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PREM 19/2563

UNCTAD I and the

Common Fund

Subsequent UNCTAD Meetings

UNITED NATIONS

PART 1:

MAY 1979

PREM 19/2563

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~9.5.79~~		~~2.6.83~~					
~~14.5.79~~		~~14.7.83~~					
~~22.5.79~~		~~23.7.84~~					
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~~22.6.79~~		~~6.7.87~~					
~~30.6.80~~		~~29.7.87~~					
~~31.3.83~~		~~12.8.87~~					
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PART 1 ends:-

SS/DTI TO FCS 29.9.87

PART 2 begins:-

CH/EXQ TO SS/DTI 5.10.87

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Secretary of State for Trade and Industry

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29 September 1987

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

Please advise us when we have views of FCO & Treasury
CDD
29/9.

Dear Geoffrey,

THE COMMON FUND

As noted by Alan Clark in his letter of 12 August, commenting upon the outcome of UNCTAD VII, there is now a real prospect that the conditions required to bring the Common Fund into effect will shortly be met, assuming as we must that the Russians, together with a number of other countries, will indeed ratify. The next meeting of the UNCTAD Trade and Development Board (TDB) has on its agenda arrangements for reconvening the Preparatory Committee and the Community will before long be discussing how to proceed. This underlines the importance of settling the UK's policy towards the Common Fund as soon as possible.

As an aid to discussion officials have prepared the attached paper setting out the background to the Fund, our attitude hitherto, the costs implied by our membership , the position of the EC and other countries and the options for action. The paper, which has been agreed interdepartmentally, refrains from making firm recommendations since the the final conclusion depends critically on the political judgement of where our interests lie, taking into account the likely consequences and feasibility of the courses open to us.

It is common ground that we are deeply sceptical about the economic case for new market intervention commodity arrangements and see no need for the Common Fund. We pointed out our reservations in Alan

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Clark's address in Plenary at UNCTAD VII and in the terms of the UK statement. The cleanest solution and one which I know is attractive to a number of colleagues is deratification. That would be consistent with our public stance and our commitment to a deregulatory approach. There are, however, a number of factors which should be taken into consideration.

First, consultations with EC partners at (official level) suggest that we could be in a minority, although conversations which Alan Clark had with some of his Ministerial counterparts indicated approval of the UK's position as stated at UNCTAD. The West Germans who largely share our views on commodities appear to believe (in spite of Bangemann expressing his strong distaste for the Fund to Alan Clark) that the Fund can be neutralised by setting stringent rules for its operation and by preventing International Commodity Organisations from using its resources. At official level, the view was expressed that deratification was not a politically feasible solution.

Secondly, the criticism from the developing countries, including those in the Commonwealth, would be strong. This is in the context of the renewed focus which was given to the Fund during UNCTAD VII as a result of the Soviet and other promised ratifications and the fact that our deratification would be sufficient to bring the aggregate level of ratifications below the qualifying level again. You will be better able to judge the size of the potential political cost and how it might arise.

Thirdly, there is always the possibility that our deratification could be reversed. The view of the lawyers is, I understand, that the Commission would be able given our past acceptance that the Community as a whole should join the Fund - to take us to the ECJ and would stand a good chance of winning on the basis that we had departed from a common position in an area where the Community had at least partial competence. It is not wholly certain that they would take that step but there could be external pressure on the Community to prevent what would be seen as wrecking action. A challenge, which could result also in a gain in competence for the Commission would also be line with Cheysson's inclinations. If we did lose, we would face the potentially embarrassing prospect of having to reratify the Fund Agreement.

I would welcome your and colleagues' views on deratification. I am reluctant to put it one one side if there is a chance that we could succeed and the cost could be contained. But it is also necessary to consider an alternative approach.

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There is no single simple alternative. Because of the number of basic and contentious decisions which will have to be taken to bring the Fund into operation, there will be opportunities for delay and possibly considerable delay. These can be exploited. It is unlikely, however, that we could achieve an indefinite deferment, without the help of a number of other countries.

There is certainly scope for framing the operational rules of the Fund stringently, thereby making the use of resources extremely difficult and subject to rigorous conditions. That could be matched by using every means, in collaboration with other like-minded countries, of resisting agreement to new market intervention commodity arrangements or the use of Common Fund finance by existing ones. It might even be possible to try and freeze the First Account, either formally by an amendment to the Common Fund Agreement, which would however need a 75% majority of participating members, or informally through some arrangement to concentrate, at least for a number of years, exclusively on the Second Account.

We would maintain the right to withdraw, although that too,like deratification, would be subject to possible challenge by the EC. But by withdrawing after the Fund had come into effect, we would not be so open to the accusation of wrecking, particularly if we maintained our contribution to the Second Account. We should also be able to choose our ground, such as a failure to meet key points about the way in which the Fund would operate. Provided that these reflected real and widespread concerns, we would be more likely to gain the understanding of the Commission and other EC members. Whether or not we could then turn that understanding into an explicit or tacit acceptance of a UK withdrawal and so escape formal legal challenge would depend upon the circumstances of the time. On present experience it would be unwise to place much weight on the possibility. But it is certainly worth keeping it open as an option which can be realised if an opportunity occurs or can be created.

Essentially the judgement is between taking the risk of instant deratification and facing out the consequent storm (regarding whose probable intensity there are conflicting views) or progressively eroding goodwill and arousing irritation by, a series of delaying and obstructive measures as suggested above but which may leave us no better off.

I would be grateful for your views and those of colleagues in the near future so that we can be well prepared for the opening of the discussion in the Community.

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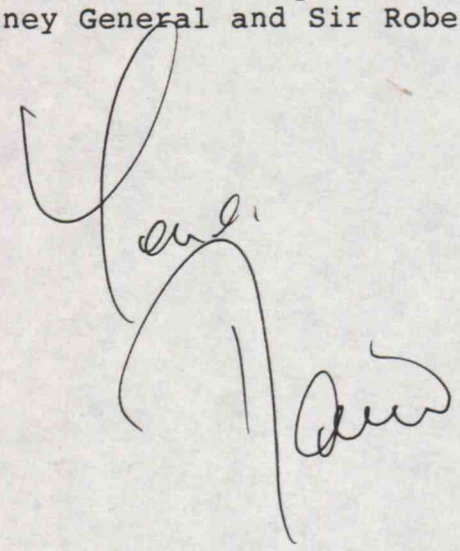
I am sending a copy of this letter and attachment to the Prime Minister, the Chancellor of the Exchequer, the Minister of Agriculture, the Attorney General and Sir Robert Armstrong.



LORD YOUNG OF GRAFFHAM

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UN : Unctad V May 79

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THE COMMON FUND FOR COMMODITIES

Note by Officials

Introduction

1. Announcements at UNCTAD VII in July by the USSR and several other countries of intention to ratify the Common Fund Agreement mean that, seven years after the Agreement was adopted, it may now shortly enter into force. We cannot be precise when the necessary target figure may be reached but it seems quite likely that it could be before the end of this year, and conceivably as early as late October. In the light of these events, and taking account of Ministers' decision in the 1986 Review of UK Commodity Policy to follow a deregulatory approach, we need to consider again UK policy towards the Common Fund. In particular we need to reach agreement very soon on the line to be pursued in the European Community this autumn.

2. This paper covers:-

Section A. Background on the Common Fund itself and UK involvement, including costs . (Paras 3-12)

Section B. Other countries' attitudes. (Paras 13-16)

Section C. The European Community (Paras 17-18)

Section D . UK Objectives. (Para 19)

Section E. Options for action. (Paras 20-27)

Section F Evaluation of Options (Paras 28-32)

Section G. Conclusion (Para 33)

Section A : The Common Fund

3. The Common Fund was conceived as part of a comprehensive framework for international commodity policy (known as the Integrated Programme for Commodities or IPC) agreed at UNCTAD IV in 1976. It comprises two "Accounts". The First Account, which is the central element in the Agreement, is intended to support the international buffer stock operations of International Commodity Organisations (ICOs) . The Second Account would contribute to funding "developmental" measures in the commodities field such as research and development, marketing and vertical diversification. Further information on the Common Fund and its financial structure is at Annex I.

4. The late 1970s was a period of generally high commodity prices; price-stabilisation agreements were then seen by many as instruments which could have some benefits for consumers as well as producers. Nonetheless, from the outset the UK had doubts about the justification

for the Common Fund. The decision to participate in the negotiations and finally to sign and ratify the Agreement was taken primarily for political but also for economic reasons. The Integrated Programme for Commodities was one of UNCTAD's few apparently substantive contributions to improvement of North/South relations and the Common Fund, as the centrepiece of the IPC, had considerable symbolic value for developing countries. Our public posture, and that of the European Community as a whole, has therefore been supportive. As the Prime Minister said in the House of Commons in December 1981 - "we welcome the creation of a Common Fund for Commodities".

5. Our reservations have always focussed particularly on the First Account. At the time when the Common Fund was launched it was envisaged that there could be some 10 to 12 commodity agreements operating through international buffer stocks and sharing a common pool of finance. From the start we considered this figure very optimistic, and over the years it became increasingly unlikely. At the same time the poor record of market intervention commodity agreements of all kinds added strength to doubts about the value of the Fund. These were confirmed by the severe problems with the tin buffer stock which led to the collapse of the Tin Agreement in 1985.

6. In the interdepartmental review of commodity policy last year Ministers decided that we should henceforth pursue a deregulatory approach to commodity issues. We should discourage renewal of existing agreements and formation of new ones, and seek to avoid joining agreements. It was recognised that supporting commodity agreements with buffer stocks through the Common Fund ran counter to this approach but at that time it seemed unlikely that the Fund would come into force. Ministers decided that the case for unilateral withdrawal was outweighed by the damage this could cause to UK interests.

7. Since this review the Cocoa and Rubber Agreements have both been renegotiated. We were unable to prevent this. But by pressing the case for a market-oriented approach we were able to ensure that the new agreements contain more realistic economic provisions than their predecessors. Because of this and the difficulty of resisting Community membership, Ministers decided that we should join the new Cocoa Agreement, and a decision is pending on the Rubber Agreement. The Cocoa and Rubber Agreements are in fact the only two international commodity agreements currently operating international buffer stocks. The idea of pooling the resources of a number of buffer stocks - the core assumption of the Fund - is unrealisable in current circumstances. Moreover neither the Rubber nor the Cocoa Agreement has any obvious need to call on the First Account, and there is no sign of enthusiasm at present among their members for association with it.

8. It should be noted that as a result of UNCTAD VII the Secretariat has been given a general mandate to undertake consultations on commodity arrangements. It is possible that supply might create demand, and entry into force of the Fund might give a stimulus to efforts to negotiate new commodity agreements with buffer stocks. This might then add to the potential for contingent liabilities (see para 11 below). Our present assessment is that it is unlikely that this could lead to more than one or two such agreements at the most. Possible candidates are coffee, through a change from the existing

quota system to a buffer stock in a renegotiated agreement, and jute, although consumers have consistently rejected the idea of a buffer stock for this commodity. Tea has also been mentioned, but at present it is not considered a likely candidate. However, the Common Fund, as drafted, would continue indefinitely and it is impossible to say that a use would not eventually be found for the funding it offers.

9. Although we have always had doubts about the need for a new facility requiring additional institutional machinery in UNCTAD, we have generally supported the underlying objectives of the Second Account, provided the Fund could be obliged to operate in close cooperation with the World Bank. With its focus on market development measures the Second Account fits in with our own policy which aims to treat commodity issues in a broader developmental context. In consideration of action on the Common Fund in the preparation of the Community's position for UNCTAD VII earlier this year we supported the proposal that member states should express their willingness to provide the money pledged to the Second Account for similar activity outside the framework of the Fund. This particular initiative was overtaken at the beginning of the Conference by the news of the USSR intention to sign and ratify the Fund. Discussion of it in the Community did, however, show that there was considerable support for providing assistance to developing countries with commodity problems through Second Account activities.

10. Details of the cost to the UK of membership of the Fund, as provided by the Agreement itself, are given in Attachment A to Annex I. The total cost would be about £8.75m, of which £4.27m is represented by our voluntary pledges to the Second Account. On the assumption that we would provide this £4.27m whether we left the Fund or not (following the precedent when we left UNESCO and in the light of our support for the Community initiative this summer), the cash saving as a result of deratification would be £2.25m. (Half the subscription to the First Account is in the form of promissory notes.) It should be noted that, quite apart from the question of providing Second Account funding, we are under some pressure in the International Jute Organisation and the International Tropical Timber Organisation to provide voluntary financing for their Second Account type activities

11. As regards contingent liabilities (covered by the Prime Minister's letter Number M8/86 of 23 May 1986), the UK would face an added commitment of £1.96m in the event that the Fund were unable to meet its liabilities on First Account operations. There is also an at present unquantified contingent liability in respect of guarantee capital provided to the Fund by reason of our membership of any international commodity organisation which might associate with it. The Fund was drawn up with express language to enable members to avoid incurring unquantifiable liabilities. In this respect at least it differs from the Tin Agreement, and appears to offer adequate protection against the more obvious kinds of liability, such as default in borrowing on the First Account.

12. It is difficult to say categorically that there are no further contingent liabilities. There would still remain the possibility of litigation by third parties against Members for liabilities incurred by the Fund. This is what happened with Tin: the outcome is still uncertain. It should clearly be an important objective in any

discussions of the detailed regulations of the Fund to ensure that control of its financial operations was tightly supervised by the Governing Council or Executive Board. A more detailed commentary on possible contingent liabilities within the Agreement is at Attachment B to Annex I below.

B: Attitudes of Other Countries

13. Following the decision to adopt a deregulatory approach, we have canvassed support for expressing doubts about the economic case for and functioning of commodity agreements and the need for the Common Fund itself. While quite a number of countries, including our EC colleagues and some developing countries, share our reservations to some extent, there has generally been only limited reflection of this in public. This was seen at UNCTAD VII when the UK was alone in making a statement of reservation concerning the continued relevance of the Common Fund and urging review before steps were taken to bring it into operation.

14. Since UNCTAD VII we have taken further soundings among developing countries. Some like Mexico, Thailand and India admit privately to doubts about the need for the First Account but are very reluctant to take action which could expose them to criticism from other developing countries, quite a number of whom still strongly support the Fund in its entirety.

15. A similar position is found in many developed countries. While recognising that the Fund is an inappropriate instrument to deal with many commodity problems, they are unwilling or unable to contemplate deratification or withdrawal. The exception to this general picture of resigned acceptance of the Fund among Western countries is the United States. Although the United States signed the Fund Agreement in 1980, the Reagan Administration has repeatedly made clear that it does not intend to ratify it. In the light of this it seems probable that the US will continue to stand aside from discussion of the Fund.

16. Any idea of completely renegotiating the Fund Agreement seems very unlikely to command support. There are, however, indications that some Western countries, eg the FRG, might support attempts to alter the functioning of the Agreement from within, eg by focussing entirely or largely on the Second Account. EC mechanisms would provide an opportunity to exploit this. A minority of developing countries might also be prepared to support such a change of emphasis provided it was not opposed by the majority.

Section C: The European Community

17. Community competence exists in relation to the Common Fund at least so far as membership is concerned. The Council decided in 1981 that the Community as such should participate in the Fund 'alongside the member states': the Community subsequently signed the Agreement in 1981. Unless the UK could muster support to reverse the previous decisions, unilateral deratification or withdrawal would run a strong risk of challenge before the European Court of Justice. The UK could well lose and be forced to reratify. Legal advice is that an adverse ruling might have repercussions going well beyond the Common Fund itself, possibly extending Community competence in relation to mixed agreements generally.

18. The Council stated in 1980 that no financial contributions by the Community would be made to the First or Second Accounts without a prior, separate, Council decision. It is therefore arguable that the scope of Community competence as regards the operations of the Fund is quite limited. In protecting ourselves from any Commission attempts to enlarge this scope, it would be important to prevent financial contributions from the Community Budget. Our ability to do so appears quite strong, and we would probably enjoy the support of other Member States (notably France and the FRG). These questions are dealt with in detail at Annex II.

Section D: UK Objectives

19. Following the inter-departmental review of commodity policy last year we have a number of general and specific objectives which bear on the Common Fund. The most significant are:-

a. To follow the deregulatory policy agreed by Ministers by dissociating ourselves from, and as far as possible preventing, any action which would lead to regulation of commodity trade - in particular the encouragement of commodity agreements with economic provisions - and to promote a market- oriented approach.

b. To remove or at the least reduce any financial obligations in relation to commodity arrangements, in particular any unquantified contingent liabilities.

c. To maintain a convincing and consistent international posture in relation to commodity policy, avoiding unnecessary isolation or prejudice to wider UK political and commercial interests.

d. To ensure that, if there has to be activity under the Common Fund, it should as far as possible serve useful developmental purposes.

Section E: Options for Action

20. The main options are set out below. Only Option (i) Deratification is exclusive. The other Options, (ii) Withdrawal, (iii) Obstruction or (iv) Modification could either be pursued singly or in combination as part of a general strategy.

Option (i): Deratification

21. Apart from the considerations mentioned under Section C above (which also apply to Withdrawal), there are no legal restrictions on the UK's freedom to withdraw its existing notification of ratification before the Common Fund comes formally into force. Given the possibility that the Fund will come into force in the next few months, a decision to deratify would have to be taken fairly quickly. We would not have to provide any of the money related to the Fund set out in Annex I, apart from anything it was decided to provide in lieu of pledges to the Second Account (paras 9-10). Deratification would take the form of a letter to the Secretary General of the United Nations; no formal action would be required in Parliament.

22. A relevant factor is that, if the requirement for countries ratifying of 66.66% of the directly contributable capital (DCC) is

reached, it will probably only be by a narrow margin. The deduction of the UK share of the capital (3.12%) would reduce the total below the required limit again and could on its own be instrumental in delaying the coming into force of the Fund for some time (although almost certainly not indefinitely), since additional ratifications could probably only be obtained from countries with very small shares of DCC.

Option (ii): Withdrawal

23. Under Article 30 of the Agreement it is possible to withdraw at any time but at least 12 months has to elapse after receipt of notice of withdrawal before it becomes effective. Once beyond the first 60 days, (during which we would have to make a first cash contribution of £1.345 m), we would have to pay a further £897,000 of DCC and at the very least the first £448,000 instalment of promissory notes. All of this money would, however, be repaid after our twelve months notice of withdrawal took effect.

Option (iii): Obstruction

24. If we decide against deratification or early withdrawal there is considerable scope for action to delay the time at which the Fund could actually come into practical effect. Annex III describes the substantial amount of work which is needed before the Fund can start work and the possibilities for dragging out decisions. We could, for instance, press for detailed study by the UNCTAD Secretariat of the continued relevance of the Fund and the extent to and ways in which it could fulfil its original purposes. When the Preparatory Commission, or a replacement body, began work on the many outstanding points we could use procedural devices to slow it down. For example we could press for very stringent and detailed operational rules, inter alia on the grounds that these were needed to reflect experience since the Agreement was drawn up eg with the Tin Agreement. (We should in any case wish to make the rules as watertight as possible, and could expect our partners to agree.)

25. Even at the point when the Common Fund might be ready to operate, there would still remain considerable opportunities to limit its activities in practice. For example, for the First Account to become operational there has to be a prior decision in an individual commodity body operating a buffer stock to request association with the Fund. Current evidence suggests that neither of the two commodity bodies with buffer stocks, the rubber and cocoa organisations, would be all that keen on association. Their weighted voting procedures may provide us with scope to work for blocking minorities against association in each organisation. Even if this hurdle was overcome, a request for association has to be accepted by a two-thirds majority of the Governing Council of the Fund.

Option (iv): Modification

26. This option would also involve delaying tactics but would go beyond these to incorporate an active effort to get the First Account indefinitely shelved, thus avoiding its coming into operation and possibly acting as an incentive to the creation of new market-regulating commodity agreements. Given the symbolic importance developing countries attach to the Fund and hopes that new market

intervention commodity agreements may be negotiated, it would probably prove very difficult, if not impossible, to secure agreement to this as a formal decision.

27. There may, however, be a possibility of getting agreement on a de facto freeze of First Account operations. In effect there might be a trade-off between developing countries' acceptance of this and developed countries' readiness to support progress with the Second Account. Such a freeze could be by agreement that there would be no work on the rules of procedure for the First Account, which are required before it could actually begin operation. Another possibility would be an understanding that the First Account would only become operative when at least three international commodity organisations had formally associated with the Fund. We could also try to curtail First Account activity by severe restrictions on its borrowing through the detailed rules of procedure.

Section F: Evaluation of Options

(i) Deratification

28. This would be in tune with our stated attachment to a deregulatory approach and would give a clear signal of our dislike of market intervention commodity agreements. It would also fit in with the conditions attached to our reluctant continued membership of the two existing agreements with buffer stocks, the Cocoa and Rubber Agreements. We would also avoid having to pay over any money to the Fund and any contingent liabilities. We would need to take action within the next month or so, and might thereby set back the date for the Fund coming into force by a considerable time, though we could probably not prevent it from doing so in the end.

29. Such action would attract criticism. There would be a strong risk that the EC Commission would start action against us in the European Court of Justice: the outcome of such a case is unpredictable and could produce adverse consequences for our position on Community competence going beyond the Common Fund itself. For this reason, EC partners would also be likely to oppose our action. More widely, deratification would be seen by developing countries as an affront to their interests. Their criticism might be a little reduced if at the time of deratification we were to announce that we would be making available the £4.27m we have pledged to the Second Account for commodity development purposes under our aid programme.

(ii) Withdrawal

30. A decision to leave the Fund after it had come into force, particularly if it was not taken for some time, might attract less attention and criticism. It would certainly remove the argument that we had deliberately prevented the Fund coming into force. On the assumption that we stayed in long enough to give time to assess the possibility of obtaining modifications, we could make clear that, if our wishes for substantial changes to the Fund were not met, we would regard this as providing justification for leaving. The longer we left any decision on withdrawal, the more of our overall contribution to the Fund we would have to provide, but it would be returnable after one year's notice of withdrawal. There would, however, be an equal or stronger risk of action in the ECJ if we had not persuaded the

Community to adopt our view.

(iii) Obstruction

31. The large amount of work required before the Fund can become fully operational means that there will be plenty of opportunity for delay. The success of such a tactic would inevitably depend to a considerable extent on the amount of support we could obtain particularly from EC partners. There is no evidence that others would join us in a policy of deliberate wrecking tactics although some, like the FRG, might be prepared to use all reasonable scope for spinning out the process for as long as possible and for introducing procedural obstacles. As with the other options, however, we could not ultimately stop the Fund by this means and would have to work on the assumption that in some form or other it would eventually start to operate, if only in relation to the Second Account. This course of action can most usefully be considered alongside the possibility of securing changes to the way the Fund would work.

(iv) Modification

32. While it seems unlikely at present that in practice the First Account could become operational (because of the lack of commodity agreements with buffer stocks wishing to associate with it), it would probably be very difficult to get formal recognition that it should be shelved for all time. This would almost certainly require a 75% majority for an amendment to the Agreement. It may, however, be possible to achieve a de facto freezing of the First Account or severely restrict its operations, and to concentrate activity on the Second Account. We could expect others to join us in pressing for very strict operating and financial rules and regulations for the Fund.

Section G: Conclusion

33. As we cannot rely upon being able to delay the coming into operation of the Common Fund for an indefinite period, the choice would appear to lie between:-

(a) Dissociating ourselves from the Common Fund by deratification or early withdrawal, accepting the danger of a successful challenge in the European Court of Justice, which would at the least compel us to rejoin, and the likelihood of an adverse international reaction; or

(b) Continuing to voice our concerns about the Common Fund, while doing what we can in concert with our EC partners to delay implementation and to press for substantive changes to it, preferably in a way that would freeze or neutralise the First Account. This would not rule out the possibility of eventual withdrawal if our objectives were not met. But we should have to secure support in the Community if such action were to escape legal challenge.

ANNEX I: BACKGROUND TO THE COMMON FUND

A: Origins and Purpose

1. The Common Fund was conceived as the centrepiece of the Integrated Programme for Commodities (IPC). The IPC, intended as a comprehensive framework for international commodity policy, was launched at UNCTAD IV in 1976 and after four years of negotiations under UNCTAD auspices the Common Fund Agreement was adopted in June 1980. The UK ratified the Agreement in December 1981. The Agreement has yet to enter into force, but following developments at UNCTAD VII outlined below (paragraph 7) one must assume that it will do so in the near future.

2. The Fund comprises two Accounts. The central purpose of the Fund lies in the provision through the First Account of a pool of finance for the buffer stock operations of International Commodity Organisations (ICOs). It was envisaged that ten to twelve ICOs would conclude Associations Agreements with the Fund, thereby enabling the First Account to act as a revolving facility, with borr owing by one ICO complemented by repayments from another. The Second Account was added when it was realised by a number of developing countries that they stood to gain little from the provisions of the First Account. Under the Second Account, funds would be provided for various measures "aimed at improving the structural conditions in markets and at enhancing the long term competitiveness and prospects of particular commodities." These measures would include research and development, productivity improvements,marketing activities and vertical diversification.

B: Financial Structure

3. Reflecting the relative importance attached to the two Accounts, the financial structure of the Fund is weighted in favour of the First Account. Members of the Fund would subscribe to shares in order to provide the Fund with its capital base; as originally envisaged (with 163 member countries) this Directly Contributed Capital (DCC) would total $470 million. Each member would be able to allocate up to 100 shares specifically to the Second Account, the rest going to the First Account. It was intended that in this way at least $70 m of the DCC should go to the Second Account, but the lion's share (up to $400m) would be used to finance First Account operations. The Second Account would therefore be dependent primarily on voluntary contributions from members of the Fund.

4. In practice, the Fund is likely to have no more than 100 members on its entry into force and on this basis its DCC would amount to approximately ~~$300~~m. Voluntary pledges to the Second Account currently amount to about $256 m. There must be some doubt however whether all these pledges would still be honoured today. The Phillipines, for example, made a pledge of $25 m back in 1979.

C: Position of the UK

5. The collapse of the Tin Agreement in 1985 prompted a review of UK commodity policy which included a reappraisal of our attitude to the Common Fund. Ministers decided that we should canvass support in the European Community for our view that the Fund no longer made sense.

We hoped thereby to get other Member States to join us if we subsequently decided to pull out of the Fund. We made a formal statement of our reservations at the end of UNCTAD VII this summer, questioning how far the Fund could still fulfil the tasks originally envisaged for it and calling for review before steps were taken to bring it into operation.

6. Details of the cost to the UK of membership of the Fund are set out in the attached table. The UK's contribution, including the voluntary pledge to the Second Account, totals £8.75m, of which £6.51m would be in cash and the rest in promissory notes. In the event ofthe Fund being unable to meet it liabilities on First Account operations from its normal resources, the UK's additional commitment (by way of callable shares) is limited to £1.96m. The UK's payments would be met from the ODA budget.

7. If we decide to deratify in advance of the Agreement coming into force, the cash saving would be £2.24m (on the assumption that the money we have pledged to the Second Account was used for similar purposes outside the framework of the Fund). If we were to withdraw after the Fund entered into force, money paid into the Fund by the UK for the First Account (details below) would be reimbursed.

D: Current State of Play

8. As at 22 September 1987 95 countries had ratified the Common Fund Agreement. These include all the member states of the European Community with the exception of Portugal. Portugal has now announced its intention of ratifying the Agreement, but it is unlikely that this will occur before the end of the year. A further 20 countries have signed but not ratified the Agreement. These include the USA which has announced that it does not intend to ratify.

9. In July 1987 at UNCTAD VII a number of countries including the Soviet Union undertook to ratify the Agreement. Their ratifications would be sufficient to bring the Agreement into force. One must therefore work on the assumption that the Agreement will enter into force by the end of the year, possibly earlier, and at that point the UK would become liable for the first instalment of its contribution to the Fund's DCC (£1.35m). Before the Fund could become operational, however, a considerable number of points would need to be resolved concerning its rules of procedure, staffing, location of headquarters etc. (Further details are given in Annex III).

Attachment #

COMMON FUND - COST OF UK MEMBERSHIP

	TOTAL	FIRST ACCOUNT		SECOND ACCOUNT	PAYMENT DUE
		Cash	Promissory Notes	Cash	
PAID IN SHARES					
1ST INSTALMENT	£1,345,365	£1,345,365	-	-	Within 60 days after entry into force of Agreement
2ND INSTALMENT	£1,345,365	£896,910	£448,455	-	One year after 1st Instalment
3RD INSTALMENT	£1,793,820	-	£1,793,820	-	One year after 2nd Instalment
Total of PAID IN SHARES	£4,484,550	(£2,242,275	£2,242,275)		
VOLUNTARY PLEDGES	£4,270,000			£4,270,000	Payable against demand to finance approved projects.
Total outlay	£8,754,550 **				
CALLABLE SHARES	£1,958,524	£1,958,524			To be called only if required to meet First Account liabilities which cannot be met by other resources
Total (including callable shares)	£10,713,074				

** £6,512,275 in cash £2,242,275 in notes

ATTACHMENT B

CONTINGENT LIABILITIES UNDER THE COMMON FUND AGREEMENT

QUANTIFIED

1. The Callable element of the UK's share of Directly Contributed Capital (DCC): £1,958,524.

UNQUANTIFIED

2. Guarantee Capital will be provided to the Fund by members of any Associated ICO. The total value of such capital will be two thirds of the Maximum Financial Requirement (MFR) of the ICO, to be divided between the members of the ICO, (the MFR being determined by the cost of purchasing the maximum allowed buffer stock of the ICO, plus any carrying costs). The UK's share is therefore unlikely to exceed the contribution we would make to finance an ICO's buffer stock in the absence of the Common Fund (though it would be in the form of a loan rather than as a direct contribution). It would probably have to be provided whether or not we were a member of the Fund.

3. Under the Agreement, guarantee capital will be called upon for two reasons:

a) First, in the event of an Associated ICO defaulting on any of its borrowings from the Fund. Article 17(F) provides that, if an ICO defaults, the Fund shall meet the liability from resources in the following order:

i) ca~~sh of~~ the ICO held by the Fund
ii) pro rata calls of Guarantee Capital provided by members of the ICO by virtue of their participation in the ICO
iii) Stock Warrants pledged to the Fund by the ICO

b) In respect of borrowings by the Fund's First Account. Such borrowings are limited by Article 15 to an amount representing the aggregate of the uncalled portion of Payable Shares, the uncalled Guarantee Capital and Guarantees of participants in Associated

International Commodity Organisations (ICOs), and the Special Reserve to be set aside from First Account earnings. These sources should therefore cover any repayments and would be called on in that order to meet liabilities of First Account borrowing.

4. If these sources were not sufficient to enable liabilities in respect of First Account borrowings to be met, there is provision (in Article 17 G 14) for the Fund's Governing Council to increase the shares of Directly Contributed Capital by the amount needed to meet such liabilities. However, a related Article (9(5)) provides that 'each Member shall have the right, but shall not be required to subscribe to such shares'. It seems clear from this that, although authorised capital may be increased, whether or not the additional capital is then subscribed is a matter for individual Members; and, in the absence of Community competence on the issue, the UK would presumably decline.

UNQUANTIFIABLE

5. While it is possible to identify means whereby Members may escape responsibility under the Fund Agreement for liabilities incurred by the Fund to third parties, there remains the question of how such liabilities would be met. They fall under two related heads.

a) The Agreement does not provide an express limit to borrowings by the Second Account. But Article 16 D 5 (a) restricts the sources of such borrowings to Members and IFIs and Article 18 D 4 (a) stipulates that borrowing shall be on concessional terms. Moreover, the aggregate amount of loans and grants that can be made through Second Account operations is limited by Article 18 13 2 to the aggregate amount of the resources of that Account. There is no provision which requires Members to meet any liabilities which may arise under this Account, and it is thus unclear how any liabilities which the Fund could not meet would be met.

b) First Account borrowing over and above the resources listed in Article 15 (which must, by definition, be ultra vires since these resources also represent the limit on permissible First Account

borrowings). Given that members are not obliged to subscribe to additional shares of DCC (para 4 above), it is again unclear how liabilities arising in this manner would be met.

