PREM 19/1985

Movements in Volume of Trade

by Commodity

International Tin Council. PART 2.

TRADE

Part 1: January 1985

Part 2: February 1986

PREM 19/1985

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~6.2.86.~~		~~18.5.86~~					
~~7.2.86.~~		~~30.5.86~~					
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Dd 8398366 2M 11/83 JET

PART 2 ends:-

SS1OTI to LPS 30/5

PART 3 begins:-

FCS to SS1OTI. 2/6/86

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(86) 7th meeting, item 3	20/02/1986

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed _____ Date 21/10/2014

PREM Records Team

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Secretary of State for Trade and Industry

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30 May 1986

CONFIDENTIAL

The Rt Hon John Biffen MP
Lord Privy Seal
Privy Council Office
Whitehall
London SW1

Dear Mr Biffen,

SELECT COMMITTEE ON TRADE AND INDUSTRY: REPORT ON THE TIN CRISIS

I attach a draft response to the Select Committee on Trade and Industry's Second Report on the tin crisis (HC 305-I).

The draft response has been discussed with officials in the main interested Departments. You will see that it has been drafted on the assumption that a decision will have been taken that assistance should not be given to the Geevor tin mine, near Penzance. The mine ceased production on 4 April, with the majority of the workforce being laid off. My Department has provided assistance to keep the mine on a care and maintenance basis until 1 June.

Geevor submitted a revised application for assistance to my Department on 23 May. This is being evaluated, but officials do not consider it provides a satisfactory basis for support: the company requires £20m of assistance and the prospects for future viability in a free market for tin are far from robust.

Geevor are expecting a response to their application by Monday 2 June at the latest. If we reject their application and provide

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no more interim assistance the mine will close and redundancies of 360 will take place. This will increase the unemployment rate in the Penzance and St Ives travel-to-work area (21.2% in April) by about 1.5 percentage points. However, the workforce is drawn mainly from Pendeen and St Just, where the effect on unemployment will be very severe. It is essential that the Government should be seen to be doing something to help to alleviate the problems of the area arising from the closure of Geevor mine.

In addition to existing measures of assistance, I have, therefore, with the agreement of John MacGregor, decided to make available in the Penzance and St Ives TTWA a slightly amended version of the Business Improvement Service package of schemes of assistance to small businesses which is currently operated by my Department. This would help the local economy diversify into activities other than tin mining and tourism. My Department is in discussion with the EC Commission who, we hope, will approve the proposal within the next few weeks. We shall make available £1m for this purpose and would expect up-take to run around £0.25m in the first year.

Under my proposal there would be 50% grants to small firms (200 or fewer employees) for consultancy, marketing, and feasibility projects, and 50% grants to providers of services to small firms in respect of market research, the provision of common services, and advisory and counselling services. There would also be 15% grants for investment projects in firms with 25 or fewer employees. These investment grants would be additional to any regional development grant, but would not be available as well as regional selective assistance. The main eligible activities would be manufacturing and supporting service activities, together with tourism. However, agriculture, mining, horticulture, fishing, retailing and personal services would not be eligible.

My Department intend to establish an office as close to Geevor as is practicable to administer the BIS Scheme. It will work through that office to ensure the maximum up-take in the area of the other schemes of assistance already available. In addition, my officials are having urgent discussions this week with the Department of Employment to consider how best their efforts and ours may be co-ordinated, and whether any additional special measures can be brought to bear on the problems which will arise from the closure of Geevor.

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Discussions with RTZ, the owner of the other two Cornish tin mines, are more promising. Officials consider there is a reasonable prospect of saving one of the mines, South Crofty in Redruth and Camborne TTWA, and with it about 500 jobs.

Because of the need to give an answer to Geevor on the result of their application for assistance, I very much regret that I have to ask for any comments you might have by noon on Monday 2 June. It is my intention to inform Geevor of the decision at 14.30 that day and to respond to any press enquiries with full background briefing. As for the response to the Select Committee's report I intend that it should, if possible, be delivered to the Committee when the House reassembles on Tuesday 3 June.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Foreign Secretary, the Secretary of State for Employment, the Attorney-General, the Secretary of State for Agriculture, Fisheries and Food, the Chief Whip, the Governor of the Bank of England and to Sir Robert Armstrong.

