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md

PRIME MINISTER

RENEGOTIATION OF THE INTERNATIONAL NATURAL RUBBER AGREEMENT

Negotiations start on Monday for a renegotiation of the International Rubber Agreement. Mr. Channon has proposed a negotiating position which he regards as a tough one, and taking account of the tin debacle. The Chief Secretary proposes some further toughening, but is prepared to go along with the renegotiation.

I wonder even so whether they are taking a tough enough position. Everybody agrees that the rubber agreement offers little or nothing to the UK in economic terms and I understand that there are divided views about it even in the Foreign Office. (There is Community competence on this).

It seems very odd to be entering negotiations about a commodity agreement just when we have been through such difficulties over tin. All the other countries concerned would surely understand if we were to say that we would have nothing to do with a renegotiation of the Rubber Agreement.

There is no time for a thorough discussion of all this and decisions cannot wait until after you return from Tokyo. But agree: Yes md

i) to say that you have very serious doubts about the proposal that we should join in a renegotiation of the Rubber Agreement;

ii) it may well be better to refuse from the outset to join in the discussions. You would like this option to be seriously considered by DTI, FCO and Treasury;

iii) but recognising that this has to be sorted out before you return from Tokyo you would reluctantly be prepared if necessary to go along with Mr. Channon's proposals as modified by the Chief Secretary?

Very reluctantly indeed. md

Duty Clerk

pp David Norgrove

30 April 1986

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pp or [illegible]

MR NORGROVE 29 April 1986

INTERNATIONAL NATURAL RUBBER AGREEMENT

Rubber differs from Tin in that 93% of producers by value are parties to the agreement, and the buffer stock manager can only deal in spot contracts - not in futures. Although some rubber is traded in London, Singapore (which is not party to the agreement) is the largest trading centre. To date the agreement has cost the UK £5.75m, and the maximum liability is only for a further £2.25m. DTI Solicitors state that other contingent liabilities are 'academic in the extreme'.

Since October 1980 (near the start of the world recession) the agreement has produced some price stability at the cost of accumulating roughly one month's buffer stock of rubber. Although the intervention price has been reduced by 4%, the buffer stock manager has never actually sold any of this stock. Recently planted trees reaching maturity will increase rubber supplies perhaps at a faster rate than the increase in demand for rubber. Clearly the intervention price should be further reduced but the major producers, particularly Malaysia, want an increase.

As well as the Exchequer cost, the Rubber Agreement probably costs British industry more in slightly higher prices than it saves through reduced price fluctuation. The arguments for continued membership are therefore only political. Assuming these to be adequate then we would recommend continuation provided:

a. the sensible additional safeguards listed in paragaph 11 of the DTI note are met in full and

b. at least 90% (currently 93%) of the rubber producers by value remain a party to the agreement.

Peter Warry

PETER WARRY

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file

BM

bc BG

10 DOWNING STREET

From the Private Secretary

1 May 1986

RENEGOTIATION OF THE INTERNATIONAL NATURAL RUBBER AGREEMENT

The Prime Minister has seen your Secretary of State's letter of 25 April to the Foreign Secretary and the Chief Secretary's letter of 29 April about the renegotiation of the International Natural Rubber Agreement. This subject was also discussed briefly by the Prime Minister, the Chancellor of the Exchequer and the Foreign Secretary at a meeting on another subject this morning (at which Mr. Lane, Head of ITP Division in the Department of Trade and Industry, was also present).

The Prime Minister was most surprised that we are about to enter a renegotiation of a commodity agreement after all the trouble over the tin agreement, and she has very serious doubts about it. There seems to be little or no economic benefit to the United Kingdom from such an agreement and the view of industry and trade is reported to be that we could manage without it. The Prime Minister believes the UK should not continue to be a party to the agreement. The Chancellor and the Foreign Secretary this morning agreed with this basic position.

In discussion it was suggested that the conditions which had been proposed for inclusion in the EC negotiating brief were unlikely to be acceptable to other parties to the agreement and that, provided the Community continued to adhere to them, the agreement would probably collapse. The Prime Minister noted this view, but was not convinced that it offered a satisfactory way forward. She has asked that the position of the United Kingdom on renegotiation should be reserved until Ministers have had an opportunity to consider the proposed negotiating line collectively.

I should be grateful if the Department of Trade and Industry could now prepare urgently a paper, in consultation with the other interested departments, for consideration by Ministers at the earliest opportunity. This may be towards the end of next week or early in the following week. The main question for consideration will be how best to secure the withdrawal of the United Kingdom from the agreement, bearing in mind among other things existing legal obligations and the size of the outstanding buffer stock.

EA

I am copying this letter to Rachel Lomax (HM Treasury), Robert Culshaw (Foreign and Commonwealth Office), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and Sir Robert Armstrong.