6. Our general position is that States are not liable for the debts of an international organisation simply by reason of their membership. This is given formal expression by Article 6, (which matches similar provisions in all other IFI Charters). However, even if with the aid of Article 6 we could avoid liability to the Fund itself for debts it had incurred, we might be open to litigation by third parties for such debts. It is possible that nothing in the Agreement would, simply by virtue of its presence there, protect us against litigants who were not parties to the Agreement. Courts in the US, for example, might be prepared to exercise jurisdiction: though we would be strongly placed to resist any such attempt. This is very much the realm of the present tin litigation (although the Tin Agreement contains no equivalent to Article 6 expressly limiting liability). The position might be clearer when that litigation is concluded, but this is still some way off.

7. Long-stop additional powers are provided in Article 16 D 5 (c) but it is not clear that these could be used to impose financial liabilities on Members. Given that they may only be exercised in accordance with other provisions of the Agreement, it seems unlikely that they could.

ANNEX II: COMMUNITY COMPETENCE

A. Does competence exist?

1. The application of Community competence to the Common Fund has always been a grey area: a reflection of disagreement in the late 1970s between the Commission, which argued that the Fund was an instrument of commercial policy falling within Article 113 of the Treaty, and the Member States (primarily France, the FRG and the UK) who argued that it was an international financial institution, outside Community competence. It was eventually agreed that the question of the legal basis for Community participation should be left in abeyance.

2. The Member States nevertheless clearly conceded some degree of Community competence in relation to the Fund, since they eventually agreed that the Community as such should participate in the institution (and, indeed, Article 4(b) of the Fund Agreement was included at EC request, to enable such participation). It follows that we cannot challenge that some degree of Community competence for the Fund exists.

B. What is the scope of Community competence?

3. A Council Decision of October 1981 agreed that the Community should participate "alongside the Member States as from the start of the Fund's operations". A previous Minutes Statement of 9 June 1980 agreed that the Community as such should not contribute to either the First or Second Accounts of the Fund without a separate Council Decision to that effect.

4. The Common Fund is specifically excluded from the scope of PROBA 20. The natural interpretation of the decision that the Community should participate "alongside the Member States" is therefore that the normal procedures for mixed agreements should apply: the Member States and the Community should participate according to their respective competences. In view of the limitations on Community financial contributions the scope of Community competence is arguably quite limited; in particular we have strong arguments to the effect that the Commission have no power to impose obligations on the Member States with regard to their own contributions.

C. Implications

5. i) Deratification/withdrawal. We are committed, through our acceptance of the Council's decision to this effect, to the Community becoming a member of the Common Fund from the start of its operations. An argument might be advanced that

recommendations of the PC (or its replacement) would then need to be voted on by the Governing Council, requiring a 75% majority for adoption.

5. A very substantial and potentially time-consuming amount of work therefore remains to be done before the Fund could become operational - even without the use of delaying tactics. When the scope for deliberate obstruction is added to this, it seems clear that the period between the Fund's entry into force and the date at which it starts operations must be reckoned in years. The UNCTAD Secretariat recently suggested that the work would take three years.

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it is not legally essential for all Member States and the Community to be parties to the Agreement together. Under such an argument, their respective powers are parallel, and all of the obligations of the Agreement may be undertaken without the necessary presence of all of the Member States.

6. But even if such an argument could be sustained in relation to the Common Fund it is clear from the Council decision on Community participation that it was intended that the Community and all Member States should participate together in the Agreement. The position is reinforced by the UK's and other States' conduct surrounding the decision. In particular, UK strongly resisted a Commission proposal in 1980 that the Community should sign the Agreement before all Member States had done so; similarly, Community ratification has been delayed pending Portugese ratification.

7. It would be open to us to try to get a new Council Decision reversing that of 1980, or to marshal a blocking third to stop the adoption of a Decision on Community ratification. But the chances of success do not seem high.

8. Were we to deratify, we would risk an action before the European Court of Justice (ECJ). At this stage, one cannot with certainty predict the outcome of such an action, but it is likely that the ECJ would be disposed to find an "obligation" (to join and remain a member) in the decision and surrounding conduct, or to treat joint or continuing participation in the Agreement as necessary to achieve one of the Community's tasks under Article 5 of the Treaty of Rome.

9. A successful action might well result in an undesirable extension of Community competence with consequences, eg for Member States' financial obligations to the Common Fund. At the least there would be an obligation to re-ratify. There is also a significant risk that a ruling in the circumstances on the Common Fund could undermine the PROBA 20 arrangements, as well as extending Community competence in relation to mixed agreements generally.

10. The risk of an action before the ECJ would be reinforced if UK deratification were to take place after Portugese ratification: the Commission would then see us as seeking to prevent Community participation in the Fund, and consequently as in breach of our Council commitment.

11. The considerations applicable to deratification would equally apply to the question of unilateral UK withdrawal from the Fund under Article 30 of the Agreement.

12. ii) Obstruction/modification. Given the limitations on the extent of Community participation in the Common Fund it

is unlikely that we could be obliged for reasons of Community competence significantly to adjust our approach to modification or obstruction of the Fund's operations. Our task would be more one of persuading the other Member States to follow our approach. Experience to date is limited to the early sessions of the Preparatory Commission in 1980-82: at that time it seems that coordination was undertaken in the framework of Group B rather than among the Community.

D EC budgetary aspects

13. The absence of a financial contribution to the Common Fund from the Community as such will assist our argument. It is therefore most important that we resist any attempt by the Commission to contribute to the Fund from the EC budget.

14. The Council Minutes Statement of 9 June 1980 is clearly relevant. Despite the Statement, the Commission have included token provision for Community contributions to both Accounts of the Fund in EC Budgets since 1981. It appears that, although the UK opposed this provision in 1981, (apparently without effect) the Council acquiesced in subsequent years.

15. The token provision does not represent a breach of the 1980 agreement, since there has been no actual expenditure. If the Commission were now to propose that the Community provide funds from the Budget, our failure to object to token provisions should not prejudice an attempt to block this provision. Our ability to do so would depend partly on whether the payment could be classified as an "action ponctuelle", and consequently avoid the need for a separate base. In view of the 1980 Minutes Statement such a separate legal base would be necessary, arguably in the form of a unanimous Council decision. Our chances of obstructing a Community contribution to the Common Fund therefore appear quite strong.

ANNEX III

GENAAT

Following the adoption of the Common Fund Agreement in June 1980, a Preparatory Commission (PC) was established to undertake the detailed work on operating rules for the Fund. It met three times in 1980/1; its fourth meeting, scheduled for November 1982, was postponed indefinitely.

2. Progress was very slow. By the end of its third meeting no matters of substance had ben settled. The largest measure of agreement was on precedural rules for the Governing Council and Executive Board, but even here work was incomplete. On some major issues (eg location of headquarters, staffing matters) the Secretariat had not even produced documentation whilst on other subjects where documentation had been produced, particularly the Second Account, it was found not to be up to scratch.

3. There are many complex issues still outstanding. Among the more important are rules for the operation of the First and Second Accounts, model association agreements for international commodity organisations, agreement on staffing and administrative budgets, headquarters location and borrowing provisions.

4. The Resolution establishing the PC provides for it to continue in existence until the first meeting of the Governing Council, which must be held as soon as possible after the Fund's entry into force. It can, however, be assumed that the Governing Council would need to reconstitute a body along the lines of the PC in order to complete the outstanding work. Any

CCPC

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

From the Minister

CDP
14/IX

The Hon Alan Clark MP
Minister for Trade
Department of Trade and Industry
1 Victoria Street
LONDON
SW1H 0ET

14 September 1987

Dear Alan,

UNCTAD VII

Thank you for copying to me your letter of 12 August to Geoffrey Howe. I have also seen Lynda Chalker's reply of 24 August. I can see that the conclusions of the Conference were probably as satisfactory as we could hope in the circumstances. As you rightly point out, expectations of UNCTAD may even have been rekindled by the relatively harmonious outcome.

This could pose particular problems in the commodity sector, where we are left with an agreed Conference text endorsing commodity agreements and providing for further consultations on introducing new ones. If renewed debates on market intervention agreements are unavoidable, they will at least be opportunities for restating our conclusions, from hard experience, in favour of a deregulatory approach to commodity markets. Your own speech at the Conference and the subsequent UK statement on the Common Fund are already valuable indications of our thinking.

In view of developments on the Common Fund, as foreseen in previous correspondence, I welcome your intention to circulate a paper examining the options open to us, including deratifying. I agree we need to act quickly.

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

Yours ever

JOHN MacGREGOR

UN: UNCTAD - May '79

APC

Foreign and Commonwealth Office

London SW1A 2AH

From The Minister of State

24 August 1987

Hon Alan Clark MP
Minister for Trade
Department of Trade and Industry
1 Victoria Street
LONDON SW1

ubpm

Dear Alan

UNCTAD VII

In the absence of Geoffrey Howe on holiday, I am replying to your letter of 12 August in which you reviewed the outcome of UNCTAD VII.

I support your view that this conference should be counted as a success. The Final Act is, inevitably, deficient in a number of respects. But I agree that it meets the essential UK objectives. Indeed, in some respects it is a remarkable document; to have reached international consensus on a statement which emphasises the need for structural adjustment in the developing world and casts a critical eye over domestic policies in developing countries is no small achievement. We have progressed a long way since UNCTAD VI.

The Final Act is also valuable both for its recognition, in a number of places, that divergent opinions can exist on issues of economic policy, and for its acceptance of the differences between developing countries. We seem to have forced at least a small crack in the Group of 77's mythology that these facts cannot be referred to in international discussions. We should aim to widen the crack in future: perhaps then we will bring about a loosening of the rigid group system in UNCTAD to which you refer, and which makes UNCTAD debates at times so frustrating (though UNCTAD VII at least saw more genuine dialogue than any of its predecessors: for example on debt and resource issues).

As for other future work, I agree with you that we must now give attention to building on the foundation we have laid - or begun to lay - at UNCTAD VII. The educative process started over the past year or so in the

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UNCTAD Secretariat has now been firmly extended to the G77 themselves. The first opportunity to pursue this further will come in October when the Trade and Development Board will look at UNCTAD's work programme: we must be vigilant there against any attempted backsliding by G77 hardliners. Beyond UNCTAD itself, we should aim to develop the themes Group B promoted in Geneva at other international economic discussions, such as the forthcoming General Assembly and CHOGM.

Finally, you mention the need to follow up work on the Common Fund at an early date. I agree: it was in this area that the outcome of UNCTAD VII was least to our liking, though the UK's statement on the Common Fund should have safeguarded our position to some extent (and, coupled with your own speech to the Conference, has put our deregulatory approach to commodity problems firmly on the international record). Clearly, the prospect of the Fund Agreement coming into effect in the foreseeable future is one which must now be addressed. The options available to us are of course complicated by the Community dimension, which we must keep closely in mind in our own discussions. But as you say, at least the events at UNCTAD VII in this sphere will have served to concentrate the minds of our EC partners on the issues involved.

I am copying this letter to recipients of yours.

Yours ever

Lynda

Mrs Lynda Chalker

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215)
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From the Minister for Trade

Rt Hon Sir Geoffrey Howe QC MP
Foreign Secretary
Foreign and Commonwealth Office
Downing Street
LONDON, SW1A 2AL

12 August 1987

Dear Geoffrey

UNCTAD VII

As you may know, UNCTAD VII was finally brought to an end on 3 August, an overrun of 3 days. I was present during a critical period last week and indeed stayed on longer than I had intended. In the light of that experience, I would like to offer some personal comments to supplement the detailed reporting telegrams, of which the last (Geneva Telno 326 of 4 August) summarises the final outcome.

The first thing which strikes a newcomer to UNCTAD is the extent to which the group system formalises and imposes a rigid structure on the debate. As on previous occasions, the Group of 77 (G77) arrived with a detailed list of demands following their Havana Conference. Group B were not prepared to the same extent, although some useful work had been done in the OECD. The Community Guidelines, approved by the FAC in June, also provided a helpful starting point and a means of preventing unilateral and unwelcome initiatives by Member States and the Commission. They did not, however, cover every eventuality - notably the USSR's signature of the Common Fund Agreement, which caused us in particular some diffculty.

It is not surprising therefore that the initial stages of the Conference, like many of its predecessors, were characterised by confrontation and deadlock, with the G77 on the offensive and Group B defending their baseline positions. The way in which the President of the Conference, Bernard Chidzero, broke that deadlock, through a mixture of Ministerial task forces, ad hoc groups and private deals, was immensely skilful but it served to underline the dangers of UNCTAD where important and substantive issues like debt strategy, aid targets and commodities are bargained over in a hectic and, at times, far from transparent process.

Rt Hon Sir Geoffrey Howe QC MP August 1987

In these circumstances, one side or the other had to give ground - or the Conference would have ended as at Belgrade in a ritual parade of G77 resolutions. In the end, it was Group B that held together, assisted by some able spokesmen and co-ordinators and excellent work on the part of the Danish Presidency in maintaining common Community positions. The final speech in Plenary by the Cuban representative on behalf of the G77, which was largely a recital of Havana ideology, served to underscore how far that Group had conceded the argument, thanks to the sense of realism shown by the more moderate African and Asian countries in particular and by some of the smaller Latin American states.

As a result the UK, working with its Group B partners, was able to achieve all the essential objectives set out in the attachment to David Young's letter of 16 June:

(i) Damage to our economic and political interests was avoided. I do not believe, for example, that the statement of our well-known reservations about the Common Fund will be criticised by the developing Commonwealth countries, many of whom are prepared, informally at least, to express scepticism about the continuing relevance of the First Account.

(ii) We were successful in securing recognition in the general assessment section of the final outcome document of the need for developing countries to follow sound market-orientated economic policies, including appropriate measures of structural adjustment.

(iii) The terms of the agreed document are a sign that UNCTAD can be transformed into a forum for the exchange of ideas rather than an organisation devoted to the radical transformation of the world economic trade and monetary framework by negotiation - a view held for over 20 years by the G77 and to an extent the UNCTAD Secretariat as well.

Satisfactory as the outcome was, it is not, of course, the end of the story. The pressure for the modification of the debt strategy will not cease with UNCTAD. We shall have to deal with the request to the Secretary General to convene consultations between producers and consumers on commodities. The pressure to meet the outstanding commitments on aid targets will not go away. And we will need to give serious thought to how best to handle the Common Fund now that there is a real prospect of its coming into effect.

In the case of the Common Fund, we must at an early date consider all the options. It was clear from the discussion during UNCTAD that many Group B and EC countries shared our view that the First Account no longer served any useful purpose. And one by-product of

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the internal argument in the EC over the commodities paper was an acceptance by the Danish Presidency and other Member States that the Community could no longer avoid addressing the problems of whether and/or how to bring the Fund into operation. The Community dimension is a complicating factor, but it is one that we must take into account. Because of the element of urgency, I have asked officials here to begin work on a paper to be ready for submission to Ministers by the end of September at the latest.

Finally, I would like to offer a further general observation about UNCTAD and the future. Given the success of Chidzero and Dadzie in achieving an agreed outcome, the Conference may now survive in its present form. It will be in our interests to do what we can over the next 4 years to convince the UNCTAD Secretariat and the more influential of the developing countries that useful results acceptable to both sides can be achieved in all areas of UNCTAD's work without having to go through the traditional process of confrontation over unnegotiable and extreme negotiating demands. To the extent that the G77 can be brought to adapt more moderate expectations and a more realistic approach, the easier and more useful the process is likely to be.

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

ALAN CLARK

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MR TL RICHARDSON, LORD
H.M.TRSY

MRS CASE AEF2
MR DAVIS AEF ROOM 85/1
MR WALSH IFI ROOM 108/3

PS/~~N~~ 10 DOWNING ST

DTI

PS/ SEC OF STATE, DTI
PS/MINISTER FOR TRADE
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MR SCOLLEN TFD ROOM R404

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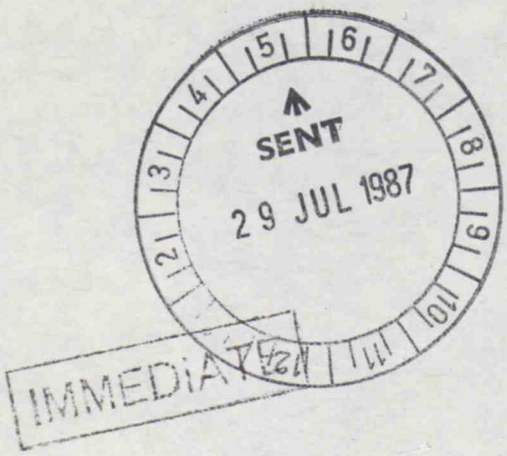

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FROM UK DELEGATION TO UNCTAD VIII

COMMODITIES AND THE COMMON FUND

ADVANCE COPY

SUMMARY

1. CONFERENCE ENTERING ITS LAST PHASE. SPEED OF WORK INCREASING, WITH DEVELOPING COUNTRIES CONCENTRATING ON POINTS OF KEY POLITICAL IMPORTANCE TO THEM. POTENTIALLY DIFFICULT DRAFT TEXT FOR UK IN CIRCULATION ON COMMON FUND AND COMMODITIES, WHICH COULD COMMAND GENERAL SUPPORT IN EC AND GROUP B. NEGOTIATION CONTINUING, WITH DANISH PRESIDENCY, SO FAR WILLING TO SUPPORT KEY UK POSITIONS.

DETAIL

2. IN AN ATTEMPT TO BREAK DEADLOCKS AND ACHIEVE RESULTS, CHIDZERO (PRESIDENT OF UNCTAD VIII), INTRODUCED YESTERDAY NEW PROCEDURES INVOLVING SMALL RESTRICTED WORKING GROUPS TO FINALISE TEXTS. IN COMMODITIES SUBGROUP, UK REPRESENTED BY EC PRESIDENCY. ALTHOUGH PERIODIC COORDINATION MEETINGS ARE HELD, IT HAS BECOME MORE DIFFICULT TO KEEP THE PROCESS OF DISCUSSION UNDER FIRM CONTROL.

3. LAST NIGHT, DANISH EC PRESIDENCY ACCEPTED AS A BASIS FOR CONTINUING DISCUSSION, WITH SUBSTANTIAL EC AND GROUP B SUPPORT, A TEXT ON THE COMMON FUND, COMMODITY AGREEMENTS AND THE INTEGRATED PROGRAMME FOR COMMODITIES (IPC) WHICH, IN PRESENT FORM, WOULD NOT BE FULLY CONSISTENT WITH UK POSITIONS ON DEREGULATION AND WOULD CONSTRAIN FREEDOM OF ACTION ON THE FUND.

4. ALTHOUGH THE TEXT CONTAINS SOME USEFUL RESERVATIONS AND CONDITIONAL WORDING, THE OVERALL EFFECT COULD BE TAKEN TO IMPLY SUPPORT FOR BRINGING THE FUND INTO OPERATION AT AN EARLY DATE. ALTHOUGH MOST EC PARTNERS AND MANY LDC PRODUCERS ACKNOWLEDGE FIRST WINDOW (FINANCE FOR COMMODITY AGREEMENTS) SHOULD AND PROBABLY COULD

WINDOW (FINANCE FOR COMMODITY AGREEMENTS) SHOULD AND PROBABLY COULD NEVER BE USED, THE COMMON FUND HAS BECOME A KEY POLITICAL SYMBOL FOR THE DEVELOPING WORLD AND PARTICULARLY AT THIS CONFERENCE. ITS SUPPORTERS HAVE NO DOUBT BEEN ENCOURAGED BY SOVIET SIGNATURE EARLIER THIS MONTH. FURTHER RECENT INDICATIONS OF PROSPECTIVE RATIFICATIONS MADE IT VIRTUALLY CERTAIN THAT THE FUND WILL COME INTO FORCE THIS AUTUMN.

5. AFTER URGENT BILATERAL DISCUSSION WITH DANISH PRESIDENCY, THEY HAVE AGREED TO PUT OBJECTIONABLE WORDING IN SQUARE BRACKETS AND TO DEFEND KEY UK POSITIONS. IN PRACTICE ALTHOUGH THE FRG IS SYMPATHETIC, WE ARE THE ONLY MEMBER REALLY TROUBLED. IN ORDER TO MAINTAIN GOODWILL AND COOPERATION OF PRESIDENCY, WE HAVE AFFIRMED A WISH TO MAINTAIN COMMON EC POSITIONS AND TO TRY TO SEEK SOLUTIONS IN A POSITIVE MANNER. WE HAVE UNDERLINED THAT THE PRESENT TEXT EXCEEDS IN CERTAIN RESPECTS AGREED COMMUNITY POSITIONS, AND THAT COMMUNITY MECHANISMS IN GENEVA ARE NOT SUFFICIENT TO ACHIEVE A NEW EC MANDATE ON SUBSTANTIVE POINTS.

6. WE WILL CONTINUE TO NEGOTIATE FOR A TEXT AD REFERENDUM WHICH PRESERVES THE FOLLOWING OBJECTIVES:

A) FREEDOM OF ACTION ON THE IMPLEMENTATION OF THE COMMON FUND.;

B) NO WELCOME FOR THE FUND OR IMPLIED COMMITMENT TO MAKE IT OPERATIONAL AT AN EARLY DATE (TO ALLOW ROOM FOR PROTRACTED NEGOTIATIONS ON DETAILS, INCLUDING VOTING).;

C) NO UNQUALIFIED ENDORSEMENT OF THE IPC.;

D) NO COMMITMENT POSITIVELY TO SEEK TO CREATE NEW MARKET INTERVENTION COMMODITY AGREEMENTS.

ALL THESE POINTS WERE REFLECTED IN THE MINISTER FOR TRADE'S SPEECH YESTERDAY.

7. WHEN MORE ADVANCED TEXTS EMERGE, WE WILL FORWARD. IN MEANTIME, AS A PRECAUTION WE HAVE INSERTED A UK DELEGATE INTO CLOSED DRAFTING SESSIONS, SO WE CAN INTERVENE SPEEDILY WITH THE PRESIDENCY AND PREVENT ACKNOWLEDGMENT OF UNSUITABLE TEXT AS A NEGOTIATING BASIS. NONETHELESS IT IS A FACT THAT IN CERTAIN CIRCUMSTANCES WE COULD BE FACED WITH ACCEPTING A FORM OF WORDS BEYOND WHAT IS PRUDENT OR OVERTLY DISSOCIATING OURSELVES FROM IT.

8. THIS TELEGRAM HAS BEEN SEEN AND APPROVED BY THE MINISTER FOR TRADE.

SANKEY

YYYY
FCO PLEASE ADVANCE TO:
MR T L RICHARDSON, ERD, FCO
MR P DAVIS, HMT
MR J BURST, ODA
MR C W ROBERTS, DEP SEC, DTI
MR A HOLT, UKTP2, DTI
PS/NO 10
PS/ SEC OF STATE, DTI

cc PE

DEPARTMENT OF TRADE AND INDUSTRY
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Secretary of State for Trade and Industry

6 July 1987

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

COP 87

Dear Geoffrey,

UNCTAD VII

Thank you for your minute of 24 June about the UK's approach to UNCTAD VII. You will also have seen the replies to my letter of 16 June from John Major and John MacGregor. There is no significant difference of view between us.

As to the Common Fund, we have now achieved a satisfactory agreed Community position. The final text makes no reference to interim arrangements and makes clear that any voluntary financing for research and development will be "in fulfilment of pledges made under the Second Window of the Common Fund".

I share John MacGregor's concern about the possible contingent liabilities, but I accept that we should not attempt a pre-emptive deratification before UNCTAD VII. It will be easier to take decisions once we know the reality of the Soviet threat and the response of our partners; so far, few apart from ourselves have focussed on this possibility. It would certainly be desirable, if we were to withdraw, to take others, particularly EC colleagues, with us; that would help to resolve the difficult legal problem to which your lawyers have drawn attention.

This strategy will, as you will recognize, open the possibility that, were the Russians to ratify the Fund during the Conference in such a way as to bring it into effect immediately, we would be

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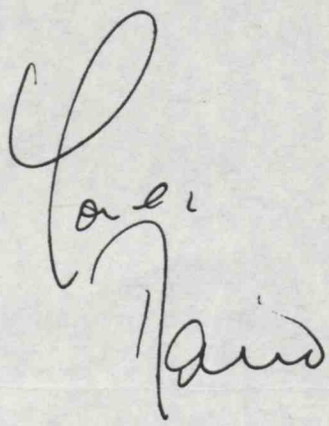
bound to make an initial contribution. Even though that could, I understand, be found from the existing aid budget, it would be an unwelcome, if limited, imposition. However, I see no way round this while the Conference is on.

I was interested in your comments about use of the blocking mechanisms in the Common Fund Agreement. Perhaps our officials could together look into this more fully.

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



LORD YOUNG OF GRAFFHAM

JF5BZS

UNITED NATIONS

UNCTAD

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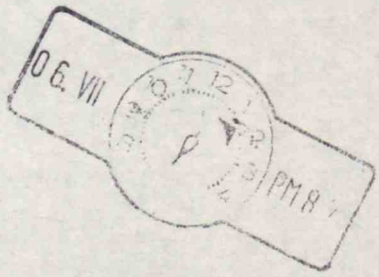

cc PC.

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

From the Minister

CSD
m/r

The Rt Hon Lord Young of Graffham
Secretary of State for Trade
and Industry
Department of Trade and Industry
1 Victoria Street
LONDON
SW1H OET

29 June 1987

Dear Secretary of State,

UNCTAD VII

Thank you for copying to me your letter and paper of 16 June to Geoffrey Howe about the UK approach to UNCTAD VII. I have also seen the replies from Geoffrey Howe and John Major. My officials were involved in the preparation of the paper and I am content with the outcome. I also note that the general approach to UNCTAD VII now agreed in the Foreign Affairs Council is broadly consistent with it. I have only two comments to add, arising from your letter.

On the question of the Common Fund, I welcome your proposals for resisting it, for the reasons given by Geoffrey Howe. As I see it, the First Account's funding for buffer stocks has no relevance to current agreements and its existence is an incentive to the negotiation of further market intervention arrangements. So I agree that we should be ready if necessary to give urgent consideration to deratification.

Secondly, as you may be aware, there are major current issues to be resolved within the Coffee and Cocoa Agreements, the only two economic agreements currently operational. The basis for a reintroduction of coffee quotas and the case for a downward revision of the cocoa price range will be the subject of difficult meetings in London during July. In both cases my officials will

/be restating our...

UNITED NATIONS: UNCTAD, Mar 79

apologies

be restating our preference for market-based solutions and the debates could be echoed in discussions on commodities in Geneva. I am sure we can rely on officials to achieve a consistent presentation of UK views and I note from your letter that the UK delegation in Geneva will in any event refer any major issues back to us for guidance.

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

Yours sincerely,

Elizabeth Manning

for JOHN MacGREGOR

(approved by the Minister and signed in his absence)

CDT
24/6

FCS/87/134

SECRETARY OF STATE FOR TRADE AND INDUSTRY

UNCTAD VII

1. Thank you for your letter of 16 June. I endorse your general approach to the handling of the Conference, and am broadly content with the officials' paper. I have instructed my officials to take up additional points of detail with yours.

2. UNCTAD has a potential for causing us trouble in international organisations that matter. If the Conference goes well, it will help us at CHOGM later this year and in the autumn General Assembly Session. If it goes badly, we must as you say avoid being singled out for blame. We shall have enough trouble over South Africa at CHOGM without an acrimonious discussion of economic issues as well.

3. We have quite a good story to tell at UNCTAD. On trade, agriculture and debt, our policies should command some support. We can use the Venice Summit language on enlargement of the SAF, but if this comes to fruition our agreement to participate will of course be subject to any cost to UK not falling on the existing aid programme. However, on commodities our policies could lead to

conflict with G77; while our performance on aid targets, whether overall or for the least developed, leaves us vulnerable, as probably the only OECD country to accept the 0.7% target while moving away from it. In holding our ground, we can nevertheless point to the ways in which the international community is fulfilling its pledges to the developing countries. In particular, we should make as much as possible of the help we are giving to Africa in order to honour the commitments we made at the UN Special Session on Africa to support economic reform. Doing so will also help to highlight the differences of interest among G77 countries, which we should seek to exploit.

4. I wrote to Paul Channon about the Interdepartmental Review of Commodity Policy last year. I noted that we might have to come up with some constructive proposals to help commodity producers in ways that support our deregulatory approach. I hope we can use this conference to do this. In this context I welcome the ideas officials have developed on using the money we pledged voluntarily, so long ago, to the second account of the Common Fund.

5. You draw attention to the possibility that the Soviet Union and its allies might ratify the Common Fund agreement and so bring it into force. That would be most unwelcome. It would breathe new life into the Integrated Programme for Commodities, undermine our promotion of a deregulatory approach, and thus renew the potential for conflict over commodity policy. Apart from the political repercussions, there are the financial threats from the contingent liabilities inherent in the Fund (there is a

potential parallel here with the tin problem). The best solution for us, if the Soviets ratify the Agreement, would be to persuade enough countries to withdraw their ratification instrument. We may find no takers, but we should make the attempt. I do not rule out the possibility of unilateral UK deratification. But Whitehall lawyers have already warned us of the dangers of being taken by the Commission to the ECJ and of a further extension of Community competence if we lose. An alternative approach, if the Fund came into force, would be to use the blocking mechanisms within the Agreement to render it inoperative. In any event, I rule out a pre-emptive deratification before UNCTAD VII. This approach is only worth considering once UNCTAD is behind us.

6. I am copying this minute to the Prime Minister, the Chancellor of the Exchequer, the Minister for Agriculture, Fisheries and Food, and Sir Robert Armstrong.

(GEOFFREY HOWE)

24 June 1987

Foreign and Commonwealth Office

EUROPOL: Budget PT36

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cc PC

CHIEF SECRETARY TO THE TREASURY

CAD 23/6

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Lord Young of Graffham
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H OET

Dear David,

23RD June 1987

UK APPROACH TO UNCTAD VII

WILL REQUEST IF REQUIRED

I have seen your letter of 16 June to Geoffrey Howe.

I agree generally with the tactics you propose - and welcome the emphasis you put on promoting Nigel Lawson's initiative on Sub-Saharan African debt.

Could I just make three comments. I am naturally concerned at the prospect of any concessions, which could have a public expenditure cost and jeopardise our position on trade and our deregulatory policy on commodities. We should clearly only make concessions in return for a clear benefit. I am grateful for your assurance that any substantive concessions will be referred back for collective consideration.

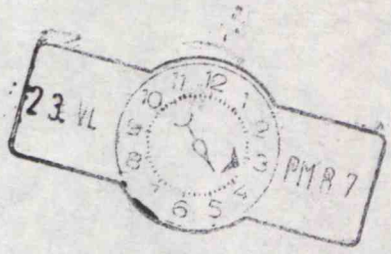
Where possible I would prefer to avoid awkward questions being referred forward to UNCTAD's work programme. This will simply keep them alive.

I have seen the exchanges on the Common Fund. I am concerned about the risks to public expenditure of the substantial contingent liabilities an operative Common Fund might entail. Until we have clearly established - to my and Geoffrey Howe's satisfaction - that those risks do not exist we should surely alert our European partners to the risk in order, at least, to prevent no weakening of the provisional Community position you describe. Until we are finally out of danger on the Common Fund we must, I believe, despite all the difficulties, keep open the option of deratifying it.

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

Yours Ever, John

JOHN MAJOR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LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

PS/ *Secretary of State for Trade and Industry*

16 June 1987

Robert Culshaw Esq
Private Secretary to the
Secretary of State for Foreign
& Commonwealth Affairs
Foreign & Commonwealth Office
Downing Street
London SW1A 2AL

Dear Robert,

As we discussed on the telephone today my Secretary of State's letter to the Foreign Secretary on UNCTAD VII contained an error in the penultimate paragraph. Could you please insert the words "officials should prepare briefing for next week's FAC" between the words "our" and "meeting" in the penultimate line of that paragraph.

I am copying this letter and attachment to Charles Powell (No 10), Alex Allen, Shirley Stagg and Trevor Woolley.

