CC PC (2)

DEPARTMENT OF TRADE AND INDUSTRY
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Secretary of State for Trade and Industry

CONFIDENTIAL

21 October 1986

The Rt Hon The Baroness Young
Minister of State
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

Prime Minister
CDP 21/x

Dear Janet,

INTERNATIONAL NATURAL RUBBER AGREEMENT (INRA)

You will be aware by now that the talks in Geneva to renegotiate the INRA have broken down. The Conference has been adjourned and no dates have been set for further consultations. This result is a good one for us.

The consumers and producers were unable to reach agreement on the core issues of currency denomination and the automaticity provisions and we were helped by the intransigent attitude of the producers. Essentially the producers wanted to move to a single currency, the ringgit, and would have accepted some strengthening of the automaticity provisions to secure this. Alternatively, they would have settled for the status quo on the currency and automaticity formulations in the Agreement. Both options were unacceptable to most consumers.

Of course, the issue has not gone away but the outcome to date is satisfactory. We will be considering the next steps and at the same time taking careful note of the reaction of other major participants.

In the circumstances, I have not picked up the individual points raised in correspondence by John MacGregor and Michael Jopling to whom I am copying this letter. A copy also goes to the Prime Minister.

Yours,
Paul

PAUL CHANNON

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Foreign and Commonwealth Office

London SW1A 2AH

From The Minister of State

16 October 1986

1. CDP
2. NBPM.

Dear Paul,

INTERNATIONAL NATURAL RUBBER AGREEMENT (INRA)

In Geoffrey Howe's absence abroad I should like to comment on some of the suggestions in John MacGregor's letter of 7 October about the renegotiation of the INRA. I have also seen Michael Jopling's letter of 13 November.

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In his letter of 2 October Geoffrey Howe agreed with your analysis of the problem we face and acknowledged the possibility that we might not succeed in avoiding a new Agreement. Reports from Geneva suggest that the Conference is unlikely to conclude on 17 October by adopting a text, but we should not be too sanguine. So far, however, we have given nothing away. Thanks in part to our insistence on realistic controls and rigorous economic criteria, consumers are standing firm. Producers are doing likewise. The Conference President's efforts to obtain concessions have made little headway.

We should certainly consider what kind of statement the UK delegation might make if, contrary to expectations, the Conference were to establish the text of a new Rubber Agreement. It may be helpful to look at two scenarios: (i) a text that complied fully with the UK's conditions; and (ii) a text which incorporated some of our conditions but fell short in certain respects.

In the unlikely event of scenario (i), I can see no scope for, and no advantage in, a statement of the kind John MacGregor suggests. The most it would be possible

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

to say in such circumstances would be that our acceptance of the text was necessarily ad referendum. It would not be right, having laid down conditions for a negotiation and then successfully secured them, to call in question the entire exercise at the moment of its conclusion. And it would be too late.

Scenario (ii) is more difficult. If our Community partners, together with such other consumers as the Americans and Japanese, were able to accept a text which met some but not all our conditions, we should need to consider realistically the practical options before us. We do not have a veto at the Conference and a priori could be outvoted on a subsequent proposal for the Community to join the Agreement. It would be open to us, as with the Cocoa Agreement, to seek to muster a blocking minority within the Community against membership, ie against the decision which the Council would need to take to join the Agreement. But we should recognise that our partners will not easily be convinced that a Rubber Agreement which largely corresponds to the Community's mandate should be rejected. When we have been able to assess the outcome of the Conference, we must weigh very carefully the costs and benefits to UK interests of attempting to persuade them to do so.

Any statement in the event of scenario (ii) must take account of these factors. Unless specifically mandated as Presidency to do so by our partners, it would be improper for the UK to comment publicly on the question of Community signature of a new INRA. Nor should we seek to draw the Conference's attention to any divisions that may exist between Community member states. We negotiate within a common position, and differences of view should be aired in internal Community discussion. There are also wider UK interests to be considered. The annual EC/ASEAN Ministerial meeting begins in Jakarta on 20 October. British investment in South East Asia which includes investment in the rubber industry and our wider commercial and trade interests in the region, have been painstakingly built up in recent years. We do not wish to make ourselves a target for any discrimination.