(DAVID NORGROVE)

John Mogg, Esq.,
Department of Trade and Industry.

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CCPC

Prime Minister!

There seems to be general, reluctant, agreement that we cannot pull out of these negotiations. (There is Community competence.) It will be difficult to question this in your absence: the negotiations start on May 5. Do agree to support the Chief Secretary?

30/4.

Treasury Chambers, Parliament Street, SW1P 3AG

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

29 April 1986

Dear Paul,

RENEGOTIATION OF THE

INTERNATIONAL NATURAL RUBBER AGREEMENT (INRA)

/ with DN or in PM Box?

I have seen your letter of 25 April to Geoffrey Howe setting out your proposals for these negotiations. It is clearly right to scrutinise the line closely given recent experience with tin. We must be very clear just what the advantages are to the UK in entering agreements of this kind and - where an advantage can be demonstrated - whether the agreement is drawn in a way which avoids contingent liabilities. I am bound to say that I do not find the paper attached to your letter convincing on either count.

Under the current agreement natural rubber costs appear to have been higher than they otherwise would have been. No sales from the buffer stock have been made to influence prices downwards over the entire life of the agreement. The price regime is clearly inadequate, and, given weak oil prices and large scale planting of rubber now maturing, could become more so. Unless the new negotiations can set this right I am very doubtful about whether it would be in the UK's economic interest to go ahead. You confirm that UK trade and industry set no special store by a new agreement. It cannot be in our interest as a consumer to support a falling price level. Whatever the political advantages in going ahead, we should obviously not accept an agreement which was economically detrimental.

On the question of contingent liabilities, I note your commitment to a thorough legal examination of the terms of any agreement in advance of its acceptance. Our objective must be to write contingent liabilities out. If they cannot be, they will need to be subject to a limit and, as necessary, reported to Parliament.

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Turning to the detail of the mandate, we should insist that a set of inter-connected conditions be met to minimise the dangers of an agreement such as the one proposed. These conditions are well defined in paragraph 11. But they must be regarded collectively as the "bottom line". Thus, though I welcome your determination to secure the individual elements among these conditions e.g. removal of the references to borrowing, I believe all the conditions must be met if the new agreement is to be a viable prospect. The buffer stock must be limited to its current level. Most important, the intervention provisions must be thoroughly reformed so that they more quickly reflect the underlying trend of prices. Otherwise, continuing on its present course, the agreement will rapidly run up against its own buffer stock limits. We should then face political pressure to adopt expedients to keep the agreement going, which might be found difficult to resist. Tin again points out the danger.

As you suggest, the negotiators may need to exert considerable pressure on EC partners if this is to be achieved. If it cannot be, then I believe we should take all steps at our disposal to prevent the agreement going ahead. I am glad to note that the negotiators will be keeping us informed of progress. You will no doubt want to consult further with colleagues if a concession appears to be necessary to secure an agreement which you regard as acceptable.

I should say that I approach the proposed agreement, even on the conditions set out above, without enthusiasm. General support for such arrangements has evaporated in recent years, only partly on the basis of experience with tin. The emphasis in international economic policy is now towards the benefits of structural adjustment which would reduce dependence on primary commodities. I therefore attach considerable importance to an early opportunity to discuss our general approach to commodity policy, well in advance of the run up to UNCTAD VII. I hope the paper which officials are working on will be available soon.

Yours ever,

JM

JOHN MacGREGOR

30.IV. PM 6 ...

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CCBG

Treasury Chambers, Parliament Street, SW1P 3AG

John Mogg Esq
Private Secretary to the
Secretary of State
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1

/ May 1986

Dear John,

RUBBER

You will by now have seen the Chief Secretary's letter responding to your Secretary of State's letter to Sir Geoffrey Howe of 25 April about initial steps into forthcoming negotiations.

Looking further ahead, the Chief Secretary believes we also need to know what scope exists within the European Treaty for the UK to stand on the side-lines if sufficient of our EC partners decide they wish to participate in a new agreement despite the UK's arguments.

I understand that views on the competence position have already been exchanged between departmental lawyers. However, the Chief Secretary believes it is essential to have an authoritative and definitive opinion which can be applied in the case of rubber. He has suggested, therefore, that your Secretary of State should consult the Law Officers urgently. Ministers would then be able to appraise the options fully if our partners insist on elements which it is agreed would be unsatisfactory in any commodity agreement acceptable to the UK.

A copy of this letter goes to David Norgrove (No. 10) to Colin Budd (FCO), to Ivor Llewellyn (MAFF) and Michael Stark (Cabinet Office).

Yours ever,

Jill Rutter

JILL RUTTER
Private Secretary

TRADE, Movements in Volume of Trade by Commodity Pt 2