Yours

Paul Steeples

PAUL STEEPLES
Private Secretary

JG2BJH

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Secretary of State for Trade and Industry

16 June 1987

Ps/ Mr Clarke
Ps/ MFT
Ps/ SBH
Mr Roberts
Mr Hutton
Mr Gent
Mr Babb ITP
Mr Hutton (a/o)

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

Dear Geoffrey,

UNCTAD VII will take place in Geneva from 9-31 July. The Minister for Trade will lead the UK Delegation and intends to attend the Conference during the last week for what is described as the Ministerial phase.

There are few firm details yet of the representation from other countries, but it has been confirmed that President Mitterrand and Prime Minister Brundtland will attend. The Americans are still considering their representation. The developing countries, who see UNCTAD as their UN forum, will be well represented by senior political figures. The Zimbabwean Finance Minister, Chidzero, will be President of the Conference.

The purpose of this letter is to seek colleagues' approval for the UK approach to UNCTAD VII as set out in the accompanying position paper agreed interdepartmentally by officials. This will form the basis for the brief for the next Foreign Affairs Council (22-23 June) where there will be a short discussion of the progress towards a common EC position. It will then provide the main guidance for the official UK Delegation at the Conference itself. As in the past, the UK team will be led by the DTI.

As at previous Conferences, Western countries (Group B) will face a wide range of familiar demands from the developing countries (the Group of 77 or G77). Developing country Ministers met in Havana in April. The Declaration which emerged is disappointing in that it shows little recognition of the real causes of present economic and developmental problems and puts forward proposals which the Group know to be unacceptable. Individually many developing countries do

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take a more realistic view of the North/South relationship and would wish to pursue a more constructive and convergent approach. But there is no clear sign as yet that they will be able to push the hardliners into a more accommodating stance.

Our position on most of the issues likely to be raised - resources for development, international trade and commodities - is already well established. The conclusions of the interdepartmental Review of Commodity Policy, which defined the "deregulatory" approach are particularly relevant. There can be no question, for example, of acquiescing in G77 demands for costly initiatives with questionable developmental value, such as proposals for new market intervention commodity agreements, nor for negotiating a new framework for international trade between the developed and developing countries.

Our approach to UNCTAD VII must be balanced and realistic. We have a number of positive points to put across to the G77, both about the general conduct of economic affairs and about specific ways in which we are trying to help stimulate their development. For example, we shall want to promote the Chancellor's ideas on the relief of sub-Saharan African Debt and we shall be able to point to our helpful attitude on international trade policy issues, both in the Uruguay Round and in promoting reform of agricultural trade. Such points will be helpful in rejecting the tendency of the G77 to blame all their economic ills on the developed world. We can acknowledge that many developing countries are vulnerable because of the economic downturn. But we would also wish to focus attention on the potential that exists for them to help themselves via domestic structural reform, of a market orientated kind. Some developing countries, individually, seem ready to acknowledge the sense of this.

In putting our arguments across we shall want to avoid unnecessary confrontation with the G77, and in particular would not want to be singled out for blame if the Conference were to break down. That would jeopardise our position at the forthcoming Commonwealth Heads of Government meeting and in other international fora and could damage our wider commercial and developmental interests.

We shall have to, and it will suit us to, pursue our aims within the Community and Group B. It, however, will not be altogether easy. We can best preserve our interests by seeking allies among other like-minded countries, but there are clear divisions among the developed countries in their attitude to specific issues and the value of the UNCTAD dialogue. We may therefore have to be prepared for some compromises, for example, on the future UNCTAD work programme, in order to maintain Group B cohesion and to avoid becoming conspicuously isolated. I hope that these will be few and

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will involve relatively minor concessions. Where substantive points do arise the Delegation will refer back to London for guidance.

In order to introduce greater discipline into the discussion and to avoid a long list of confrontational resolutions, Group B's objective is to achieve a single co-ordinated document recording the outcome of UNCTAD VII. We can certainly work for this, but it will be difficult to dissuade the G77 from tabling draft resolutions. In that event we might try to persuade Group B partners to abstain from voting as a matter of principle. If that is unacceptable we may be forced to vote or abstain on each issue.

A major issue for the Conference will be the Common Fund for commodities. Paul Channon dealt with the problem we face in the Community on this in his letter of 4 June. We were pleased to receive your agreement to the approach he suggested in Chris Patten's reply of 10 June. At the moment we have succeeded in getting ad referendum agreement in the Community to a text which avoids referring to an <u>interim</u> agreement and makes clear that willingness to provide voluntary financing for research and development etc is "in fulfilment of pledges made under the Second Window of the Common Fund". But it remains to be seen whether we can made this stick. In their <u>own</u> communication on UNCTAD VII to the Council, the Commission still refer to an interim arrangement.

In my view alternative funding of this can be used to show that our clear opposition to the Common Fund itself does not exclude practical help to developing countries with commodity problems. It would also be consistent with the basic market orientation of our commodity policy.

Such a move in no way preempts any decision we might wish to make on withdrawing from the Fund if the Eastern Bloc were to bring the Fund into operation. I suggest that we ask our officials to bring necessary background material up to date and monitor developments closely, so that we are ready to respond quickly if the need arises.

I should welcome your and colleagues' agreement in due course to the strategy I have outlined. Meanwhile, unless there any any special points which ought to be registered in the Community discussions, I suggest that our meeting reflecting the position as outlined in this letter and the official paper.

I am copying this letter and attachment to the Prime Minister, the Chancellor of the Exchequer, the Minister for Agriculture, Fisheries and Food and to Sir Robert Armstrong.

DW1DAL

LORD YOUNG OF GRAFFHAM

RESTRICTED

UNCTAD VII

INTRODUCTION

1. The Seventh UN Conference on Trade and Development (UNCTAD VII) will be held in Geneva from 9-31 July. UNCTAD is the main UN forum for the discussion of trade and economic issues between developed and developing countries. UNCTAD VII will be a major international gathering and a politically prominent event in the North-South dialogue.

2. The Conference agenda is at Annex A. The main substantive agenda item (Item 8) is divided into four sub-headings: resources for development, commodities, international trade and problems of the least-developed countries. The principal issues at the Conference are likely to be the debt problems of the Latin American and African countries, aid flows, the role of UNCTAD in international trade discussions and possible action on commodities, including the Common Fund (a financing arrangement aimed at supporting commodity agreements).

3. Previous UNCTAD conferences have been characterised by sterile debate and the proliferation of detailed resolutions. This time we and other Western countries (Group B) have tried to ensure that the agenda for UNCTAD VII is structured in a way which will avoid these dangers. In particular, the wording of the chapeau to item 8 reflects Group B's insistence that recognition be given to the linkages between the individual issues under discussion. This "cross-sectoral approach" is intended to prevent a narrow and unproductive focus on individual issues which disregards their overall context. We have also argued that the outcome of the Conference should be set down in a single document rather than a plethora of individual resolutions.

GENERAL OBJECTIVES FOR UNCTAD VII

4. The UK's general objectives will be:

i. To achieve recognition for efforts already being made and resources already committed by the UK directly and through participation in multilateral agencies, with a view to deflecting pressure for the adoption of costly or unrealistic initiatives, eg new aid targets or support for market intervention commodity agreements.

ii. At the same time to try to avoid damage to our political and commercial relations with developing countries.

iii. To underline the contribution of market-orientated policies to sustained economic growth. To emphasise the important role played by developed market-economy countries in this process, while accepting that more still remains to be done (trade imbalances, liberalisation of markets, agricultural policy reform).

iv. To stress the importance of domestic reform in developing countries, and the role of the private sector in promoting development.

v. To use convenient opportunities to point to the wide divergence of interests among G77 countries, highlighting the need for the newly industrialised countries (NICs) to assume responsibilities commensurate with their economic development. Generally to seek to undermine the bloc mentality enshrined in the UNCTAD Group system.

vi. To promote the idea that UNCTAD should be a general forum for the discussion of ideas relating to trade and development, rather than an executive or negotiating organisation, and to prevent it encroaching on the work of other international

institutions in particular GATT, the IMF or the World Bank. To give further impetus to reform of UNCTAD's working practices.

vii. To continue to pursue the cross-sectoral approach, emphasising the linkages between separate items on the agenda and trying to ensure that the final outcome of the Conference is represented by a single document reflecting this approach.

MAJOR ISSUES

5. The main issues likely to arise at UNCTAD VII under these headings are summarised below, together with the proposed UK line.

RESOURCES FOR DEVELOPMENT

6. i. On aid flows, the UK should resist demands for commitments to meet specific aid targets on a given timescale. We should seek to emphasise the importance of the terms and effectiveness of aid flows and the need for complementary action by recipients.

ii. We must work with our Group B colleagues to maintain support for the existing case-by- case approach to debt problems and to safeguard the independence and effectiveness of the major international financial institutions in this area. We should use UNCTAD VII to promote the Chancellor's initiative on sub-Saharan African debt, including the adoption of Retroactive Terms Adjustment by other donors. We should welcome the proposals by the Managing Director of the IMF for a significant increase in the resources of the Structural Adjustment Facility.

iii. We should stress the contribution which economic policies and structural reforms in developing countries can make to their development. We should encourage them to create a climate favourable to the growth of private enterprise and attractive to foreign and domestic investment, and to reduce capital flight.

COMMODITIES

7. (i) We should promote the deregulatory approach endorsed by Ministers last year. In particular we should seek to avoid any blanket endorsement of the objectives of UNCTAD's "Integrated Programme for Commodities" or any proposals pointing to market-intervention International Commodity Agreements.

(ii) We should continue to do all we can to undermine support for the Common Fund and prevent its implementation.

(iii) On compensatory finance we should oppose any new or expanded facility which might involve UK or collective EC participation. We should stress the greater importance of structural adjustment lending in addressing the problems of commodity-dependent countries.

TRADE

8. (i) We must seek to prevent any encroachment by UNCTAD on GATT's responsibilities and activities in relation to the Uruguay Round, concentrating UNCTAD's work in areas where it can complement GATT's role, eg services in development.

(ii) We should take appropriate opportunities to stress the importance of a greater contribution by the NICs to the international trading system ("integration").

(iii) On agricultural reform, we should press the important principles in the OECD Ministerial Communique as endorsed at the Venice Summit.

LEAST DEVELOPED COUNTRIES

9. (i) International action in recent years has focused on the

UN's Substantial New Programme of Action for the 1980s for the Least Developed Countries which includes a specific aid target of 0.15% of GNP for these countries. We should resist pressure for the setting of a date for achievement of this target. We should also ensure that UNCTAD VII is not used for a further detailed review of progress with this Programme.

(ii) We should ensure that the problems of the least developed are not treated in isolation under this sub-heading of the Agenda, but are given due weight under the other three sub-headings.

ANNEX A

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Distr.
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2 October 1986

Original: ENGLISH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Thirty-third session
Geneva, 1 September 1986
Agenda item 5

SEVENTH SESSION OF THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT: PREPARATIONS FOR THE SESSION

Seventh session of the United Nations Conference on Trade and Development
Provisional agenda, place, date and duration

Draft decision submitted by the President

The Trade and Development Board,

Recalling General Assembly resolution 1995 (XIX), section II, paragraph 2, and General Assembly resolution 40/189, and further recalling Board decisions 336 (XXXII) and 337 (XXXII), relating to preparations for the seventh session of the United Nations Conference on Trade and Development,

1. Adopts the provisional agenda for the seventh session of the United Nations Conference on Trade and Development annexed hereto (annex I) together with its understandings contained in annex II;

2. Recommends to the General Assembly that the seventh session of the Conference be held at its headquarters in Geneva for a duration of about three weeks between 6 and 31 July 1987, including a final phase of one week at which the work of the session would be concluded by Ministers;

3. Takes note of the desire of the Latin American Group to hold the eighth session of the Conference in one of the countries in Latin America on the understanding that the final decision on the venue in Latin America will be taken at the appropriate time. In this connection, the Board notes the interest of Cuba to host the eighth session of the Conference.

4. Recommends to the General Assembly to accord priority to the seventh session of the United Nations Conference on Trade and Development in relation to other United Nations activities in Geneva.

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Annex I

PROVISIONAL AGENDA FOR THE SEVENTH SESSION OF THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

1. Opening of the Conference

2. Election of the President

3. Constitution of sessional bodies

4. Election of Vice-Presidents and the Rapporteur

5. Credentials of representatives to the Conference:
   (a) Appointment of the Credentials Committee
   (b) Report of the Credentials Committee

6. Adoption of the Agenda

7. General debate

8. Revitalizing development, growth and international trade, in a more predictable and supportive environment, through multilateral co-operation: Assessment of relevant economic trends and of global structural change, and appropriate formulation of policies and measures, addressing key issues in the following interrelated areas:

   (a) Resources for development, including financial, and related monetary questions;
   (b) Commodities;
   (c) International trade;
   (d) Problems of the least developed countries, bearing in mind the Substantial New Programme of Action for the 1980s for the Least Developed Countries.

9. Other business

10. Adoption of the report of the Conference to the General Assembly

Annex II

UNDERSTANDINGS

I. In the assessment of relevant economic trends, due attention should be paid to the role of the private sector in development.

II. The formulation relating to "a more predictable and supportive environment" is intended to subsume the interest expressed in referring to the need for security, dependability and confidence-building in the world economic environment, as well as for equity and justice in international economic relations.

III. Monetary questions will be considered in the context of the mandate of UNCTAD and without prejudice to the competence of the International Monetary Fund and other international financial institutions.

IV. Sub-item (c) - "international trade" - includes issues arising in trade relations among countries having different economic and social systems.

DEPARTMENT OF TRADE AND INDUSTRY
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Secretary of State for Trade and Industry

16 June 1987

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

Dear Geoffrey,

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As at previous Conferences, Western countries (Group B) will face a wide range of familiar demands from the developing countries (the Group of 77 or G77). Developing country Ministers met in Havana in April. The Declaration which emerged is disappointing in that it shows little recognition of the real causes of present economic and developmental problems and puts forward proposals which the Group know to be unacceptable. Individually many developing countries do

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LORD YOUNG OF GRAFFHAM

RESTRICTED

UNCTAD VII

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GENERAL OBJECTIVES FOR UNCTAD VII

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i. To achieve recognition for efforts already being made and resources already committed by the UK directly and through participation in multilateral agencies, with a view to deflecting pressure for the adoption of costly or unrealistic initiatives, eg new aid targets or support for market intervention commodity agreements.

ii. At the same time to try to avoid damage to our political and commercial relations with developing countries.

iii. To underline the contribution of market-orientated policies to sustained economic growth. To emphasise the important role played by developed market-economy countries in this process, while accepting that more still remains to be done (trade imbalances, liberalisation of markets, agricultural policy reform).

iv. To stress the importance of domestic reform in developing countries, and the role of the private sector in promoting development.

v. To use convenient opportunities to point to the wide divergence of interests among G77 countries, highlighting the need for the newly industrialised countries (NICs) to assume responsibilities commensurate with their economic development. Generally to seek to undermine the bloc mentality enshrined in the UNCTAD Group system.

vi. To promote the idea that UNCTAD should be a general forum for the discussion of ideas relating to trade and development, rather than an executive or negotiating organisation, and to prevent it encroaching on the work of other international

institutions in particular GATT, the IMF or the World Bank. To give further impetus to reform of UNCTAD's working practices.

vii. To continue to pursue the cross-sectoral approach, emphasising the linkages between separate items on the agenda and trying to ensure that the final outcome of the Conference is represented by a single document reflecting this approach.

MAJOR ISSUES

5. The main issues likely to arise at UNCTAD VII under these headings are summarised below, together with the proposed UK line.

RESOURCES FOR DEVELOPMENT

6. i. On aid flows, the UK should resist demands for commitments to meet specific aid targets on a given timescale. We should seek to emphasise the importance of the terms and effectiveness of aid flows and the need for complementary action by recipients.

ii. We must work with our Group B colleagues to maintain support for the existing case-by- case approach to debt problems and to safeguard the independence and effectiveness of the major international financial institutions in this area. We should use UNCTAD VII to promote the Chancellor's initiative on sub-Saharan African debt, including the adoption of Retroactive Terms Adjustment by other donors. We should welcome the proposals by the Managing Director of the IMF for a significant increase in the resources of the Structural Adjustment Facility.

iii. We should stress the contribution which economic policies and structural reforms in developing countries can make to their development. We should encourage them to create a climate favourable to the growth of private enterprise and attractive to foreign and domestic investment, and to reduce capital flight.

COMMODITIES

7. (i) We should promote the deregulatory approach endorsed by Ministers last year. In particular we should seek to avoid any blanket endorsement of the objectives of UNCTAD's "Integrated Programme for Commodities" or any proposals pointing to market-intervention International Commodity Agreements.

(ii) We should continue to do all we can to undermine support for the Common Fund and prevent its implementation.

(iii) On compensatory finance we should oppose any new or expanded facility which might involve UK or collective EC participation. We should stress the greater importance of structural adjustment lending in addressing the problems of commodity-dependent countries.

TRADE

8. (i) We must seek to prevent any encroachment by UNCTAD on GATT's responsibilities and activities in relation to the Uruguay Round, concentrating UNCTAD's work in areas where it can complement GATT's role, eg services in development.

(ii) We should take appropriate opportunities to stress the importance of a greater contribution by the NICs to the international trading system ("integration").

(iii) On agricultural reform, we should press the important principles in the OECD Ministerial Communique as endorsed at the Venice Summit.

LEAST DEVELOPED COUNTRIES

9. (i) International action in recent years has focused on the

UN's Substantial New Programme of Action for the 1980s for the Least Developed Countries which includes a specific aid target of 0.15% of GNP for these countries. We should resist pressure for the setting of a date for achievement of this target. We should also ensure that UNCTAD VII is not used for a further detailed review of progress with this Programme.

(ii) We should ensure that the problems of the least developed are not treated in isolation under this sub-heading of the Agenda, but are given due weight under the other three sub-headings.

ANNEX A

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Distr.
LIMITED

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2 October 1986

United Nations Conference on Trade and Development

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Thirty-third session
Geneva, 1 September 1986
Agenda item 5

SEVENTH SESSION OF THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT: PREPARATIONS FOR THE SESSION

Seventh session of the United Nations Conference on Trade and Development
Provisional agenda, place, date and duration

Draft decision submitted by the President

The Trade and Development Board,

Recalling General Assembly resolution 1995 (XIX), section II, paragraph 2, and General Assembly resolution 40/189, and further recalling Board decisions 336 (XXXII) and 337 (XXXII), relating to preparations for the seventh session of the United Nations Conference on Trade and Development,

1. Adopts the provisional agenda for the seventh session of the United Nations Conference on Trade and Development annexed hereto (annex I) together with its understandings contained in annex II;

2. Recommends to the General Assembly that the seventh session of the Conference be held at its headquarters in Geneva for a duration of about three weeks between 6 and 31 July 1987, including a final phase of one week at which the work of the session would be concluded by Ministers;

3. Takes note of the desire of the Latin American Group to hold the eighth session of the Conference in one of the countries in Latin America on the understanding that the final decision on the venue in Latin America will be taken at the appropriate time. In this connection, the Board notes the interest of Cuba to host the eighth session of the Conference.

4. Recommends to the General Assembly to accord priority to the seventh session of the United Nations Conference on Trade and Development in relation to other United Nations activities in Geneva.

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Annex I

PROVISIONAL AGENDA FOR THE SEVENTH SESSION OF THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

1. Opening of the Conference

2. Election of the President

3. Constitution of sessional bodies

4. Election of Vice-Presidents and the Rapporteur

5. Credentials of representatives to the Conference:
   (a) Appointment of the Credentials Committee
   (b) Report of the Credentials Committee

6. Adoption of the Agenda

7. General debate

8. Revitalizing development, growth and international trade, in a more predictable and supportive environment, through multilateral co-operation: Assessment of relevant economic trends and of global structural change, and appropriate formulation of policies and measures, addressing key issues in the following interrelated areas:

   (a) Resources for development, including financial, and related monetary questions;
   (b) Commodities;
   (c) International trade;
   (d) Problems of the least developed countries, bearing in mind the Substantial New Programme of Action for the 1980s for the Least Developed Countries.

9. Other business

10. Adoption of the report of the Conference to the General Assembly

Annex II

UNDERSTANDINGS

I. In the assessment of relevant economic trends, due attention should be paid to the role of the private sector in development.

II. The formulation relating to "a more predictable and supportive environment" is intended to subsume the interest expressed in referring to the need for security, dependability and confidence-building in the world economic environment, as well as for equity and justice in international economic relations.

III. Monetary questions will be considered in the context of the mandate of UNCTAD and without prejudice to the competence of the International Monetary Fund and other international financial institutions.

IV. Sub-item (c) - "international trade" - includes issues arising in trade relations among countries having different economic and social systems.

CDP
12/6

With the Compliments of

The Minister for Overseas Development

Eland House, Stag Place
London SW1E 5DH
Tel: 01-213 5409

RESTRICTED

OVERSEAS DEVELOPMENT ADMINISTRATION
ELAND HOUSE
STAG PLACE LONDON SW1E 5DH

Telephone 01-213 5409

From the Minister

10 June 1987

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

Dear Secretary of State,

UNCTAD VII: COMMON FUND

Thank you for your letter of 4 June 1987. I am replying on behalf of Geoffrey Howe who is in Venice.

As you know, my concern in this matter has been to avoid being driven into obligations additional to those we have already accepted for the Common Fund, while there is any risk of the latter coming into being. However, I am persuaded by the tactical arguments in your letter, and I can therefore agree that we should, in the last resort, be prepared to drop our insistence that release of our Second Account pledge is conditional on the demise of the Common Fund, provided that the Community position avoids any suggestion, even by implication, that we would be willing to contemplate an interim arrangement.

I must however ask that in accepting and deploying the eventual Community position we should make clear in Brussels, and later Geneva, that making the money available now will liquidate our earlier obligation to the Second Account if the Fund were to come into force. (I understand that it might be necessary at some stage formally to notify this to the UN Secretary General). I understand this is also the position of Canada and some other OECD countries.

We have for some time accepted as a contingent call on the aid programme the sum of £4.27 million pledged for the Second Account. We had hoped of course that it would never be required and there is no firm allocation for it in the present Aid Framework up to 1989/90 agreed last year. It follows from what I have said that I would be prepared to find this sum but it will of course be at the expense of other uses, including our already hard pressed bilateral aid programme.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food and Robert Armstrong.

Yours sincerely
Martin Thomas

M CHRIS PATTEN
(Approved by Mr Patten and signed on his behalf)

EUROPA - Budget Pt 36

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215 5422
GTN 215) ----------
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Secretary of State for Trade and Industry

CONFIDENTIAL

4 June 1987

The Rt Hon Sir Geoffrey Howe QC
The Secretary of State for
Foreign & Commonwealth Affairs
Downing Street
London SW1A 2AL

Dear Geoffrey.

UNCTAD VII : THE COMMON FUND

As you know, the 7th United Nations Conference on Trade and Development (UNCTAD) will be held in July. The Community position will have to be settled at the Foreign Affairs Council (FAC) on 22-23 June, and detailed preparations for this are now going forward. Nearer the time, we will need to consider our position on a whole range of subjects which will be covered in the draft Community mandate. There is, however, one particular point relating to the Common Fund on which my officials need guidance at this stage.

The Fund, which we have ratified but which still has not been brought into effect, consists of two "Accounts". The first is intended to provide finance for commodity agreements and the second, to which we have pledged £4.27m from the aid budget, covers more acceptable purposes such as assistance to developing countries for research and development and marketing in the commodities field.

Our central objective, reflected in the overall review of commodity policy which we undertook last summer is to persuade other countries, and in particular the Community, that the Fund no longer makes sense and that the developed countries should make that clear, preferably by deratifying. Officials have raised this possibility but our efforts in that respect have not met with any

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real success. Although some EC partners, such as the Germans, are prepared to admit privately that the Fund is a dead letter, none would be prepared to declare that openly, let alone take the step of deratification. They argue that such action is unnecessary and would be regarded as an outright challenge by the developing countries. Even if we were prepared for such a confrontation they, and the Community as a whole, would not be.

What is now emerging in the Community and elsewhere in Group B are proposals either that the Second Account should be brought into effect as an interim arrangement or that an alternative and separate fund should be set up for similar purposes. Yet another variant is that such a fund should attract both First Account and Second Account finance. The aim in the latter case would be to make sure that the Common Fund itself (and in particular the commodity agreement finance provisions) could never come into effect since the money devoted to it would have been used in more useful, acceptable and non market distorting ways.

In the preliminary discussions in the Community, officials have firmly opposed the idea of bringing into effect the Second Account as such or any arrangement that could be described as <u>interim</u> - since that would imply that the Common Fund still had validity. They had indeed sought to persuade Community partners that if a new arrangement were to be created, it should be conditional upon all Common Fund signatories (including the developing countries) recognising that contributions would be regarded as extinguishing any commitment to make money available for the Common Fund itself.

It has become clear that there is little or no support for the UK's position on this as on the issue of deratification. Other EC countries see positive merit in the concept of an interim fund; they are not prepared to attach conditions concerning the shelving of the Common Fund; and, in short, as I said earlier, they are generally unwilling to do anything that could be represented as confronting the developing countries on an issue to which the G77 continues to attach high political importance, if only as a symbol.

The question is what line should we now take in the preparations for the first COREPER discussion on 11 June. It is clear that if we simply maintain our opposition or reserve our position, the Community will effectively have taken a decision if not by 11 June, at least by 17 June, the COREPER before the FAC on 22-23 June.

Although we are isolated, I believe that we can still influence the outcome if we are prepared to give some ground. I am certain that we should continue to oppose strongly any proposals for an <u>interim</u> fund. That must be a sticking point. And I consider that we

999-49

should, for as long as possible, maintain the argument that agreement to any arrangement involving Second Account money should be conditional upon the shelving of the Common Fund. But, I have come to the reluctant conclusion that if we continue to be totally isolated, we should in the last resort be prepared to drop our insistence on conditionality, provided that the Community drops any suggestion, even by implication, that they would be willing to contemplate an interim arrangement. If we concede that point, we will still be able to argue informally that the Common Fund has now been rendered wholly unnecessary.

In making this concession, we would be careful to leave open the question of how much money we would actually provide and ways in which it would be made available. That can be the subject for later discussion. I understand, however, that in principle at least some of the aid money previously earmarked for the Common Fund could still be made available from the aid budget certainly in respect of the Second Account pledge.

I should be grateful for your urgent agreement to officials proceeding on the basis indicated.

I am sending copies of this letter to the Prime Minister, the Chancellor, the Minister for Agriculture and to Robert Armstrong.

PAUL CHANNON

JG2BII

04. 11.
AM 8 7

FILE

LR

cc: PC
DT
FCO

10 DOWNING STREET

THE PRIME MINISTER

23 July, 1984

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 135/84

cc MASTER OPS

Dear Mr. President,

Thank you for your letter of 26 June about Kenya's candidate for the post of UNCTAD Secretary-General. I have noted your strong support for Dr. Kiano. As you know, there are a number of candidates, but we shall naturally take full account of your views in deciding whom to support.

Yours sincerely

Margaret Thatcher

His Excellency The Honourable Daniel Arap Moi, C.G.H., E.B.S., M.P.

RM

RESTRICTED

Foreign and Commonwealth Office

London SW1A 2AH

20 July, 1984

DTI 'phoned 23/7 & said they had nothing to add. PFR

Dear Charles,

Next Secretary-General of UNCTAD: Letter from President of Kenya

I enclose a personal message from the President of Kenya to the Prime Minister seeking the British Government's support for Dr Kiano as the next Secretary-General of UNCTAD. It has been handed to us for onward transmission by a member of the Kenyan High Commission.

Dr Kiano is one of several candidates. Although he is the OAU's choice there are at least four other Africans in the field as well as a Bangladeshi and a Uruguayan. The candidate preferred by us and other OECD countries is the Uruguayan, Sgr Iglesias, who is at present Executive Secretary of the Economic Commission for Latin America and the Caribbean. We regard him as the best man for the job. We and other OECD countries have made this known to the UN Secretary-General already.

In the circumstances we suggest that the Prime Minister might, as a courtesy, send a brief acknowledgment. I enclose the text of a proposed draft reply.

I am copying this to Callum McCarthy (DTI).

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

RESTRICTED

DSR [redacted]ised)

DRAFT: xxxxxx/letter/xxxxxx/xxxxxx

TYPE: Draft/Final 1+

FROM

Prime Minister

DEPARTMENT: TEL. NO:

Reference

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

TO:

His Excellency President
Daniel T arap Moi
President of the Republic of Kenya

Your Reference

Copies to:

PRIVACY MARKING

.....In Confidence

CAVEAT.....

SUBJECT:

Thank you for your letter [redacted] of 26 June about Kenya's candidate for the post of UNCTAD Secretary-General. I have noted your strong support for Dr Kiano. As you know, there are a number of candidates, but we shall naturally take full account of your views in deciding whom to support.

Enclosures–flag(s).....

U.N.
UNCTAD

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FCS/83/138

N.B.P.M.

A.J.C. 24/7.

MINISTER FOR TRADE

f.a.

UN Conference on Trade and Development

1. Thank you very much for your letter of 14 July and your comments on the Sixth Session of the United Nations Conference on Trade and Development (UNCTAD VI).

2. As you know, I believe that from the United Kingdom standpoint the outcome as a whole was as satisfactory as we could realistically have expected. I entirely agree with your conclusion that as a damage limitation exercise, it went well.

3. I am glad that you did not need to use the fall-back position on the extension of STABEX. It was particularly useful that you were able to work so closely with Count Lambsdorff on this and other issues.

4. I was interested to see your suggestion that consideration might be given to whether there is scope for a shift in the aid programme in favour of the least developed over the next few years. As you know, our room for manoeuvre in this area is strictly limited by the constraints on our bilateral aid programme, a problem which is causing major difficulties in the current aid framework exercise.

/5.

5. As for the so called Belgrade Declaration, many members of Group B may by now be wishing that they had taken more seriously the UK suggestion in the late stages of the Conference that the draft text should be quietly killed. But the statement of qualifications made by you on behalf of Germany, Japan and the UK, and similar statements made by others (partly under UK prompting) will provide useful ammunition if the UNCTAD Statement is revived by the G77 in other UN fora.

6. It was useful to have your comments on the approach of the Americans, the French, the Commission and the Greeks. The tough line taken by the Americans was not unexpected, particularly in view of the problems which the Administration are having in getting the IMF legislation through Congress.

7. There is now likely to be a lull until the Autumn. The main issues then will probably be the G77 call for an International Conference on Money and Finance, the related French suggestion of a meeting of OECD Finance Minister, Mrs Gandhi's call for a Summit at the UN General Assembly, and the questions to be considered at the IMF/IBRD Annual Meetings. It is also possible that the G77 will renew their attempts to launch Global Negotiations. Persistent attempts by the G77 to introduce the concept of Global Negotiations into UNCTAD texts indicate that they have not yet given up all hope in this area.

/8.

8. Finally, I agree with you that we ought to consider how we should try to improve the operation of UNCTAD. The rigid Group system as it operates within UNCTAD embodies the outdated North/South division which has no relevance to the way in which international economic issues ought to be addressed. I share Arthur Cockfield's view (his letter of 18 July) that we should do nothing to encourage the pretensions of UNCTAD, particularly the attempt to usurp the functions of other bodies. But there may nevertheless be scope for improving its operations in the sense of modifying the rigidities of the Group system, and thereby helping to reduce the confrontational atmosphere which that system encourages.

9. I am copying this letter to the recipients of yours.

Foreign and Commonwealth Office

UN: UNCTAD V 5/79

21 JUL 1983

CONFIDENTIAL

DEPARTMENT OF TRADE & INDUSTRY
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
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From the
Minister for Trade

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State
Foreign & Commonwealth Office
Whitehall
London SW1

14 July 1983

Dear Geoffrey

UN CONFERENCE ON TRADE AND DEVELOPMENT

The Sixth Session of the United Nations Conference on Trade and Development, scheduled to take place in Belgrade from 6 to 30 June, over-ran by 2 days, and concluded in the early hours of Sunday 3 July. I attended for the last five days which, as usual, was the critical period of the Conference.

