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PRIME MINISTER

THE INTERNATIONAL NATURAL RUBBER AGREEMENT

CONCLUSIONS

You will wish the meeting to decide how best to aim to end UK involvement in International Natural Rubber Agreement (INRA). The possible approaches are

a. withdrawal from the present INRA;

b. unilateral withdrawal from the renewal negotiations;

c. securing the agreement of Comnmunity partners to cancel existing EC mandate for the negotiations; or

d. stiffening the EC mandate so that it becomes unacceptable to producing countries.

BACKGROUND

2. It is most unfortunate that Ministers now have to consider INRA without having had the chance to discuss the general approach to Commodity policy on which the Interdepartmental Committee on Commodity Policy (ICCP) has been working for some time and on which the Department of Trade and Industry have promised a paper. The need to decide on the UK line towards INRA is dictated by the second Session of the Conference to renegotiate INRA, which began in Geneva on 5 May. The present meeting follows a preliminary discussion which you had with some of the Ministers concerned on 1 May. We are not conscious of any immediate problems with other Agreements (leaving aside Tin), but they should all be reviewed when the long overdue DTI paper - which we have several times asked should be accelerated - is ready.

Economic impact and financial risks

3. The essential facts about the INRA are set out in Annex B to the paper prepared by officials. There are clearly defined limits on the size of the buffer stock. The buffer stock Manager cannot borrow without the agreement of the Council, and is expressly precluded from dealing in the futures market; there is thus no question of massive contingent liabilities arising as in the recent case of tin. The buffer stock is financed by cash contributions from the member countries; so far the UK has subscribed £53/4 million, which represents our 21/2 per cent share of the costs of purchasing the present buffer stock of 360,000 tonnes. The absolute maximum size of the buffer stock is 550,000 tonnes, and the UK share of the cost of the 190,000 tonnes maximum potential increase would be about £2 million.

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4. The buffer stock purchases in recent years will have held natural rubber prices a little above what they would otherwise have been, to the disadvantage of UK consumers. To the extent that the existence of the Agreement may have contributed to stability of trade and so security of supply, there could be said to be some offsetting benefits for UK consumers. The remaining potential buffer stock purchases clearly would not be sufficient to have any major impact in resisting a fall in price, if there were to be a significant change in the balance between supply and demand. Overall the INRA seems to have little importance in the world economy, and the potential further UK exposure is correspondingly modest.

5. If there were to be no new Agreement, this country would receive its proportionate share of the buffer stock, which would then be sold in the market. Since there would then be some overhang of supply over demand, prices would no doubt be lower, so that we should not get back the total £53/4 million contribution. If we were able to withdraw from the Agreement, which nonetheless

continued, we could in principle expect to recover a somewhat higher proportion of our contribution.

EC Constraints

6. In practice UK freedom of manoeuvre is narrowly constrained by EC obligations. It is established that the Commission negotiates commodity agreements on behalf of member countries under a mandate approved by the Council. The best legal advice is that an attempt by the UK to withdraw unilaterally from the present Agreement, or from the negotiations for a new Agreement, would be unsuccessful and damaging; the Commission would take their case to the European Court, whose decision would not only rule against us in the specific case of the rubber agreement but could also result in an extension of Community competence into new areas related to commodity trade which would be against UK interests. Unless this legal problem can be overcome, only two approaches appear to be open to us:

a. press for annulment of the European Community mandate in the present negotiations. This would mean convincing the rest of the Council to overturn the decision of April 1985 establishing the present mandate;

b. seek to stiffen the Community position within the existing mandate.

7. While we could argue that the recent experience with the tin agreement requires an overall reappraisal of the Community approach to commodity agreements, it is doubtful whether the majority of other member states would readily agree to withdraw from the negotiations for a new Rubber Agreement. France, Italy and the Netherlands might well dislike the implications this would have for their general stance towards developing countries, and there could be particular political difficulties for this country with Malaysia if we were seen to be the prime movers in a Community withdrawal from the negotiations. At the least we

should have to invest significant political credit in persuading other member countries to change their positions.

8. The Trade and Industry Secretary's recommendation is accordingly that we should seek to stiffen the Community position within the existing mandate, and hope that this leads to the breakdown of the negotiations. As Annex A to the officials' paper makes clear, there are some useful further elements which could be introduced into the negotiations - removing any provision for 'borrowing' even with the agreement of the INRA Council, making changes in the reference price more frequent and more automatic, and lowering the price range in the Agreement. It seems likely to be much easier to carry our Community partners with us in pressing for changes on these lines than it would be to persuade them to withdraw altogether from the negotiations. The advantage of the Agreement to the producers is limited, and it appears that some of them already have doubts whether renewal is worth the trouble; if they were to accept very tough Community conditions, the UK's position would be even better protected than it already is, but if they rejected them, then so much the better. It is note-worthy that exactly this tactic - stiffening the Community position within an agreed madate - led to the recent breakdown of the negotiations for a third International Cocoa Agreement.

HANDLING

9. You will wish to invite the Secretary of State for Trade and Industry to introduce his paper and present the options. The Foreign and Commonwealth Secretary and the Chancellor of the Exchequer will wish to speak on the political and financial aspects of the issue. The Attorney General will need to advise on the legal position, and particularly on the Community constraints and risks.

J B Unwin
Cabinet Office
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