Yours sincerely,

John Nott

PAUL CHANNON

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

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SECOND REPORT FROM THE TRADE AND INDUSTRY COMMITTEE ON THE TIN CRISIS

INTRODUCTION

This Memorandum is submitted by the Secretary of State for Trade and Industry in response to the Committee's Report on the Tin Crisis (HC 305-I).

2 The Government welcome the Committee's decision to hold an Inquiry into this matter. As an international organisation, with membership comprising 22 sovereign states and with its Headquarters in the UK, the International Tin Council has failed to meet its financial obligations. This failure has damaged the interests of its creditors, the Cornish tin industry and the London Metal Exchange and has caused severe disruption to the international tin market, the effects of which inevitably will be felt for some years to come.

3 The Committee points out (HC 305-1, paragraph 75) that this commodity agreement had the effect of keeping prices artifically higher than they would otherwise have been in a free market. The Government fully appreciated this risk when it decided to join the Sixth International Tin Agreement in 1982, but considered that the benefits of joining outweighed the possible disadvantages. Once in membership, with very little support, the UK made a determined effort to reform the Agreement and to improve transparency and monitoring of the economic provisions of the Agreement. Had these strenuous and determined endeavours been successful, the eventual collapse might well have been predicted and prevented.

4 The Government agree entirely with the Committee that the reasons for the collapse of the Agreement must be examined to see what lessons should be drawn for the future. However, the Committee understates the vigorous efforts made by the Government after the suspension of trading. Indeed the Government took the lead in the efforts to reach international agreement to bring about an orderly resolution of the crisis and by determined diplomacy, got close to a negotiated agreement. Although accepting no legal liability, the Government agreed in the course of negotiations to contribute £50m over and above that proportion of ITC's debts which it might have expected to pay under the usual subscription arrangements. Had it been feasible to reach a settlement through the injection of this additional sum, quite apart from the general benefit of maintaining order in international financial dealings, the Cornish tin producers,

the London Metal Exchange, and the creditors of the ITC would all have benefited. It was through no fault or negligence of the Government that this attempt to reach a negotiated agreement failed.

5 The Committee raise a number of matters in its report; these are dealt with in separate sections below.

CONSTRAINTS ON THE INQUIRY

6 The Government recognise that the Committee was faced with a number of constraints in conducting this inquiry. In deciding what information should be provided, Ministers and officials acted in accordance with international obligations, legal considerations and established conventions relating to the disclosure of official information to Parliamentary Select Committees within constraints acknowledged by the Committee. In the circumstances both Ministers and officials co-operated with the Committee's inquiry as fully as possible.

7 There were in particular three constraints under which officials gave evidence. Two of the constraints were special to the circumstances of this inquiry: the confidentiality of ITC proceedings and the possibility of legal actions concerning some of the events in question. The Committee recognise (HC 305-I, paragraph 9) that it would not be appropriate for Ministers or officials to comment on matters which are, or may become, subject to legal proceedings. In addition there is the normal constraint on all officials giving evidence to Select Committees that they do so on behalf of and under the instruction of their Ministers.

8 The instructions given by Ministers and followed by officials in the course of this inquiry were no different from the rules that are and have for a long time been generally applicable when civil servants give evidence to Select Committees. These rules are set out in the Memorandum of Guidance for Officials Appearing Before Select Committees, (GEN 80/38) which is available to the Committee. They make clear the categories of information which officials must not disclose to Committees. These include, in particular, advice that has been given to Ministers.

9 The purpose of such a rule is clear and well understood. It is necessary in order to preserve the basis of confidence between Ministers and their advisers. Such confidence is not only necessary for the effective working of Departments: it also underlies the basic principle that it is Ministers and not officials who are responsible to Parliament for the activities of their Departments.

10 This principle is well established and was recognised in the First Report of the Select Committee on Procedure Session 1977/78 [HC 588-I] and in the Memorandum by the Clerk of the House to that Committee, which set out at length the basis on which officials give evidence to Select Committees. The Government cannot therefore agree with the view of the Committee that these well established conventions should have been set aside.