My first impression was that UNCTAD procedures were ridiculous. The cumbersome negotiating tactics between a few groups, whose inherent incompatibility leads to a lack of flexibility, interminable arguments in committees in front of enormous audiences which made the negotiators play to the gallery, the meetings of the President's contact group set up to resolve tricky issues but attended by over 500 delegates, and a variety of other measures made me realise that an organisation organised in this way will never be capable of making sensible progress or indeed of having a rational dialogue. The cynics would say that the present state suited our book since nothing is ever agreed and we are able to hide behind the Group B figleaf. But I cannot believe in the long term this is the right attitude. You will recall that some months ago there was a group of Commonwealth experts who made suggestions for improving North-South procedures. We tried to push their ideas in Belgrade but without success, presumably, because the developing Commonwealth countries fear to breach G77 solidarity. Even so, I am sure at some appropriate stage we ought to consider how we should try to improve the operation of this organisation. The effort is worthwhile. But nobody imagines it will be easy.

As for the Conference itself, during the first three weeks the negotiations had been slow and difficult. The group of 77 were reluctant to move from their Beunos Aires platform which had been agreed with difficulty between them and approved by their Ministers. Until the last few days therefore there was little real progress.

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However, in the early hours of 1 July the President of the Conference the Yugoslavia Foreign Minister Mosjov, took a grip. Sensing there was still deadlock in most of the drafting groups on several of the more important issues, he prepared a package of President's texts and on one occasion, he instructed negotiators to come up with a solution in one hour. His texts favoured the Group B position. Although we had some points of difficulty we were able, in the main, to go along with them. So did the G77 after some hours, and many threats of walking out of the Conference. That is how we achieved the considerable - at least by UNCTAD standards - feat of adopting over 20 resolutions by consensus, and unprecedently preventing a single resolution on the main subjects of the agenda being voted through by the G77 against Group B's opposition.

You will already have seen telegrams describing the resolutions passed in detail, but for colleagues I attach as an annex to this letter what was agreed.

There were three points of special difficulty. First, the extension of STABEX. When I arrived in Belgrade, we were under considerable pressure from other Community countries to extend STABEX to nine new LLDCs. For example, although the Dutch privately agreed STABEX was a nonsense, they had become, for political reasons, leaders of the pack in trying to press us to go further. I was therefore grateful to you for the discretion to give way. Fortunately we managed to persuade, although somewhat reluctantly, the Community not to press us on this issue, especially since the developing countries showed not the slightest interest in this concession. I had a long conversation with the Bangladesh Foreign Minister whose country would have been the prime beneficiary of such a concession and he never raised the issue once. The Germans helped considerably since although Count Lambsdorff had similarly been given discretion to give way, on my representations he held firm and no more was heard of the idea as the Conference moved on to its final stages.

The second point was the achievement by "1985 or as soon as possible thereafter" of the specific aid target (0.15% of GDP) for the least developed countries. I was grateful to Tim Raison for saying that in an emergency I might be able to make a modest concession on this point, but again we were able to get by making a low key interpretative statement. This problem, however, will not go away. You will want to consider whether there is scope for a shift in our aid programme in favour of the least developed over the next few years, although I know that a large part of our aid already goes to poor countries not included in the least developed definitions.

The third issue - particularly on the last day - was whether we could all agree on a "grandiose" Belgrade Declaration. This proved, not surprisingly, extraordinarily difficult. At one stage it looked as if the Group of 77 might have walked out of the Conference. Indeed we were informed that there was strong pressure from some of the South American countries, notably Cuba, Argentina and more surprisingly, Brazil, to do so. There was also some pressure in the African countries. On the whole the Asian group were among the moderates at the Conference. After long and acrimonious discussion however, the Group of 77 decided to stay. Even so, the final text of the so called Belgrade Declaration prepared by a group under the chairmanship of Dadzie of Ghana was far too slanted towards the views of the

Group of 77. A number of statements of qualification including a harshly worded one by the US were made and I made one on behalf of Germany, Japan and ourselves.

Throughout the Conference the Americans took an exceedingly hard line which undoubtedly cramped the negotiating position of the Group B countries. It was therefore particularly irritating that towards the close, after our efforts to try and help the Americans to get as much as possible, the US delegation announced, after consultation with Washington, that they were unable to support some parts of the resolutions that emerged. As it was at the very last minute they changed their mind over one of the money resolutions, deciding to vote after they had announced a "final" decision to vote against. All this reflected the very clumsy approach displayed by the Americans throughout, and indeed the very harshly worded statement about the "Belgrade Declaration" received much bad publicity. The US thus drew on themselves much of the blame in the eyes of the G77 for the disappointing outcome of the Conference from their point of view.

Of the other countries, the US got some support for a relatively hard line from Canada, Australia, New Zealand and at times from Japan. The Nordics as usual were willing to make more concessions. The Community was comfortably in the middle and fortunately remained united till the end. The French and the Commission were both exceedingly tiresome and constantly tried to stampede the Community into taking initiatives which would have divided the Group B countries. Commissioner Pisani was particularly unhelpful. Fortunately the other Member States, and especially the Germans with whom we established a particularly close and amicable working relationship throughout the Conference, and ourselves were able to hold the line. The Greeks who insisted on taking over the Presidency at midnight on June 30 were surprisingly helpful and effective

I cannot say I would look forward to another UNCTAD Conference in the immediate future with enthusiasm. We must work to improve the procedures. A good deal will clearly depend on whoever is appointed to suceed Corea as Secretary General next year.

My conclusion is that all we could have expected from UNCTAD was a damage limitation exercise. In that I think the United Kingdom was successful. We protected our essential interests and emerged from the Conference with minimal damage but the result was not good for the reputation of UNCTAD as a whole.

I am copying this letter to the Prime Minister and other members of OD, Michael Jopling, Peter Rees, Sir Robert Armstrong, our Ambassador in Belgrade and the Head of the UK Mission to International Organisations at Geneva.

Yours,

Paul

PAUL CHANNON

ANNEX

Commodities: four resolutions based on those put forward by the G77 were adopted, including one urging early ratification of the Common Fund, which the United Kingdom ratified in 1981. The Community eventually agreed to pay the subscriptions of three newly designated least developed countries which are not covered by the OPEC offer made last year. In addition, Group B, on a Nordic initiative, tabled a resolution which was eventually passed urging the strengthening of the International Trade Centre to enable it to help developing countries in the marketing of their processed and unprocessed commodities. Group B made great efforts to negotiate a resolution on compensatory finance which would be acceptable to the United States, which would set up an expert group to look into the various proposed schemes without any prior commitments. Unfortunately, a few words were deleted in the final Presidency compromise which resulted in the United States voting against, and several abstentions. The European Community made an interpretative statement.

Trade: developing countries showed considerable obduracy in resisting any suggestion that they could conceivably be guilty of protectionism or be expected to do anything to remove trade barriers. Also, inspired by the Latin American Group, they tried to avoid any reference to the poorest countries which might have given an opening for graduation. At the same time they pressed for more explicit concessions from developed countries. But here again agreement could only be reached on the basis of the President's text.

Money and finance: resolutions were agreed on official development assistance, multilateral aid, external debt and the international monetary system. There was also a resolution on least developed countries where, on the only occasion during the Conference the United Kingdom had to stand out at all conspicuously, we had to make a qualification on the achievement of the specific aid target for least developed countries. The draft resolution which we put forward on direct private investment, which suggested that countries wishing to attract foreign direct investment should provide clear, stable and favourable conditions for it, encountered some resistance, and was eventually lost in the final package. This was regrettable, but we achieved our main objective of pointing to an area where developing countries can do more to help themselves.

FCS/83/125

MINISTER FOR TRADE

UNCTAD VI

1. I was very grateful to you for letting me know from Belgrade how UNCTAD VI was moving in the final stages. And now that its all over, I wanted to thank you personally for the way you steered things. If I may say so, I think that in the negotiations you and your team promoted British interests in the most effective way possible. The satisfactory outcome owes much to your own efforts and to the skill with which Roy Williams led the delegation at official level. I should be most grateful if you would pass on my thanks to him.

2. We were never under any illusions about the difficulties which we would face in the negotiations at UNCTAD. It was clear from the start that the Community and Group B countries as a whole would come under pressure from the developing countries to make concessions on money and finance, commodities and trade. But it was good to see the way in which the Community and Group B managed to stay united. I particularly welcomed the way you and Lambsdorff worked so closely together in the final stages for a sensible conclusion. I am glad that you did not need to use the fall-back position on the extension of STABEX. The tough line taken by the United States in the negotiations was not unexpected, but I was interested to see that the Japanese were so forward in speaking out on controversial issues.

/3.

3. Our officials are already considering the lessons of the Conference and how UNCTAD VI may affect future relations with developing countries. There should be a lull now for the summer holidays. But pressure on the industrialised nations will no doubt resurface in other fora in the autumn, with perhaps renewed demands for an international monetary conference; and the line the developing countries take at the IMF/IBRD Annual Meetings in September may also be influenced by the discussions at UNCTAD VI.

4. From the United Kingdom standpoint the outcome as a whole was, I believe, as satisfactory as we could realistically have expected. As a damage limitation operation, it went well: many thanks.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
7 July 1983

STATE HOUSE
P.O.BOX 40530
NAIROBI, KENYA

PRIME MINISTER'S PERSONAL MESSAGE

SERIAL No. T 112AA/84 cc MASTER OPS

26TH JUNE, 1984

MADAM PRIME MINISTER,

MY GOVERNMENT HAS HAD COMMUNICATIONS WITH YOUR GOVERNMENT ON KENYA'S CANDIDATURE FOR THE POST OF SECRETARY-GENERAL OF THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD), WHICH IS FALLING VACANT IN DECEMBER THIS YEAR.

HOWEVER, CONSIDERING THE IMPORTANT ROLE THAT YOUR GOVERNMENT PLAYS IN THE ACTIVITIES OF THE UNITED NATIONS, AND TAKING INTO ACCOUNT THE VERY CORDIAL RELATIONS BETWEEN YOUR GOVERNMENT AND MINE, I HAVE DECIDED TO APPEAL TO YOU PERSONALLY FOR YOUR GOVERNMENT'S SUPPORT OF THE CANDIDATURE OF MY TRUSTED FRIEND AND COLLEAGUE, DR. JULIUS GIKONYO KIANO. I HAVE KNOWN JULIUS PERSONALLY AS A VERY HARD WORKING MEMBER OF THE KENYA PARLIAMENT SINCE 1958 AND HE PROVED TO BE EVEN A MORE ABLE ADMINISTRATOR AS A CABINET MINISTER FROM 1963 TO 1979. HIS MANAGEMENT ABILITIES AND SKILLS HAVE ALSO BEEN CLEARLY EVIDENT IN CARRYING OTHER RESPONSIBILITIES GIVEN TO HIM BY MY GOVERNMENT.

AS YOU CAN SEE FROM HIS CURRICULUM VITAE ATTACHED HEREWITH, JULIUS DISTINGUISHED HIMSELF AS A SCHOLAR, AND HAS EXTENSIVE EXPERIENCE PERTINENT TO THE KIND OF JOB I AM ASKING FOR YOUR SUPPORT. DR. KIANO HAS ACTIVELY PARTICIPATED IN VARIOUS INTERNATIONAL CONFERENCES AND FORA DEALING WITH GLOBAL AND REGIONAL ECONOMIC CO-OPERATION. I WOULD ALSO LIKE TO INFORM YOU THAT KENYA DOES NOT HAVE ANY SENIOR POST IN THE WHOLE OF THE UNITED NATIONS SYSTEM, EVEN AT THE LEVEL OF ASSISTANT SECRETARY-GENERAL. DR. KIANO RECEIVED FULL SUPPORT OF ALL THE HEADS OF STATE AND GOVERNMENT OF THE O.A.U. IN A RESOLUTION OF OUR LAST SUMMIT MEETING OF JUNE 1983 IN ADDIS ABABA.

.../2.

STATE HOUSE
P.O. BOX 40530
NAIROBI, KENYA

 26TH JUNE, 1984

I AM CONVINCED THAT WITH YOUR SUPPORT, DR. KIANO'S APPOINTMENT BY THE SECRETARY-GENERAL, AND SUBSEQUENT ENDORSEMENT BY THE U.N. GENERAL ASSEMBLY WILL BE ALMOST ASSURED.

PLEASE ACCEPT, MADAM PRIME MINISTER, THE ASSURANCES OF MY PERSONAL AND HIGH ESTEEM.

(DANIEL T. ARAP MOI)
PRESIDENT OF THE REPUBLIC OF KENYA

THE RT. HON. MARGARET THATCHER, M.P.
PRIME MINISTER OF GREAT BRITAIN AND
NORTHERN IRELAND,
LONDON.

CURRICULUM VITAE FOR DR. J. G. KIANO, E.G.H., B.A. (ECON) M.A., PHD.

1. DATE AND PLACE OF BIRTH — JUNE 1ST 1926, MURANG'A DISTRICT, KENYA.

2. EDUCATION — ALLIANCE HIGH SCHOOL, KENYA 1942-1945.

MAKERERE COLLEGE (NOW MAKERERE UNIVERSITY) UGANDA, 1946-1947.

ANTIOCH COLLEGE, YELLOW SPRINGS, OHIO, U.S.A. 1949-1952, M.A. POLITICAL SCIENCE.

UNIVERSITY OF CALIFORNIA, BERKELEY, CALIFORNIA, U.S.A. 1953-1956, PHD, POLITICAL SCIENCE.

3. WORKING AND OTHER EXPERIENCES — LECTURER IN ECONOMICS AND CONSTITUTIONAL LAW, ROYAL TECHNICAL COLLEGE (NOW UNIVERSITY OF NAIROBI) 1956-1958.

ELECTED MEMBER OF KENYA LEGISLATIVE COUNCIL, 1958-1963.

ELECTED MEMBER OF KENYA'S NATIONAL ASSEMBLY, 1963-1979.

MINISTER FOR COMMERCE AND INDUSTRY, 1963-1966.

MINISTER FOR LABOUR, 1966-1968

MINISTER FOR EDUCATION 1968 DECEMBER 1969.

MINISTER FOR LOCAL GOVERNMENT 1970-1973.

..../2.

MINISTER FOR WATER DEVELOPMENT 1976-1979.

MANAGING DIRECTOR, INDUSTRIAL DEVELOPMENT BANK LIMITED, KENYA (GOVERNMENT OWNED BANK) 1980-1983.

CHAIRMAN, NATIONAL OIL COMPANY OF KENYA, 1983 TO DATE.

4. INTERNATIONAL EXPERIENCES

LEADER OF KENYA DELEGATION, UNCTAD 1, 1964, GENEVA.

CHAIRMAN, AFRICAN MINISTERS OF EDUCATION CONFERENCE, 1968, NAIROBI.

CHAIRMAN, AFRICAN MINISTERS OF INDUSTRY CONFERENCE, 1975, NAIROBI.

MEMBER OF THE COMMON MARKET COUNCIL AND THE ECONOMIC CONSULTATIVE COUNCIL OF THE EAST AFRICAN COMMUNITY, 1973-1976.

LEADER OF THE KENYA DELEGATION IN THE NEGOTIATIONS BETWEEN ACP AND EEC COUNTRIES, 1973-1975, LEADING TO LOME CONVENTION OF 1975.

LEADER OF KENYA DELEGATION TO THE UNCTAD IV GROUP OF 77 PREPARATORY MEETING, AND

RAPPORTEUR-GENERAL GROUP OF 77 CONFERENCE IN MANILA, PHILLIPINES, 1976 (FEBRUARY).

.../3.

LEADER OF THE KENYA DELEGATION IN THE GOVERNING COUNCIL OF UNEP, 1977-1979.

PRESIDENT, U.N. CONFERENCE ON DESERTIFICATION, AUGUST-SEPTEMBER, 1977.

CHAIRMAN, WHO/FAO/UNEP PANEL OF EXPERTS ON ENVIRONMENTAL MANAGEMENT FOR VECTOR CONTROL 1981-1982, NOW A MEMBER OF THE STEERING COMMITTEE OF THE PANEL.

MEMBER OF THE EXECUTIVE COMMITTEE OF ASSOCIATION OF AFRICAN DEVELOPMENT FINANCIAL INSTITUTIONS, 1982 TO DATE.

CONFIDENTIAL

NBPM

PA

Mrs 2/6

V.N.

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

2 June 1983

Peter Rees Esq QC
Minister for Trade
Department of Trade
1 Victoria Street
LONDON SW1H OET

Dear Mr Rees,

UNCTAD VI

Thank you for sending me a copy of your letter of 18 May to Timothy Raison. I have also seen Francis Pym's reply of 26 May, and Patrick Jenkin's letter of 27 May.

I am content with the proposed UK line set out in your letter and the paper you enclosed.

I think it would help to show the UK position in a positive light if our delegation were to refer as appropriate to the understandings on economic policy that have been reached between the main industrialised countries, notably of course at Williamsburg. These will help developed and developing countries alike and the UK has made an important contribution to them. For example, the commitment in the Williamsburg declaration to halt protectionism and, as recovery proceeds, to reverse it, is unambiguous. The need to reduce interest rates is also clearly stated, and we can discreetly claim credit with the G77 for the continuing pressure we are putting on the Americans on this point. Also important is the consultation process, called for in my September 1981 IMF speech, initiated at Versailles, and strengthened at Williamsburg, which is designed to promote the convergence of economic policies and thus greater stability of exchange rates. These points must of course be deployed with discretion, since we do not want to provoke the G77 into a general debate on the economic policies of the industrialised countries, but I think that they are nevertheless worth deploying.

I am copying this letter to the other recipients of yours.

Yours sincerely,

Margaret O'Mara

GEOFFREY HOWE
(approved by the Chancellor and signed in his absence)

UN, May 79,
UNCTAD V

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

From the Minister

Peter Rees Esq QC
Minister for Trade
Department of Trade
1 Victoria Street
London SW1H 0ET

31 May 1983

TR
1/6.

Thank you for copying to me your letter of 18 May enclosing a paper on the line which it is proposed should be taken by the UK delegation to UNCTAD VI. My officials have been fully involved in the preparation of the paper and I am happy with the outcome. I am, of course, particularly interested in commodities and endorse the case by case approach advocated for commodity agreements. I was grateful for the assurance, in your letter of 28 April to John Butcher, that we shall be fully consulted before there is any question of accepting commitments on commodities within our respective fields.

I am copying this letter to members of OD, Patrick Jenkin, Timothy Raison and Sir Robert Armstrong.

PETER WALKER

UN UNCTAD May 79

UN UNCTAD May 79

JH 805

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

27 May 1983

Peter Rees Esq QC
Minister for Trade
Department of Trade
1 Victoria Street
London SW1H OET

N.B.P.R.

AR 27/5.

Dear Peter,

UNCTAD VI

Thank you for sending me a copy of your letter of 18 May to Timothy Raison.

2 I am glad to note that the Conference at Leeds Castle went well and that you believe this exercise should contribute to the less confrontational atmosphere it is hoped to achieve at Belgrade.

3 I am generally content to support the objectives outlined in your letter, and in the paper by officials you enclosed, but I have two qualifications. The first concerns paragraph 2(v) of the paper. As has been made clear, we are concerned to avoid a commitment not to become isolated from the Community and Group B which overrides our other objectives. Certainly we should seek to persuade others of our point of view and to avoid becoming isolated. But we need to leave ourselves free to decide in the light of circumstances whether another objective is more important. I hope you, and the others to whom this letter is copied can agree to accept in place of your paragraph the form of words I understood to have been agreed between officials:

> "(v) To promote Community and Group B positions which serve our essential interests and to seek to avoid becoming isolated in either Group."

4 On the question of a private investment initiative I must say that I would still hope that we could get away without having to put forward a resolution at all. Once a resolution is in the machinery, it will be very difficult for us to control. If there really is no other way of provoking debate, i think we should put forward any proposed resolution on a 'take it or leave it' basis.

5 I am sending copies of this letter to Ministers in OD, Peter Walker and to Sir Robert Armstrong.

Yours ever

Patrick

FCS/83/106

MINISTER OF STATE FOR TRADE

N.D.P.R.

A.J.C. 27/5

1. Thank you for sending me a copy of your letter of 18 May to Timothy Raison. I have agreed with him that I should reply for both wings of the Foreign and Commonwealth Office.

2. I agree with you that UNCTAD VI is likely to be a difficult meeting, despite the signs of a more moderate presentation of their demands by the G77. The approach set out in your letter and the accompanying paper will ensure that UK interests are promoted at Belgrade. So far we are not in an exposed position in the Community. We may well come under pressure over the extension of STABEX and over the target for aid to the least developed countries. Concessions on STABEX would mean additional multilateral aid expenditure, which would further reduce our bilateral programme (including ATP) and offer no commercial benefits. Acceptance of a date for the Aid Target to the LLDCs would mean a distortion of the Aid Programme at a time when we are moving away from the 0.15 per cent target; 'defaults' by a member state could lead to an additional community contribution which would mean an increase in the multilateral share of our Aid Programme. Hence, I think we must recognise that we may inescapably find ourselves in an uncomfortable position as the negotiations evolve.

3. I agree with you that we should emphasise the theme of interdependence both between developed and developing economies, and also between the main UNCTAD agenda items: commodities, trade

/and

and monetary and financial issues. The UK's approach to these problems is well covered in your paper. In particular I believe that we should continue our policy of support for the Integrated Programme of Commodities, and that as a sign of this the UK should reaffirm its willingness to continue work on the programme.

4. I also very much welcome your proposed initiative on private investment.

5. I am copying this minute to Ministers in OD, Patrick Jenkin, Peter Walker and to Sir Robert Armstrong.

(FRANCIS PYM)

Foreign and Commonwealth Office
26 May 1983

26 MAY 1983

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

From the
Minister for Trade

The Rt Hon Timothy Raison
Minister for Overseas Development
Foreign & Commonwealth Office
Eland House
Stag Place
London SW1

18 May 1983

N. B. P. R.

A. J. C. 19/5.

Dear Tim

My letter of 31 March enclosed an interim report from the Group of officials working on preparations for UNCTAD VI. I now attach a further paper which sets out rather more fully the line I propose the UK should take at the Conference in Belgrade next month.

Since I last wrote, there have been a number of developments worth recording. In April, developing countries of the Group of 77 met at Ministerial level and reached agreement on the proposals - set out in their "Buenos Aires Platform" - which they will put to UNCTAD VI. Here in the UK, we held an informal pre-conference meeting at Leeds Castle at the beginning of this month which attracted a number of influential figures from G77 and OECD countries, and which I hope engendered a mood of greater realism on the parameters of the discussion in Belgrade. Since then, at the Community level, the Ten have been working on an agreed position for Belgrade. This will be discussed at the Foreign Affairs Council on 24 May.

It might be helpful first briefly to record some impressions of the Conference which I held at Leeds Castle. We had a useful turnout of representation particularly at Ministerial level from the Group B countries and also from the international institutions. Count Lambsdorff represented West Germany, Ambassador Brock the United States, and there were also Ministers from Norway, Yugoslavia, Bangladesh and Mexico. The generally very high level of OECD

Copies to:
Members of OD
PS/Secretary of State
PS/Sir Anthony Rawlinson
Mr Gray Dep Sec
Mr Williams ITP
Mr Gildea ITP2
Sir Robert Armstrong
Mr Woods - INF.

representation was helpful since I think it enabled us to show that the Group B countries and in particular the UK, are approaching the Conference in Belgrade in a constructive and not unsympathetic spirit. The Conference also succeeded I think in our aim of instilling greater appreciation among the G 77 countries of how far the developed world can and indeed will go in Belgrade. If the developing country participants reported accurately to their capitals the frank comments of the CECD participants, I hope that the expectations of the G77 from Belgrade will be moderated and that we can look for a greater degree of realism there. The Conference also I think established useful personal contacts which should help towards the less confrontational atmosphere, which we hope to achieve in Belgrade.

Even so, we should remember that UNCTAD has become for the developed countries at best a bore, and at worst a propaganda exercise by the G77 aimed at us. It would be over optimistic to think that the atmosphere at Belgrade will be radically different from the atmosphere at previous conferences. In the past, the developed world has of necessity been forced to play the hand defensively, breathing a sigh of relief if the Conference ended without too many adverse votes against our views pushed through under the system of majority voting. Now, perhaps because of the greater realism imposed by the world recession, we can hope that the developing countries will display a slightly, and I stress slightly, more realistic appreciation of what they might hope to achieve from the Conference in Belgrade. Certainly the Secretary General of UNCTAD, Mr Corea, has been at pains to present the G77's demands as moderate. Even so, we should remember that they will arrive at Belgrade as demandeurs, and indeed the meeting at Beunos Aires indicates the kind of demands they will be making.

Against that background, I suggest that it might be possible for the UK to adopt a low-key but positive posture. Certainly, I think we should emphasize our recognition of the inter-dependence of the economies of the world and the inter-dependence of many of the issues which we will be discussing in Belgrade. The link between commodity prices, protectionism and the ability of developing countries to service their debts is, I think, increasingly recognised. Indeed this and the need for closer collaboration between the GATT and IMF, were two of the main themes at the dinner of Trade and Finance Ministers which I attended in Paris last week. Secondly, I am sure that we should emphasize our attachment to the principles of the open market system. In this context we can

build on the recent agreement of OECD Ministers to seek wider support for the reversal of protectionist trends, and progressive relaxation of trade restrictions as recovery proceeds. At the same time, we must point out that the open market system imposes obligations on all - both the developed and the developing countries. We must therefore try and maintain the pressure, begun at the GATT in Geneva last November on the newly industrialised countries, many of whom have built up successful industries behind tariff walls, to begin to reduce their tariffs. Thirdly we must safeguard the independence and effectiveness of the international trade and financial institutions. Their activities complement, and should be complemented by, the role of UNCTAD. Fourthly, while moderating some of the wilder demands in the commodities field, we should point out our own helpful role since we have ratified the Common Fund which many other countries, including developing countries, have not. Fifthly, in the field of aid, we must ensure general recognition of the financial constraints operating on all developed countries which make it unlikely that the flows of bilateral and multi-lateral aid can be increased. At the same time, while accepting that many essential infra-structural projects in Third World countries can only be financed by aid, we should point out that further industrial development can and should be fuelled by private sector investment. As I suggested in my letter of 31 March, we should take the initiative in emphasizing the need for developing countries to create a climate favourable to private sector investment from the West.

This I hope adds up to a credible position, and one that will keep us in step with the USA and Germany. We have to recognize though that France will try to make a metricious bid for the plaudits of the developing world through Gallic rhetoric full of promises but devoid of substantive action.

Overall, the meeting will not be easy. In practice it will be impossible to avoid negotiations on the G77 proposals, and the gap between G77 and Group B thinking will be wide. However I dc not think it likely that there will be much disagreement in the Community or indeed in the Group B on the responses we should make to the more extreme ideas of the G77. At the same time, it would be helpful if the UK could be seen to be taking a few modest initiatives. I have already mentioned above the possibilities of promoting private sector investment. Another helpful step would be to press for a less confrontational and more positive approach to the North/South dialogue. This is the theme of a helpful report published last year by a Commonwealth Group of

Experts, and though Sonny Ramphal has been disappointingly backward in promoting these ideas, I hope that a Commonwealth demarche embracing both G77 and Group B countries might be possible in Belgrade. It should therefore be possible for the UK to achieve what I think should be our prime objective of emerging as a sympathetic but realistic friend of the developing world, so as not to prejudice - indeed possibly promote - our political, trading and investment interests there.

As you know, I had hoped to be present in Belgrade in the opening week of UNCTAD VI but in view of the Election this will not now be possible. Although regrettable, since I think the personal contacts made at Leeds Castle would have enabled the UK to have taken a fairly positive role even in the opening stages, this is not calamitous since that part of the Conference is largely devoted to set piece statements. However I think it would be very valuable to have a Ministerial leader present towards the end of UNCTAD VI and we will clearly need to consider this again after the Election.

To sum up, therefore, I should be glad to know whether you and other Ministers closely concerned are in agreement with the recommendations in the Paper and this letter both on the overall objectives for the UK, and the line which should be taken on the major issues which the Belgrade Conference will address.

I am copying this letter to Ministers in OD, Patrick Jenkin, Peter Walker and to Sir Robert Armstrong.

PETER REES

UNITED NATIONS:
UNCTAD V
May '79

APPROACH TO UNCTAD VI

Introduction

1 The purpose of this paper is to seek Ministerial endorsement for the line to be taken by the UK delegation to the Sixth UN Conference on Trade and Development (UNCTAD VI), which takes place from 6-30 June. Although UNCTAD is a largely rhetorical body which seldom arrives at contractual commitments, UNCTAD VI will be a politically prominent event in the North-South Dialogue.

UK Objectives at UNCTAD VI

2 In these negotiations the UK objectives will be:-

(i) That the UK should emerge as a sympathetic but realistic friend of the developing world so as not to prejudice our political or trading interests, and where possible to promote the opportunities for UK investment and trade in the developing world.

(ii) To maintain the commitment of developing countries to the existing international economic system by proving that account is taken of their problems as they undertake the necessary domestic austerity measures to enable them to repay their debts and to put their economies in order.

(iii) To safeguard the independence and effectiveness of the international financial and trade institutions.

(iv) To deflect pressure (from whatever quarter) to accept ambitious compensatory finance proposals or expensive new schemes.

(v) To ensure that the UK does not become isolated from the rest of the Community or the rest of Group B, while safeguarding its essential interests.

The Negotiating Context

3 Developing countries are important to Britain's trade. They

supply tropical agricultural products and strategic minerals to the UK. In the first 10 months of 1982 the UK earned a surplus of £6.2 billion on trade in manufactures with all LDCs. Gross lending by UK registered banks to all developing countries was US $77 billion at the end of 1981. Developing countries took 23 per cent of British exports in 1982 - equivalent to £13 billion. Many developing countries face severe economic problems, including heavy indebtedness, as a result of the world recession. They are looking to the international community to take account of their acute problems and to provide additional support to bridge the period until recovery in the industrialised countries enables them to increase their export earnings and begin to invest for the future. Continued access to developed country markets is essential if they are to service their debts.

4 UNCTAD VI is one of the series of international meetings being held this year. The OECD Ministerial Meeting has just ended. The Williamsburg Economic Summit takes place at the end of May, and is followed by the Stuttgart meeting of EC leaders at the beginning of June. The developing countries met at the Summit of the Non-Aligned Movement (NAM) in New Delhi in March and at the G77 Ministerial meeting in Buenos Aires in April. Despite divisions within the movement, the G77 have reached consensus on the 'Buenos Aires Platform' which includes a series of draft resolutions for UNCTAD VI.

The 'Buenos Aires Platform'

5 The Buenos Aires Platform represents the G77 shopping list for UNCTAD VI. Although the G77 have projected their drafts as moderate, a closer reading reveals them to be a formidable collection of 'immediate measures' which it is claimed are necessary to help LDCs weather the present recession. Many of the proposals are contentious and potentially prejudicial to our interests. In practice however, the developed countries will be unable to avoid negotiations on the G77 proposals in Belgrade. Detailed responses to the drafts will be prepared in the Community and by the industrialised countries generally in the time remaining before UNCTAD VI.

UK Position

6 Britain's position on the major issues is coordinated first with the Community and then with other industrialised countries in

the OECD, collectively known as Group B. It is usual for final Group B negotiating positions to be worked out at the Conference itself. Although negotiations on the Buenos Aires drafts in Belgrade will be troublesome, there seems little risk of significant differences of view in the Ten or Group B on the line to take on the more extreme proposals. This note, therefore, focusses principally on proposals made by the Commission for a Community position at UNCTAD VI. These proposals have been considered in detail by the EC Group on UNCTAD whose report - together with the Commission's own proposals - will be put to the Foreign Affairs Council in Brussels on 24 May. It is the EC Group's report, which in effect redrafts many of the Commission's proposals, which we would wish to see approved by the FAC as the Community's position.

