able to fulfil his obligations, in such imprecise terms as to be worthless. In paragraph 50, the competence of the DTI official concerned is questioned.

22 Concern about the nature of the dealings by the Buffer Stock Manager and the exposure of the LME brokers was raised by the LME in discussions with the Bank of England as early as the autumn of 1982, only three months after the entry into force of the Agreement. This concern was reported to the DTI by the Bank.

23 The Bank, which was in close touch with Government Departments throughout, advised the LME (initially on an informal basis) that they should not count on the ITC member Governments standing behind the ITC if the Buffer Stock Manager were ever unable to meet his commitments. In February 1984, the Bank repeated the warning at a formal liaison meeting with representatives of the LME Committee. And throughout the whole of the period this general advice was given by the Bank in response to enquiries. Furthermore, DTI delegates to ITC meetings were accompanied by LME representatives from the beginning of the Agreement until the crisis of 24 October 1985; these representatives had substantially the same information as was available to the Council's delegates.

24 At his meeting with the LME in June 1985 the DTI official concerned was therefore repeating warnings already given by the Bank of England. These warnings were known to brokers, though not all had heeded them. It appears, however, that the LME Chairman did not pass this warning on. The Committee implies that the DTI official should have persuaded the LME Chairman that he was wrong, but does not suggest how this might have been done, or indeed why a

warning by the Chairman would have been more effective than those already given by the Bank (of which, the Committee may not have been aware). For these reasons the Government therefore regards the Committee's criticism of the DTI official concerned as unfounded.

25 The Committee states, in paragraph 51 of its report, that it was "..... unforgivable that such a warning was intended to be passed only to one category of persons exposed to risk in dealing with the BSM, and not to the other categories, namely, tin producers in the UK and banks lending to the ITC".

26 No warning was given to the ITC's bankers for two reasons. First the information available to the Department did not suggest that the banks were at risk. The banks had taken tin as security for their loans and the loans would have remained fully secured even if the price of tin had fallen by up to 20 per cent. Second, a formal warning to the banks would have precipitated a crisis and probably the collapse of the buffer stock operation. The information available to the Department did not justify the Government's taking a step with such potentially damaging consequences, for which it would have had to answer to all other members of the Agreement and to all interests affected by the price of tin.

27 The Government were also in touch with representatives of the Cornish tin industry during the period in question: there was, for example, a meeting between DTI officials and the Cornish Chamber of Mines on 23 May 1984, at which a number of issues relating to the future of the ITC were discussed. However it was not thought appropriate in June 1985 to give any formal warning to the Cornish tin producers about the future of the ITC's buffer stock operation. First, to have done so could, as in the case of the banks, have precipitated a crisis: the information available to the Department did not justify a step with such potentially damaging consequences. Second, there was no action open to the Cornish tin producers which could have averted or minimised any potential difficulties arising from the buffer stock operation. The Department has been told by RTZ that the company had fully recognised that the tin price was being supported at unrealistic levels by the Buffer Stock Manager, and that any warning from the Department to them would have made no difference to the actions they had taken.

28 The Government therefore rejects any criticism of its not having issued a warning to the banks lending to the ITC or to tin producers in the UK.

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29 In paragraph 55 of the report, the Committee criticises the failure of the UK representative at ITC meetings to block "ever increasing credit lines with the banks". This criticism may be based on a misunderstanding. The limits on the BSM's borrowings are set in Article 21 of the 6th International Tin Agreement at the equivalent of 20,000 tonnes of tin at the price then prevailing. The Council authorised lines of credit from a number of banks, which enabled the BSM to operate within this limit, early in the life of the 6th ITA. From July 1983 until October 1985, decisions were taken to add a small number of bankers to the authorised list. The banks had offered facilities of up to £25m in total. The addition of these banks to the approved list did not however increase the total permitted borrowing of the Buffer Stock Manager, which remained at the 20,000 tonnes equivalent referred to above.

30 In paragraphs 53 and 54 of its report, the Committee refers to the secrecy surrounding the dealings of the BSM and expresses concern at the fact that despite repeated requests DTI officials were unable to obtain detailed information from the ITC. The Government accepts that it was wrong that ITC members were unable to obtain sufficient information to understand the nature of the Buffer Stock Manager's operations and to exercise effective control over them. In particular, delegates were never told about the Buffer Stock Manager's unpriced forward sales transactions. The problem lay not in any failings on the part of UK delegates in their efforts to obtain the information, but in the structure of the 6th ITA and the confidentiality rules adopted by the ITC. They provided no mechanism by which Government representatives could insist on securing the relevant information. There is no reason to suppose that had the matter been taken up by UK Ministers as the Committee suggests, this would have changed the situation.