11 The Committee asserts (HC 305-I, para 8) that it was "unnecessarily obstructive" of Ministers and officials to refuse to comment on certain ITC documents which had come into the Committee's possession. The Government cannot accept this view. The documents in question came to the Committee without the consent of the ITC. The rules governing the confidentiality of the ITC's proceedings make it clear that no one may disclose to third parties any ITC papers or proceedings without the consent of the Council. The same restriction applies to quoting from or referring to the contents of such documents or reports in oral or written evidence. In order to assist the Committee, officials twice requested the ITC to agree to release the information requested by the Committee. Those approaches were emphatically rejected. The Committee also stated that these documents came from US sources having been released under the Freedom of Information Act. Since the Committee reported, the US Government have denied that they authorised release of the ITC documents under the Freedom of Information Act or otherwise.

12 The Committee has called upon the Leader of the House "to provide time for the House to express its view on the refusal of the Secretary of State for Trade and Industry to provide full answers to our questions on the role of the Government in the tin crisis. We look to the House to support our legitimate demand." (HC 305-I, para 14). As has been explained above, both Ministers and officials co-operated with the Committee to the greatest extent possible within the constraints by which they were bound. The House will have an opportunity to express its views on this point in any debate which may take place on the Committee's report.

THE INTERNATIONAL TIN COUNCIL

13 The Government agree with the Committee that the ITC should have exercised greater control over the extent of the Buffer Stock Manager's forward dealings. It was for this reason that the Government tried, without success, to ensure that the Council's members had access to more information about the nature of the Buffer Stock Manager's transactions.

JF3ALO

14 The Government have noted the Committee's comments (HC 305-1 paragraphs 34-35 and 45) about the consequences which follow if a commodity agreement maintains artificially high prices. There are of course important lessons to be drawn from the failure of the Sixth International Tin Agreement in particular in relation to international commodity agreements with market intervention provisions. However such lessons must be set in the wider context of a large and sustained fall in virtually all commodity prices; the impact on commodity prices of exchange rate factors; the heavy indebtedness of many commodity producing countries; and the failure of various aspects of the United Nations Conference on Trade and Development (UNCTAD) Integrated Programme for Commodities.

15 Policy on International Commodity Agreements and associated matters has always been one of the main items of the business of the UNCTAD. It is the practice of members of the European Community to speak on these questions on the basis of a common position. In preparation for the UNCTAD Ministerial Conference in the summer of 1987, the Government have been considering the policy on commodity agreements and the other aspects of the UNCTAD Integrated Programme for Commodities.

16 The Government accept the Committee's recommendation that "as a matter of urgency the Government should look into all international trading organisations of which it is a member and make sure that their liabilities are clarified and publicly understood" [HC 305-1 para 52].

17 Indeed, even before the Select Committee reported, the Government had begun a study of their responsibilities to other international trading organisations and similar bodies. As a result, we consider none is likely to develop problems such as those which occurred with the ITC but they will be kept under close review. The Committee will agree that is not always possible to identify potential liabilities with precision in advance or to quantify the extent of the risk which may change over time if the role or operation of the organisation changes. The object must be to minimise these risks and to avoid incurring fresh ones whenever possible. We shall ensure that contingent liabilities in regard to such bodies are reviewed regularly (as well as being reported to Parliament in accordance with existing practices) and that full account is taken of changing circumstances.

18 We have noted the Committee's view that "if prosperous countries walk away from their collective debts because of a cloak of immunity there can be no reason for us to expect poorer nations to pay their debts". (HC 305-1, paragraph 46).

The Government greatly regret the failure of the ITC to reach a settlement with its creditors and would be very concerned if their failure were to be taken as a precedent by any country.

19 The Committee states that "the ITC is discredited and that if it continues at all it will do so only as a gatherer of statistics, although the need for this role is debatable". (HC305-1, paragraph 48). We agree that there is no prospect of the Council resuming its trading operations and, even were that option open, it is not one which the Government would wish to pursue.

THE GOVERNMENT'S ACTIONS

20 The Committee makes a number of criticisms of the Government's actions in relation to a warning given to the LME and to the conduct of the ITC.

21 In paragraphs 49 and 50 of their Report the Committee concluded that the LME Chairman was only given a warning of the possibility that the Buffer Stock Manager might not be able to fulfil his obligations, in such imprecise terms as to be worthless. In paragraph 50, the competence of the DTI official concerned is questioned.