General Orientations

7 The general approach proposed by the EC Group on UNCTAD is acceptable to the UK. The approach acknowledges the importance of UNCTAD VI and the contribution which it can make to international cooperation and economic revival. Overambitious aims must be avoided and the competence of the International Financial Institutions (IFIs) and GATT preserved. Many of the Buenos Aires proposals form no real basis for negotiation because of their inadequate analytical basis. Common Community positions are important and, as far as possible, the Community should maintain unity with Group B.

World Economic Situation

8 The G77 meeting in Buenos Aires largely supported the UNCTAD Secretariat's analysis of the world economic situation. The G77 is critical of the counter-inflationary policies which Western developed countries have pursued since 1979, and in particular of the fiscal and monetary measures. Blame for the effect on developing countries is attributed to exchange rate volatility and fluctuations in interest rates. Western developed countries are called upon to adopt coordinated policies for rapid expansion of the world economy.

9 There is general agreement among the leading Western nations that sustainable non-inflationary growth is the objective, and

that there are signs that world recovery is already underway. The outcome of the OECD Ministerial Meeting - and the Williamsburg Summit which takes place a week before UNCTAD VI - will reinforce confidence in this prospect and provide further guidance for the UK delegation.

Trade

10 The UK should have no difficulties within the Ten on the approach to trade issues. It is proposed that the Community should reaffirm its support for the GATT-based multilateral trading system and recall the Ten's good record of providing markets for LDCs. As a Community, we would re-iterate our commitment to the work programme established by GATTMIN. We would be willing to discuss in UNCTAD possible improvements in the trading system but on the understanding that new or changed rules are a matter for the GATT. The development of trade is a responsibility in which all share. Progressive integration of the newly industrialising countries (NICs) would be an important contribution. We can work towards agreement by all countries to reverse protectionist trends and progressively relax trade restrictions as economic recovery proceeds, drawing upon the agreement reached by OECD Ministers on 10 May. This is a step forward from the agreement reached at the GATT Ministerial but is still adequately qualified.

11 The approach recommended by the EC Group re-iterates our support for policies which facilitate structural adjustment but rightly rejects the international planning and extensive government intervention favoured by UNCTAD and the G77. We are prepared to continue existing discussions on this issue within UNCTAD and elsewhere.

12 The Community would agree to continue and develop its autonomous GSP until 1990 taking account of the changing situation of beneficiary countries and the needs of the poorest. Although we have already agreed to continue the scheme for this period it is a point worth repeating as not all preference-giving countries have done so. On services, where the G77 argue that work should be done exclusively by UNCTAD, we would argue that GATT and UNCTAD can play complementary roles.

Commodities

13 Since the UK has ratified the Agreement on a Common Fund for Commodities, we are in a strong position to point out that the lack of sufficient ratifications from developing countries is largely responsible for the delay in its entry into force. We see no reason to support the Commission's suggestion that the Community should offer to pay the Common Fund subscriptions of least developed countries not already covered by an offer by OPEC to do this. Preparations for operating the second window of the Agreement must be strictly in accordance with its terms.

14 With the rest of Group B, the Community will oppose the proposal for an immediate action programme for interim commodity agreements to put a floor in the market. However, the UK can reaffirm its willingness to continue to work on the Integrated Programme on Commodities agreed in 1976 and 1979. We shall have to agree to some review in UNCTAD of the working of existing commodity agreements by procedures which do not infringe the competence of the International Commodity Organisations concerned. We shall avoid commitments to negotiating conferences for commodities where there is not yet sufficient agreement on the objectives of such conferences, but we shall express our willingness to take part in work on appropriate arrangements for those of the 18 commodities specified in the international programme which are still outstanding. We can generally agree with the Community line that we are willing to continue work on processing, marketing and distribution of commodities which has not yet made much progress in UNCTAD.

15 Since there does not seem to be much prospect of increasing commodity prices by the measures described above, discussion is likely to centre on compensatory financing arrangements for the stabilisation of export earnings. The IMF has a compensatory financing facility (CFF) which does not involve direct cost to the UK. Many of the detailed UNCTAD proposals for reform conflict with basic principles of the Fund but we could consider an increase in access to the CFF provided that funds are available. But we do not wish UNCTAD to engage in a detailed debate on proposals in this field and will therefore work for UNCTAD to remit questions of reform to the IMF. Group B will oppose

any commitment to the UNCTAD Secretariat's complementary financing proposal, but it may be referred to some appropriate Committee for further study.

16 The majority of the Ten are willing to extend STABEX to the nine least developed countries who are not at present eligible. We have argued that this would be a poor use of Community resources and that some of the countries who would benefit are politically unattractive (eg. Laos, South Yemen). We have suggested as a compromise that extension should be conditional upon the other major industrialised countries introducing schemes similar to STABEX. It seems likely that the FAC may have to settle this on 24 May. Our view may be supported by the Netherlands and the FRG.

Money and Finance

17 The UNCTAD Secretariat's paper on financial and monetary issues puts forward a large number of detailed proposals for injecting more liquidity into the LDCs on easier terms. They estimate the immediate requirement tentatively at $70-90 billion.

18 The Commission's proposals for the overall Community negotiating position include agreement on the need for additional liquidity and a willingness to consider most of the detailed UNCTAD proposals. In tone and in a number of substantial respects the Commission go well beyond the opinion of the EC Monetary Committee. In its report to the FAC, therefore, the UNCTAD Group has re-cast the Commission's proposals in a way which is consistent with the Monetary Committee's opinion adopted by ECOFIN on 18 April. The proposed Community position in this field should therefore cause few problems to the UK, although, as usual, we shall be in a defensive posture on aid targets, especially for the least developed.

19 Many of the proposals which will be before UNCTAD VI concern issues within the competence of specialised institutions (IMF, IBRD, Paris Club). Conclusions which have been reached recently in these fora should not be re-opened, nor should their future discussions be pre-empted in Belgrade. Yet a stark refusal to discuss such issues in UNCTAD is not a tenable negotiating position. It is helpful therefore that the Community has agreed that resolutions

adopted at UNCTAD VI on questions concerning the IFIs have only an indicative character and in no way prejudice the decisions of these bodies or infringe upon their competence. We shall have to ensure that this position holds in Belgrade and is supported by UNCTAD recognition of the need to maintain and strengthen the IFIs.

20 On the substance of proposals the proposed UK line (which we expect to be generally consistent with that of the Ten and Group B) is that we should:

(i) confirm willingness to ratify 8th IMF Quota Review and GAB increase by end 1983;

(ii) maintain adequate and even-handed conditionality;

(iii) confirm willingness to study case for SDR allocation without prejudging need for additional global liquidity;

(iv) resist sale of IMF gold stock;

(v) consider some rise in the 10% ceiling on non-project lending by the World Bank;

(vi) support recently adopted IBRD Special Assistance Programme which should allow more rapid disbursements;

(vii) be willing to consider higher IBRD gearing if favoured by IBRD management;

(viii) favour adequate level of IDA VII (but not the unrealistic increase urged by UNCTAD or Commission);

(ix) oppose an International Export Credit Guarantee Facility.

Investment

21 We have been preparing a United Kingdom initiative to encourage private international investment to demonstrate our good record in this field, and in particular to stress the need for developing countries wishing to attract investment to provide an appropriate atmosphere. Our good record on investment also provides some measure of defense against criticism of our aid performance.

We can certainly promote our views in speeches, but to ensure a proper debate in Committee, we shall probably need to table a resolution. We shall have to do this in such a way as to avoid prejudicing the UK position in the negotiations on transnational corporations in New York, and we shall have to refuse counter-proposals which lead to further work in UNCTAD or which attack the behaviour of Western multinationals. It seems tha such a resolution will have to be in general terms, and we must be prepared to withdraw it if a consensus can only be reached by agreeing to unacceptable amendments. But even if we do have to withdraw it, we would have reminded a few developing countries that if they want inward investment, it is for them to adopt appropriate policies to attact it.

The North/South Dialogue

22 We would like to press at UNCTAD VI for a less confrontational and more positive approach to the North/South Dialogue. There is useful ammunition for this in the second Brandt Report and in the report of the Commonwealth Group of Experts. The Commonwealth report contains some helpful proposals eg. shorter agenda: more flexible negotiating groups; preliminary consideration of issues in smaller groups. We can accept most of the report's recommendations. Our partners in the Community are in general agreement, but sceptical whether these proposals will be acceptable to the G77. This scepticism may well be justified. So far the Commonwealth Secretariat has had no success in getting Commonwealth developing countries to sponsor a resolution. We hope that a Commonwealth meeting scheduled for the first week of UNCTAD VI will yield a better response. If not, we shall have to consider whether we could gain good will by taking a modest intitiative ourselves.

East/South

23 There are signs that the G77 intend to put greater pressure this year on the Socialist countries. The UK delegation will act discreetly to provide key G77 members with up to date ammunition on the inadequacy of Soviet and East European performance in aid and trade with LDCs.

Conclusion

24 Ministers are asked to approve the general objectives and proposal approach to the major issues at UNCTAD VI set out in this paper.

16 May 1983

UNITED NATIONS
UNCTAD V
May '79

UN UNCTAD May 79

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
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From the
Parliamentary Under Secretary of State
JOHN BUTCHER MP

Peter Rees Esq QC MP
Minister of State for Trade
Department of Trade
Room 835
1 Victoria Street
LONDON SW1H 0ET

13 May 1983

N.B. I.R.

A.J.C. 13/5.

Dear Minister

APPROACH TO UNCTAD VI

Thank you for your letter of 28 April.

On commodities I think there is some misunderstanding. I did not ask for a review of commodity policy before Belgrade or ask to oppose in principle agreements with market intervention provisions. I asked that within our present policy towards the integrated programme for commodities - which is not only concerned with agreements with economic intervention provisions - we should be very cautious in any support we give to proposals for such agreements.

I accept, of course, that we will not be committed to an agreement with economic intervention provisions for any of our commodities without full consultation. But Ministers in this Department do not favour such agreements. It can take a great deal of effort and staff time to resist economic intervention provisions if discussions are started - there were some 17 long meetings in Geneva on copper. In our view it is better for our relations with developing countries to avoid meetings where this is our objective. Therefore we would wish to play down as far as possible any general encouragement to the negotiation of agreements with economic intervention provisions.

As for international investment, I was reassured to see that you have no intention of proposing a work programme in UNCTAD. I certainly endorse your general objective of drawing attention to the need to create a favourable climate for investment, and to our own good record in this field. However, there is a real danger that an initiative in UNCTAD

could backfire, by providing an opportunity for the UNCTAD secretariat to create a work programme for themselves, and for the G77 to undermine the tough position we have taken on the UN Code on Transnational Corporations to secure fair treatment for inward investment. Our tactics will therefore need careful handling. I am particularly concerned about the proposal that we should put forward a draft resolution at this stage, even within the Community and Group B. Given the way that UNCTAD works, I fear that we have much to lose and nothing to gain from this. At the least, I am sure it would be better to wait until the Conference itself to see if your objective of stimulating a debate on the issue could be achieved without a resolution. This, of course, would not prevent us from taking the initiative at Belgrade, and beforehand within the Community, to draw attention to the importance of the subject.

I am copying this letter to other recipients of this correspondence.

Yours sincerely

David Saunders

pp JOHN BUTCHER
(Approved by the Minister and signed in his absence)

Foreign and Commonwealth Office

London SW1A 2AH

9 May 1983

From the Parliamentary Under Secretary of State

N.B.P.A.

APPROACH TO UNCTAD VI

You will have seen from Timothy Raison's letter of 13 April that I take the lead in the FCO on UNCTAD matters and I am writing in response to your letter of 28 April. I should like to endorse fully the comments on commodity policy in your letter to John Butcher. I think it important that the UK should seek to take a positive attitude on this subject at UNCTAD VI.

As regards the proposals on investment and finance the FCO sees considerable merit in encouraging private investment at UNCTAD VI. Officials here have written to your Department in greater detail about ways of handling this subject at Belgrade.

I am copying this letter to members of OD, Patrick Jenkin, Peter Walker and Sir Robert Armstrong.

Malcolm Rifkind

Peter Rees Esq QC MP
Minister of State
Department of Trade
1 Victoria Street
LONDON SW1

10 MAY 1983

FCS/83/93

CHANCELLOR OF THE EXCHEQUER

Approach to UNCTAD VI

1. Thank you for sending me a copy of your letter of 26 April to Peter Rees, enclosing a copy of your press statement of the same day and a note on the IMF issues which are likely to arise at UNCTAD VI. I found these useful and helpful.

2. I agree with you that we need to look in more detail at the specific proposals which are likely to arise at UNCTAD VI, and decide what line to take on them. We share the objective of avoiding a confrontation at Belgrade, and earning credit for an understanding attitude, without making too many concessions. But achieving this will require very careful preparation and skilful work by our delegation on the spot.

3. I would be happy to chair a meeting of OD(E) to discuss our approach to UNCTAD VI, if others, in particular Peter Rees, are also content. I hope that as many as possible of the detailed issues can be settled by correspondence, leaving Ministers free to look at the essentials. It would be helpful if Peter Rees could circulate a paper about these.

4. I am sending copies of this letter to Ministers on OD, to Patrick Jenkin, and to Sir Robert Armstrong.

(FRANCIS PYM)

Foreign and Commonwealth Office
6 May, 1983

5 MAY 1983

V15

DEPARTMENT OF TRADE
1 VICTORIA STREET
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From the
Minister for Trade

John Butcher Esq MP
Parliamentary Under-Secretary
of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1

28 April 1983

N. B. P. R.

A. J. C. 25/4

J. A.

APPROACH TO UNCTAD VI

Thank you for your letter of 13 April, commenting on my letter of 31 March covering the report by officials on the approach to UNCTAD VI.

I accept of course that the commodity policy agreed by Ministers in 1980 was in broad terms, inevitable since the circumstances of each commodity vary widely. But on the whole it has stood the test of time, and there is no question of instituting a further review in the remaining weeks before Belgrade.

I am glad to see that you do not dispute that we must reaffirm our willingness to support the Integrated Programme for Commodities in Belgrade. There is no question of going back on this commitment at a time when low commodity prices are having a very serious effect on the poorer developing countries, and, in common with the rest of Group B, we are opposing the main proposal put forward officially by the UNCTAD Secretariat for an emergency programme of Interim Commodity Agreements. The commodity-by-commodity approach is a main element in the policy of the whole of Group B, and we shall certainly not accept a commitment to economic intervention provisions for any particular commodity without full consultation with your Department or the Ministry of Agriculture, according to where the responsibility for that commodity lies. Insofar as the

UNCTAD Secretariat is shifting the emphasis to other measures, such as compensatory financing schemes, that is unfortunately nc more welcome to us.

On international investment, I can certainly reassure you that I have no intention of proposing a programme cf work by UNCTAD, for example leading to yet another International Code of Conduct. I want to do no more than draw attention, in speeches and, if it seems appropriate, by draft Resolution, to the fact that here is a field where individual developing countries can help themselves by creating the right atmosphere for attractive private investment, and encourage other developed countries to take the same sort of measures as we do curselves to facilitate outward investment.

I am copying this letter to the other recipients of this correspondence.

PETER REES

UNITED NATIONS : UNCTAD and the Common Fund.

May 79.

CONFIDENTIAL

Prime Minister

A.J.C. 27/4

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

Peter Rees Esq QC MP
Minister of Trade
Department of Trade

26 April 1983

Dear Peter

APPROACH TO UNCTAD VI

Thank you for sending me a copy of your letter of 31 March to Timothy Raison together with the interim report from the group of officials preparing for UNCTAD VI. I have also seen the replies from Timothy Raison and John Butcher.

This will not be an easy Conference for the developed countries, and it is important that we should emerge with as much credit as possible for being constructive and understanding but without, as your note acknowledges, making too many concessions. Certainly the role of the international financial institutions must not be jeopardised.

I share your view that the approach outlined in the report is on the right lines, as far as it goes. But I am sure that we should look in more detail as soon as possible at the specific proposals which the UNCTAD Secretariat has made, so that we can begin to weigh our tactics and our negotiating priorities across the board. On international monetary issues our line, in common with the EC and most developed countries, is bound to appear a negative one, despite the considerable progress that has been made, for example, at the Interim Committee meeting earlier in the year. I note also DOI's reservations (John Butcher's letter) on some other proposals in the officials' report, and no doubt other colleagues will have points they would like to discuss.

I think, therefore, that it would be helpful if Ministers could meet, perhaps in OD(E), soon after your Leeds Castle weekend conference, to consider the line which we wish to see Group B taking on these issues at Belgrade. I hope you would be willing to circulate a paper for this purpose. It might be useful for it also to set out your recommended line on protectionism.

/This is clearly

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This is clearly a theme on which developed countries, collectively and individually, will come under heavy pressure in the forthcoming series of international economic meetings, and our line does not seem entirely clear as yet.

In the meantime it will clearly be desirable to use the Leeds Castle discussions as an opportunity to steer the developing countries diplomatically into a more realistic appreciation of what the developed countries will be able (or unable) to do. The Conference will be taking place immediately following meetings in Washington of the IMF/IBRD Development Committee, and G7 and G5 Finance Ministers. There are some important international monetary and development issues which will be common to all these meetings. You may find it helpful to have a note of the sort of understandings towards which I think we should work.

... On the world economic situation, I enclose a copy of a statement I made to the Press today. One message which it would be particularly useful to get across at Leeds Castle is that the strategy for recovery requires not merely the continuation of the appropriate policies by the industrial countries but also a recognition of the need for adjustment by the LDCs. The increased resources which the Interim Committee have agreed should be made available to the IMF will help them to assist in this process.

The IBRD management will shortly be proposing a Selective Capital Increase for those whose share in the IMF has been increased (to be followed in due course by a General Capital Increase). The issue is linked with the size of national contributions to IDA7, and will need some delicate negotiation in G5 in the first place, but we favour a Selective Capital Increase, and the proposed increase in IBRD lending which it would allow.

On IDA, the new efforts being made by George Shultz and Don Regan to secure Congressional approval for the payment of the outstanding US contributions to IDA6 should be welcomed. For IDA7 a realistic, and not over-ambitious, target should be set.

On the IMF side, developing countries in UNCTAD are pressing for substantial concessions on enlarged access, the Compensatory Financing Facility (CFF), SDR allocation and conditionality. Within Group B, the UK takes a middle position on most of these issues. As with the IBRD/IDA issues, an essential element of our position is that these matters are primarily for the Executive ... Board in Washington. I enclose a rather fuller note on these IMF topics, which are certain to loom large in UNCTAD discussions as well as in G5 and the Development Committee.

/We are not

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We are not in favour of generalised schemes of debt restructuring or moratoria. A central characteristic of all such schemes is that they involve the substitution of public money or guarantees for bank money. They would all take time to set up. Their advocacy by Governments - or even the belief that they were being seriously considered - could have extremely damaging effects on existing flows as well as on the willingness of borrowers to adopt tough adjustment measures. Against this background informal discussion in the G7 has indicated no support for any of the approaches so far canvassed - indeed the reverse has been made clear by the US, Germany and even Canada.

I hope you will find all this helpful.

I am copying this letter to Ministers on OD, to Patrick Jenkin and to Sir Robert Armstrong.

GEOFFREY HOWE

THE APPROACH TO THE WILLIAMSBURG SUMMIT

/ Statement by the Chancellor of the Exchequer: 26 April /

In just over one month, the Economic Summit meeting will take place in Williamsburg on 28-30 May. There are other important meetings between now and then: of the Development Committee in Washington this week on 28-29 April, and of the Ministerial Committee of the OECD in Paris on 9-10 May. Both in Washington and in Paris, I and my Finance Minister colleagues of the Summit countries will be taking the opportunity to talk together, and in Paris we will be joined by our Foreign and Trade Minister colleagues.

2. The central theme of all our discussions will be world economic recovery - the prospects, the dangers, the strategy we need to nurse the recovery through to sustained non-inflationary growth, whose benefits can be shared by all countries.

Since Versailles

3. At the Economic Summit in Versailles a year ago, as the recession was deepening, important conclusions were reached about the need for adjustment to escape from the imbalances and turbulence of the 1970's. It was agreed that recovery on a durable basis would be obtainable only if the continuing fight against inflation were successful.

4. Adjustment to the second oil price shock of 1979 has inevitably been painful. The struggle to restore sanity to our economic and financial life has been at the centre of the recent recession. For industrial countries it has meant initially a further inflationary shock and major disruption to key industries, with rapidly rising unemployment. Developing countries have suffered from the oil price increase, from high inflation, from reduced export earnings and from

high interest rates which in some cases have led to a dramatic growth of short-term debt, threatening the structure of financial markets. The hardship for many of the developing countries has, of course, been all the more severe because of the poverty from which they still suffer.

5. Since Versailles, the cumulative effects of recession have in many respects become more visibly grave, and therefore more alarming to many people. But appearances often lag behind the underlying reality, and in fact we can record some very important progress:

- inflation has fallen steeply among major countries and now averages about 5 per cent, the lowest rate for a decade;

- progress has been made in a growing number of countries in tackling budget deficits, and the determination to gain and keep control of structural budget deficits is widespread and strong;

- nominal interest rates have fallen significantly in the United States, the United Kingdom and elsewhere;

- oil prices have fallen by some 15 per cent, offering on balance hope of favourable impact on both world inflation and world output;

- growing signs of recovery are now seen, particularly in those countries which have had the greatest success in bringing down rates of inflation and interest rates

(United States, Germany, Japan and, happily, the United Kingdom), and this recovery does not result from artificial stimulus of demand.

The Prospects for Recovery

6. Activity has clearly picked up in the United States, where the Administration has recently revised upwards its forecast for GDP growth in 1983 from 1½ per cent to almost 3 per cent. There are signs of recovery in the United Kingdom and Germany, coupled with a revival of business confidence. Output in Japan is expanding, although at a modest rate, and perhaps in Canada also. In France and Italy, little growth is expected this year as each concentrates on reducing its continuing high rate of inflation.

7. The prospect for Summit countries taken together seems to be of some 2 per cent real growth between 1982 and 1983, becoming stronger as the year proceeds and into 1984, and with prospects for inflation remaining favourable. Recovery on this scale would be modest and gradual. It could not be associated with any early and dramatic reduction in unemployment. For some time indeed it would do no more than gradually check the rise. But it could, and should, be durable and gather strength, without precipitating renewed inflation. This is the opportunity which must be grasped.

A Co-operative Strategy

8. I believe there is a strong and shared desire of all Summit countries to see the recovery sustained and extended to each of them, without rekindling inflation pressures. We need lower inflation, which will contribute directly to higher real incomes and a better prospect for employment. We need lower interest rates, which will in turn both benefit the cash flow of companies and improve their profitability, and so help to finance higher

output, stock-building and investment. This will improve the outlook for jobs.

9. The individual and collective strategies of Summit countries must focus on making room for the recovery to develop without relaxing the disciplines on growth of monetary aggregates, and without losing control - in some cases indeed improving control - of fiscal deficits. This is the only prescription for maximising growth of demand and output in real terms, and not in money terms.

10. At Versailles it was agreed that Summit countries would seek to strengthen their co-operation with the International Monetary Fund in mutual surveillance of their economic development, and to develop this particularly among the countries whose currencies constitute the SDR (United States, United Kingdom, France, Germany and Japan). I hope that the meeting at Williamsburg will give additional authority and impetus to this development, so that our individual policies can take account of each other, and mutually reinforce each other over the years ahead. The idea of concerting our economic policies over the medium term is something which needs to be reinforced.

Problems and Uncertainties

11. There are some important problems and uncertainties, which we need to guard against:

- those of developing countries, among which the problems of major sovereign debtors have loomed large, will be a particular focus of attention at the meeting of the Development Committee later this week;

- protectionism has significantly, and understandably, been growing as individual countries and industries have found themselves subject to particular pressures. This is a process which could threaten to choke off wider opportunities for recovery. The general need to halt, and indeed reverse, the tide of protectionism, and to find ways of doing so effectively and fairly, will be an important topic for consideration at the meetings in Paris, and again at Williamsburg;

- high real interest rates, reflecting pessimistic expectations of future inflation and imbalances of policies, are a major obstacle to recovery, and contribute substantially to current debt problems. Our discussions of strategy must address themselves to the need to keep interest rates down, on a basis which can be maintained without excessive monetary expansion;

- exchange rate volatility has been a substantive and increasing worry over recent years. It is clear that greater stability of exchange rates would benefit international trade and investment, as well as providing a more settled framework for development by individual countries of their own domestic policies.

All these problems will be eased by the sound recovery we are seeking. Let me say more about two of these problems in particular, which have attracted a gooddeal of recent attention.

International Debt

12. There have been some key landmarks over recent months in handling the debt situation:

- the international community has shown itself able to undertake major rescue operations in short order, in conjunction with adjustment programmes worked out with the International Monetary Fund;

- a major new development has been the role of the Fund in establishing contact and exchange of information with commercial banks in order to encourage them to play an appropriate continuing part;

- early this year the international community agreed speedily on a substantial replenishment of resources for IMF. This was achieved in part by a major increase in credit lines available under the General Arrangements To Borrow and their availability to non-Members, and in part by a 50 per cent increase in the size of the Fund itself. Subject to ratification, these measures represent a doubling of resources available in practice to the IMF, made available some two years earlier than previously planned.

13. Further progress in easing the financial problems of debtor countries can be expected from:

- lower interest rates;

- a gradual improvement in export prospects as recovery in the industrial countries emerges;

- the effects of major adjustment programmes agreed by debtor countries themselves, with the IMF;

- continuation of the key role played by the World Bank, and in particular by IDA, in meeting the needs of other countries.

The Fund estimates that non-oil developing countries will reduce their current deficits from $90 billion in 1982 to $70 billion this year. The recent reduction in oil prices should help them on balance.

14. We must expect continuing pressure on the resources and skill of the IMF in superintending the adjustment process, and the many problems which will still arise in it. There have recently been proposals, of greater or less ingenuity, involving wholesale refinancing of debt. It is right to consider such proposals on their merits. But I am distrustful of "blanket solutions", usually involving major institutional developments which would take years to implement. I am wary too of proposals which would replace market judgements and financing by Government decisions and funding. It is generally preferable to build on existing techniques. It is important that Governments, international institutions and the financial community generally should be ready and able to continue their effective co-operation.

Exchange Rate Stability

15. Experience has shown that exchange rate stability can only sensibly be built on parallel policies and performance by major industrial countries. Direct market intervention may sometimes help with short-term fluctuations. But stability in currency relationships over the medium term requires:-

- reduced and convergent inflation rates;

- a healthier and more convergent general balance of fiscal and monetary policies.

16. I believe that an approach to these requirements can be reinforced by the evolution, in a medium-term framework, of the arrangements for leading industrial and currency countries to work together with the IMF in the development of their policies.

17. It is contrary to the experience of many years to believe that any system of exchange rate rules, or any practice of relying on intervention, can overcome large basic differences in the performance of different economies. We have to begin with the essentials, and create stable foundations, before we can aspire to a more stable exchange rate system.

Conclusions

18. There have been strident voices in recent times, understandably worried by the depth and duration of the recession, crying for "locomotive" action by some or all industrial countries to get the world's economy moving, for a new Bretton Woods to recreate order, and for the artificial creation of flows of funds to resolve debt problems and finance activity regardless of consequences.

19. A common feature of many of these demands is that they seek to resolve this year's problems - or indeed last year's - at the expense of the future. We cannot afford that attitude. It gives me confidence that there has developed over the last year or two a strong consensus among the nations' leaders that we should set our sights on a sounder and more durable future. That is the objective we shall be seeking at our meetings in the coming weeks, building on the foundations which are already being laid.

26th April 1983

NOTE ON IMF ISSUES: ACCESS, CFF, SDR AND CONDITIONALITY

(i) Access to Fund Resources

The Eighth Quota increase will enlarge the Fund by 47½% to SDR 90 billion, but because some important countries have had selective quota increases the quotas of some countries including several LDCs,will rise by a smaller proportion. Under present rules the normal limit on countries' annual access to Fund resources is 150%. The Fund has now to decide what the new access limits should be ie the extent to which the quota increases should be reflected in increased cash drawing rights.

2. Access levels will need to reflect what borrowing members need (and demand); and what the Fund can afford. Borrowing members have been exclusively LDCs since Enlarged Access was instituted. This will probably remain the case. G77 have urged the retention of the existing multiples of access, ie in cash terms their access would rise by the full 47½% of the quota increase. Within G5, this line was supported by France. In contrast the US, Germany and Japan suggested full scaling down of the multiple, ie no increase in cash access. We suggested that some increase in cash access would be necessary because the package would otherwise be difficult to sell to LDCs, many of which would suffer an actual loss of access if the multiple was fully scaled down because of their drop in quota share. We mentioned an increase of 20%. An increase of this order would have maintained cash access for most, but not all, LDCs. To ensure that the cash access of even the member who lost most quota share (Laos) is maintained would involve an increase of 23% in cash access. This implies scaling down the present annual access limit from 150% to 125%.

3. A 125% annual access limit seems an attractive central negotiating position to take, ensuring that no-one loses, and almost everyone increases, cash access. It is arithmetically mid-way between the US and LDC position. It is the figure which the Fund staff, in a paper just issued and due for discussion in the Fund Board on 18 May, seem to favour.

4. Present rules also set a cumulative limit on drawings of 60% of quota over four years. An annual limit of 125% of new quota would imply a cumulative limit of 500%. There is a fair case for being rather more generous on the cumulative limit. This is based on the view that the size of LDC deficits should fall from now on, and should hopefully be distributed in a more sustainable pattern once the Latin American upheavals are properly addressed. The need for very large individual programmes should begin to fall away as a result (although experience suggests that even in conditions of 'normal' global imbalance there will be some countries whose economies have become so maladjusted that significant IMF finance will be required to support even very strong adjustment efforts). At the same time, it is expected that by the mid-1980's there will be a large number of countries who have already drawn heavily on the Fund but whose economies are either well stuck in the doldrums of debt and low commodity prices or who are still highly vulnerable to sudden squalls. If the Fund is to continue to pilot them through this period, there must be some headroom of further access available to them. Thus if the annual limit was scaled down to 125% of the new quota, we might suggest that the cumulative access multiple should be maintained at its present 600%, but that drawings under all Fund facilities would need to be contained within this higher figure.

(ii) CFF

5. The CFF was set up in 1963 and substantially liberalised in 1975 and in 1979. In 1980, as at each earlier quota review, the multiple of access was maintained at its previous level of 100%. In 1981 it was liberalised still further when a cereals facility was incorporated within the CFF as a second window. There is however a widespread expectation that the multiple of CFF access will come under close scrutiny in the Executive Board discussion on 3 June, and the issue has become a sensitive one for LDCs.

6. At the end of last year there was a generally shared view in the G5 and EC Monetary Committee that CFF access should be held to its present level in cash terms. Larosiere privately

accepted this. Since then there have been broader studies of the various types of compensatory finance in the context of the preparatory work for UNCTAD VI. Many of the other schemes (eg Stabex) have PSBR implications. If flexibility on the issue of compensatory finance needs to be shown, there is a case for expanding cash access to the CFF by maintaining the existing multiple of 100%, to produce an increase in cash access of just under 50% for the average member and rather less for most LDC commodity exporters. However, from a Fund perspective, the CFF has in our view a lower priority claim on the Fund's Resources than the need to ensure adequate working balances, cover for reserve position drawings, and conditional lending in support of programmes. It would be imprudent to push for the CFF multiple to be maintained at 100% until we were satisfied that the Fund's Resources could support the higher level of lending both during the Eighth Review period and beyond.

7. If this general approach is accepted, we might agree to some rounding - both up and down - of the new multiples (eg from the 34%, 68% and 85% needed to preserve existing cash access to 25%, 75% and 100% of new quota) but otherwise wait until 1986 and review it in conjunction with the review of Enlarged Access. By that time, if the global recovery has lightened the strain on the Fund's resources, it might be possible to increase the CFF multiple. If, however, it is felt to be imperative that the CFF multiple should be maintained at 100%, we might consider the possibility of borrowing to finance CFF drawings above 75% of quota. It would of course be important to ensure that any borrowing for this purpose (which would probably not exceed SDR 1 billion per annum) did not undermine the Fund's capacity to borrow to finance Enlarged Access.