31 The Committee says in paragraph 56 that a situation in which an international organisation was able to refuse material information to its member governments should never have been allowed to come about. The Government agree. There was no reason to suppose, however, when we first joined the Agreement, that information would be refused in this way. The Government are taking steps to apply the lessons of the ITC's collapse and to ensure that no such situation can recur.

CORNWALL

32 The Committee describe in its Report the difficulties facing the Cornish tin industry as a result of the fall in the price of tin following the collapse of the ITC's price support operations. The Government are fully aware of the

importance of tin to employment in Cornwall. In October 1985, some 1,500 people were employed in tin producing operations and a further 500 jobs were directly dependent on the industry. The effect of closures and redundancies would be particularly felt in the Penzance and St Ives and the Redruth and Camborne TTWAs where unemployment is currently about 21 per cent.

33 Although there are no longer dealings on the LME in tin, it is understood that there has been substantial trading in recent weeks at below £4,000 a tonne. At such low price levels, which are the result of overcapacity and the large tin stocks left in the market by the default of the ITC, very few tin producers in the world can operate economically. It may well take several years for the tin stocks to clear and for the price to rise to a level at which tin production capacity necessary to meet future world demand can be operated profitably.

34 In such circumstances the Government have accepted that decisions need to be taken about the future of the Cornish tin industry before the long term price of tin is known (HC 305-I, paragraph 68).

35 On 7 April, Geevor mine ceased production with the majority of the workforce being laid off. Geevor was kept on a care and maintenance basis while the Government considered the company's application for assistance. On 30 April the Government announced that it was providing a £40,000 grant to keep the Geevor mine on a care and maintenance basis for a further period of two weeks, matching a similar offer by Cornwall County Council. The purpose of the Government grant was to enable the Geevor management to develop its earlier proposals with a view to improving the prospects for eventual viability.

36 On 23 May, Geevor submitted a revised application to the Government. This provided for the cessation of tin mining for a period of 5 years, a reduction in numbers employed initially to 200, and the development of underground mining and offshore dredging operations, to come into full production in the early 1990's, when the price of tin is expected to increase with projected expansion of employment to 480.

37 The Government have most reluctantly concluded that the revised Geevor application cannot be given the assistance requested. It would have amounted to over £40,000 for each of the jobs expected to be provided in 1992 and much more than this in the intervening years. Nor are the Government convinced that there is a sufficiently realistic prospect that the new Geevor tin operations would have been fully

commercially viable once they came into production, even with this assistance.

38 The Government recognise that the further contraction or closure of the Geevor mine would increase the already high level of unemployment in the Penzance and St Ives TTWA. In addition to existing measures of assistance, the Government have, therefore, decided to make available in the Penzance and St Ives TTWA a slightly amended version of the Business Improvement Service package of schemes of assistance to small businesses which is currently operated by my Department. This would help the local economy diversify into activities other than tin mining and tourism. The Department of Trade and Industry is in discussion with the EC Commission who, we hope, will approve the proposal within the next few weeks. We shall make available £1m for this purpose.

39 On 28 April the RTZ subsidiary, Carnon Consolidated Ltd, announced that consultations would begin which may result in the closure of the company's tin operations at Wheal Jane, South Crofty and Wheal Pendarves, with the consequence that the 1,000 people employed would be redundant as from 1 August 1986. On 6 May, RTZ submitted an application to the Government for financial assistance to enable its tin operations to continue.

40 The Government are considering urgently the application for assistance from RTZ and from smaller tin producers in Cornwall. The Government will particularly take into account the employment implications and the level of financial assistance necessary in each case but, as in the case of Geevor, will need to be satisfied that tin operations in Cornwall would be viable.

41 While no decisions have yet been taken on any individual application for assistance other than from Geevor, the Government recognise that the tin crisis was in part caused by an excess of world production capacity over world tin demand. In order for the tin stocks overhanging the market to be cleared, and for the tin price to rise to economic levels, it is necessary for world output of tin to be reduced for a period. Unless this happens, low prices for tin are likely to persist, delaying perhaps for a very long time the return of commercially viable tin production in Cornwall.