22 Concern about the nature of the dealings by the Buffer Stock Manager and the exposure of the LME brokers was raised by the LME in discussions with the Bank of England as early as the autumn of 1982, only three months after the entry into force of the Agreement. This concern was reported to the DTI by the Bank.

23 The Bank advised the LME (initially on an informal basis) that they should not count on the ITC member Governments automatically accepting liability if the Buffer Stock Manager were ever unable to meet his commitments. In February 1984, the Bank repeated the warning at a formal liaison meeting with representatives of the LME Committee. And throughout the whole of the period this general advice was given by the Bank in response to enquiries. Furthermore, DTI delegates to ITC meetings were accompanied by LME representatives from the beginning of the Agreement until the crisis of 24 October 1985; these representatives had substantially the same information as was available to the Council's delegates.

24 At his meeting with the LME in June 1985 the DTI official concerned was therefore repeating warnings already given by the Bank of England. These warnings were known to brokers, though not all had heeded them. The LME's Chairman thought that a repetition by him of the warning would have no



further effect. It is understandable that he should have taken this view when warnings by the Bank had not been universally heeded. The Committee implies that the DTI official should have persuaded the LME Chairman that he was wrong, but does not suggest how this might have been done, or indeed why a warning by the Chairman would have been more effective than those already given by the Bank (of which, the Committee may not have been aware). For these reasons the Government therefore regards the Committee's criticism of the DTI official concerned as unfounded.

25 The Committee states, in paragraph 51 of its report, that it was "..... unforgivable that such a warning was intended to be passed only to one category of persons exposed to risk in dealing with the BSM, and not to the other categories, namely, tin producers in the UK and banks lending to the ITC".

26 No warning was given to the ITC's bankers for two reasons. First the information available to the Department did not suggest that the banks were at risk. The banks had taken tin as security for their loans and the loans would have remained fully secured even if the price of tin had fallen by up to 20 per cent. Second, a formal warning to the banks would have precipitated a crisis and probably the collapse of the buffer stock operation. The information available to the Department did not justify the Government's taking a step with such potentially damaging consequences, for which it would have had to answer to all other members of the Agreement and to all interests affected by the price of tin.

27 The Government were also in touch with representatives of the Cornish tin industry during the period in question: there was, for example, a meeting between DTI officials and the Cornish Chamber of Mines on 23 May 1984, at which a number of issues relating to the future of the ITC were discussed. However it was not thought appropriate in June 1985 to give any formal warning to the Cornish tin producers about the future of the ITC's buffer stock operation. First, to have done so could, as in the case of the banks, have precipitated a crisis: the information available to the Department did not justify a step with such potentially damaging consequences. Second, there was no action open to the Cornish tin producers which could have averted or minimised any potential difficulties arising from the buffer stock operation. The Department has been told by RTZ that the company had fully recognised that the tin price was being supported at unrealistic levels by the Buffer Stock Manager, and that any warning from the Department to them would have made no difference to the actions they had taken.

28 The Government therefore rejects any criticism of its not having issued a warning to the banks lending to the ITC or to tin producers in the UK.

29 In paragraph 55 of the report, the Committee criticises the failure of the UK representative at ITC meetings to block "ever increasing credit lines with the banks". This criticism may be based on a misunderstanding. The limits on the BSM's borrowings are set in Article 21 of the 6th International Tin Agreement at the equivalent of 20,000 tonnes of tin at the price then prevailing. The Council authorised lines of credit from a number of banks, which enabled the BSM to operate within this limit, early in the life of the 6th ITA. From July 1983 until October 1985, decisions were taken to add a small number of bankers to the authorised list. The banks had offered facilities of up to £25m in total. The addition of these banks to the approved list did not however increase the total permitted borrowing of the Buffer Stock Manager, which remained at the 20,000 tonnes equivalent referred to above.

30 In paragraphs 53 and 54 of its report, the Committee refers to the secrecy surrounding the dealings of the BSM and expresses concern at the fact that despite repeated requests DTI officials were unable to obtain detailed information from the ITC. The Government accepts that it was wrong that ITC members were unable to obtain sufficient information to understand the nature of the Buffer Stock Manager's operations and to exercise effective control over them. In particular, delegates were never told about the Buffer Stock Manager's unpriced forward sales transactions. The problem lay not in any failings on the part of UK delegates in their efforts to obtain the information, but in the structure of the 6th ITA and the confidentiality rules adopted by the ITC. They provided no mechanism by which Government representatives could insist on securing the relevant information. There is no reason to suppose that had the matter been taken up by UK Ministers as the Committee suggests, this would have changed the situation.

