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Prime Minister 4

To be aware that, against all expectations, there is the prospect of a renewal of the cocoa agreement.

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CONFIDENTIAL

The Rt Hon Paul Channon MP
Secretary of State for Trade & Industry
1-19 Victoria Street
London
SW1H 0ET

Bad news

18 July 1986

RENEGOTIATION OF THE COCOA AGREEMENT: GENEVA 7 - 25 JULY 1986

1. I wrote on 4 July about our line at this negotiating conference. It seemed then to be highly unlikely that the very tough EC line which we had been successful in securing could prove acceptable to producers.

2. However, as you will have noted from recent telegrams and press reports, a package has been put together on the price elements of an economic agreement which is in general very satisfactory. In particular our negotiating aims have been met on the level of the reference price, on the need to take account of currency fluctuations (all prices are to be denominated in SDRs), on provision for automatic price adjustments if there are rapid changes in the level of the buffer stock, and on the prices at which intervention can take place. All this represents a major climbdown by producers.

3. Nevertheless there are a number of other issues yet to be discussed in the conference some of them very important for us, including the need to avoid contingent liabilities, to have no provisions for borrowing and to secure a guaranteed participation by producers accounting for 80% of exports. These other points should be settled by 25 July when the conference must end. The UK view on these issues has been firmly registered in EC co-ordination by our delegation.

4. After the conference has finished and it is possible to take an overall view of the package on the table I will write again to colleagues with recommendations on the position we should adopt towards any draft Agreement. However, I thought you might find it helpful to be alerted now to the fact that after all the conference might reach a positive conclusion and one which is consistent with our negotiating aims.

5. I am copying this letter to Geoffrey Howe and John MacGregor.

MICHAEL JOPLING

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Secretary of State for Trade and Industry

22 July 1986

CONFIDENTIAL

The Rt Hon Michael Jopling MP
Minister of Agriculture,
Fisheries and Food
Ministry of Agriculture,
Fisheries and Food
Whitehall Place
London SW1

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Dear Michael.

RENEGOTIATION OF THE COCOA AGREEMENT

WILL REQUEST, IF REQUIRED

Thank you for your letter of 18 July bringing me up to date with progress in these negotiations. I have indeed seen the reports of a breakthrough on the price elements. As you say, there does seem to have been a significant climb down by producers.

I note, however, that a number of key issues have yet to be considered in the negotiations, and that among these are critical points concerning contingent liabilities and borrowing, and also the degree of participation in the agreement. On the first of these I understand that the EC has now accepted language put forward by our delegation which your officials consider satisfactorily meets our concerns to have no borrowing in the agreement and to circumscribe strictly any contingent liabilities. I am sure that we must hold firm on these elements in the subsequent negotiations with other consumers and then with the producers.

The question of participation has particular relevance in the light of the difficulties with non-participation of important producers in the International Tin Agreement. I was glad to see that you emphasise the need to secure guaranteed participation by producers accounting for 80% of exports of cocoa. As I understand it, this would mean that the Ivory Coast would have to join but Malaysia with its rapidly expanding production would not. You will no doubt have seen the press comment that the absence of Malaysia poses dangers for the operation of the buffer stocks on the lines of tin.

On the consumer side the target of 70% enshrined in the existing agreement reflects awareness that the US was most unlikely to join. It is, however, unsatisfactory that the Americans would simply stand aside in this case when their willingness to participate and compromise in the renegotiation on rubber is one of our main problems in securing improvements in that agreement. I do not suggest that we attempt formally to make either Malaysian or US participation a condition for the Community's willingness to join a new cocoa agreement but I do feel we should consider seriously whether these countries might not be persuaded to throw their weight behind an agreement, assuming one acceptable to us emerges.

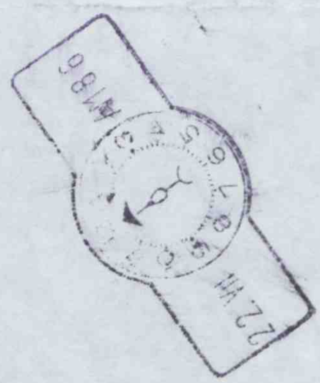
I realise that, with the compromises over price which producers have already made, it will not be easy to get the conditions we want on other outstanding points. But we have to bear in mind the implications of these negotiations for our commodity policy as a whole as well as the forthcoming renegotiation of the rubber agreement.