42 The Government will, therefore, take their decision on the basis that support will be given only to those projects which show robust prospects for commercial viability. The Government do not accept the Committee's recommendation (in paragraph 72) that short term price support subsidies should

be given to Cornish tin producers to maintain them in operation.

43 However, the Government cannot agree that if tin mines close, they can never be reopened and the tin resources in Cornwall will be lost. While it is true that mining works or equipment may be lost or damaged when a mine is flooded, the tin ore could be worked in the future when it became economic to do so as it has happened in the past. Known Cornish tin reserves are still very substantial and can be worked commercially when tin prices rise sufficiently to make the operations viable.

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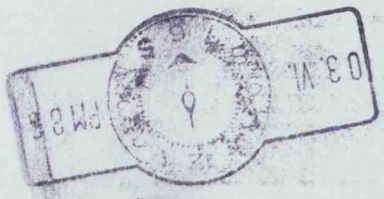

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10 DOWNING STREET

From the Private Secretary

3 June 1986

FUTURE ARRANGEMENTS FOR TIN

The Prime Minister has seen your Secretary of State's letter of 28 May to the Foreign Secretary about future arrangements for tin.

The Prime Minister agreed with all four of the conclusions reached by your Secretary of State. In reading the letter she was particularly sceptical about the possibility of a Tin Study Group.

I am copying this letter to Rachel Lomax (HM Treasury), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food), Michael Saunders (Solicitor General's Office), John Footman (Governor of the Bank of England's Office) and Michael Stark (Cabinet Office).

(DAVID NORGROVE)

Michael Gilbertson, Esq.,
Department of Trade and Industry

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CC&G

BANK OF ENGLAND
LONDON EC2R 8AH

THE DEPUTY GOVERNOR

3 June 1986

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
London
SW1H OET

NBPM.

Dear M. Channon

SELECT COMMITTEE ON TRADE AND INDUSTRY: REPORT ON THE TIN CRISIS

Thank you for sending the Governor a copy of your letter of 30 May to the Lord Privy Seal with the draft of your response to the Select Committee on Trade and Industry about the tin crisis. I am replying in the Governor's absence abroad.

WILL REQUEST IF REQUIRED

I am grateful for the consultation which has taken place with the Bank over the preparation of the draft response, with which we are essentially content. There are however two small changes which I would like to see.

First, I would like an insertion at the beginning of paragraph 23, so that it would start "The Bank, in line with its understanding of the views of government departments, advised the LME ....."

Second, the third sentence of paragraph 24 directly attributes thoughts to the Chairman of the LME; unless the words have been cleared with him, this may be hazardous. The sentence which follows ("It is understandable .....") goes still further in rationalising his thoughts. I would prefer both sentences to be deleted. They should perhaps be replaced with "It appears, however, that the LME chairman did not pass this warning on.".

I am sending copies of this letter to the recipients of yours.

Yours sincerely

George Blunden

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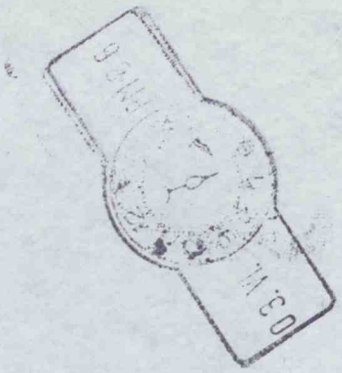

PRIME MINISTER

TIN

You saw these papers over the weekend.

The Chief Whip has not yet seen them, but will do so overnight.

My concern was that the reply looks too much like a whitewash of what nearly everyone would accept was a problem not handled as well as it might have been. DTI however do not accept that and Sir Brian Hayes went before the Select Committee to say so. It will be for Mr. Channon to defend that view to the House. On this basis I suggest that you do not object to the tenor of the proposed reply.

Otherwise I suggest that the second half of paragraph 14 should be deleted to remove the implication that wider considerations can for the future justify new commodity agreements.

Content?

DAVID NORGROVE
2 June 1986

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CLBG

For Please

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1

2 June 1986

Dear Paul,

FUTURE ARRANGEMENTS FOR TIN

I have seen your letter of 28 May to Geoffrey Howe setting out the approach you recommend we should take in discussions of future arrangements relating to tin and the future of the present International Tin Council and International Tin Agreement.