31 The Committee says in paragraph 56 that a situation in which an international organisation was able to refuse material information to its member governments should never have been allowed to come about. The Government agree. There was no reason to suppose, however, when we first joined the Agreement, that information would be refused in this way. The Government are taking steps to apply the lessons of the ITC's collapse and to ensure that no such situation can recur.

CORNWALL

32 The Committee describe in its Report the difficulties facing the Cornish tin industry as a result of the fall in the price of tin following the collapse of the ITC's price support operations. The Government are fully aware of the importance of tin to employment in Cornwall. In October 1985, some 1,500 people were employed in tin producing operations and a further 500 jobs were directly dependent on the industry. The effect of closures and redundancies would be particularly felt in the Penzance and St Ives and the Redruth and Camborne TTWAs where unemployment is currently about 21 per cent.

33 Although there are no longer dealings on the LME in tin, it is understood that there has been substantial trading in recent weeks at below £4,000 a tonne. At such low price levels, which are the result of overcapacity and the large tin stocks left in the market by the default of the ITC, very few tin producers in the world can operate economically. It may well take several years for the tin stocks to clear and for the price to rise to a level at which tin production capacity necessary to meet future world demand can be operated profitably.

34 In such circumstances the Government have accepted that decisions need to be taken about the future of the Cornish tin industry before the long term price of tin is known (HC 305-I, paragraph 68).

35 On 7 April, Geevor mine ceased production with the majority of the workforce being laid off. Geevor was kept on a care and maintenance basis while the Government considered the company's application for assistance. On 30 April the Government announced that it was providing a £40,000 grant to keep the Geevor mine on a care and maintenance basis for a further period of two weeks, matching a similar offer by Cornwall County Council. The purpose of the Government grant was to enable the Geevor management to develop its earlier proposals with a view to improving the prospects for eventual viability.

36 On 23 May, Geevor submitted a revised application to the Government. This provided for the cessation of tin mining for a period of 5 years, a reduction in numbers employed initially to 200, and the development of underground mining and offshore dredging operations, to come into full production in the early 1990's, when the price of tin is expected to increase with projected expansion of employment to 480.

37 The Government have most reluctantly concluded that the revised Geevor application cannot be given the assistance requested. It would have amounted to over £40,000 for each of the jobs expected to be provided in 1992 and much more than this in the intervening years. Nor are the Government convinced that there is a sufficiently realistic prospect that the new Geevor tin operations would have been fully commercially viable once they came into production, even with this assistance.

38 The Government recognise that the further contraction or closure of the Geevor mine would increase the already high level of unemployment in the Penzance and St Ives TTWA. In addition to existing measures of assistance, the Government have, therefore, decided to make available in the Penzance and St Ives TTWA a slightly amended version of the Business Improvement Service package of schemes of assistance to small businesses which is currently operated by my Department. This would help the local economy diversify into activities other than tin mining and tourism. The Department of Trade and Industry is in discussion with the EC Commission who, we hope, will approve the proposal within the next few weeks. We shall make available £1m for this purpose.

39 On 28 April the RTZ subsidiary, Carnon Consolidated Ltd, announced that consultations would begin which may result in the closure of the company's tin operations at Wheal Jane, South Crofty and Wheal Pendarves, with the consequence that the 1,000 people employed would be redundant as from 1 August 1986. On 6 May, RTZ submitted an application to the Government for financial assistance to enable its tin operations to continue.

40 The Government are considering urgently the application for assistance from RTZ and from smaller tin producers in Cornwall. The Government will particularly take into account the employment implications and the level of financial assistance necessary in each case but, as in the case of Geevor, will need to be satisfied that tin operations in Cornwall would be viable.

41 While no decisions have yet been taken on any individual application for assistance other than from Geevor, the Government recognise that the tin crisis was in part caused by an excess of world production capacity over world tin demand. In order for the tin stocks overhanging the market to be cleared, and for the tin price to rise to economic levels, it is necessary for world output of tin to be reduced for a period. Unless this happens, low prices for tin are likely to persist, delaying perhaps for a very long time the return of commercially viable tin production in Cornwall.

