FCS/86/192

SECRETARY OF STATE FOR TRADE & INDUSTRY

Interdepartmental Review of Commodity Policy

1. at that John MacGregor sent me a copy of his letter of 9 July to you. I have also seen Michael Jopling's letter of 4 July on the same subject. It seems that we are all agreed on the report's main conclusions. But in the light of John's remarks, I should repeat that I agree with the new deregulatory approach that the report proposed. There is no difference between us on commodity agreements with market intervention provisions. We should certainly make our partners face the discrepancy between their performance during the tin crisis and their tendency to go soft on present and future commodity agreements. We shall accordingly work with you to convince our EC and other consumer partners of the merit of our approach; to avoid taking part in new agreements of this type (there are none in sight); and to resist the renewal of existing agreements unless they meet our strict criteria, even if this leads to some negotiations on renewal breaking down.

2. But I must take international realities into account. In my judgement, they affect both the substance of our new policies and the way in which we elect to present these. On substance I remain convinced that, to quote paragraph 1.15 (ii) of the report, "a deregulatory approach ... could also mean that we might need to put forward constructive proposals to meet developing countries' legitimate concerns". Paragraphs 3.7-3.10 and 9.8 are also relevant; the latter notes that officials now

/need

need to work up detailed proposals on both the substance and presentation of commodity issues. I agree. The resolution adopted at the UN Special Session on Africa also had much to say on the need for international support of Africa's development efforts and adjustment programmes. But world commodity prices are low and a sharp upward movement in them is unlikely: this affects not only UK exports but developing countries' ability to repay their debts to UK and other creditors. We therefore need to work up supportive policies for the developing countries around such general themes as structural adjustment and diversification; help for research and development, marketing, processing and distribution; and transparency of marketing operations. We should start clearing our minds about any measures and how they might be financed. IFIs and bilateral aid programmes are of course already active in many of these fields and we can seek to claim credit for what we and others are already doing.

3. John says that participation in study groups carries the risk of being drawn inexorably into further commodity arrangements, and in his letter of 9 July to you on tin, which I have just seen, refers to recent experiences with jute and bananas. Of course some producers would like more fully-fledged agreements. But I detect no sign whatsoever, in the current climate, that consumer countries are prepared to go down this road. We are in good company here: our partners may hesitate to follow us in being ready to sacrifice existing commodity agreements but they are not about to enter into new ones. I remain convinced that study groups can further market transparency and the deregulatory approach we all favour, and I am content with the recommendation in the report that we consider study groups on a case-by-case basis.

/4.

4. We have corresponded already about the very special case of a possible tin study group. I note that you and John are convinced that a study group would be of little value to the UK. I therefore agree that, given the attitude of others to the ITC's default, we should absent ourselves from any new tin group.

5. We now need to send instructions to our posts on our approach to commodity policy and to consider how far we can take advantage of our EC Presidency to steer Community thinking in the right direction. I am as ready as John to lobby our Community and other consumer partners. But I remain of the view that private pressure will be more effective than public statements; and that as Presidency we shall achieve more by persuasion than by confrontation. To take only the French, I see no point in allowing them to contest our new approach in public and to pose as the friends of the Third World in the run-up to UNCTAD. We shall achieve more by using our allies in the Finance Ministry and elsewhere to expose the hypocrisy of arguing for generous commodity agreements after what happened over tin.

6. As I see no fundamental difference between us on the issues the paper has raised, I suggest that there is no need for a meeting on this subject.

/7.

7. I am copying 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

15 July 1986

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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

NBPM.

28 July 1986

Dear Paul,

UK COMMODITY POLICY

I have seen the Foreign Secretary's minute of 15 July in which he suggests that a meeting to discuss the basic approach to commodity policy is unnecessary since we are at one.

I very much welcome the clear statement in his latest minute of his support for the deregulatory approach and his agreement that we should start now on the process of influencing our Community and other consumer partners towards the same approach. In the light of that I agree that an early meeting is unnecessary. However, given that the handling may be tricky, I hope officials can now press ahead with preparing for future international meetings, in particular UNCTAD, to reach conclusions on instructions etc in good time to allow any differences to be referred to Ministers.

I note that officials will need to consider the possibility of putting forward "constructive proposals to meet developing countries' legitimate concerns." As you say a number of programmes and facilities are already in existence which can help developing countries cope with the effects of low commodity prices. In looking to see whether more needs to be done, officials will also need to examine whether any such proposals would represent a good use of available aid resources.

I am copying this letter to the Prime Minister, Geoffrey Howe, members of E(A), Michael Havers, Robin Leigh-Pemberton and to Sir Robert Armstrong.

Yours ever,

JL

JOHN MacGREGOR

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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Secretary of State
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1E 6RB

NBPM at this stage

9 July 1986

Dear Paul,

UK COMMODITY POLICY

You sent me a copy of your minute dated 30 June to the Prime Minister on commodity policy, together with the interdepartmental review report. I have also seen Geoffrey Howe's minute of 3 July. The exercise has provided a welcome opportunity to work out the implications of the tin crisis for future policy towards commodity agreements, and to consider commodity policy against current developments in international economic relations, in particular relations with developing countries.