(iii) SDR Allocation

8. Further study of the likely development of international liquidity over the next 2 or 3 years will be needed before a decision can be taken (by the Interim Committee in September).

The role of the SDR may need rethinking in the light of changes in the world monetary system since its introduction in the late 1960s. These changes include:

(i) The move by major countries from fixed to floating exchange rates, which should a priori reduce the need for reserves.

(ii) The emergence of commercial bank lending as a large-scale source of international liquidity.

(iii) The growth of the non-dollar component in reserves.

9. We think it is still necessary to suspend judgement on the case or otherwise for an SDR allocation. There are arguments in favour reflecting the flattening out of reserve levels in industrial countries and the drying up of capital flows to developing countries. But we need to be more confident about how the future may look, before we can recommend a firm line either way. It is worth noting, however, that on any plausible size of allocation the amount of assistance flowing to problem countries is relatively small, compared with that which could be yielded under the access provisions.

10. We continue to support greater use of SDR-denominated assets to enhance the attractiveness of official SDRs and perhaps also in the longer term the substitution of SDRs for other reserve assets.

(iv) Conditionality

11. Another IMF issue referred to in the UNCTAD documents is conditionality. The UNCTAD thesis is that conditionality should be geared less towards reducing expenditure and more towards expanding productive capacities. Very briefly, our line here is that it is wrong to talk of conditionality being geared to either. It is geared to achieving a sustainable balance of payments position and reasonable price stability domestically. Where the balance of payments difficulty or inflation is attributable to excess demand (eg Mexico) the programme's

central focus will be on demand management. Where the difficulty is one of inadequate or monocrop supply (eg Bangladesh) the Fund recognises that adjustment/diversification will need to be sustained over a relatively long period. To the extent that the problem is under development the main finance should come from elsewhere but the Fund can help create the stable macro-economic framework which may attract such longer term finance.

27 JAN 1983

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From the
Parliamentary Under Secretary of State
JOHN BUTCHER MP

N. B. P. D.

A. P. C. 14/4.

Peter Rees Esq QC MP
Minister of State
Department of Trade
1 Victoria Street
LONDON SW1

13 April 1983

Dear Peter,

APPROACH TO UNCTAD VI

In the absence of Patrick Jenkin abroad, I am responding to your letter of 31 March to Timothy Raison on this subject. On the whole we are content with the general approach you have outlined but I should record that we do have some reservations about the handling of commodity policy and international investment.

I understand that Ministers last reviewed our position on international commodity agreements in 1980 when the position set out in paragraph 13 of the report by officials was approved. This establishes a very loose policy for agreements with price stabilisation provisions and leaves a great deal of room for argument about what is 'feasible, cost-effective and beneficial to producers and consumers alike'. In going along with that policy several Ministers expressed their dislike of price stabilisation agreements, and since this review several of the existing agreements have not worked well in the conditions of international recession.

Even amongst the UNCTAD staff we believe there is a body of opinion that commodity agreements with economic intervention provisions may not be good for developing countries and, although they have not been abandoned, more emphasis is being placed by the Secretariat on other measures in the preparations for UNCTAD VI. We think we should support this reduction of emphasis. While we would not go so far as to suggest that we should oppose in principle agreements with intervention provisions, we consider that in reaffirming

'our willingness to continue to support the Integrated Programme for Commodities', we should be very cautious in any support we give to proposals for agreements with economic intervention provisions.

On international investment I can see the attraction of pointing to the important role this can play in development and to the UK's own positive attitude in this regard. There should be no problem about dealing with this in general statements. Our doubts arise on the way in which a positive initiative on our part might be used to increase UNCTAD's activity in this area where, as you may know, we are engaged in intensive negotiations in the UN Commission on Transnational Corporations on a code of conduct which deals with many of the fundamental issues affecting investment. We notice that in the last of the UNCTAD papers for this Conference a general reference is made to including 'trade of transnational corporations' in some unspecified future activity. As it happens the Sixth Conference will be meeting just after the second Special Session of the UN Commission on TNCs which is trying to finalise the code of conduct. Our own position in these negotiations has necessarily to be a relatively hard line in the face of the developing countries' demands and it may well be that this Special Session will end in deadlock.

If this were to be the case, we would certainly not wish to see any transfer of this activity into the UNCTAD arena. Thus it seems to us that any initiative by the UK in Belgrade to highlight international investment needs to be very carefully related to other ongoing activity in this area (which could conceivably include further work by the World Bank on a Multilateral Insurance Agency), and that we should stop well short of any action programme in UNCTAD itself.

I am copying this letter to Timothy Raison and to the other recipients of your letter.

Yours ever.

JOHN BUTCHER

13 APR 1983

OVERSEAS DEVELOPMENT ADMINISTRATION
ELAND HOUSE
STAG PLACE LONDON SWIE 5DH
Telephone 01-213 5409

From the Minister

13 April 1983

N.I.P.N.

A.F.C. 14/4.

Dear Peter

APPROACH TO UNCTAD VI

Thank you for your letter of 31 March enclosing a paper prepared by officials from Departments concerned with the preparations for UNCTAD VI. I fully endorse the approach outlined in this paper, and am content for officials to be guided by it in discussions with our EC and OECD partners prior to UNCTAD VI.

I also endorse your view that the United Kingdom should not be too defensive in its approach to UNCTAD VI. There is scope for the industrialised countries to take the initiative in the areas you suggest. The G77 are likely to put forward unrealistic proposals in many areas at Belgrade. In resisting these we should try to put forward some positive ideas of our own, and demonstrate our sympathy for the very real problems facing the developing countries. A confrontation with the developing countries at Belgrade would serve no-one's interests.

I have discussed this with Malcolm Rifkind, who takes the lead within the FCO on UNCTAD matters, and who, I understand, was consulted at an earlier stage and agreed to this approach.

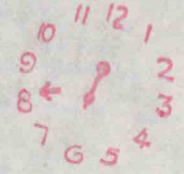
I am copying this letter to Ministers in OD, Patrick Jenkin, Peter Walker and Sir Robert Armstrong.

Yours ever,

TIMOTHY RAISON

Peter Rees Esq QC MP
Minister for Trade

13 APR 1983



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DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

From the
Minister for Trade

The Rt Hon Timothy Raison MP
Minister for Overseas Development
Foreign & Commonwealth Office
Eland House
Stag Place
London SW1E 5DH

31 March 1983

Prime Minister
You may like to be aware of the preparation for the next UNCTAD Conference (June)
A.J.C. 31/3

APPROACH TO UNCTAD VI

I enclose an interim report from the Group of officials who are working on the preparation for the Sixth United Nations Conference on Trade and Development to be held in Belgrade in June. It sets out our general approach to this Conference and mentions some of the issues which are coming to the fore in the preparatory work with our partners in the European Community and in OECD. It is too soon to determine our detailed policy on each of these issues, and a further Report will be submitted to us nearer the time.

I am in general agreement with the approach outlined in this Report. For both international and domestic political reasons, we need to appear positive and sympathetic to the very real problems of the developing countries in the current situation, though there are considerable limitations on the actions we can take in this and related meetings this year.

I am very concerned that the UK should not be too defensive in its approach. We must ensure that all the discussion is not conducted on the terms of the G77. We should have some positive ideas of our own to launch in UNCTAD. For example we should seek to persuade the Conference to consider the general question of investment and joint ventures. I find, as I expect you do, that nearly every developing country in the world professes itself to be in favour of inward investment from and joint ventures with Western countries. However in many cases the necessary legal and institutional framework is lacking, and in others it is so restrictive

as to create a positively hostile atmosphere which discourages investment. I think it would help if UNCTAD VI could consider a range of issues which might eventually lead to enabling mutually beneficial investment to take place at a safer climate, though quick results are not to be expected.

Equally I am sure that we must use UNCTAD VI, as we did the GATT Ministerial Meeting, to ram home the message that the more developed NICs should take on their responsibilities in the world trading system and reduce the very high tariffs which many of their industries enjoy, both to the benefit of the Western world and the lesser developing countries.

Finally I think that we should seek to ensure that UNCTAD VI does not trespass on the spheres of responsibility of other international organisations currently in existence. I have particularly in mind the GATT which should remain the key international forum to negotiate trade issues, as well as the international financial institutions such as the IMF and the World Bank. Conversely, we must remember that actions in these other institutions this year will have repercussions in Belgrade, and I trust that there will be appropriate consultations between Departments when we are formulating our instructions on relevant issues.

I should be glad to know whether you, and other Ministers closely concerned, are content that officials should be guided by this paper in the continuing international discussions, bearing in mind that we shall have an opportunity to go into all this in more depth in a few weeks' time.

I am copying this letter to Ministers in OD, Patrick Jenkin, Peter Walker and to Sir Robert Armstrong.

Yours ever

PETER REES

APPROACH TO UNCTAD VI

1 The Sixth UN Conference on Trade and Development (UNCTAD VI), which will take place in Belgrade during June, will have an important bearing on Britain's relations with developing countries. It will discuss a wide range of economic, financial, trade and commodity issues, though no binding decisions are likely to be taken.

2 UNCTAD VI will take place against the background of the severe economic problems confronting developing countries and the present strains upon the international financial system. UNCTAD VI will be preceded by the OECD Ministerial Meeting and the Williamsburg Economic Summit, both in May, and will be followed by the IMF and World Bank Annual Meetings in September. Developing countries will be looking at UNCTAD VI for an indication that the developed countrie are taking full account of their acute problems. In this context UNCTAD VI will have greater political significance than many previous such UNCTAD Conferences.

3 The issues before UNCTAD VI are of great concern to British interests. International prosperity is interdependent. The developing countries are important export markets for British goods and Britain has a substantial trade surplus with them. They are suppliers of key commodities, have substantial loans outstanding to U banks and are recipients of British outward investment. Britain also has important strategic and defence interests in sustaining the political stability of friendly governments in the Commonwealth and elsewhere in the Third World.

4 It is in the nature of UNCTAD, rather like the United Nations General Assembly, to be an essentially rhetorical body. Its activities seldom result in contractual commitments. Decisions are made elsewhere: in the IMF, GATT and the World Bank. Preparations for UNCTAD VI are now reaching a point where a broad strategy for the developed countries is beginning to emerge. The normal process is fo Britain to coordinate its position with its Community partners first in the EC, and then with other industrialised countries in Group B within the OECD. Similarly the ASEAN, African and Latin American countries coordinate their positions to form a collective Group 77 position. Group D (Communist countries) tend to sit on the side-line

and avoid commitments. Eventually at UNCTAD Itself rival resolutions are tabled. In the end a contact group between the spokesmen of the various groups hammers out a compromise text involving generalise statements with a few highly qualified commitments.

5 Britain needs eventually to take up a position for UNCTAD VI which, without acquiescing in unrealistic proposals by the G77, is best calculated to defend our extensive political, strategic and economic interests. Britain's basic negotiating objectives should be to safeguard the independence and effectiveness of the international financial and trade institutions; to maintain the commitment of the LDCs to the international economic system by showing that full accoun is taken of their problems as they undertake the domestic austerity measures essential to place their economies on a sound basis and to repay their debts to the British Government and banks; to deflect LDC and, to a lesser extent, Community pressures to accept ambitious and expensive compensatory financing proposals and to minimise the direct public expenditure costs of any new schemes; and to promote Britain's substantial trading and banking interests in developing countries. But in the pursuit of these objectives, it is politically important to try to avoid Britain becoming isolated in the EC and Group B.

Conference Agenda

6 The UNCTAD Secretariat have stated their intention that this Conference should concentrate on a few main areas where urgent practical action is required rather than diffuse its efforts over a wide field. We have now received their policy papers on the three main subjects of commodities, trade, and financial matters. We have received some reports of the meeting of the Non-Aligned Movement in New Delhi, where a few radical amendments were made to basically moderate papers on the economic side, but the G77's position will be mainly determined at their Ministerial meeting in Buenos Aires at the end of March. The UNCTAD Secretary-General, Mr Corea, will be presenting his personal global overview paper in April. This will stress the need for coordinated action by Governments directed towards world economic recovery, and meanwhile the need for urgent action in international financial institutions to provide liquidity for the developing countries to tide them over the current crisis.

7 Of course it is clear that decisions on these major issues will not actually be taken in UNCTAD. But decisions taken in the financial institutions, the Ministerial Meeting of the OECD, and the Williamsburg Summit will have a considerable influence on the atmosphere and the results of the Conference, and this should be borne in mind in preparing for these meetings.

8 Since last December there have been exchanges of views in Brussels in preparation of a Community position for UNCTAD VI, as well as at the OECD in Paris to find common ground in Group B. The main issues are now becoming clearer, and we need Ministerial guidance on our general objectives. We can then try to keep the Community with us, and thus exercise a considerable influence in Group B though we must not exaggerate the importance of the United Kingdom in such a world-wide Conference.

Trade

9 The main theme of the UNCTAD Secretariat's trade paper is that there has been a slide to managed trade and that the failure of the GATT system to adapt the world changes has contributed to the current crisis. The general approach is to over-emphasise the extent of developed country protectionism, but to place most of the burden of corrective action upon the developed countries. The broad conclusion is that GATT can no longer offer adequate solutions and UNCTAD should now take a greater lead through a complex of international review mechanisms.

10 The UNCTAD diagnosis is over simplified, and will need to be challenged at the Conference. In particular Group B will need to resist inroads on GATT and avoid duplicating work going on in GATT. We must draw the line at any implication that we negotiate in UNCTAD, as it were on appeal from the GATT Ministerial meeting, on such issues as an import restriction standstill or criteria for protective action. But the UNCTAD Secretariat have proposed some exercises which do not overlap GATT work, and there are others (eg. on encouraging North/South trade and, possibly, services) where a complementary deliberative role may be found for UNCTAD.

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11 We should also take the opportunity to promote an initiative on the encouragement of private investment, including joint ventures. This would be aimed at international recognition of the need for countries to create a climate conducive to such investment; and for source countries to facilitate flows of outward investment by, for example, the relaxation of exchange controls. It would, of course, be unrealistic to expect too much from such an initiative in UNCTAD. In practical terms, bilateral Investment Promotion and Protection Agreements and investment insurance schemes are likely to be the effective instruments. But we have a good story to tell on UK private foreign investment, and it would be useful to make the most of something on which we could take the offensive in a constructive way.

12 We are unlikely to achieve anything concrete in UNCTAD in getting the Newly Industrialising Countries (NICs) to open their markets to us, but we must continue the educational process, partly by expressing the need for developing countries to open up their markets to trade from each other. The G77 have a firm line against "graduation", but frequent references, in this and other fields, to priority for the poorest countries, especially the least developed countries, are not so unpopular. We should actively encourage this tendency to distinguish the poorest from the more prosperous G77 countries because it accords both with developmental priorities and with our objective of achieving de facto graduation for the NICs.

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Commodities

13 The UK agreed in 1976 to the Integrated Programme for Commodities, under which there should be negotiations for a Common Fund, and for commodity agreements for a list of 18 commodities. This was reaffirmed at the Manila Conference in June 1979. Following a review of commodity policy in 1980, Ministers agreed that we should participate constructively in international work on a case-by-case basis, and support the conclusion of new agreements with price stabilisation provisions where they would be feasible, cost-effective and beneficial to producers and consumers alike. There could also be benefits in more modest agreements without price stabilisation provisions. In practice we have to work within strict rules of the European Community and take account of wider international political and economic interests.

14 The progress over the past 7 years has been limited, but not negligible. United Kingdom and many countries in Group B (but not USA) have ratified the Common Fund Agreement. The developing countries are lagging, and we can press them to do likewise. There is one new Agreement with price provisions, on rubber, and agreements have been renewed for coffee, cocoa, tin and sugar (though the EC did not join the International Sugar Agreement). An agreement without price provisions has been negotiated for jute, and one for tropical timber is in the course of negotiation. The Community is preparing to participate in the negotiation of a new International Sugar Agreement.

15 The UNCTAD Secretariat have proposed an emergency programme for the rapid conclusion of interim price stabilisation agreements

to put a floor in the markets for a large number of commodities. This does not avoid the very real difficulties in negotiating such agreements and this idea is universally rejected by Group B. Instead we should try to find words to reaffirm our willingness to continue to support the Integrated Programme for Commodities, and to negotiate agreements or arrangements appropriate to each commodity. But price stabilisation agreements, where they are feasible at all, can only deal with short-term fluctuations in the market, and not with the relatively long-term imbalances resulting for example from the world economic recession.

16 Because of the limited prospects for price stabilisation agreemen most of the pressure on Group B countries is likely to be for compensatory financing arrangements for the stabilisation of export earnings. Our view is that the proper instrument for this is the IMF Compensatory Financing Facility (CFF). The UNCTAD Secretariat have proposed six improvements in this Scheme, and we shall have to work for UNCTAD to refer these ideas to the IMF with as little commitment as possible to the proposed improvements. The level of access to the CFF will be considered in early June in the light of the increase in IMF resources following from the 8th quota review. The outcome of this discussion will clearly influence the climate in Belgrade.

17 We are also faced with three proposals for supplementary schemes. The UNCTAD Secretariat have modified a proposal they made last year requiring $40 billion over a period of years to a more limited but still ambitious version requiring $10 billion. The Germans have put forward in the Community an alternative proposal costing $3-5 billion. We must avoid commitment to either of these schemes. In addition, the Commission have proposed that the Community's STABEX system could be extended to the nine least developed countries outside the ACP at a cost to the Community of 8 million ECUs a year for 5 years. But the ODA estimate the annual cost to the UK at between £2m and £6m. We consider that the STABEX scheme has serious technical weaknesses which are unlikely to be fully remedied when it is reviewed before the next Lome Convention which begins in 1985. The extension of the revised scheme has strong support within the Community, and Britain is likely to be isolated in opposing it.

Financial Matters

18 Discussion of financial matters will centre around LDC demands for a package of 'immediate measures' to improve their liquidity position. Much progress has been made at the IMF Interim Committee meeting in February under the Chairmanship of the Chancellor of the Exchequer. The increase in IMF quotas and the widened access to a larger GAB represents virtually a doubling of the usable resources available to the IMF. The thorny question of how the quota increases will be distributed in terms of increased access limits for LDCs remains to be settled in June. The Fund will review the case for a new SDR allocation in July. This will depend upon the general assessment of the level of global liquidity available. The conditions for an allocation, which would ease the liquidity position for LDCs, are less unfavourable now than in recent years. Certain aspects of the IMF's Compensatory Financing Facility, which compensates for shortfalls in export earnings, will also be reviewed in early June.

19 The World Bank has agreed a Programme of Special Assistance for FYs 83 and 84, including a speeding up of disbursements. In the field of aid we shall have to resist proposals for achieving an interim target of 0.6% of GNP as aid by 1986 as a first step towards achieving the target of 0.7% (we have accepted the 0.7% target without a deadline but our aid performance is likely to fall below 0.4% in 1982). There will also be proposals for writing off more of the debt of the poorest countries, on which the UK has a good record; and probably one for establishing an international export credit guarantee facility which would provide guarantees on LDC export credit paper. We would oppose the latter on the grounds that it would be unlikely to generate significant additional financial flows, would mainly benefit the NICs and would be a poor use of aid resources.

The North/South Dialogue

20 The traditional method of conducting the North/South Dialogue, in UNCTAD and elsewhere, by the Groups coordinating extreme positions and then confronting each other, tends to lead to the maximum of political ill-will and the minimum of economic achievement. But it is difficult for Group B to propose alternatives, since this would be regarded as an attack on G77 solidarity which, in the absence of economic power, they regard as their strength. Recently a Group of

Commonwealth Experts, with a majority from developing countries, appointed by the Commonwealth Secretary-General, has made a number of constructive procedural recommendations in Part I of their Report, with which we are in general agreement. This Report has been well received in Group B, and we hope that Commonwealth countries will also ensure its consideration in the G77, though there is little sign of this yet. We certainly hope to support any proposals on these lines which emerge.

Views of Other Industrialised Countries

21 Within the EC the French tend to press for apparently forward positions, especially on commodities, though usually stopping short of clear commitments. The FRG as Presidency generally exercises a restraining influence. Other EC Members' views vary from topic to topic but it should be possible to reach a reasonable EC consensus on most issues. The US attitude is not yet clearly defined, but can be expected to be hard-line. Canada is generally realistic. Australia and New Zealand are variable, sometimes hard-line, but sometimes influenced by their position as major primary producers to sympathise with G77 positions, and oppose the Community. The Scandinavians are predictably liberal. The Japanese are concerned to avoid a confrontation with the LDCs, who are major trading partners.

Conclusions

22 It is in the UK's interest that UNCTAD VI is not regarded as a failure by the G77. The Conference can act as a useful safety valve, but Group B will need to show sensitivity, even though many of the solutions proposed by the G77 are unacceptable. On many issues we have a good story to tell, and on others UNCTAD has a legitimate deliberative part to play. We need to take care to protect the competence of the specialist institutions while supporting in those institutions sensible practical measures that will help stave off collapses and facilitate desirable adjustment.

23 Ministers are asked to approve this general approach towards UNCTAD VI. A further submission will be made with more specific recommendations on particular proposals around the end of April.

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The European Community Council of Ministers is likely to consider the Community's approach at its April meeting, and the detailed negotiating position at their meeting on 24 May.

Department of Trade
25 March 1983

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3.17

CONFIDENTIAL

United Nations (2)

Prime Minister

A.J.C. 4/3.

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

3 March 1983

The Rt. Hon. Lord Cockfield
Secretary of State for Trade

Dear Arthur

UNCTAD VI

Thank you for copying to me your letter of 24 February to Francis Pym about the suggestion that HMG should organise an informal meeting in advance of the UNCTAD VI Session to be held in Belgrade in June.

I think that the idea has much to commend it. It should, as you say, impart greater realism into the thinking of developing countries about the outcome of UNCTAD VI. At present the developed and developing world look a long way apart. But if sensible compromises can be encouraged at this preliminary stage, the chances of reaching consensus in Belgrade will be considerably improved.

I do, however, think it important that these discussions should be handled with care. In putting the UK to the fore in this way, we must be sure that we do not heighten rather than diminish the expectations of developing countries about our own role. This seems to me a particular risk coming, as the discussions do, so soon after the publication of the second Brandt Report. But I know that you will have this point in mind in whatever arrangements are made.

I would incidentally welcome an invitation for the Treasury to be represented at the seminar.

Copies of this letter go to the Prime Minister, the Secretary of State for Industry, the Minister of Agriculture and Sir Robert Armstrong.

Yours

GEOFFREY HOWE

United Nations: May 79

UNCTAD.

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N.B.D.N.

FCS/83/40

SECRETARY OF STATE FOR TRADE

Unctad VI

attached

1. Thank you for your letter of 24 February about the proposal to organise a seminar at Leeds Castle in prepartion for UNCTAD VI.

2. I agree that this proposal is a very useful initiative. There have already been numerous positive replies to the informal soundings which have been made. The Managing Director of the IMF, the Secretary General of OECD, the Commonwealth Secretary General and the Secretary General of UNCTAD have all indicated that they would be interested in attending. There is likely to be a similar level of attendence from the countries which have been contacted. Our aim should be to work for a constructive outcome to UNCTAD VI by establishing common ground with our partners in the industrialised countries and with moderate governments in developing countries, especially the Commonwealth. This seems to me to be very much in Britain's interest.

3. I am copying this minute to the recipients of your letter.

Foreign and Commonwealth Office

25 February, 1983

(FRANCIS PYM)

CONFIDENTIAL

(2)

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

Prime Minister

A.J.C. 24/2

From the Secretary of State

CONFIDENTIAL

MF

The Rt Hon Francis Pym MC MP
Secretary of State for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London
SW1

24 February 1983

Dear Francis

UNCTAD VI

A suggestion came recently from the Permanent Representative in Geneva, Sir Peter Marshall, that it might be a good idea for HMG to organise an informal meeting of some key participants in the forthcoming Sixth Session of the UNCTAD to be held in Belgrade next June, rather on the lines of an informal conference at Ditchley which preceded the GATT Ministerial meeting. I gather that your Ministers who have been involved in discussions about this participation have supported the idea.

Although we are doing our best to find some positive proposals which we can support at UNCTAD VI, the results of the Belgrade Conference will inevitably fall a long way short of the unrealistic expectations harboured by many of the developing countries. Our objectives between now and the conference should be to strengthen the hand of the more moderate developing countries taking part in the various preparatory meetings, and to inject a note of greater realism into their thinking.

A meeting of the kind which has been adumbrated might help these objectives and put our stance in a better light, especially with the Commonwealth. Peter Rees found the meeting he had with other Commonwealth Ministers just before the GATT Ministerial meeting stood him in good stead. The same could be true here.

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From the Secretary of State

I have of course been very conscious of the discussion we had in Cabinet about the handling of the Second Brandt report. There is moreover a significant difference between this proposed conference and the Ditchley Park meeting which took place just before the GATT Ministerial. That was an unofficial gathering for which HMG had no overt responsibility. What is proposed here would be at the invitation of HMG and we would inevitably put ourselves in the position of being regarded as a prime mover. UNCTAD of course is not universally popular and we should have to reckon with this. Before therefore we make firm arrangements and issue formal invitations to the proposed conference, I should be glad to know whether you agree that this initiative would be helpful.

A copy of this goes to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Industry and the Minister of Agriculture and Sir Robert Armstrong.

Yours, Arthur.

LORD COCKFIELD

CONFIDENTIAL

GPS 350 CONFIDENTIAL

CONFIDENTIAL
FM UKMIS GENEVA 301131Z JUNE 80
TO PRIORITY FCO
TELNO 307 OF 30/6/80
INFO SAVING UKMIS NEW YORK UKREP BRUSSELS WASHINGTON TOKYO OTTAWA UKDEL OECD BRUSSELS THE HAGUE DUBLIN COPENHAGEN BONN PARIS ROME LUXEMBOURG

MIPT: SITE OF HEADQUARTERS OF THE COMMON FUND

1. THERE ARE TWO ISSUES HERE:

(A) THE SUBSTANCE OF THE CASE FOR THE HEADQUARTERS BEING LOCATED IN LONDON : AND
(B) HOW TO HANDLE OUR CASE TACTICALLY.

2. AS REGARDS (A) THE ESSENCE OF THE MATTER RESIDES IN THE ''NATURAL ADVANTAGES'' OF LONDON. TO A LIMITED EXTENT WE CAN MAKE A POSITIVE VIRTUE OF NOT REPEAT NOT OFFERING ADDITIONAL INDUCEMENTS, IN COMPETITION WITH OUR DUTCH, FILIPINO AND POSSIBLY SWISS RIVALS. THIS WOULD BE RECOGNISED BY THE MORE SENSIBLE OF THE DEVELOPING AS WELL AS BY THE DEVELOPED COUNTRIES, PROVIDED THAT WE SHOW OURSELVES TO BE MORE POSITIVELY IN FAVOUR OF LONDON AND ADOPT A MORE PERSUASIVE LINE THAN THAT CONTAINED IN YOUR TELNO 1 SAVING TO ANKARA. FAILURE ON OUR PART TO DO SO COULD LEAD TO OTHER COUNTRIES ENTERING INTO COMMITMENTS TO THE OTHER BIDDERS FROM WHICH THEY WOULD SUBSEQUENTLY FIND IT DIFFICULT TO WITHDRAW IN RESPONSE TO LATER REPRESENTATIONS BY OURSELVES. RATHER THEY WOULD REPROACH US FOR NOT HAVING COME OUT MORE FIRMLY AT AN EARLIER STAGE.

3. THIS IS WHERE (B) COMES IN. THE DUTCH AND FILIPINO'S ARE ALREADY BUSY. THEY MAY CANCEL EACH OTHER OUT UP TO A POINT. MUCH WILL DEPEND ON HOW THE WORK OF THE PREPARATORY COMMISSION GOES. NONETHELESS THERE WOULD BE ADVANTAGE IN COMING OUT WITH A MORE CLEARLY DEFINED CASE FOR LONDON AT THE STAGE OF THE SPECIAL SESSION OF THE GENERAL ASSEMBLY AT THE END OF AUGUST. ON THAT OCCASION THERE WILL NO DOUBT BE A GOOD MANY REFERENCES TO THE COMMON FUND AND SUITABLE EXHORTATIONS TO ALL THOSE WHO HAVE NOT SIGNED TO DO SO.

4. YOU HAVE NO DOUBT ALREADY CONSIDERED THE QUESTION OF ISSUING A WHITE PAPER ON THE SUBJECT OF THE COMMON FUND TREATY. WOULD IT BE FEASIBLE TO COMBINE THIS WITH BOTH A SUCCINCT ACCOUNT OF THE NEGOTIATIONS LEADING UP TO THE SIGNATURE OF THE TREATY AND OUR CONSTRUCTIVE PART IN THEM AND A PLUG FOR LONDON AS THE APPROPRIATE SITE FOR THE HEADQUARTERS QUESTION MARK.

5. FCO PLEASE GIVE NORTH/ SOUTH DISTRIBUTION.

FCO PASS SAVING TO ADDRESSESS

MARSHALL

[REPEATED AS REQUESTED]

DEPARTMENTAL DISTN.
FRD
ESSD
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TRED
ECD
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ECON D

ADDITIONAL DISTN.
NORTH/SOUTH

THIS TELEGRAM
WAS NOT
ADVANCED

You will want to be aware of this; & of the point in the attached telegram.

MT

GPS 500 CONFIDENTIAL

CONFIDENTIAL

FM UKMIS GENEVA 301130Z JUN 80

TO PRIORITY FCO

TELEGRAM NUMBER 306 OF 30 JUNE

INFO PRIORITY UKMIS NEW YORK, INFO UKREP BRUSSELS

INFO SAVING ROME, DUBLIN, LUXEMBOURG, BONN, COPENHAGEN, BRUSSELS, THE HAGUE, PARIS, WASHINGTON, TOKYO, OTTAWA, UKDEL OECD

MY TELNO 300 (NOT TO ALL): UNCTAD COMMON FUND CONFERENCE

1. THE CONFERENCE ENDED AT 3.30 A.M. ON 28 JUNE WITH THE SIGNATURE OF THE FINAL ACT BY SOME 80 STATES INCLUDING OVER 50 DEVELOPING COUNTRIES (DETAILS BY BAG). UNTIL THE VERY LAST MOMENT THERE WAS DOUBT AS TO WHETHER THE DEVELOPING COUNTRIES WOULD ACTUALLY BRING THEMSELVES TO SIGN. A NUMBER OF DEVELOPING COUNTRIES WHICH HAD TAKEN PART IN THE NEGOTIATIONS DID NOT IN THE EVENT DO SO.

2. THERE WAS ONE OTHER LAST MINUTE FLURRY OVER A WIDE-RANGING AMENDMENT TO THE RESOLUTION ESTABLISHING THE PREPARATORY COMMISSION PROPOSED BY MY FILIPINO OPPOSITE NUMBER. THIS AMENDMENT WOULD HAVE HAD THE EFFECT OF ENABLING ANY PROVISION OF THE AGREEMENT TO BE CALLED INTO QUESTION DURING THE WORK OF THE PREPARATORY COMMISSION. THERE WERE SIGNS OF INCIPIENT HYSTERIA IN GROUP B AT THE IMPLICATIONS OF THIS PROPOSAL. FORTUNATELY IT DID NOT ENJOY THE SUPPORT OF THE MORE RESPONSIBLE DEVELOPING COUNTRIES. THE PRESIDENT OF THE CONFERENCE (WALKER OF JAMAICA) ACCEPTED MY SUGGESTION THAT HE SHOULD ASK BRILLANTES TO DROP THIS IDEA. THE LATTER AGREED TO DO SO.

3. MY MALTESE COLLEAGUE , WHO HAD LEFT AN AIDE MEMOIRE WITH ME ON THE SUBJECT THE DAY BEFORE , COMPLAINED ABOUT THE FAILURE OF THE COMMON FUND TREATY ADEQUATELY TO TAKE INTO ACCOUNT THE NEEDS OF SPECIAL CATEGORIES OF DEVELOPING COUNTRIES.