42 The Government will, therefore, take their decision on the basis that support will be given only to those projects which show robust prospects for commercial viability. The Government do not accept the Committee's recommendation (in paragraph 72) that short term price support subsidies should be given to Cornish tin producers to maintain them in operation.

43 However, the Government cannot agree that if tin mines close, they can never be reopened and the tin resources in Cornwall will be lost. While it is true that mining works or equipment may be lost or damaged when a mine is flooded, the tin ore could be worked in the future when it became economic to do so as it has happened in the past. Known Cornish tin reserves are still very substantial and can be worked commercially when tin prices rise sufficiently to make the operations viable.

PRIME MINISTER

TIN

Mr Channon's letter below reports that he intends to announce on Monday that Geevor's application for support has been rejected. I have explored whether the announcement could be delayed until Tuesday, but it is clear that this is not possible. Mr Channon will also be announcing £1 million to support a Business Improvement Service Package in the local area.

Officials apparently believe there is a reasonable prospect of saving one of the RTZ mines.

Mr. Channon is also circulating his proposed reply to the report on the tin crisis by the Trade and Industry Select Committee. The Chief Whip apparently advised that the reply should be robust. It is certainly that. It admits no mistakes or blame in the handling of the affair by DTI officials, even in the mildest terms. This may be right in Parliamentary terms, but it looks like a whitewash, and I shall seek the Chief Whip's view about it on Monday.

There is also an odd paragraph (paragraph 14) which is by implication much too favourable to commodity agreements and which needs to be amended.

David Norgrove
30 May 1986

JAlATF

Secretary of State for Trade and Industry

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28 May 1986

CONFIDENTIAL

Prime Minister

There is a summary on the second page.

DAS 29/5.

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign
& Commonwealth Affairs
Downing Street
LONDON
SW1A 2AL

Dear Secretary of State,

FUTURE ARRANGEMENTS FOR TIN

In the wake of the tin crisis, discussions are already beginning both in the International Tin Council and in the European Community, on the arrangements which might be set up to succeed the Sixth International Tin Agreement.

As I made clear in my letter of 25 April to the Chancellor I believe that both the International Tin Agreement and the International Tin Council should only be kept in being as long as is necessary to deal with the legal actions arising from the tin crisis.

So far as any successor arrangements to the ITA are concerned, we need to consider our position. I am sure we would all agree that there could be no question of our supporting any new agreement with market intervention provisions of any sort. I am quite certain moreover, that it would not be possible to get adequate consumer support for such a body, and even the producer countries might have second thoughts.

The question is therefore whether we should support the establishment of a Tin Study Group, broadly on the lines of the International Lead and Zinc Study Group, or whether we should take the line that it is not necessary to have future arrangements relating to tin.

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I believe that the potential benefits from study groups are limited, and my own preference would therefore be for us to state now that we do not wish to have anything to do with any future arrangements for tin. I understand that in the context of a study group there would be no problems of Community competence in our taking an independent line. This might incline others to take a similar line. At present indications are that virtually all the consumers currently in the ITA would go along with a study group; and the producers would probably accept it was the best deal they could get. The French have, however, said that a condition of joining such a group should be a wide coverage of producers and consumers. So far there is no clear evidence as to whether any of the major producers and consumers currently outside the ITA would join a study group.

The International Tin Council has arranged a Preparatory Committee to meet on 30 May to discuss future arrangements for tin. Non-member countries have been invited to attend. I understand that the European Community member countries intend to attend the meeting but to say that as far as future arrangements are concerned these should be looked at outside the auspices of the present International Tin Council. I entirely agree that if any new body were to be set up, it should be as far as possible distanced from the present ITC.

So far as the present ITA is concerned, I believe that we should seek to ensure that it is possible to bring both the Sixth ITA and the Tin Council to an end by 30 June 1987, when the Sixth ITA is due to expire, or earlier if possible. We should recognise however that it might be necessary to keep both the Agreement and the Council, or possibly just the latter, in being so that legal actions against the Council can be dealt with. Some Member Countries might also require a means by which they could justify to their Parliaments the payment of their share of any judgement which might be made against member countries. This could be important to the UK if we were sued on a joint and several basis. I also believe that in order to minimize costs, we should seek the maximum possible reduction in the staff of the ITC as soon as possible, now that many of its functions have ceased.

