PU comments on the review by the week-end please.

FCS/86/176

SECRETARY OF STATE FOR TRADE AND INDUSTRY

Interdepartmental Review of Commodity Policy

FILE WITH DRN

1. Thank you for sending me a copy of the very thorough report attached to your minute of 30 June to the Prime Minister.

2. Most consuming countries, and even some producers, would agree that the Integrated Programme for Commodities has failed to achieve its objective in the 10 years since it was adopted. I therefore agree that we should adopt a new, deregulatory, approach as advocated in paragraph 1.15.

3. But deregulation is not a panacea. It also contains risks: as you say, we need to safeguard our wider trading interests, and to carry our Community partners with us. Presentation is also important, especially at a time when commodity prices are so low (copper and lead prices relative to manufacturing prices are said to be lower than in 1930), with little prospect of early improvement.

/4.

4. The developing countries face a serious problem. Low commodity prices retard their economic progress. This diminishes their ability to buy essential imports and to service their substantial debts. In both cases, we in Britain stand to lose. Structural adjustment and diversification of economies are the classic response, and an increasing number of countries are reaching agreement with the IMF. But the benefits of adjustment are neither instant nor even; not all countries are able to diversify; and even when diversification has been achieved, many developing countries' manufactured products meet tariff barriers and other constraints on market access.

5. In arguing for deregulation, therefore, we run the risk of not being able to deliver what we advocate. We can deploy the argument that the UK favours liberalisation of the MFA and has been vigorously advocating the new GATT round as a means of securing tariff reductions and progressive removal of other restrictions. But not all our EC partners (France, for example) support our position. It will in any case be three or four years before the GATT negotiations result in any agreement. In the meanwhile our credibility in the eyes of Commonwealth primary producers will be at stake in negotiations on individual commodity agreements.

6. I therefore advise against undue public emphasis on the outcome of our review: this would complicate our EC Presidency role and stiffen the resistance of others. We must continue to put forward our economic arguments, but in private, not public.

/7.

7. Opposition to existing arrangements will be more acceptable if it can be coupled with positive action to assist primary producers in the short term. Study groups and commodity agreements without market intervention provisions are good examples: they help to improve the transparency of market operations and thereby to reinforce deregulation, and the costs of participation are usually low. I believe that we should favour such agreements provided that the fine print is satisfactory.

8. There will be pressure from other governments (in particular those within the Community) for us to join in giving assistance, in accordance with our public commitment to contribute to the Second Account of the Common Fund, to research and development, market promotion, processing and distribution. This would at least have the virtue of being sensitive to the views of the primary producers, and be consistent with our own market-oriented approach.

9. The developed countries will want to make much of structural adjustment at UNCTAD VII, as they did at the recent UNGA Special Session on Africa. This means that domestic policy reform in developing countries will assume a higher profile. But such reforms need to be encouraged by domestic reforms in developed countries too (including adequate resource flows and liberalisation in GATT). We acknowledged this at the UNGA Special Session on Africa, and committed ourselves "to making every effort to provide sufficient resources to support and supplement the African development effort".

/10

10. To sum up: I am sure that the right approach for us is to devise a positive set of policies based on sound economic argument, persuade our Community partners to adopt them, and with them seek to influence the developing countries. Meanwhile UK representatives at international meetings, especially during our Presidency, should not hold out unreasonably against consensus language similar to that which we joined at, for example, the UNGA Special Session on Africa. To do so would detract from our longer term effort to promote deregulation.

11. I am sending copies of this minute to the Prime Minister, the Attorney-General, members of E(A), the Governor of the Bank of England and Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

3 July 1986

TRADE

TIN

PT 3

cc B/G
& return
please

CABINET OFFICE

B/F with the report on
the day I asked for

With the compliments of that please

J. B. UNWIN

70 Whitehall, London SW1A 2AS
Telephone 01 233

66/7

Mr Wiggins

c. Mr Nagrove
No 10.

CC

CONFIDENTIAL

Qz.05172

This confirms our view that the Chairman's proposals are broadly acceptable & that there is no cause for the Prime Minister to be advised to intervene against them

~~MR UNWIN~~

UNITED KINGDOM: COMMODITY POLICY

7/vii

The Secretary of State for Trade and Industry has now sent forward to the Prime Minister the report of the interdepartmental policy committee which has reviewed United Kingdom commodity policy. I consider that the policy proposal in this document - with the gloss given by the Foreign and Commonwealth Secretary in his minute of 3 July - is feasible within the Community. It would be realistic, however, to recognise that a harsher line on commodity agreements, particularly those with market intervention mechanisms, is likely to increase pressures for wider application of compensatory finance arrangements. This point is recognised in paragraph 8.8 but is not fully reflected in the conclusion at paragraph 1.13. I do not think that this is simply a question of the line which we might take in UNCTAD. The most likely development is that we could cut back support among member states for interventionist commodity agreements but are less likely to simultaneously get unanimous support within the Community for a very restrictive line on compensatory finance.

From the point of view of the Community's agricultural and import policy the new deregulatory approach will put a certain spotlight on any import restrictions. It is worth keeping in mind, however, that the Community is by far the largest importer of agricultural products from developing countries and a very large percentage of those imports enter free of any duty or levy. Of the 18 products in the UNCTAD integrated programme for commodities only 2 agricultural products are subject to import restrictions for protectionist reasons and of these one, sugar, is subject to a special regime providing access for a considerable quantity of cane sugar from developing countries.

D F Williamson

D F WILLIAMSON

7 July 1986