I conclude therefore that our negotiators must fight hard throughout the Conference. If faced with scenario (ii), a UK statement should be confined to an expression of regret that not all our conditions had been accepted; and that, given its defects, we should have to

/study

study the text especially carefully in order to decide whether it would be possible for the UK to join. Anything stronger, as suggested by John MacGregor, would put at risk our short term interests and would be unlikely to secure support either for opposition to membership of the INRA or for our longer term deregulatory policies.

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

Yours ever

Janet

Baroness Young

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Secretary of State for Trade and Industry

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CONFIDENTIAL

15 October 1986

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

DW to see
NBPM
15/x

Dear Secretary of State

INTERNATIONAL NATURAL RUBBER AGREEMENT (INRA) RENEGOTIATION

When I wrote to you on 30 September I promised to keep you in touch with developments as the renegotiation proceeded.

I have not written before now because there has not been to date much by way of movement to report. Our negotiators are still firmly pursuing the objectives we set in May and are having some success in bringing others alongside us both within and outside the Community. The Germans and the Belgians are getting tougher whilst the USSR seems generally helpful. We are maintaining close contact with the Americans and Japanese on the core issues of price and automaticity. The consumer position is currently cohesive and holding up well, despite some calls for greater flexibility. Producers are being intransigent and currently digging their heels in on designating the current reference price as the one to be carried over to a new agreement. A threatened resignation by the Conference Chairman if more progress was not made by yesterday afternoon did not materialise, but may still be a possibility. The latest development is that MacIntyre, the Deputy Secretary General of UNCTAD has been holding bilateral talks with major producers and consumers, floating the idea of extending the present agreement. The EC has indicated however that it has no further compromise proposals to offer.

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BICENTENARY

All the above said, time is now running out for this session and events may move quickly. It is difficult to forecast how things will go. But our negotiators will keep Departments in touch by telegram.

I am copying this letter to the Prime Minister, Michael Jopling and John MacGregor.

Yours sincerely,

Michael Gilbertson

pp PAUL CHANNON

(Approved by the Secretary of State and signed in his absence)

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CCBG.

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

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From the Minister
CONFIDENTIAL

NBPM

CDP 13/2

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

13. October 1986

Dear Paul

INTERNATIONAL RUBBER AGREEMENT (INRA)

I was interested to see your letter of 29 September to Geoffrey Howe. It is indeed disquieting that following so soon after we agreed a deregulatory approach towards commodity policy we look like being faced with yet another agreement with economic clauses.

Nevertheless, as we have pointed out in COREPER, the new Cocoa Agreement at least sets an up to date standard for those major elements of an agreement which our commodity review paper had identified as crucial if we were to find ourselves, against our wishes, drawn into negotiations. These include a price reflecting the long term trend, effective and veto-proof price adjustment mechanisms, and insulation against currency fluctuations by denomination in the SDR (on which I note there appears to be increased interest within the Community). The same goes for explicit prohibition on borrowing and limitation of members' liabilities. In the cocoa negotiations the imminent liquidation of the stock accumulated during the 1980 Agreement was undoubtedly a major factor in impelling producers towards finally accepting - after a virtual breakdown in the negotiations - our rigorous conditions on these points. From what you say, the same could apply in rubber. I do recognise the problems you face in rallying others to our position, and of course each commodity has its special factors. However, I believe the cocoa precedent will be as difficult for others to ignore as it is for us. More generally, if our new overall approach on commodities is to prove successful we must not slip backwards on rubber compared to what was achieved on cocoa.

As John MacGregor has pointed out our forthcoming statement on our deregulatory approach will be important in the rubber context and like him I think it would be helpful if we could consider this in draft. As well as our general points I have some specific concerns. In particular reference was made in the review to CAP

/ commodities, on which ...

commodities, on which there has been some movement recently and which, therefore, could prove important for us in the near future. It will be important that any statement protects our position adequately on this aspect.

I am copying this to the Prime Minister, Geoffrey Howe and John MacGregor.

MICHAEL JOPLING

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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

~~DN~~ to see
NBPM
7/x

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