In summary I therefore recommend

a) we should state that we do not wish to participate in any future arrangements relating to tin;

b) we sould seek to ensure that the present ITC and ITA should be capable of being wound up by 30 June 1987 or earlier if possible;

JF1BCY

c) should it be necessary to keep either the ITC or the ITA and the ITC in being beyond June 1987 to deal with legal actions, this should be done, at a minimum cost;

d) we should press for the maximum reduction of ITC staff as soon as possible in view of the considerably curtailed functions of the Council.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food, the Solicitor General, the Governor of the Bank of England, and to Sir Robert Armstrong.

Yours sincerely,

Michael Gilbertson

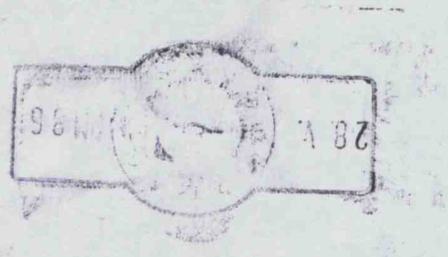
pp PAUL CHANNON
(Approved by the Secretary of State and signed in his absence)

JF1BCY

TRADE

TIN

PT 2



CONFIDENTIAL

DFN seen

Qz.05029

MR HOLROYD

cc: Mr Powell, 10 Downing Street
Mr Renwick, FCO
Mr Unwin
Mr Stark

INTERNATIONAL NATURAL RUBBER AGREEMENT

At the Foreign Affairs Council yesterday the Minister of State, Foreign and Commonwealth Office, Mrs Chalker, set out firmly the conditions which would need to be met if this agreement were to be renegotiated: in particular, she made clear that the buffer stock manager must not exceed his authority and that, if he were to do so, we would accept no liability falling on member countries. I took the opportunity in the margins of the Council, before Mrs Chalker made her statement, to hammer these points home to the Commission and in consequence their reply was also robust. This does seem to have been reflected already in the negotiations in Geneva. The stiffening of the Community's line has made even more apparent the sharp divergence between consumers and producers, since the producers are still demanding the moon (eg an increase of 30 per cent in prices). There is already speculation in Geneva whether the result will be a breakdown of negotiations for this session or a total breakdown of the negotiations altogether.

DF Williamson

D F WILLIAMSON

13 May 1986

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10 DOWNING STREET

From the Private Secretary

9 May 1986

INTERNATIONAL NATURAL RUBBER AGREEMENT

The Prime Minister this morning held a meeting to discuss the International Natural Rubber Agreement. The Foreign Secretary, the Chief Secretary, the Attorney General and your Secretary of State were present. The meeting had before it your Secretary of State's minute to the Prime Minister of 8 May.

Summing up a brief discussion, the Prime Minister said that the United Kingdom could not withdraw from the existing agreement or refuse to take part in negotiations for its renewal. The most effective course would be to press the Community to take a tough line in negotiations within the existing mandate in the hope that this would lead to a breakdown of the discussions.

The Prime Minister said that the negotiating position needed to be clarified and stiffened. The "objectives" for the forthcoming session of the renegotiation set out in Annex A of the paper by officials circulated by your Secretary of State should be seen as conditions for acceptance of a renegotiated agreement. It should be absolutely clear that the buffer stock manager must not exceed his authority and that if he were to do so no liability would fall on member states. Those who dealt with him would need to be absolutely clear about that. The maximum further liability of the United Kingdom should be no more than £2½ million. Achievement of all the conditions would be necessary for a renegotiated agreement to be acceptable to the United Kingdom, and Ministers should be consulted again if during the course of the negotiations there appeared to be any danger that the United Kingdom could be pushed into a position where an agreement would be on the cards which did not incorporate all the conditions.

On other matters, the Prime Minister said that consideration should be given to how best to gain the support of the United States for the position being taken by the United Kingdom. The review of policy towards commodity agreements at present being carried out by the Department of

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Trade and Industry should be completed and have been discussed and a position agreed by Ministers before the start of the United Kingdom Presidency.

I am copying this letter to Robert Culshaw (Foreign and Commonwealth Office), Jill Rutter (Chief Secretary's Office), Michael Saunders (Attorney General's Office), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and Michael Stark (Cabinet Office).