4. TWO OTHER POINTS OF INTEREST. LUXEMBOURG ANNOUNCED A SMALL CONTRIBUTION TO THE SECOND ACCOUNT (US DOLLARS 150,000) . CHINA DECLARED ITS SUPPORT FOR MANILA AS HEADQUARTERS FOR THE COMMON FUND (SEE PARAGRAPH 7 BELOW).

COMMENT

5. TO HAVE WHITTLED DOWN THE ORIGINAL GRAND UNCTAD PROPOSAL FOR A COMMON FUND TO SOMETHING RELATIVELY MODEST AND WORKABLE IS A MAJOR ADMINISTRATIVE AND NEGOTIATING ACHIEVEMENT. I PAY TRIBUTE TO THE OUTSTANDING WORK OF THE UK DELEGATION. THE UPSHOT WILL HAVE GIVEN LITTLE PLEASURE TO THE MAXIMALISTS. ON THE OTHER HAND WE HAVE AVOIDED AT LEAST FOR THE MOMENT, THE POLITICAL DANGER WHICH EXISTED PARTICULARLY IN THE LATTER STAGES OF THE EXERCISE (SEE FOR EXAMPLE MY TELNO 194) OF BEING WILLING TO ACCEPT SO LITTLE IN THE WAY OF A COMMON FUND THAT SOME COUNTRIES E.G. THE AFRICANS, WOULD CONSIDER THE GAME WAS NOT WORTH THE CANDLE AND LET THE EXERCISE FOUNDER, PREFERRING TO GO FOR SOMETHING BIGGER IN NEW YORK.

CONFIDENTIAL /6.THE

6. THE OUTCOME OF THE CONFERENCE IS A SHOT IN THE ARM FOR UNCTAD NOT REPEAT NOT AS REGARDS ITS AMBITIONS TO RESTRUCTURE THE WORLD ECOMOMY BUT RATHER IN THE REALM OF PRACTICAL MEASURES ON WHICH WE WANT UNCTAD TO CONCENTRATE ITS EFFORTS (SEE AGAIN MY TELNO 194 AND EARLIER RELATED CORRESPONDENCE). IT WILL ALSO HAVE A USEFUL EFFECT IN RELATION TO THE FORTHCOMING GLOBAL NEGOTIATIONS IN NEW YORK.

7. WE NOW HAVE TO CONSIDER IN MORE DETAIL WHAT TO DO ABOUT THE QUESTION OF THE HEADQUARTERS OF THE COMMON FUND. SEE MIFT(SAVING TO ALL EXCEPT FCO).

8. FCO PLEASE GIVE NORTH/SOUTH DISTRIBUTION.

FCO PLEASE PASS SAVING ADDRESSEES

MARSHALL

[REPEATED AS REQUESTED]

DEPARTMENTAL DISTN.
FRD
ESSD
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TRED
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ADDITIONAL DISTN.
NORTH/SOUTH

THIS TELEGRAM WAS NOT ADVANCED

United Nations

Foreign and Commonwealth Office
London SW1A 2AH

22 June 1979

Dear Geoffrey.

THE COMMON FUND

Thank you for your letter of 31 May. I was glad that you were after all able to agree to an announcement at UNCTAD V of our intention to contribute to the Second Window; as a result we were in the end able to align ourselves with most of the other industrialised countries before leaving Manila.

But I am not happy with the suggestion that our First Window contribution should be taken from the aid budget. There is now a clear distinction between the two functions of the Fund. The Second Window is to be financed by aid funds. But Nigel Lawson himself acknowledged that the First Window was not aid in the normal sense and would not contribute directly to development. It is related to buffer stocking operations, and these, rightly, have never been financed from the aid programme. Should not responsibility for the Common Fund contributions lie with the same department that has responsibility for buffer-stocking operations? It is not for me to suggest how different views on this question should be reconciled. But I do have a strong interest in getting it settled one way or the other.

/I

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

CONFIDENTIAL

I agree with John Nott that it would be to the national advantage to have the Common Fund based in London, and I hope that we will soon be in a position to lobby for it: unless we do, this is a fish we will fail to land. We shall need to look at this in the context of the World Commodities Centre to which John Nott referred in the House on 21 May.

I am copying this letter to the Prime Minister, Secretary of State for Trade, Secretary of State for Industry, Minister for Agriculture, Fisheries and Food, Minister for Overseas Development, and Sir John Hunt.

Yours ever

Ian.

27 JUN 1979

Original in G/R B

cc FCO Press

10 DOWNING STREET

THE PRIME MINISTER

21 June 1979

Dear Bernard.

Thank you for your letter of 6 June about the problems of international trade and development, and for sending me a copy of your article in the April issue of Third World Quarterly.

I agree with you that a constructive approach is needed to the problems of the Third World. Our position as a major trading nation with extensive overseas interests dictates that this should be so.

But our overriding priority must be to get our own economy right. Unless we achieve this we shall not offer an expanding market for the developing world, nor be able to increase our help for nations less fortunate than ourselves. On the investment side, one of our first steps has been to lift exchange controls on overseas investment. This should be of direct benefit to developing countries.

We shall also have a worthwhile and substantial aid programme. In allocating our aid we shall continue to take into account political, commercial and developmental considerations. We shall also work closely together with our Community partners and other donors to improve the effectiveness of multilateral aid.

On UNCTAD V, my own view is that although the consensus reached was limited, the Conference cannot be written off as a failure. Given the immense range of issues, many of which had been under negotiation elsewhere, and the unpropitious world economic situation, it was never likely that there would be any

/ major new

major new breakthrough at Manila. The Conference should be seen rather as part of a process which began fifteen years ago and is still continuing.

I expect this to be the general view of my colleagues at the Tokyo Summit, with whom I shall be considering the outcome of UNCTAD V and the prospects for the world economy. Our main concern will be to tackle the energy problem: anything we can do here will benefit the developing countries as much or even more than ourselves.

Yours ever

Margaret

Sir Bernard Braine, D.L., M.P.

CONFIDENTIAL

United Nations

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

21 June, 1979

Dear John

Thank you for your letter of 24th May in which you discussed the possible costs and benefits of setting up the proposed World Commodities Centre and of securing the location of the headquarters of the Common Fund in London.

I fully understand your objectives in this matter, and as you say, in the circumstances you postulate there could be some risk of loss of earnings by the London commodity markets, although the degree of risk is uncertain. The more serious the risk is thought to be, the more it is in the interests of the City to finance themselves the costs entailed in setting up a World Commodities Centre and in attracting the Common Fund headquarters in London. I therefore very much hope that the efforts you have in mind to secure that the proposed Commodities Centre would be entirely self-financing, without any Exchequer contribution, will be successful. I would also hope that the City would be prepared similarly to provide financial support to attract the Common Fund headquarters to London. My starting point is that we need a firm commitment to a substantial financial contribution from the City if any question of financial support from the Exchequer is to be entertained.

I note however that, even if there were not direct Exchequer support, you think some kind of Government guarantee would be required for commercial borrowing to finance construction costs. If so, the question would arise whether legal power exists to provide such a guarantee, of who will actually borrow the money, and what the status of the borrowers would be. I suspect that there may be problems here, and no doubt you are considering these questions.

/As to the

The Rt. Hon. John Nott, M.P.

CONFIDENTIAL

As to the possibility of direct financial support from the Exchequer, whether by way of capital grant or permanent rent subsidies, the sums you mention are not inconsiderable. And, as I understand it, you would not feel able to find such sums from within your Department's expenditure programme as otherwise determined. Evidently therefore you are asking me to agree now to accepting at the least a potential increase in that programme. I am afraid that I am not in a position to do so, if only because the Cabinet agreed on 24th May that no long-term commitments for new public expenditure should be entered into pending the general review of that expenditure on which we are about to embark.

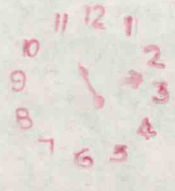
Furthermore, before we take a decision on this, it seems to me that we need an assessment of the possible costs and benefits of having the World Commodity Centre and Common Fund in London. I would therefore suggest that you institute an interdepartmental study. This should involve, I think, officials from your Department and mine, together with the Bank of England as the body responsible for the conduct of the London Commodity markets.

This leads me to the points raised in your further letter of 5th June. It would be unprofitable to go over at length the history of the affairs in question, but I am naturally ready to discuss the general issues with you. I am of course in no doubt that you and your colleagues are not going to commit the Government to additional public expenditure; but I have to say that these problems arose precisely because there had been no agreement that the commitments in question would have to come out of public expenditure programmes (whether as previously planned or as reduced). The issues are not, therefore, "matters of internal accounting detail", but of effective control of public expenditure totals.

I am copying this letter to the Prime Minister and others who have received copies of the previous correspondence.

(GEOFFREY HOWE)

21 JUN 1979



United Nations

31

10 DOWNING STREET

From the Private Secretary

7 June 1979

UNCTAD V

The Prime Minister has seen, and read with interest, the Secretary of State for Trade's minute of 5 June about the outcome of Unctad V.

The Prime Minister has commented that the results of the conference reflect, so far as the UK is concerned, great credit on Mr. Parkinson and the team which he led in Manila. I should be grateful if you would arrange for this to be conveyed to Mr. Parkinson and all the officials concerned.

I am sending copies of this letter to Martin Hall (HM Treasury), Stephen Wall (FCO), Andrew Duguid (Department of Industry) and Martin Vile (Cabinet Office).

B. G. CARTLEDGE

T.G. Harris, Esq.,
Department of Trade.

Prime Minister

May I say that you agree that the outcome reflects credit on Mr. Parkinson and his team?

Yes indeed so.

PRIME MINISTER

UNCTAD V

UNCTAD V concluded in Manila early Sunday morning without agreement on most of the agenda items. I understand, however, from the delegation (which was led by Cecil Parkinson in the last few days of the conference) that - contrary to the impression suggested by British press comment - the general atmosphere was calm, with arrangements for discussion to continue on unresolved issues.

The limited area of agreement was, I think, inevitable in the light of the far reaching nature of the proposals pressed by the developing countries. And I would not myself regard the outcome as unsatisfactory from our national point of view.

It was necessary for us to express a reservation on two resolutions relating to increases of aid; and, for reasons which I set out in my letter today to Geoffrey Howe, we were only in the final days [below] able to authorise our delegation to associate itself with the delegations of other developed countries in promising to make a contribution to the so-called second window of the Fund. It is to the credit of Cecil Parkinson and the official team that we seem to have avoided heavy criticism on these points - although it has been mentioned adversely in the Press.

For the rest, I would regard things as having gone fairly well. Where agreement was not reached, it was because the developed countries held together in resisting developing country demands (on such matters as the restructuring of international institutions, the setting up of new financial facilities to hand out money, cargo sharing in bulk shipping) which, had they been conceded, could have

been seriously damaging to our economic interests. There was an agreed resolution critical of protectionism, but this made it clear that the GATT rather than UNCTAD must continue to be the main forum for negotiations on trade issues.

I see all this as a marked and refreshing contrast to what happened at UNCTAD IV in 1976 when the developed countries were stampeded into an agreement to negotiate a Common Fund. This project has since been somewhat cut down to size but the world would have been better off without it.

We do not know what the considered reactions of the developing countries will be. No doubt there will be expressions of resentment - both at the outcome generally and the particular line taken by the UK - at future North/South occasions, including the Heads of Commonwealth meeting in Lusaka in August. I do not, however, myself think that the firm line maintained at Manila will harm our relations with third world countries at the practical level where relations really matter. I would also hope that the conference will have had the effect of leading the more responsible of these countries to lower their sights in the continuing dialogue on economic questions in UNCTAD and the United Nations and move towards a greater realism.

I am copying this minute to the Chancellor of the Exchequer, the Secretary of State for Foreign and Commonwealth Affairs, the Lord Privy Seal, the Secretary of State for Industry, the Minister for Overseas Development and Sir John Hunt.

Department of Trade
1 Victoria Street
SW1
5 June 1979

JN

5 JUN 1979

CONFIDENTIAL

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

From the Secretary of State

Chancellor of the Exchequer
HM Treasury
Parliament Street
London, SW1P 3AC

5 June 1979

Dear Geoffrey.

UNCTAD V AND THE COMMON FUND

I share the dismay which you express in your letter to Ian Gilmour of 31 May about the exchanges that have taken place between us on the instructions to go to the delegation in Manila, but I am afraid from the opposite point of view.

I would not for a moment dispute that our economic position imposes inescapable financial restraints on our foreign policy. From the outset of this affair I have taken pains to ensure that no additional public expenditure commitments were to be incurred in Manila. Indeed I specifically made it clear in my original letter that both the first and second windows should be financed without increased public expenditure. The question of whose programme bears the burden of these contributions is a point for inter-departmental discussion but it was never of any relevance to the mandate for our team in Manila. It seems to me quite wrong that, where new financial commitments are not at issue, we should allow domestic accounting problems quite unnecessarily to hamstring our international negotiating position.

It is surely intolerable that three weeks after I had circulated to colleagues a proposed mandate for our delegation at UNCTAD V, we were only last Thursday night with a mere two days of the conference left, able to give the delegation authority to indicate that we intended to contribute to the second window of the Common Fund. In the correspondence which followed my minute to the Foreign Secretary of 8 May, no-one questioned either that we had (to quote from your letter of 10 May) "no real choice but to contribute", or that the money should come out of the reduced aid programme. What held us up to the last moment, and left our delegation at a major international conference without instructions on a crucial issue, was an argument on the quite

From the Secretary of State

extraneous, and purely internal, issue of which Department should take responsibility for the contribution to the Fund's first window (a commitment which again we agreed we had as a country to honour, and which, to make things worse, was not even at issue at the conference).

As a result we have had a British delegation hanging around at a major international conference, under the spotlight of the world's press, waiting to receive instructions from London because the Treasury is concerned about some re-arrangement of public spending among Departments.

To turn to another issue - the location of the Common Fund Headquarters - can anyone really doubt that, even if we had to put a little money into it (and I am looking at ways which might make this unnecessary), it would be to the national advantage to have the Fund established in London, with the boost this will give to London's position as a centre for commodity trade and the consequent increase this would bring to Treasury revenue? Yet because of Treasury reservations, we have lost the best opportunity for a long time of strenuously lobbying for London. Until the conference was two-thirds of the way through, the delegation were instructed not to mention the issue at all; and even then we were only able to give them a half-hearted instruction "without commitment, that we were interested". What would the French have done if they wanted the Common Fund in Paris? They would have gone out and lobbied for all they were worth. Of course we might find - though I very much doubt this - that in the end there were unacceptable public expenditure implications. Well, at that point we could withdraw. But to go in from the first with phrases like "without commitment" what chance does that give us?

I think it must be accepted by the Treasury in the future that Ministers in this Department are not going to commit this Government to additional public expenditure and certainly they are not going to do so without reference to you. On the other hand we cannot go through a period of Government seeking to pursue our legitimate objectives but unable to give clear instructions to our negotiators because the Treasury are concerned to settle matters of internal accounting detail first. I hope therefore that we can avoid in the

From the Secretary of State

future the highly unfortunate impression which has been created in UNCTAD by the lack of a clear mandate to our people when in fact from the outset of this matter there has always been total agreement among all of us that any commitments which we give had to come out of public spending which was in any event to be reduced.

I would welcome an opportunity when the Budget is behind you of discussing the future with you and the Financial Secretary so that we can find a more businesslike way of achieving our overseas objectives. UNCTAD V is over, but I would like to be sure that the lesson it provides enables us to proceed more sensibly in the future.

I am copying this letter to the recipients of yours.

Yours ever

John.

JOHN NOTT

5 JUN 1979

CONFIDENTIAL

United Nations.

1. Mr Lankester ✓ 1/6

2. P.S.

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

31st May 1979

Dear Sir Ian,

UNCTAD V AND THE COMMON FUND

I have been giving urgent consideration to your minute of 30th May. Nigel Lawson has kept me in touch with each of these issues, and each dismays me more than the last. The problem is not, as you put it, that our external relations are being harmed by interdepartmental arguments; but that the desperately fragile condition of our economy must be seen (and I regret it as much as you) as imposing inescapable financial constraints on foreign policy.

I am sorry that, whereas John Nott has agreed to what Nigel Lawson's letter of 22nd May suggests, you are unwilling to agree to finance our contribution to the First Window of the Common Fund from aid funds. Although I think that there is room for differences of view about the arguments you advance, it is evident that we cannot now resolve this issue before the end of UNCTAD V.

I accept that, as you say, the argument is not whether we should participate in the Common Fund, and I recognise that an announcement in Manila that we shall contribute to the Second Window could be helpful in the wider context. I am accordingly prepared to agree that such an announcement should be made. But we cannot continue with a process of undertaking financial commitments without making provision for them within the reduced total of public expenditure; and I must make it clear that the issue of the financing of our contribution to the First Window must be resolved in the context of the Public Expenditure Review and within programme totals as they would otherwise have been determined, which I believe in practice must mean the aid programme.

/I am sending

The Rt. Hon. Sir Ian Gilmour, MP

CONFIDENTIAL

I am sending copies of this letter to the other recipients of yours.

Mark Hall

P.P. (GEOFFREY HOWE)

Approved by the
Chancellor and signed
in his absence

CONFIDENTIAL

Mr. Lankester

Chancellor of the Exchequer

UNCTAD V AND THE COMMON FUND

I have seen the Financial Secretary's letter of 22 May to the Secretary of State for Trade in response to his of 17 May to you. I am in full agreement with what John Nott says about our contribution to the Second Window of the Fund. But I am not happy with Nigel Lawson's proposal that we should delay an announcement of our willingness to contribute until we have sorted out Departmental responsibilities.

I have already said that we accept that our contribution to the Second Window should be a charge against the aid programme. But I think it would be wrong to finance our First Window contribution from aid funds, either directly or indirectly, as Nigel Lawson suggests. The fact that our agreement to contribute to the Fund reflects pressure from the developing countries does not mean that the expenditure should automatically come out of the aid programme. On the contrary, it would undermine our firm position (and that of Group B as a whole) that the Common Fund's price stabilization (buffer stocking) activities must be viable without continuing contributions from governments and that the First Window is certainly not a means of transferring resources to developing countries.

I would welcome further discussion on how we can accommodate our First Window contribution within the reduced programme of public expenditure as a whole. However, I think it would be wrong to allow inter-Departmental argument of this kind to harm our external relations. The argument is not about participation in the Common Fund. John Nott

/referred

CONFIDENTIAL

referred to our commitment to it in the House on 21 May. An announcement at Manila that we shall contribute to the Second Window is the right time to play this card. Not to do so would unnecessarily complicate our Delegation's position which is already difficult in areas where we are looking for the co-operation of G77 countries, eg the Front Line States in Southern Africa. The argument about modalities should be sorted out subsequently in the review of public expenditure as a whole.

I should be most grateful if you could find time to look at this personally, as a matter of urgency. If Cecil Parkinson, now in Manila, is to make that announcement before the Conference closes on 1 June, we shall need to reach a decision before close of play on Thursday at the latest.

I am sending copies of this minute to the Prime Minister, the Secretaries of State for Trade, Industry and Agriculture, Mr Marten and Sir John Hunt.

I.H.G.

30 May 1979

30 MAY 1979

United Nations

CONFIDENTIAL

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

From the Secretary of State

Nigel Lawson Esq MP
Financial Secretary to the
Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

24 May 1979

Dear Nigel

Thank you for your letter of 22 May.

As regards financial responsibility, I would myself be content with either of the possibilities you mention, ie providing for the contribution to the first window to come from the aid programme or transferring an appropriate amount to the Department of Trade's programme from whatever reduced aid programme we finally agree upon.

I hope that at least the second of these two courses will now be agreeable to FCO Ministers. What is impossible is that a failure to resolve this matter should continue to hold up the Manila delegation having authority to indicate our willingness in principle to contribute to the second window. Cecil Parkinson will be arriving in Manila next Tuesday and could rapidly be placed in a quite intolerable position if he cannot say anything on this question.

As regards the location of the Common Fund's headquarters, I was glad to have your agreement that our delegation in Manila should let it be known, without commitment, that we are interested in having the Common Fund in London and I have arranged for instructions to be sent to the delegation on this point. As regards the costs

CONFIDENTIAL

From the Secretary of State

of having the Common Fund here, I enclose a note which my officials have prepared. This deals also with the costs of a World Commodities Centre in London. As you may have seen from Hansard on Monday, I will make every effort to promote London on the basis that the Commodities Centre would be self-financing without any Exchequer contribution. I believe this to be possible - although it is conceivable that some kind of guarantee might be necessary.

However, I have asked officials to look at the possible cost if actual public expenditure proved essential. Their conclusion is that, on some necessarily rather arbitrary assumptions, securing the Common Fund headquarters for London might involve a Government contribution of some £6 million. The same figure - plus a continuing annual subsidy of up to £0.5 million, and possibly a guarantee of a £9 million market loan - might be required to set up a World Commodities Centre which also housed the Common Fund. As I have indicated earlier, I think there is a very strong case for such a centre in its own right. A decision to go ahead with the project would also increase the chances of our getting the Common Fund set up here.

Almost certainly a gross underestimate if UNCTAD is anything to go by.

These are not negligible sums. But they are insignificant in relation to the foreign exchange earnings at risk. The direct net foreign earnings of the London commodity markets are over £200 million, and there must also be very considerable consequential business for the financial institutions and hence revenue to the Exchequer through the tax take on commodity earnings. I am not suggesting that all of this would be at risk. But if even a part was attracted away - and I believe it well could be - by a Common Fund established elsewhere, the sums involved would quite dwarf the sort of Government contribution we are talking about.

CONFIDENTIAL

From the Secretary of State

I am copying this letter to the Prime Minister, Sir Keith Joseph, Peter Walker, Sir Ian Gilmour, Neil Marten and Sir John Hunt.

Yours ever

John.

JOHN NOTT

ENC.

FINANCIAL IMPLICATIONS OF THE ESTABLISHMENT OF THE COMMON FUND AND/OR A WORLD COMMODITIES CENTRE IN LONDON

Note by Officials

(a) COMMON FUND

There has been no international discussion so far of the likely size of the Common Fund's organisation and its consequential office etc. requirements. For working purposes we have assumed that it would be between two and three times the scale of one of the existing International Commodity Organisations (ICOs) in London, i.e. with a staff of about 120 and requiring some 25,000 sq ft of office space and 30,000 sq ft of conference space. On that basis we estimate it would need

(i) on the assumption that it was in a new building of its own, a building costing some £6 million (at present prices) to erect;

(ii) on the assumption that it rented accommodation in a larger building, office and conference space involving an annual rental of something over £600,000.

2 These estimates make provision, on the conference side, for only small and medium size conferences. In addition to working conferences of this sort, the Fund might have very large scale conferences of all the members once or twice a year. It should, however, be possible for space for meetings of this last sort to be provided in the new building which is being put up at government expense for the International Maritime Consultative Organisation; the IMCO facilities would not be used for part of the year and there are likely to be few other meetings on the sort of scale which would make the use of these facilities appropriate, so that their use for the Common Fund would in effect be free of cost.

3 We doubt whether a private developer would be willing to put up a building specifically designed for the Common Fund. A new building would, therefore, probably have to be put up at Government expense. In return for the £6m of capital expenditure we could expect some rent to be paid by the organisation, but - since we have to assume that, with other capitals bidding against us, we would need to offer some financial inducement to get the Common Fund here - this would fall short of the commercial rate. We might have to count on getting say 5% rather than 10% (i.e. £300,000 rather than £600,000 a year).

/4

4 If space for the Common Fund could be found in another building, the cost for us would be in terms of meeting part of the rental. It might be necessary to meet as much as a half, at an annual cost to the exchequer that is of some £300,000.

5 It is questionable, however, whether such accommodation could be found. We would need to assume, therefore, that locating the Common Fund in London could involve the capital cost set out in paragraph 3 above.

(b) A WORLD COMMODITIES CENTRE (W.C.C)

6 The position would be different if a WCC were established in London. The obvious place for the Common Fund would then be in the same building. The prospects of getting agreement on a London site for the Common Fund would also be enhanced by the establishment of the WCC.

7 Non-committal discussions on the WCC have been held with the Committee (of MPs, businessmen and ICOs) set up to promote the idea of a WCC, and with the ICOs. (The pressure from the ICOs is based on two problems - their existing office accommodation does not allow for expansion and they find the facilities for conferences unsatisfactory.)

8 It seems clear to us that, as the Committee themselves propose, the WCC would have to be housed in a completely new building.

9 Our estimate is that this would cost some £15 million.

10 Two main methods of financing have been considered, outright purchasing or leasing by the Government.

11 As regards the first of these methods the indications we have (though there is nothing approaching a firm City commitment) is that, if the government put up £3m of the £15m, private sources would put up a corresponding £3m and the balance would be borrowable in the market against the security of the building - though possibly a government guarantee would be needed. In addition to the £3m in cash and the possible guarantee of the borrowing, it might be necessary to subsidise the rents the ICOs would pay at the new centre. They at present pay £460,000 a year, and we believe they would be prepared to pay between £700,000 and £1 million for the larger (and better) office and conference facilities the WCC would provide. But they would be unlikely to be prepared to pay the sum needed to provide an economic return (say 10%, i.e. £1.2 million) on the private capital put into the building. A continuing subsidy of between £0.2m and £0.5m would be required

/12

12 If the Common Fund were housed in the WCC it could probably (subject to the point about major conferences in paragraph 2 above) use the conference facilities provided for the ICOs. Only extra office accommodation should therefore be needed, at an additional capital cost of some £3m. The whole of this would probably have to be put up by the Government.

13 As explained in paragraph 10 above, we have also examined the possibility of a leasing arrangement under which the Government would take a headlease on a building put up by a private developer. In theory under this scheme the only Government contribution would be a rental subsidy (which we estimate would need to be between £0.6m and £0.9m). As, however, experience with the IMCO building shows, it is very questionable whether a developer would be willing to put up a building on this basis. It would, therefore, be prudent to assume that the more expensive course of outright purchase of a building would be needed.

14 As new ICOs were established in London, it would be desirable to make some extensions in the WCC building. Some of the sites which have been considered would allow for this.

CONCLUSIONS

15 Considerable uncertainties are involved and we cannot be entirely sure even of the orders of magnitude. Subject to this, the best estimates we can make are as follow:

(i) A Common Fund on its own would probably involve a new purpose built building at a cost, to the exchequer, of about £6 million. There might be some continuing return to the exchequer in the form of rent, but this would be at best below the market rate of return.

(ii) A WCC would also probably require a new purpose built building. The Government would have to put up some £3 million of the £15 million required (with no return on this) together with some £0.2 to £0.5 annual subsidy to the rent paid by the ICOs and possibly a guarantee of some £9m borrowing by the WCC in the market.

(iii) If the Common Fund were housed in the WCC building, the total capital cost to the Government would rise to £6 million, with possibly some return (though below market rate) on the extra £3 million.

(iv) It will be noted that there are economies of scale in housing the Common Fund with the WCC, and that participation of private capital can be expected only for the WCC. Establishing the Common Fund by itself would be disproportionately expensive as compared with the total project.

16 Expenditure on a separate Common Fund building would not arise until 1980/81. Expenditure on a WCC would be staged, but would be unlikely to be substantial before 1981.

Department of Trade
22 5 79

U.N.

FINANCIAL SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

22 May 1979

Rt Hon John Nott MP
Secretary of State for Trade
Department of Trade
1 Victoria Street
LONDON
SW1

Mr. Lankester R
P.A.
[illegible]
23/5

UNCTAD V

In your letter of 17 May to Geoffrey Howe, you proposed that our delegation in Manila should be given authority to indicate that the UK intends to contribute to the Second Window of the Common Fund and that the question of departmental responsibility for the UK contribution to the First Window should be left for later consideration.

I am reluctant to hold up any announcement in Manila but I think that it would be a mistake to proceed in this way. Any announcement concerning the Second Window will carry with it our commitment to join the Common Fund, and hence to contribute to the First Window. We will make it very difficult for ourselves to secure the reductions in public expenditure to which we are committed if we are ready to contemplate entering into new commitments before deciding how they should be financed. I therefore consider that we must settle the responsibility for expenditure on both the First and Second Windows before we make any statement.

I remain firmly of the view that the contribution to the First Window should come from the aid programme. I accept that it is not aid in the normal sense since it would not contribute directly to development. However, I do not think we should pretend to ourselves that the Common Fund will benefit our industry; our agreement to the Fund is nothing more than a response to pressure from the developing countries.

If, despite this, it is thought inappropriate to charge this expenditure to the aid programme, I would be content to see the appropriate amount transferred to the Department of Trade's programme from

whatever reduced aid programme we finally agree upon. I hope that you, and our colleagues can agree to this approach.

On the related question of the location of the Common Fund's headquarters, it appears to me that we need to consider the costs and benefits before we make a decision on whether to lobby for London. However, there is no reason, in the meantime, why our delegation in Manila should not let it be known, without commitment, that we are interested in this and point out the stron operational advantages that London would have.

I am copying this letter to the recipients of yours.

Yours ever

Nigel

22 MAY 1979

United Nations.

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

From the Secretary of State

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Parliament Street
LONDON
SW1P 3HE

17 May 1979

Dear Geoffrey,

UNCTAD V

I have now had comments from the Prime Minister, yourself, the Secretary of State for Industry and the Lord Privy Seal on my minute of 8 May.

We are now agreed on the broad objectives to which our delegation in Manila should be working and I am arranging for the necessary instructions to be sent.

As regards contributions to the second window, I understand from the Lord Privy Seal's minute that he and Neil Marten accept that this contribution should be found from the aid programme, within whatever decisions about its future size we may eventually reach. On this basis it seems to me that we are now in a position to give the delegation authority to indicate at the appropriate stage that the UK intends to contribute to the second window. Most major Group B countries have now indicated a willingness to contribute and the delegation could find itself in an awkward position if it remained without instructions.

There seems to me no reason to delay instructions on this point until we have resolved the question of departmental responsibility for the contribution to the first window (the Lord Privy Seal's minute expresses doubts about my suggestion that this also should come from the aid programme). We are not talking about a new commitment here; the UK

From the Secretary of State

is already committed on the principle of contributing to the first window and, while there will at some stage have to be discussions with our Group B partners on what the size of our contribution should be (the commitment accepted at the March conference on the Common Fund was in terms of the contribution to be made by the Group B countries taken together), these discussions are very unlikely to take place until after the Manila conference is over.

I trust therefore that we can all agree that instructions on the second window should go to the delegation forthwith. If you have any continuing reservations on the point, could I please know before close of play today.

I have noted your reservations on my proposal that we should lobby to get the Common Fund headquarters situated in the UK. Naturally our officials must discuss the detailed financial implications, but frankly I think this is just the kind of point with which we need not concern ourselves at the moment. I would have no intention of having the Headquarters here if it did not bring substantial gains to the UK economy. I am sure that you are aware of the dangers of losing financial business for the London Commodity Markets. We should adopt a broad commercial approach to such questions rather than an accountancy one and we shall never have a better opportunity to lobby for the headquarters than at the UNCTAD Conference itself.

Finally, I have noted Ian Gilmour's comments on Ministerial attendence. Cecil Parkinson is planning to attend the Conference from 29 May to 4 June . I am not sure that a visit from a Minister of State from the Foreign Office would be prudent. If we send a Minister responsible for aid he will be placed in the firing line. That is one of the reasons why I think we would be safer to keep our representation limited to the Minister for Trade.

I am copying this minute to the Prime Minister, Sir Keith Joseph, Peter Walker, Sir Ian Gilmour, Neil Marten and Sir John Hunt.

Yours ever

JOHN NOTT

John

CONFIDENTIAL

United Nations

10 DOWNING STREET

From the Private Secretary

14 May 1979

UNCTAD V

The Prime Minister was grateful for the further briefing on the Common Fund "second window" proposal which you sent under cover of your letter of 11 May. She has also now seen the Chancellor of the Exchequer's letter of 10 May.

The Prime Minister has asked me to say that she still has doubts about the "second window" scheme; but subject to the conditions set out in the Chancellor's letter, she is now prepared to agree to the negotiating line proposed in your Secretary of State's minute of 8 May.

