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Malaysia

Qz.02494

PRIME MINISTER

Sixth International Tin Agreement

OD: 11 March

1. Tomorrow's OD meeting, which has been convened to decide whether or not the UK should join the Sixth International Tin Agreement (ITA), will have the following papers before it:-

- A Note by the Secretaries (OD(82) 10) covering copies of the Ministerial correspondence exchanged last year and this; plus a letter from the Governor of the Bank of England circulated after this Note was collated;
- A Memorandum by the Secretary of State for Industry (OD(82) 9) covering a Note by Officials setting out the issues;
- A Memorandum by the Foreign and Commonwealth Secretary (OD(82) 11).

2. A decision is needed in time for the 22/23 March Foreign Affairs Council, at which a Commission proposal that the Community should accede to the Sixth ITA before the 30 April 1982 closing date for signature will be discussed. All other member states except Germany, which has yet to take a final decision, are expected to be in favour.

3. If the Germans side with the majority, the Committee's decision will not affect the UK alone but is in practice also likely to determine whether or not the Community and our partners can join. This is because the Agreement chiefly



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falls within Community competence, so that if one member state stays out it is doubtful whether either the Community or any individual member state could participate.

4. The United States has decided not to join the Sixth ITA. Without the Americans and others who have not taken a position yet, accession by the Community and its member states would not suffice to bring the Agreement into effect, since the number of consumer countries would still fall short of the minimum necessary to apply it even provisionally. The Agreement provides that, if the required percentages of acceding producer and consumer countries are not reached by 1 June 1982, those who have signed may decide at a special conference whether to bring the Agreement into force in whole or in part among themselves.

5. The Note by Officials attached to OD(82) 9 identifies three options for the Committee's consideration:-

- (i) To join and support Community accession;
- (ii) Not to join and to oppose Community membership, seeking support from our partners for this course but being ready to stand out alone if necessary;
- (iii) To seek the renegotiation of the Agreement (essentially to make it sufficiently attractive to induce the Americans to join).

6. Ministers differ sharply as between (i) and (ii); (iii) was earlier advocated by the Secretary of State for Trade but may not now be viewed as a realistic runner in either camp. A possible variant of (ii) would be to make a UK refusal to join conditional on the German position ie on our not being isolated.

7. As OD(82) 9 makes clear, the Secretary of State for Industry (whose Department has the lead on this subject) recommends against joining. He will be supported by the Chancellor of



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the Exchequer. The Governor of the Bank of England is also sceptical of the merits of joining. Mr Jenkins' main arguments are:-

- (i) Without the US, the Sixth ITA will operate to the disadvantage of consumers by raising intervention prices and introducing export controls;
- (ii) Malaysia's recent manipulation of the tin market and her proposal for a Tin Producers Association show that she is not prepared to play by the rules of the normal commodity agreement game, ie to work towards stabilising the price of tin and achieving a balance between supply and demand. A tin cartel might operate more effectively inside than outside the Sixth Agreement.
- (iii) Most domestic tin consumers see no advantage in the UK joining.
- (iv) The political and trade case for joining is outweighed by the risk that in making this concession to the Malaysians we may encourage them to further threats in future. Any protest from the producers at our refusal to join would be short-lived and containable.
- (v) We need not worry about being isolated in the Community. The Germans share our reservations, and the French and Belgians have so far prevented the Community acceding to the International Sugar Agreement.
- (vi) There is no provision in the Department of Industry's budget for the total of some £15 million that the UK would have to provide or guarantee under the Sixth Agreement.



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8. In OD(82) 11 the Foreign and Commonwealth Secretary makes the case for joining the Agreement. He is likely to be supported, especially on the trade issues, by the Secretary of State for Trade. Lord Carrington argues that:-

- (i) If the UK refuses (alone) to join, we shall prevent the Community from joining. This in turn will cause the Agreement itself to collapse, for which the UK will be blamed by our Community partners, the tin producers, and other countries who want commodity agreements to succeed in the UNCTAD context.
- (ii) There would be strong and sustained adverse reactions from Malaysia, Indonesia and Thailand, who may be led to form a cartel and to retaliate against United Kingdom exporters and investors. Lord Carrington is particularly concerned about the effects of a negative decision on the Malaysian Prime Minister, Dr Mahathir, whom he has been trying to wean away from his strongly anti-British stance.
- (iii) As the recent fall in prices shows, Malaysian operations on the tin market cannot keep the price up indefinitely against the trend of demand.
- (iv) The consumers need not be constantly overborne within the Sixth ITA if the UK encourages the Community and other participating countries to resist unreasonable increases in intervention prices.
- (v) Renegotiation is not a real option.
- (vi) The Germans will in the end probably decide to join.

/HANDLING



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HANDLING

9. You might invite the Secretary of State for Industry and the Foreign and Commonwealth Secretary to introduce their papers in turn. You might also wish the Chancellor of the Exchequer and the Secretary of State for Trade to state their general views at this stage.

10. You might then focus discussion on the following issues (the reference in brackets is to the appropriate paragraphs of the Note by Officials attached to OD(82) 9):-

- (i) what implications do recent events on the London Metal Exchange have for the decision whether or not the UK should join the Sixth ITA? (paragraphs 6-8)
- (ii) Would the United Kingdom be better able to influence the price of tin inside the next Tin Agreement or outside it? (paragraphs 11 and 12)
- (iii) Would we have more or less to fear from a producer's cartel if there were no Sixth ITA? (paragraphs 13-15)
- (iv) What would be the likely effect of a decision not to join on the United Kingdom's trade and political relations with:-
 - the ASEAN countries? (paragraphs 16-18)
 - the rest of the Community, especially if we stayed out in isolation? (paragraphs 19 and 20)
 - the developing world? (paragraphs 21-23)
- (v) Is renegotiation a realistic option? (paragraphs 24-26)

/CONCLUSIONS

See Int. Opener



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CONCLUSIONS

10. Subject to the discussion you may be able to conclude that:-

- (i) The United Kingdom should not join the Sixth Tin Agreement if the Germans also decide not to do so; an urgent approach should be made to the Germans with a view to persuading them to stand out with the United Kingdom against joining and against Community accession.
- (ii) If the Germans decide to join, the United Kingdom should not hold out in isolation; but in that event we should be prepared if necessary to exercise our right of veto to influence the Community's line within the International Tin Council.
- (iii) If the United Kingdom joins, the public expenditure implications should be discussed between the Department of Industry and the Treasury.
- (iv) If the United Kingdom joins, the technical point to which the Governor draws attention in the penultimate paragraph of his letter of 5 March should be considered by officials.

D.H.

D J S HANCOCK

10 March 1982