



Foreign and Commonwealth Office

London SW1A 2AH

European

Privy

15 September 1980

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Dear Michael

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Prime Minister
to France,

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LORD PRIVY SEAL'S MEETING WITH M. GALLEY, 11 SEPTEMBER: COCOA

When the French Government asked the Prime Minister to receive M. Galley to hear the French case on the forthcoming cocoa negotiations, we agreed that the Lord Privy Seal should see him and that the Prime Minister would be informed of their discussion.

I now enclose a report of that discussion. Its main points were also included in the Prime Minister's brief on cocoa for the Anglo/French Summit.

M. Galley emphasised again President Giscard's personal concern with the issue. The French believe that developments in the cocoa market have brought West African cocoa producing countries to the brink of an economic and social breakdown. They fear that any such instability presents opportunities for communist exploitation; and that the failure of the cocoa negotiations would seriously weaken the West's position in the Global Negotiations. The French blame the steady decline in cocoa prices in recent years and increasing competition from new and more efficient producers, such as Malaysia and Brazil. M. Galley, therefore, stressed the importance of achieving a third International Cocoa Agreement, which in particular stabilised prices but also controlled production and the exports of new producers.

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10 Downing Street



In reply, the Lord Privy Seal recognised the political significance of the cocoa negotiations, but emphasised that other issues in the negotiations were just as important as price.

Sir Ian Gilmour also drew a parallel with Zimbabwe's accession to the Lomé Convention and, in particular, with the quota for its sugar exports to the EC. This too was an economic issue with far-reaching political implications. M. Galley recognised the importance of this point and promised to pass on the Lord Privy Seal's comments to M. François-Poncet and the President.

I am sending copies of this letter, with the report of the meeting, to Garth Waters in MAFF and Stuart Hampton in DOT.

Yours ever

Michael Arthur

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REPORT OF THE LORD PRIVY SEAL'S MEETING ON 11 SEPTEMBER WITH
M. GALLEY, FRENCH MINISTER OF COOPERATION, TO DISCUSS FORTHCOMING
COCOA NEGOTIATIONS.

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|----------|-----------------|------------|
| Present: | Lord Privy Seal | M. Galley |
| | Lord Bridges | M. Paye |
| | Mr Wilson, ERD | M. Grenier |
| | Mr MacRae, WAD | |
| | Mr Gomersall | |
| | Mr Arthur | |

The Lord Privy Seal welcomed M. Galley and regretted that the Prime Minister was unable to receive him because of her busy programme. He undertook to inform the Prime Minister of their discussion.

2. M. Galley emphasised President Giscard's personal concern about the real possibility of a disaster for cooperation between the Community and Africa, arising over cocoa. There were two elements which could cause this in the French view: first, the steady decline in cocoa prices, since 1977, from 172 c lb down to the current level of 97 c lb; and secondly, the impact of increased production in new producing countries, such as Brazil and Malaysia, coming onto the market in 1983 and 1984. This latter development could bring prices down to 80 c lb.

3. In the French view, such a price collapse would hit African producers- the Ivory Coast, Cameroon and Ghana - particularly hard. Malaysia and Brazil could probably survive at 100 c lb, but the French considered that African producers were already on the brink of disaster. As African production, particularly in the Ivory Coast, had been geared to small-holders, and a price collapse would bring severe economic and social problems, with implications for the political stability of the countries concerned. This risked increased communist influence. The issue had also to be seen in a wider political framework. The West did not want to bail

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out these countries when they ran into difficulty: our approach to economic development had been that developing countries should produce goods and crops for sale on world markets instead of relying on aid. This position was in danger of being undermined by the collapse of cocoa prices. The forthcoming Global Negotiations made this particularly sensitive. In conclusion, M. Galley observed that in taking a decision on cocoa the Community should bear in mind that the price of cocoa, which represented a small proportion of the cost of chocolate, was of relatively little significance for economies of developed countries; on the other hand, it was vital for producer countries, particularly the Africans, whose economies were heavily dependent on cocoa.

4. The Lord Privy Seal said that the Government accepted the force of M. Galley's political argument. Ghana and Nigeria were important for the UK, as the Ivory Coast was for the French. The threat of Soviet destabilisation in the area was also of concern to us and he understood the social and political significance of small holders in that context. He agreed that it was important to encourage developing countries to produce and market goods rather than rely on aid.

5. The central issue in the negotiations had been prices, but that was not the only important one in the UK's view. On the lower intervention price, economic considerations would not justify more than 100 c lbs, but the UK was prepared to show some small flexibility in view of the political implications. But there were a number of other important issues that consumers would have to secure, such as the semi-automatic price adjustment mechanism proposed by the Germans, satisfactory levy financing arrangements to ensure that there was no call for Government contributions and agreement on the disposal of buffer stock funds at the end of any new agreement to prevent producers using them to set up another cartel.

6. The Lord Privy Seal said we were confident that Ghana wanted an agreement; and asked were the French convinced that the Ivory Coast did too? M. Paye's impression was that the Ivory Coast would

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probably accept an agreement, but not at any price. On the lower intervention price, they now seemed ready to move towards 110 c lbs. Producers were also beginning to accept the idea of a semi-automatic price adjustment mechanism.

7. M. Galley added that it would be important to find a mechanism to prevent the expansion of production by new producers, which might be at the expense of the traditional African producers. For example, estimates of world production in 1985 were 1.9 m tonnes, against forecast world consumption of 1.7m. He suggested this might be pursued after negotiation of a new international agreement, but M. Paye thought that such a mechanism would need to be part of a new agreement. Lord Bridges asked how the French envisaged controlling world production. M. Paye indicated that it would be through export quotas, which had been included in previous cocoa agreements. Since some producers, such as Malaysia, might not join the agreement, consumers might have to take special measures with respect to their exports.

8. The Lord Privy Seal pointed out that there was another economic issue on the Community's agenda which had similar political overtones. This was Zimbabwe's accession to the Lomé Convention. There had been particular difficulty over agreeing a quota for their exports of sugar and beef. Mr Mugabe attached importance to having a firm figure for this and was showing signs of becoming impatient with the delay in the Community on agreeing its negotiating mandate. We now had a chance to keep Zimbabwe in the Western orbit. Mr Mugabe had made a good start. It was important to give him every encouragement, and to see the political as well as economic dimension of this issue.

9. M. Galley explained that this issue was not his direct responsibility, but he would pass on the Lord Privy Seal's comments to M. François-Poncet and President Giscard. He appreciated the importance to the UK of rounding off its great success on Zimbabwe. It was also crucial for the whole future of Southern Africa. This point had been made strongly to him by

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Nguza Karl-I-Bond, the Prime Minister of Zaire, who was very attentive to the problems of Zimbabwe. M. Paye added that the French position for the Foreign Affairs Council on 15 September had been discussed at a meeting in the French Prime Minister's Office, the previous Thursday. As a result, the French position was now more open. Despite the legal difficulties he thought it would be possible to do something on the basis of a unilateral decision by the Community, but perhaps not as much as the UK was seeking.

Economic Relations Dept

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