I am sending a copy of this letter to Tony Battishill (H.M. Treasury), Andrew Duguid (Department of Industry), Garth Waters (Ministry of Agriculture, Fisheries and Food), George Walden (Foreign and Commonwealth Office) and Martin Vile (Cabinet Office).

T. P. LANKESTER

T.G. Harris, Esq.,
Department of Trade.

CONFIDENTIAL

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DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

From the Secretary of State's Office

Prime Minister
Here is further briefing on the "Second window" (Flag D). The Chancellor is content with the general line, including the line on the "Second window" (Flag E).
Are you now content for Mr Nott to proceed on the basis outlined in his minute? (Flag A)
DL
4/5

11 May 1979

Tim Lankester Esq
10 Downing Street
Whitehall
SW1

Dear Tim,
UNCTAD V

In response to your letter of earlier today, I enclose a note setting out the background to the Common Fund "second window" proposal.

I am sending a copy of this letter and its enclosure to Tony Battishill (Treasury), Andrew Duguid (Department of Industry) Garth Waters (MAFF), George Walden (Foreign Office) and Martin Vile (Cabinet Office).

Yours Sincerely,

Tom Harris

T G Harris
Private Secretary

* Though the Chancellor has added some useful glosses.

Subject to the Chancellor's conclusion - will agree to go ahead as John Nott suggests. But my doubts about the scheme are greater even than his.
MF.

11 MAY 1979

D

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COMMON FUND
SECOND WINDOW

From the outset the proposal for a Common Fund, as put forward by the UNCTAD Secretariat and supported by the developing countries, was for a body which would not only provide assistance for buffer stock financing (the "first window") but would also assist other measures in the commodities field (the "second window").

2 This was for two related reasons. The first was that the authors of the proposal recognised that - eg because of the perishability of the product concerned - there were a limited number of products for which buffer stocking was practicable. Secondly, there were a large group of developing countries, notably in Africa, which exported commodities not likely to benefit from any conceivably possible buffer stocking arrangement; and, to get their support, the Common Fund had to offer something for them.

3 The developed countries (Group B) were no more keen on the second window than on the first and both were conceded in the end as a political act because of the strong pressure brought by the developing countries.

4 In the lengthy negotiations on the question, Group B were able to introduce a considerable degree of limitation on the second window operation. Thus, as part of the general agreement on the Common Fund at the last conference in March 1979, it was accepted that measures to be financed through the second window should be only those jointly sponsored and followed up by producing and consuming countries within the framework of international commodity bodies. We and other commodity importing countries would therefore need to be satisfied about a particular project before it could receive support from the second window.

The kinds of measures are described - pretty vaguely - on the next page.

/5

CONFIDENTIAL

5 Secondly, it was agreed in March that the second window must avoid duplication of the activities of existing international financial institutions (such as the IBRD) which give aid to commodity production.

6 Thirdly, while the definition of measures to be financed by the second window is not yet complete, the terms of the March agreement make it likely that Group B will be successful in avoiding the inclusion of what would be the most expensive type of operation, namely assistance to enable a commodity producing country to diversify out of production of a commodity into altogether other areas. The measures to be assisted are described as "commodity development measures, aimed at improving the structural conditions in markets and at enhancing the long term competitiveness and prospects of particular markets". The agreed text says that they "should include research and development, productivity improvement, and measures designed to assist....vertical diversification" (ie moving upstream from production of the raw material to its processing).

7 Finally, Group B were successful in insisting that contributions to the second window must be voluntary. It is true that a target has been set for the size of total contributions; and (with a question mark about the U.S.) there is, to say the least, an expectation on the part of the developing countries that all the developed countries will in fact contribute, and moreover contribute a sum which is in some sense their fair share of the total target. The advantage of the voluntary concept is however that it should give developed countries some greater degree of control than would otherwise be possible over the sort of operations in which the second window involves itself (they will of course also have their say inside the Common Fund in the way the body is run).

8 The financial arrangements are somewhat complicated. But the broad point is that whereas the first window will have

/$400 million

$400 million of resources (the proportion of this to be provided by Group B has been fixed, but not the distribution between Group B countries), the target for the second window is $350 million, with some possibility of replenishment at an undefined future date. The African countries felt that $350 million was too low and accepted it with some grumbling. It was agreed that there should be a "pledging procedure" for contributions to the second window, and that countries would indicate their "intentions on pledging" during the course of UNCTAD V. Of Group B countries, so far (in their opening statements at UNCTAD V) only Austria, Sweden, Finland and Belgium have pledged specific sums. The F.R.G, Canada, Switzerland, Australia, the Netherlands, Denmark and Luxembourg have just said that they are willing to contribute. Three who have so far made statements (France, New Zealand and Spain) have remained altogether silent on the issue.

9 It is difficult to advise now on what sum would have to be involved, should the decision be that the United Kingdom should contribute. The very preliminary thinking of officials is that it should not exceed $15 million. Actual payment would probably not be required till 1981 and could probably be spread over a few years.

Department of Trade
11 May 1979

CONFIDENTIAL

BF 11/5/79

10 DOWNING STREET

From the Private Secretary

11 May 1979

UNCTAD V

The Prime Minister has read your Secretary of State's minute of 8 May to the Foreign and Commonwealth Secretary in which he puts forward a general negotiating position for the UK delegation to UNCTAD V.

The Prime Minister agrees with the broad objectives to which the delegation should be working as set out in paragraph 3 of Mr. Nott's minute. However, she has doubts about the suggested line on contributions to the "second window". She considers that even the limited proposal that "we should announce our intention to make a voluntary contribution in due course to the second window" could too easily be a hostage to fortune. But before taking a final view on this, the Prime Minister would be grateful for further briefing on the "second window"proposal. This should explain more fully the concept, the kinds of measures which will be supported, and the financing arrangements.

I would be grateful for this further briefing by close of play today, Friday 11 May.

I am sending a copy of this letter to Tony Battishill (HM Treasury), Andrew Duguid (Department of Industry), Garth Waters (Ministry of Agriculture, Fisheries and Food), George Walden (Foreign and Commonwealth Office) and Martin Vile (Cabinet Office).

TPL

KRB

T.G. Harris, Esq.
Department of Trade.

CONFIDENTIAL

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

10 May, 1979

Dear John

UNCTAD V

Thank you for sending me a copy of your minute of 8th May to the Foreign and Commonwealth Secretary.

My general reaction is that it is clearly important to gear our approach to UNCTAD to recognition of the plain fact that we, and our major partners in Group B, have very little room for manoeuvre in the direction of accepting the G77's demands. "Success" at UNCTAD, as measured by significant concessions to those demands, is therefore unattainable.

I am content to endorse the steering brief as it stands, as well as your comments on it. For my part, I should wish to reinforce what the brief says to the effect that although we cannot prevent discussion of international monetary questions in UNCTAD, we must firmly resist attempts to extend the competence of UNCTAD into this area, or acceptance of proposals for specific action by the IMF or IBRD. To the same end, we must work for the closest co-ordination of positions with our major Community and Group B partners.

We shall also need to avoid any new commitments at UNCTAD which would add to the total of UK public expenditure, or which would indeed significantly inhibit our freedom of manoeuvre in pursuing our commitment to reduce expenditure. In my view, this means that:-

(a) We must resist any pressures which may be exerted at UNCTAD to get us to commit ourselves to any particular plans or figures for our aid programme.

/(b)

The Rt. Hon. John Nott, M.P.

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(b) As regards the Common Fund I share your scepticism about its usefulness. I accept however that we must uphold our predecessors' decision to contribute to the Fund's first window, and that we have no real choice but to contribute to the second window. But I entirely agree that we should avoid committing ourselves now to a specific figure for the latter; and since no provision has so far been made for any expenditure on either window, my agreement to these proposals now, in advance of our expenditure review, must be condititional upon you and our colleagues accepting that the costs of both commitments should be found from whatever programme ceilings emerge at the end of the expenditure review. There can, of course, be no question of our proceeding with any new commitment before we have decided how the cost will be accommodated. Given what you say about your Department's programme, and that the pressure for a Common Fund has come from the developing countries, and not from our own commodities interests, it seems to me that we should decide now to charge the resulting expenditure to our aid programme.

(c) Although I understand your motives in wanting to get the Common Fund headquarters situated in the UK, here again there may well be implications for public expenditure; and if you wish to pursue this, the first step must be a proper examination of such implications.

(d) I am also worried by one particular major threat for expenditure which is potentially posed by Chancellor Schmidt's advocacy of a system of compensatory finance related to developing countries' earnings from individual commodity exports. We must do what we can to avoid such a result, and at UNCTAD seek to ensure that any further study in this area does nothing to prejudge the issue.

I am sending copies of this letter to the other recipients of yours.

Yours

(GEOFFREY HOWE)

11 MAY 1979

Prime Minister 1

Sir J. Hunt suggests you go along with Mr Nott's advice, subject to the Ministers' views. Agree?

CONFIDENTIAL

Ref. A09519

PRIME MINISTER

TL 10/5

UNCTAD V

Flag A

Mr. Nott's minute of 8th May to Lord Carrington seeks views on the line the United Kingdom should take at the Fifth Session of UNCTAD, which started on 7th May and will go on until the end of the month.

2. There are two main points on which decisions are called for -

(i) Whether our broad objectives should be those set out in the third paragraph of his minute.

(ii) Our line on the pledging of contributions to the "second window" of the Common Fund.

A number of other issues which cannot be foreseen at this stage might blow up in the course of the Conference. Mr. Nott has it in mind to circulate a further note to his colleagues at the appropriate time.

3. As regards (i), the broad objectives of seeking to persuade the developing countries (Group of 77) of our common interest in operating within the present international economic system and of working for resolutions providing for a future programme of work without damaging specific commitments are broadly shared by our industrialised partners. It remains to be seen to what extent the industrialised countries will be able to maintain these objectives without splitting ranks under pressure from the developing countries on specific issues; differences of view could be exposed, for example, on shipping, commodities and transfer of technology, and other countries might not be so disposed to stand out against Group of 77 demands on questions of access for manufactures. But the proposed objectives seem unexceptional as a starting point.

In general with Lord

4. On (ii) - our contribution to the Common Fund's Second Window - there must be some doubt, as Mr. Nott says, whether the Common Fund will work in practice. But both the Western world as a whole and the United Kingdom in particular are already publicly committed to the principle of the Fund, and for us not to contribute to the Second Window, on which a number of countries put a good

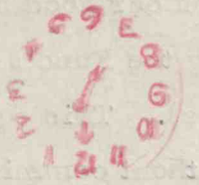
deal of store, would not only cast doubt on our good faith, but would almost certainly destroy our chances of securing the Fund's headquarters for London (which would be of long-term benefit to us). This suggests confirming an intention in principle to contribute but without committing ourselves to a specific figure at this stage. Mr. Nott gives no indication of the likely eventual size of our contribution but, assuming each industrialised country is prepared to contribute in relation to its resources towards the target of $350 million, our share would be roughly $12-$15 million with payment spread over several years. There is no provision for it at present in the public expenditure programme, but the cost would presumably have to be met from our overseas aid funds, the size of which will come up for review in relation to public expenditure generally. I doubt whether it is necessary or desirable at this stage to hint, as Mr. Nott appears to suggest, that our expenditure on aid might be reduced.

5. Unless others of your colleagues raise difficulty I do not think that you need to intervene in this correspondence, i.e. your office might simply say that unless any of your colleagues see difficulty you are prepared to accept Mr. Nott's advice.

(John Hunt)

9th May, 1979

I suspect the developing countries' proposals but - I don't know enough on this to intervene in any way. Could I be properly briefed? no



18 MAY 1979

A

CONFIDENTIAL

PS/MOS(T)
PS/PUSS(T)
PS/SECRETARY
MR. GRAY
MR. SUNDERLAND
MR. BOWEN
MR. ABRAMSON.

THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS

UNCTAD V

The Fifth Session of UNCTAD (the United Nations Conference on Trade and Development) opened on 7 May and will continue until the end of the month. I propose that a Trade Minister, probably the Minister of State, should attend for the concluding stage of the conference towards the end of the month. Until then, as is normal, we shall be represented by an interdepartmental team of officials led by a senior official of my department. We have to decide now on the line we should take.

UNCTAD conferences, which are held every 3/4 years, are important events in North/South relations. The present conference, which will address all the issues - trade, aid and international finance - in the "North/South dialogue", takes place against the background of elaborate proposals by the developing countries (the Group of 77 or G77) designed to promote radical changes in the structure and management of the world economy. Their proposals go far beyond anything which we or the developed countries generally (Group B) could possibly accept. We clearly must, however, respond - and help to promote a Group B position which responds - as constructively as possible to the concerns of the developing countries without damage to our economic interests.

Flag B

Against this background I attach the steering brief prepared by an interdepartmental group of officials (Based on more detailed material which is available in Departments). I have not had time to study this in depth to see how far it accords with my views but our broad objectives should, as paragraph 3 of the brief suggests, be, first to seek to persuade the G77 that, rather than conflicting interests.

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we have a common interest on maintaining and strengthening the present international trade and financial system; and, secondly, to work for an outcome with resolutions providing for a programme of work on the issues to which the G77 attach importance while avoiding commitments which would be damaging to our interests either in substance or as regards the present international institutional arrangements in the financial and economic field.

It is not easy however to see just how a conference of this sort will go and what the major pressure points will in the event turn out to be. We may, therefore, have to review our position later in the month in the light of developments and I shall in that event put a further note to my colleages.

There is one specific point on which we have to take a decision now. A resolution on the basic elements of the so-called Common Fund for Commodities was adopted by consensus at a Conference held in March under UNCTAD auspices. Although I personally think that the Common Fund is quite erroneous in its conception and will fail in a wave of recriminations after a number of years, it is a commitment which we must keep. (The important thing is to try to ensure that its headquarters are set up in this country since if it is established elsewhere there is a chance of business being lost to the London markets; and I think the delegation in Manila should be asked to do some lobbying on this point.) Through its "first window" the Fund will help international commodity agreements to finance buffer stocks to stabilise prices; and through its "second window" will support commodity measures other than stocking. Members of the Fund - in principle all UNCTAD members - will, it was agreed, contribute up to $400 million directly to the first window (the cost sharing has to be agreed with other Group B countries but the UK share should be around $20 million). As regards the second window it was agreed that there should be voluntary contributions of up to $350 million and that individual countries would indicate at UNCTAD V their "intention on pledging such contributions".

As I have said the UK is committed on the principle of contributing to the first window, though the actual expenditure should not begin to materialise until 1981 or later. Our predecessors had not made specific provision for this at the time of their last Public Expenditure White Paper and I am told that it could not be met from within this Department's planned expenditure programmes.

As regards the second window the position is somewhat different in that in theory it would be open to us to say that it is our intention to contribute nothing. This would, however, be seen by the G77 as a wrecking tactic, which, if it were followed by other Group B countries, would overturn the hard fought compromise finally achieved in March on the whole Common Fund package: the commitment was introduced as a key element to meet the doubts of the African countries who wanted second window contributions to be compulsory. Moreover, it seems clear that, with the probable exception of the Americans (where, however, the Administration have a well understood problem with the Congress), all the other Group B countries will be announcing an intention to contribute.

Against this background I think that we should announce our intention to make a voluntary contribution in due course to the second window, but in doing so, we should make it absolutely clear that the new Government cannot possibly review its expenditure programme in time to be committed to any specific figure. There is a public expenditure problem here also. I assume that our contribution will have to come out of an Aid Programme which we will anyhow wish to reduce from the planned programme which we have inherited. Obviously it would be very unwise to hint at this at UNCTAD V but we should surely bear in mind that both the contribution to the second window and possibly the first may well have to be found from an aid programme which may already have been reduced substantially in real terms. In other words, our total net contribution to aid generally may fall.

In the meantime I suggest that

(a) Our delegation should be given immediate authority to indicate at the appropriate time that the UK intends to contribute to the second window; - and I suggest we leave it to their discretion as to whether they should hint that it will come out of a total expenditure programme which is still to be decided;

(b) we work very hard to encourage the larger Group B countries to stand by their present intention not to mention specific figures at this conference.

The Conference is already under way. If therefore any of my colleagues have any reservations on the proposal in the preceding paragraph, could I please know by close of play on Thursday. In the absence of any comments I shall assume my colleagues are content with the broad content of this note.

I am sending copies of this to Sir Geoffrey Howe, Sir Keith Joseph, Peter Walker, Neil Marten and to Sir John Hunt.

J.N.

Department of Trade
1 Victoria Street
SW1

8. May 1979

B

CONFIDENTIAL

UNCTAD V: MANILA, 7 MAY - 1 JUNE 1979

STEERING BRIEF FOR THE UK DELEGATION

INTRODUCTION

This brief summarises the UK's main objectives at UNCTAD V; identifies (as far as is possible at present) the central issues at the conference and the line we shall take on each; and indicates how, tactically, we shall aim to play our hand.

UK OBJECTIVES

2. The debate at Manila will be shaped very largely by the collective proposals of the developing countries (the "Group of 77"/"G77") as outlined in the Arusha Programme on which they agreed in February. Their aim will be to secure the adoption by consensus of resolutions endorsing as much as possible of these proposals, which envisage a major extension of the work of UNCTAD along lines designed to promote radical change in the structure and management of the world economy. Since none of the main developed countries could accept the Arusha Programme as it stands, this may well prove a difficult conference. But all developed countries ("Group B") recognise the political importance of UNCTAD V as a major event in the North/South dialogue, and will be anxious to secure an outcome which both sides can live with.

3. Against this background, the UK objective will be to respond as constructively as we can to the developing countries' concerns, within the limits set by our economic interests: and specifically to work for:-

a. positive Group B positions, designed to demonstrate that the world trade and financial system has stood up relatively well to the strains imposed by the recession, and has successfully accommodated rapid industrial growth in the more advanced developing countries; that developed and developing countries have a mutual interest in maintaining and strengthening the present system; and that particular care is needed at this time, following the recent oil price increase, not to add to the pressures on it;

b. a consensus outcome to the conference, with resolutions providing for further work on issues of importance to the G77, while avoiding commitments which would be prejudicial to our interests in terms either of substance, or of the international institutional arrangements in the financial and economic field.

Prime Minister
I don't think you need bother to read this annex!
Thatcher M.T.

THE MAJOR ISSUES

Flag C

4. The Conference agenda (Annex A) touches virtually every aspect of the North/South dialogue.

It is still uncertain which of these the developing countries will select as the key issue (or issues) at Manila: but it seems clear that they will focus on four main areas some of which, particularly in the trade and monetary field, raise the threat of major damage to UK interests-

a. Trade in manufactures: access and "adjustment"

There will be attacks on protectionist measures in developed countries (particularly in relation to textiles under the 1978 GATT Multi-Fibre Arrangement), and, almost certainly, on the handling and outcome of the Multilateral Trade Negotiations in the GATT; and pressure for a programme of negotiations in UNCTAD to improve access for developing countries' manufactured exports, and to draw up ground-rules which would commit the industrialised countries to "adjust" their industrial structures by phasing out industries in which developing countries have a competitive advantage.

We can accept a resolution reaffirming the world's determination to resist protectionist pressures (but we should make clear that developing countries also have responsibilities in this matter); and launching further work in UNCTAD on adjustment. But we must avoid commitments which would reduce our ability to take action (through the EEC) against disruptive imports; which would reopen the outcome of the MTNs; which would involve unacceptable interference with domestic industrial policies; or which would undermine the position of the GATT as the body with the basic responsibility for international trade negotiations.

b. Monetary and Financial Issues

The Arusha Programme, and the supporting documentation by the UNCTAD Secretariat, claims that the world economy is in a state of fundamental disequilibrium to the particular disadvantage of developing countries; asserts the need for fundamental reform of the international economic order and for its oversight and its working, within a "comprehensive framework", under the aegis of UNCTAD: proposes a "massive transfer" of resources to developing countries; and advances a wide variety of other proposals of both an institutional and specific nature, intended essentially to transfer resources to developing countries or to relieve them from pressure to adjust their economic policies in face of balance of payments difficulties.

Specifically, proposals are made for

(i) consideration of fundamental reform of the international monetary system by UNCTAD groups of experts (both separately and as part of a wider review of development, trade, financial and monetary issues); and "examination of the possibility" of calling an international conference on monetary reform; and

(ii) consideration of new facilities for medium-term balance of payments support and compensation for shortfalls in earnings from individual commodity exports; changing the operations of the IMF and its management in favour of developing countries; and providing UNCTAD with a monitoring role over the affairs of the IMF and other international financial institutions.

The majority of the industrialised countries consider that there is no case for "fundamental reform" of the kind envisaged in the Arusha programme; and that UNCTAD would anyway be an inappropriate instrument for the activities suggested. The UK and Group B generally will need to be robust in defending the record of, and firm in avoiding commitments which would prejudice the competence and single jurisdiction of, the IMF in relation to international monetary matters and of the IBRD and regional development banks so far as their activities are concerned.

On the specific proposals for new facilities and the operations of the IMF, we shall aim to demonstrate that the Bretton Woods institutions have developed their facilities and methods of operation dynamically to respond to changing economic requirements and are continuing to do so to the extent that resources can be mobilised to meet needs which can be shown to exist. Substantial discussion can be expected of proposals (under two separate agenda items) for adaptation of the existing IMF facility, and study of a new scheme (probably to be set up under UNCTAD auspices) to compensate for shortfalls in developing countries' commodity export earnings. Any new scheme could be extremely expensive for public expenditure in the UK and other Group B countries. Most will wish to resist such studies, and instead secure that further study of such ideas is pursued in the context of the work already in train in the IMF and the IMF/IBRD Development Committee. Similarly, we should aim to secure that any further pursuit which proves necessary of ideas for improved official facilities for medium-term finance should take the form of continuing review by the IMF and IBRD of the adequacy of their facilities, perhaps also involving the Development Committee.

c. Institutional Issues

The Arusha Programme envisages a proliferation of intergovernmental groups within UNCTAD to consider the whole range of G77 demands on trade, aid, money and finance. The effect would be to extend the competence of UNCTAD at the expense of other international organisations like the GATT and the IMF, which the developing countries believe are insufficiently responsive to their demands (and in the management of which they want a larger say).

The conference will have to establish a work programme for UNCTAD in the early 1980s, and this will continue to involve UNCTAD in areas touching the interests of other international organisations. The important point (see a. and b. above) is to avoid commitment to work in UNCTAD which would entrench on the competence of the GATT or of the Bretton Woods institutions. Secondary objectives should be to avoid duplicating in UNCTAD work being carried out elsewhere: and to ensure that wherever possible, work is remitted to the existing UNCTAD machinery, not to new groups specially created for the purpose; that any increase in the UNCTAD budget (and in the size of the UNCTAD Secretariat) is kept within reasonable bounds; and that some attempt is made to establish priorities within whatever work programme is agreed.

ECDC

The G77 propose a substantial programme of UNCTAD work on "economic co-operation between developing countries," from which they envisage that the developed countries - who, through their contributions to the UN budget, will meet the lion's share of the cost - should be largely excluded. This would be inconsistent with the "universality" principle which is of some importance in all United Nations activities. Current indications are that Group B as a whole will stand firm on this principle, and as long as our main partners do so, so should we. But if at the end of the day a compromise has to be found, we could go along with a limited programme of exclusive (G77-only) meetings on ECDC, providing adequate arrangements are agreed for controlling the scale and cost of the work; and providing it is established that conclusions reached at exclusive meetings can in no way commit the membership of UNCTAD as a whole.

See above

d. Aid and Other Flows

The major issue on aid will be the collective failure of donors (with two or three exceptions) to move perceptibly towards the 0.7% GNP target, and the G77 proposals for (a) clearer and more binding commitments to significant increases in the short to medium term (to which all major donors are already pledged) and (b) movement towards more automatic systems for transferring concessional resources to developing countries.

It will be easier for Group B to argue against any need for the second if they can demonstrate progress on the first.

The chief spotlight will be turned on the biggest donors who are furthest behind - Germany, Japan and the US. The first two intend to announce specific decisions on planned increases at Manila, but US hands are tied fairly tight by Congressional difficulties. The UK can make some play with our indicative PESC techniques as a means of forward planning for aid: but there may well be pressure, before the end of the Conference, to confirm or otherwise previously-announced rates of planned expansion for the aid programme.

5. On a - c above, we can expect that most of the larger industrialised countries will share our own views. On three other issues - shipping, the international commodity exchanges and the transfer of technology - there may be difficulty because we have economic interests which are not shared (or are not shared to the same degree) by all the larger Group B countries.

TACTICS AND HANDLING

6. We should work within Group B, and in the European Community, for common positions along the lines indicated above. We should keep as close as possible to France, the United States and Germany. The French in particular (who will be occupying the Presidency of the Community) are likely on many issues to strike much the same balance between their political and economic interests as we do; and it will pay us to work as closely as we can with them.

7. On current plans, the UK will provide spokesmen for Group B as a whole on only two issues - East/South trade, and one aspect of the transfer of technology. So it should not be difficult to avoid over-exposing ourselves politically in negotiation with the G77. We should however continue to play our normal role in the working up of common positions inside Group B.

8. On issues within the exclusive competence of the European Community - notably trade in manufactures - the Community will be represented at the conference by the Commission speaking on the basis of a common

position agreed by the Nine in advance. On other issues we should work wherever possible for a common position presented by the Presidency, other Member States being free to intervene in amplificatio and support of the Community line. Where such common positions are not achievable, member states should be free to speak for themselves (taking care in their interventions not to make the eventual achievemen of a common position more difficult).

ANNEX A

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United Nations Conference on Trade and Development

FIFTH SESSION OF THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

PROVISIONAL AGENDA

At the 517th (closing) meeting of its tenth special session, the Trade and Development Board approved the following provisional agenda for the fifth session of the United Nations Conference on Trade and Development, to be held at Manila (Philippines) from 7 May to 1 June 1979, together with a number of decisions on the organizational aspects of the Conference (see annex).

1. Opening of the Conference

2. Election of the President

3. Constitution of sessional bodies

4. Election of Vice-Presidents and the Rapporteur

5. Credentials of representatives to the Conference:

   (a) Appointment of the Credentials Committee

   (b) Report of the Credentials Committee

6. Adoption of the agenda

7. General debate

8. Evaluation of the world trade and economic situation and consideration of issues, policies and appropriate measures to facilitate structural changes in the international economy, taking into account the interrelationships of problems in the areas of trade, development, money and finance with a view to attaining the establishment of a new international economic order and bearing in mind the further evolution that may be needed in the rules and principles governing international economic relations and UNCTAD's necessary contribution to a New International Development Strategy for the Third United Nations Development Decade

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9. Developments in international trade

(a) Protectionism: trends and short-term and long-term policies and actions needed to deal with the problems

(b) Multilateral trade negotiations: evaluation and further recommendations arising therefrom

10. Commodities

(a) Integrated Programme for Commodities

Review of implementation and follow-up action, including the on-going preparatory work and negotiations

(b) Other elements

11. Manufactures and semi-manufactures

(a) Comprehensive measures required to expand and diversify the export trade of developing countries in manufactures and semi-manufactures

(b) Principles and rules and other issues relating to restrictive business practices

(c) Review and evaluation of the generalized system of preferences

(d) Review of the implementation of Conference resolutions 96 (IV) 1/ and 97 (IV) 2/

12. Monetary and financial issues

(a) Consideration of requirements of the international monetary system which would foster world trade and development, compatible with the needs of a satisfactory international adjustment process, taking account of the adverse effects of fluctuating exchange rates and world inflation, and in particular, taking into account the development of developing countries and their needs for balance-of-payments support

(b) Measures to augment the net flow and improve the conditions of resource transfers from developed to developing countries

(i) Official bilateral and multilateral finance

(ii) Private capital flows

1/ Conference resolution 96 (IV): "A set of interrelated and mutually supporting measures for expansion and diversification of exports of manufactures and semi-manufactures of developing countries".

2/ Conference resolution 97 (IV): "Transnational corporations and expansion of trade in manufactures and semi-manufactures".

(c) Other financing issues related to trade

(d) (i) Review of implementation and further action that may be required pursuant to Trade and Development Board resolution 165 (S-IX), part A 3/

(ii) Detailed features for future operations relating to debt problems of interested developing countries (Trade and Development Board resolution 165 (S-IX), part B)

(e) Review of the present system of international financial co-operation in the context of world trade and development and consideration of ways and means within this context to make it more effective in contributing to the development of developing countries

13. Technology

(a) International code of conduct on the transfer of technology

(b) UNCTAD's contribution to economic, commercial and development aspects of the industrial property system in the context of its on-going revision

(c) Strengthening the technological capacity of the developing countries including accelerating their technological transformation

(d) Development aspects of the reverse transfer of technology

14. Shipping

(a) Developments pertaining to the Convention on a Code of Conduct for Liner Conferences

(b) Participation of developing countries in world shipping and the development of their merchant marines

15. Least developed among developing countries

Special measures in favour of the least developed among developing countries and further action aimed at improving their economic situation and accelerating their development

16. Land-locked and island developing countries

(a) Specific action related to the particular needs and problems of land-locked developing countries

(b) Specific action related to the particular needs and problems of island developing countries

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3/ Board resolution 165 (S-IX): "Debt and development problems of developing countries".

17. Trade relations among countries having different economic and social systems and all trade flows resulting therefrom

Appropriate bilateral and multilateral action to expand and diversify further the trade flows among these countries and, in particular, measures which would contribute to the development of developing countries

18. Economic co-operation among developing countries

(a) Consideration of UNCTAD's work programme on measures for strengthening economic co-operation among developing countries

(b) Recommendations for improved institutional arrangements to promote and strengthen economic co-operation among developing countries

(c) Measures of support for closer economic co-operation among developing countries

19. Institutional issues

Consideration of measures to enable UNCTAD to carry out its role more effectively, including the rationalization and restructuring of its permanent machinery

20. Other business

21. Adoption of the report of the Conference to the General Assembly

ANNEX

1. The Trade and Development Board examined the alternatives relating to the organization of the work of the Conference and there was consensus that the Bureau should be constituted of 35 members, in accordance with the provisions of article 22 of the rules of procedure of the Conference, with the following regional distribution:

President	(Asian Group)	1
Vice-Presidents:		
African Group		7
Asian Group		6
Latin American Group		7
Group B		8
Group D		4
China		1
Rapporteur	(Group B)	1

2. The Board recommended to the Conference the establishment of eight Negotiating Groups each chaired by a Chairman and a Vice-Chairman.

3. The Chairmen and Vice-Chairmen of the Negotiating Groups, as well as the regional group co-ordinators, would be associated with the work of the Bureau, and together with the President of the Conference and the Rapporteur, would fill the main offices of the Conference.

4. The posts of Chairman and Vice-Chairman of the Negotiating Groups would be distributed as follows:

	Chairman	Vice-Chairman
Negotiating Group I	77	B
Negotiating Group II	B	77
Negotiating Group III	B	77
Negotiating Group IV	77	B
Negotiating Group V	77	D
Negotiating Group VI	77	D
Negotiating Group VII	D	77
Negotiating Group VIII	77	B

5. The items of the provisional agenda for the Conference assigned to each of the Negotiating Groups would be:

Negotiating Group I	Items 8 and 19
Negotiating Group II	Items 9 and 11
Negotiating Group III	Item 10
Negotiating Group IV	Item 12
Negotiating Group V	Items 13 and 14
Negotiating Group VI	Items 15 and 16
Negotiating Group VII	Item 17
Negotiating Group VIII	Item 18

6. The Board requests the Secretary-General of UNCTAD to take the necessary steps to ensure that:

(a) No more than four simultaneous meetings of the Negotiating Groups are held when the Plenary is in session, and no more than five such meetings are held when the Plenary is not in session;

(b) Negotiating Groups VI and VIII do not meet simultaneously.

7. The first 12 meetings of Negotiating Group V will be devoted to item 13 of the provisional agenda, those meetings to be presided over by the Chairman of the Group; the subsequent 12 meetings will be reserved for item 14, meeting, under the chairmanship of the Vice-Chairman of the Group.

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