I very much share your conclusion that a change is now needed, and that the balance of UK interest lies in letting markets operate as opposed to intervention. I therefore fully endorse the conclusions in paragraphs 1.7 - 1.13 of the review, which are consistent with the line we are taking on other international economic issues e.g. international debt, and take account of experience over tin and more broadly. Commodity agreements represent an outdated response to the problems of world development. We have moved on into a period which demands positive adjustment by the ldcs themselves, which is inherent in the Baker Plan. We also need to be alive to the risk of incurring contingent liabilities about which the Prime Minister has recently reminded us. The guidance in Annex F to the report will serve as a valid reminder of what this entails.

On handling, I think the report is right in endorsing the deregulatory approach; the "lip-service" alternative would not only be dishonest, but would hamper any attempt to persuade others to adopt the course we think right. We should not - I suggest - play this down too far. Commodity policy in future must be judged by whether it is deregulatory in purpose and

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effect, or not. And we should be prepared to say so publicly on occasion. I do not deny that tactical considerations may sometimes entail a cautious approach. But I am concerned at the tone of Geoffrey Howe's letter, which implies that we should modify our basic position in international negotiations. It seems to me that this runs the risk of being drawn inexorably into further commodity agreements - for example through participation in study groups - despite the recommendations of the review. It was precisely this wish to speak softly to the other countries, and to avoid giving offence, which got us into such a mess on tin. If others were to suggest using the contribution to the Second Window pledged from ODA funds in the way Geoffrey suggests we would obviously need to consider this bearing in mind all the pressures on the Aid Programme.

Handling issues will come up in the cocoa renegotiations later this month and rubber renegotiations in October. Although the competence of the Commission may constrain what we are prepared to do unilaterally, this makes it all the more important to sell our approach effectively to EC partners. (It may also be appropriate to consider whether the EC presidency gives us any special opportunities to do this). Since officials will need clear instructions on the line to take, and since I suspect there is some difference between the line you propose and that favoured by Geoffrey Howe, an early Ministerial meeting may be desirable.

I am copying this letter to the Prime Minister, members of E(A), Geoffrey Howe, Michael Havers, Robin Leigh-Pemberton, (Bank of England) and Sir Robert Armstrong.

Yours ever,

John

JOHN MacGREGOR

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ccBG

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

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

4 July 1986

Dear Secretary of State

UNITED KINGDOM COMMODITY POLICY

Thank you for sending me a copy of your minute of 30 June to the Prime Minister, covering the review which officials, including my own, have conducted into the whole range of commodity policy questions.

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My particular concern is with commodity agreements, a fair number of which actually or potentially fall under my responsibility. I can confirm that the conclusions set out in Part I of the Review make sense in the light of my experience of such agreements and are acceptable to me as policy objectives. I agree with you that we need to be careful in how we present our policies if we are to have maximum effect. Further the possibilities are significantly circumscribed by the EC dimension as the paper shows. Inevitably circumstances vary and probably we will need to look into the arguments in depth on each occasion a proposal is made. This in no way detracts from the desirability and usefulness of having identified objectives of principle beforehand.

The review recommends that where Ministers have recently approved mandates for negotiations, as they have done for natural rubber and cocoa, these should stand. I am sure this is right. I have never had any enthusiasm for a new Cocoa Agreement and we have in effect anticipated the line more recently adopted for rubber and now recommended generally by the review. I will be writing to

/ you separately to ...

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you separately to bring you up to date on the detail.

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

Yours Sincerely
C Hendry

for MICHAEL JOPLING
(Approved by the
Minister and signed
in his absence)

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CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

Tel No: 233 3299
7471

14 July 1986

The Rt Hon Paul Channon MP
Secretary of State for Trade and
Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1 0ET

NBPM

D Paul.

UK COMMODITY POLICY

Thank you for sending me a copy of your minute of 30 June to the Prime Minister. I have also seen the subsequent letters to you from Michael Jopling and John MacGregor, and the minute from Geoffrey Howe.

I share the view of others that we should now adopt a deregulatory approach. But, as is made apparent in paras 1.15 to 1.17 of the Review, there are important practical consequences of this view for our handling of the run-up to UNCTAD VII. Geoffrey is right to warn of the pressures in maintaining the credibility of our response to the economic problems of developing countries. But we should not pretend that the problem can be tackled or alleviated by way of price intervention; nor should we disguise the pressing need for structural change in the economies of many developing countries.

The UK's Presidency is an opportunity to persuade others towards our view on the underlying economic argument; and to reduce the "lip-service" which is given to the regulatory approach. This will both help to reduce the pressure on us, and avoid our becoming isolated on the issue. At the same time, however, we should be clear about the parallel need for efforts to liberalise trade and to promote the economic changes which are the alternative for developing countries to their now-invalid dependence on primary products.

I agree with John MacGregor that it may well be desirable to have an early Ministerial discussion of the issues raised.

I am sending a copy of this letter to the Prime Minister, Geoffrey Howe, members of E(A), Michael Havers, Robin Leigh-Pemberton, and to Sir Robert Armstrong.

Yours
Norman

NORMAN TEBBIT

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