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PRIME MINISTER

UK COMMODITY POLICY

I am now able to send you the results of the review of UK commodity policy. This was undertaken in the light of the tin crisis, and it deals particularly with commodity agreements aimed at stabilising prices. But it also covers other important aspects of commodity policy like the UNCTAD Common Fund and compensatory finance.

2 Part I summarises the report and its conclusions. The most important recommendation is that we should change our traditional willingness to go along with intervention in markets as a means of helping developing countries. We must ensure that the lessons of the failure of the tin agreement are fully taken into account in commodity negotiations. I recommend that we should adopt this new approach.

3 It will be important, however, that this is done in such a way as not to endanger our wider trading interests, especially our exporting interests in such commodity-producing countries as Malaysia and Indonesia. Other developed countries, including a number in the Community, will be only too happy to exploit to their commercial advantage any over-exposure on our part on this issue. We will need to be subtle in our approach, to achieve our aims without getting into unnecessary difficulties.

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4 The paper brings out that for all practical purposes we have to carry the Community with us. This is both an advantage and a disadvantage. It means that to some extent we can shelter behind a Community position rather than expose ourselves to criticism, and possible retaliation, from commodity-producing countries. We shall need to work hard to convince the other Community countries to go along with our line. This will be difficult. It will also take time. Nonetheless, as we agreed on rubber, we must make every effort to bring Member States and other western countries to accept our approach.

5 I am copying this letter and the enclosure to members of E(A), the Foreign Secretary, the Attorney General, the Governor of the Bank of England and Sir Robert Armstrong.

PC

PAUL CHANNON
30 June 1986

DEPARTMENT OF TRADE AND INDUSTRY

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From the Private Secretary

8 September 1986

UK COMMODITY POLICY

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

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

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

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

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

VC

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

(DAVID NORGROVE)

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