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SECRETARY OF STATE FOR TRADE AND INDUSTRY

International Natural Rubber Agreement (INRA)

1. Thank you for your letter of 30 September about the forthcoming rubber renegotiation conference in Geneva.

2. I agree with your analysis.. We must face the possibility that this session will adopt a new International Rubber Agreement. The new Cocoa Agreement has demonstrated that producers will make major concessions in order to prevent the breakdown of negotiations. For their part, most consumers believe that the present INRA has worked and is not in need of radical improvement. There is scope for compromise, and this may make it impossible for us to secure all the tough economic provisions on which we are insisting as an undeclared means of securing the break-down of the negotiations.

3. I also agree that we should nonetheless continue to press vigorously to secure the improvements we consider essential. In this we may not be wholly without allies. Spain and Belgium agreed to sign the Cocoa Agreement only after much soul-searching. With their support, we could muster a blocking minority in the Community. We shall need to consider how best to achieve this, in capitals as well as in the margins of the conference.

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4. At the same time, as you say, we must be prepared for the worst. The UK appears to be alone in working to avoid a new Agreement. In our review of commodity policy we acknowledged that on rubber, like cocoa, we were locked into a Community negotiating position which we could not unilaterally abandon. If we cannot muster a blocking minority in the Community, we will have no alternative to joining a new INRA. Moreover, our wider interests could suffer if we were to protest too much. Producers have already recognised the UK as the main impulse behind a hard line within the Community. I do not suggest that we seek to disabuse them; merely that we should bear in mind the effects of resisting a new agreement to the last for our commercial, economic and political interests in Malaysia and the other ASEAN countries. We should fight very hard, but be ready to surrender gracefully if defeat is inevitable.

5. I am sending copies of this letter to the Prime Minister, Michael Jopling, John MacGregor and Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

2 October 1986

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cc BG

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Secretary of State for Trade and Industry

30 September 1986

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The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Affairs
Downing Street
LONDON
SW1

Prime Minister 2
Mr Chancellor believes it may be difficult to avoid a new rubber agreement.
DRN 30/9

Dear Geoffrey

INTERNATIONAL NATURAL RUBBER AGREEMENT (INRA)

– October 6

As you know, we are about to enter the third and very possibly final session of the renegotiation of the INRA. This was, of course, along with Cocoa, in hand before the collapse of the Tin Agreement and our adoption of the deregulatory approach to commodity policy. You will also recall that at the last session in May the UK placed a general reserve at the start of the negotiations whilst we took a view on what attitude our negotiators should take. However, in view of our need to stay with the EEC mandate it was finally agreed that a series of tough objectives should be pursued with the covert hope that these would eventually prove unacceptable to producers and other consumers and that negotiations would break down.

To date the discussions have been inconclusive and there were still evident divisions at the end of the last session between the attitudes of producers and consumers and indeed within the consumer camp - which our negotiators will attempt to widen. I have to say however that the prospects of avoiding a new Agreement do not look very good.

Extensive lobbying efforts made in the intervening period, particularly with the US and selected EEC Member States have not proved successful. The reality is that the UK is still alone in its desire not to negotiate a new INRA.

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As regards our more detailed objectives we do have support in the EEC and from others on the question of removal of references to borrowing. But support on the core questions of price levels and automaticity will prove much more difficult to get and we will need to work hard to maintain our few allies on this. We are also arguing for the use of SDR's, and we have presented a series of amendments on liabilities. The SDR argument is likely to prove difficult to pursue.

As a whole the outlook is pretty bleak. Although our recent statement in COREPER on Cocoa, where we expressed our misgivings about the market intervention to commodity trade will help our position generally and in particular in preparation for UNCTAD VII, it may have the effect of weakening the potential for our Rubber negotiators to bring other EEC Member States alongside our position. Our previous covert position was already being rumbled and now that we are more out in the open it will be more difficult to bring others to accept our specific objectives as they may well be seen as attempts to block progress in the negotiations.

We already know that the producers are likely to back down from their earlier position on price and will probably drop their proposals for slackening of automaticity. To avoid the current Agreement's Buffer Stock being deposited onto the market they might settle for virtually anything. If so, given the Cocoa Agreement and the new life that some would see it as bringing to the Integrated Programme for Commodities, consumers will be under pressure and the cracks may well show. Although the UK will fight on this, again we may find that we are out on a limb. It goes without saying, however, that since we have adopted a policy of deregulation, we should oppose vigorously the successful conclusion of the negotiation and our negotiators must aim for even tougher targets than last time and continue to hope that the negotiations will founder. Indeed there are some difficulties that the producers continue to face and it is always a possibility, although a diminishing one, that there could be a further breakdown in the negotiations. Even though it is generally agreed that 12 months are needed for signature and ratification and the present agreement expires in October next, no doubt UNCTAD would try to squeeze in another session. But we also need to brace ourselves now for the possibility that a new INRA may emerge during the current session commencing on 6 October and that the power of the UK to prevent this is restricted.

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This is all very disagreeable. As we have already recognized it is difficult to pursue specific objectives when we are locked into an EEC position. I am very much afraid, therefore, that we will have to prepare ourselves for the reality that we will not be able to achieve all that we would wish. I will of course keep colleagues in touch with developments as the negotiations proceed.

I am copying this to the Prime Minister, Michael Jopling, John MacGregor and Sir Robert Armstrong.

Yours,

Paul

PAUL CHANNON

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CHIEF SECRETARY TO THE TREASURY

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
SW1H OET

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EDM
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7 October 1986

Dear Paul,

INTERNATIONAL NATURAL RUBBER AGREEMENT

I have seen your letter of 30 September to Geoffrey Howe and Geoffrey's reply of 2 October. Following from Charles Powell's letter of 25 September, I trust that a full statement of our objections to market intervention commodity agreements will be made to our Community partners, as foreshadowed in recent statements to COREPER, as soon as possible. But as far as rubber is concerned, I note that you now see little prospect that the strategy on which we embarked in May for reverting to a free market in rubber by the non-renewal of this Agreement will work.

It may not be entirely true to suggest that producers will settle on any terms. We know that Malaysia in particular has reviewed its approach to commodity agreements in the light of tin, recognising that there may be draw-backs for producers too. Concentrating on the price issue which you mention probably provides the best opportunity to unite consumers on a harder line, and at the same time alienate producers from a further agreement. Even at the risk of causing some offense, I agree with Geoffrey that a vigorous attempt must be made, even at this late stage, to persuade others round to our way of thinking.

If consumers and producers nevertheless reach agreement, we must be ready to argue the deregulatory case against eventual signature and seek to persuade our Community partners and the US accordingly. Our policy statement, on which I set much importance, will provide the starting point for this initiative. (I hope Ministers will have a chance to consider this in draft.) The 12 month period from agreement to signature which you mention also includes UNCTAD's Ministerial meeting for which we have already settled on a deregulatory approach. I therefore hope that the rubber negotiators will bear this broader background in mind, and will firmly reserve the UK position, if agreement is reached, so that a platform is retained for applying the deregulatory approach to the rubber case

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in the longer term. I suggest they should say:

(a) that they accept the decision on the text with regret;

(b) that the UK's position on deregulation is well-known (they should restate it);

(c) that they will carry the text back to London for study;

(d) but that it is by no means a foregone conclusion that the Community will decide to sign; at least two EC countries (UK and Belgium) have serious reservations.

In talking to Community partners, they should

(e) make it clear that the UK will seek to persuade the Community to reject the agreement.

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

Yours ever,

John

JOHN MacGREGOR