PRIME MINISTER

INTERNATIONAL COCOA AGREEMENT

You had a number of supplementary questions on the International Cocoa Agreement. I attach answers provided by the MAFF. If possible, and if you are satisfied with the MAFF's answers, we ought to signify our readiness to participate in the Agreement at a European Community meeting in Brussels today so that the matter can be considered by the Foreign Affairs Council soon.

Agree that we should join?

Yes

C.D.P.

CHARLES POWELL

25 September 1986

MS

cc PC.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

25 September 1986

Dear Ivor,

INTERNATIONAL COCOA AGREEMENT

The Prime Minister has considered Mr Jopling's letters of 18 and 24 September to the Trade and Industry Secretary about the International Cocoa Agreement, as well as the comments of the Foreign and Commonwealth Secretary, the Chief Secretary and Mr Channon.

The Prime Minister remains very reluctant to see us join this Agreement, particularly when Ministers have only just agreed that we should oppose agreements which interfere with the free operation of the market. She notes, however, that the main requirements we set for a Cocoa Agreement have been met and that there is a clear majority in the Community in favour of membership. She is ready therefore to accept the view of colleagues that, in this case, the United Kingdom has no practicable alternative to joining. But we should oppose any further such agreements vigorously. For this reason, the Prime Minister thinks it essential that we should make a firm statement of our objection to commodity agreements which operate by intervention in markets and our hope that the Community will not get drawn into negotiation of further such agreements. She would wish us to do so both in the context of the discussions on cocoa and more generally by a formal statement in the Council.

I am copying this letter to Private Secretaries to the Foreign and Commonwealth Secretary, Chief Secretary, Trade and Industry Secretary and to Sir Robert Armstrong.

Yours sincerely

Charles Powell

Charles Powell

Ivor Llewelyn, Esq.,
Ministry of Agriculture, Fisheries and Food.

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10 DOWNING STREET

Charles

David Williamson is now pressing for the PM's view on cocoa.

David.

CC: NO

CCP

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

From the Minister's
Private Office

Charles Powell Esq
10 Downing Street
LONDON SW1

25 September 1986

Dear Charles

file with CDP

As you requested, I enclose a note on certain aspects of the 1986 Cocoa Agreement. I understand that you have also spoken to Frank Scollen about all this.

Yours ever

Ivor

C I LLEWELYN
Private Secretary

1986 COCOA AGREEMENT

PRICE

1. The 103c median price is closely related to the long term trend price for cocoa. It represents a 3c concession by consumers since negotiations on price began in 1984 and over 30c concession by producers. It is 2c under the UK mandate. Recent market prices have been near to this level - 1984 average was 108c and the 1985 average, 102c. The 5-day average price for 23 September was 101c. It is important to note that in the 1986 Agreement these and the market indicator prices will be expressed in SDRs - a crucial UK objective - and the operation of the Agreement will thereby be insulated from the adverse effects of dollar fluctuation. Effectively, denomination in the SDR in July has meant that in real terms, owing to dollar movements, the price has not increased from the 100c level which was on the table in February 1986 when negotiations broke down.

[They wanted 135c]

2. The lower intervention price (i.e. compulsory buying in price) of 85c is a consequence of the price defence band of 36c being centred around the median price. In order to increase the effectiveness of the buffer stock manager's intervention on the market, he is allowed the <u>discretion</u> to buy at 88c.

LEVY

3. The present financial resources of the International Cocoa Organisation which continue to be supplemented by the levy are sufficient to cover purchases of the maximum capacity of the

buffer stock. However, before they are depleted or the buffer stock capacity is reached there is provision for a supplementary withholding of cocoa from the market by producers (but under control of the Buffer Stock Manager). Under no circumstances can there be any borrowing

FINANCE AND LIABILITIES

4. The Agreement contains in Articles 7 para. 2 and 22 para 5 (copies herewith) precise wording on borrowing and financial liabilities tabled by the UK delegation after clearance by FCO and MAFF lawyers.

TROPICAL FOODS DIVISION

MINISTRY OF AGRICULTURE,
FISHERIES AND FOOD

25 September 1986

EXTRACT: INTERNATIONAL COCOA AGREEMENT, 1986

Article 7

Powers and functions of the Council

1. The Council shall exercise all such powers and perform or arrange for the performance of all such functions as are necessary to carry out the express provisions of this Agreement.

2. The Council shall not have power, and shall not be taken to have been authorized by the members, to incur any obligation outside the scope of this Agreement; in particular it shall not have the capacity to borrow money, without however limiting the application of article 33,* nor shall it enter into any trading contract for cocoa except as provided for specifically in this Agreement. In exercising its capacity to contract, the Council shall incorporate in its contracts the terms of this provision and paragraph 5 of article 22 in such a way as to bring them to the notice of the other parties entering into contracts with the Council, but any failure to incorporate such terms shall not invalidate such a contract or render it ultra vires the Council.

3. The Council shall, by special vote, adopt such rules and regulations as are necessary to carry out the provisions of this Agreement and are consistent therewith, including its rules of procedure and those of its committees, the financial and staff regulations of the Organization and rules for the administration and operation of the buffer stock. The Council may, in its rules of procedure, provide for a procedure whereby it may, without meeting, decide specific questions.

4. The Council shall keep such records as are required for the performance of its functions under this Agreement, and such other records as it considers appropriate.

* This refers to the possibility of establishing a relationship with the Common Fund - if it ever comes into effect.

EXTRACT: INTERNATIONAL COCOA AGREEMENT, 1986

CHAPTER VI - FINANCE

Article 22

Finance and liabilities of members

1. There shall be kept two accounts - the administrative account and the buffer stock account - for the administration and operation of this Agreement.

2. The expenses necessary for the administration and operation of this Agreement, excluding those attributable to the operation and maintenance of the buffer stock instituted under article 30, shall be brought into the administrative account and shall be met by annual contributions from members assessed in accordance with article 23. If, however, a member requests special services, the Council may decide to accede to the request and subsequently may require that member to pay for them.

3. Any expenditure which is attributable to the operation and maintenance of the buffer stock under article 34 shall be brought into the buffer stock account. The liability of the buffer stock account for any expenditure other than that specified in article 34 shall be decided by the Council.

4. The financial year of the Organization shall be the same as the cocoa year.

5. A member's liability to the Council and to other members is limited to the extent of its obligations regarding contributions to the administrative budget and to the financing of the buffer stock as specifically provided in this Agreement. Third parties dealing with the Council shall be deemed to have notice of the provisions of this Agreement regarding the powers of the Council and the obligations of the members, in particular, paragraph 2 of article 7 and the first sentence of this paragraph.

6. The expenses of delegations to the Council, to the Executive Committee and to any of the committees of the Council or of the Executive Committee shall be met by the members concerned.