We certainly would not want to support any new agreement with market intervention provisions. On a study group, you are the best judge of the utility of such an arrangement. I would certainly not want to press for one. However carefully devised now, there must be a risk that such a group would provide a focus for later development. Refusal to participate also has the advantage of underlining our view that a radical rethink of commodity policy is needed.

On ending the present Agreement and the future life of the Council, I agree that we should seek to wind up both the present ITC and ITA at the earliest possible moment, subject to the need to protect our legal position and to avoid prejudicing the chance of recovering from other countries their share of any judgement which might be made against member countries. In the meantime, I agree that the costs of the ITC should be kept to a minimum, including pressing for the maximim reduction of ITC staff as soon as possible.

On the legal position which you reported in your letter of 25 April to the Chancellor, I share Geoffrey Howe's view that it is too early to contemplate an out of court

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TIN PT 2

settlement with ITC creditors. I attach considerable importance to HMG doing nothing to indicate that it might be prepared to contemplate such a settlement. We should not respond to such suggestions until they are put to us by all the creditors acting together.

I am copying this letter to the Prime Minister, the Foreign Secretary, the Minister of Agriculture, Fisheries and Food, the Solicitor General, the Governor of the Bank of England and to Sir Robert Armstrong.

Yours ever,

JOHN MacGREGOR

CCBG

FCS/86/150

NBPN

SECRETARY OF STATE FOR TRADE AND INDUSTRY

Future Arrangements for Tin

1. Thank you for your letter of 28 May about future arrangements for tin.

2. There can be no question of contemplating any new International Tin Agreement with market intervention provisions. I share your assessment that fortunately such an Agreement would be unlikely to find sufficient support from consumer and producer countries.

3. I welcome the European Community's decision that future arrangements for tin, if any, should be considered outside the International Tin Council. It follows that we can and should take the view that the ITC's staff and activities should be run down, so that by the end of its natural life the ITC will have been reduced to a point where it could either be wound up or retained in vestigial form for the sole purpose of dealing with law suits and other aspects of the crisis.

4. It is less easy to assess the balance of advantage to HMG in seeking to bring about the early termination of the 6th International Tin Agreement. The legal framework of the ITA might indeed be useful, as you suggest, until we are confident that there is no further risk of legal actions on a joint and several basis against HMG. Lawyers will need to consider whether the ITC could remain in being after the termination of the 6th ITA. The preliminary view of my legal advisers is that because the ITC's assets are exhausted, it could be argued that there would be no basis under ARticle 60 of the 6th ITA to maintain the ITC once the ITA itself had expired. Given these uncertainties our best course may be to let others take the lead in discussing

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the termination or possible extension of the 6th ITA and retention of the ITC beyond 30 June 1987.

5. I can understand your lack of enthusiasm for any future international arrangements relating to tin. It could probably be argued that Community competence does not apply to study groups, and we should therefore be free to base a decision about participation on economic, political and financial grounds. It is for you to judge whether the type of monitoring and analytical work that has been undertaken by the ITC and its forerunners over the years is or is not useful to the UK trade and industry. There are however some wider questions to be considered, such as the role of international study groups in encouraging market transparency and enabling developing countries to take informed decisions about diversification, structural adjustment and/or increased investment in particular commodities. Given the problems confronting countries primarily dependent on commodities for their export earnings, and the pressure we face to increase our assistance to developing countries generally, it would seem churlish and could be counter-productive to refuse to have anything to do with a study group whose terms of reference explicitly precluded any form of market intervention. I hope therefore that you can agree to keep this question open, at least until we have had an opportunity collectively to review our overall policy on commodities and to ascertain the views of our Community partners, the Americans, Canadians and Japanese.

6. I am copying this minute to the Prime Minister, the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food, the Solicitor General, the Governor of the Bank of England, and to Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
2 June 1986

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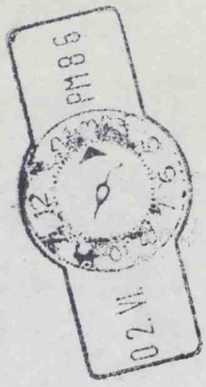

PART 2 ends:-

SS/DTI to CPS 30/5

PART 3 begins:-

FCS to SS/DTI. 2/6


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