In view of the general policy implications I am copying this letter to the Prime Minister as well as to Geoffrey Howe, John MacGregor and Sir Robert Armstrong. I understand that the Prime Minister and the Cabinet Office have received copies of your letter to me of 18 July.

Yours,

PAUL CHANNON

Paul



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Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

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From the
Parliamentary
Secretary

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1M OET

25 July 1986.

CONFIDENTIAL

My dear Paul,

RENEGOTIATION OF THE INTERNATIONAL COCOA AGREEMENT: GENEVA, JULY 1986

WILL REQUEST IF REQUIRED

Thank you for your letter of 22 July to Michael Jopling. Since he is out of touch today I am replying on his behalf.

As Michael stated in his letter of 18 July when the current negotiations are concluded he will write again to colleagues with recommendations on the position we should adopt on the result. Meanwhile our delegation will, of course, argue forcefully for an outcome that is compatible with their instructions. These are defined in the papers attached to Michael's letter of 29 January to you as supplemented by his letter of 4 July. The considerations you mention in your letter were all fully evaluated in that context. In addition, of course, the paper on the review of commodity policy which you minuted to the Prime Minister on 30 June explicitly recognised (in paragraph 1.8) that the negotiating mandate previously agreed for the cocoa negotiations should stand.

On a more detailed point I agree that when the negotiations are concluded we may need to consider, inter alia, whether to lobby other countries, notably the US and Malaysia, to join a new Agreement. But we will need to take careful account of a number of factors before we do so including the possibility that we could in future wish to reject similar pressure to join International Commodity Agreements. Michael will, if appropriate, deal with this factor when he writes again, but our first impression is that, whatever the specific merits, it could be difficult to reconcile our present line on commodity issues with active pressure on other states to join Agreements.

I am copying this letter to the Prime Minister, Geoffrey Howe, John MacGregor and Sir Robert Armstrong.

Yours ever,
Peggy
PEGGY FENNER

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Treasury Chambers, Parliament Street, SW1P 3AG

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The Rt Hon Michael Jopling MP
Minister of Agriculture, Fisheries and Food
Ministry of Agriculture, Fisheries and Food
Whitehall Place
London
SW1A 2HH

25 July 1986

Dear Minister,

RENEGOTIATION OF THE COCOA AGREEMENT

WILL REQUEST IF REQUIRED

I have seen your letter of 18 July to Paul Channon describing progress in the current cocoa negotiations, together with Paul's reply of 22 July.

It is to be welcomed that a firm consumer line has brought about a greater degree of realism on the central price mechanisms of the new draft agreement. There now seems to be a widespread dissatisfaction among our EC partners and elsewhere with previous approaches to commodity issues, and a greater readiness to consider fresh approaches. I hope we shall be able to capitalise fully on this in shaping the tactics of our future approach.

For the remainder of the cocoa negotiation, it remains in my view most important to secure the whole of the package of safeguards which were identified in the inter-departmental group's study of tin. This includes the excision of borrowing powers, a sound contingent liability position with which your lawyers are content and appropriate levels of membership. I too share Paul's concern at reports that Malaysian production may quickly grow to a point where it could undermine a new cocoa agreement. I agree that we should do all we can to persuade notable absentees from the negotiations, including the US on the consumer side, to join in now, and should look carefully again at our position should they refuse to do so.

In the longer term, the cocoa negotiation seems to me to illustrate again the dangers of operating according to the "lip service" approach based on second best conclusions. Even if specific objectives for a new agreement are secured in negotiations, there probably remains a degree of financial risk in such international agreements managed jointly by mutually antagonistic interests which any amount of careful planning could not anticipate. Even the prospect of a new cocoa agreement is encouraging the belief in some quarters that existing UNCTAD methods of managing commodity trade are basically sound, and will ultimately come to enjoy the same degree of support as they did before. In line with a general move towards a deregulatory approach on which we are now agreed, every opportunity should be taken to overturn this interpretation. Otherwise, it may add an additional complication to the task of formulating and putting across our own approach in the context of the rubber negotiation later this year and UNCTAD VII in 1987.

I look forward to considering your recommendation on the draft cocoa agreement when the current round of negotiations is concluded.

I am copying this letter to the Prime Minister, Geoffrey Howe, Paul Channon and Sir Robert Armstrong.

Yours sincerely,

pp **JOHN MacGREGOR**

(Approved by the Chief Secretary and signed in his absence)