(DAVID NORGROVE)

Michael Gilbertson, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

cc BKA

MR NORGROVE

8 May 1986

INTERNATIONAL NATURAL RUBBER AGREEMENT

None of the four options in the official paper are attractive. Unilateral withdrawal from either the negotiations or the agreement runs into punitive legal problems. Agreement from EC partners to annul the negotiating mandate seems unlikely, whilst any toughening of the negotiating resolve (but not the mandate itself) is likely to seep away under the consensus pressure to achieve an agreement.

In fact, if there is to be a rubber agreement, then the present agreement is not too bad: provided its terms are honoured the maximum further cost to the UK is only £2½m. The trick is to ensure they are honoured. Likewise the EC negotiating mandate if honoured is not too bad, inter alia, it wants economic provisions that take account of market realities - ie realistic pricing.

This suggests that a fifth option may be not to annul the EC negotiating mandate but rather to clarify it. In the light of the tin collapse it should surely be easier to gain binding EC agreement to amend the negotiating mandate. The amendment should state:

- the buffer stock manager will never be permitted to exceed his authority,
- that our maximum liability will be a further £2½m, and
- that pricing be realistic.

With these constraints the agreement is likely to collapse of its own accord.

Peter Warry

PETER WARRY

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P 02050

PRIME MINISTER

THE INTERNATIONAL NATURAL RUBBER AGREEMENT

CONCLUSIONS

You will wish the meeting to decide how best to aim to end UK involvement in International Natural Rubber Agreement (INRA). The possible approaches are

a. withdrawal from the present INRA;

b. unilateral withdrawal from the renewal negotiations;

c. securing the agreement of Comnmunity partners to cancel existing EC mandate for the negotiations; or

d. stiffening the EC mandate so that it becomes unacceptable to producing countries.

BACKGROUND

2. It is most unfortunate that Ministers now have to consider INRA without having had the chance to discuss the general approach to Commodity policy on which the Interdepartmental Committee on Commodity Policy (ICCP) has been working for some time and on which the Department of Trade and Industry have promised a paper. The need to decide on the UK line towards INRA is dictated by the second Session of the Conference to renegotiate INRA, which began in Geneva on 5 May. The present meeting follows a preliminary discussion which you had with some of the Ministers concerned on 1 May. We are not conscious of any immediate problems with other Agreements (leaving aside Tin), but they should all be reviewed when the long overdue DTI paper - which we have several times asked should be accelerated - is ready.

Economic impact and financial risks

3. The essential facts about the INRA are set out in Annex B to the paper prepared by officials. There are clearly defined limits on the size of the buffer stock. The buffer stock Manager cannot borrow without the agreement of the Council, and is expressly precluded from dealing in the futures market; there is thus no question of massive contingent liabilities arising as in the recent case of tin. The buffer stock is financed by cash contributions from the member countries; so far the UK has subscribed £53/4 million, which represents our 21/2 per cent share of the costs of purchasing the present buffer stock of 360,000 tonnes. The absolute maximum size of the buffer stock is 550,000 tonnes, and the UK share of the cost of the 190,000 tonnes maximum potential increase would be about £2 million.

4. The buffer stock purchases in recent years will have held natural rubber prices a little above what they would otherwise have been, to the disadvantage of UK consumers. To the extent that the existence of the Agreement may have contributed to stability of trade and so security of supply, there could be said to be some offsetting benefits for UK consumers. The remaining potential buffer stock purchases clearly would not be sufficient to have any major impact in resisting a fall in price, if there were to be a significant change in the balance between supply and demand. Overall the INRA seems to have little importance in the world economy, and the potential further UK exposure is correspondingly modest.

5. If there were to be no new Agreement, this country would receive its proportionate share of the buffer stock, which would then be sold in the market. Since there would then be some overhang of supply over demand, prices would no doubt be lower, so that we should not get back the total £53/4 million contribution. If we were able to withdraw from the Agreement, which nonetheless

continued, we could in principle expect to recover a somewhat higher proportion of our contribution.

EC Constraints

6. In practice UK freedom of manoeuvre is narrowly constrained by EC obligations. It is established that the Commission negotiates commodity agreements on behalf of member countries under a mandate approved by the Council. The best legal advice is that an attempt by the UK to withdraw unilaterally from the present Agreement, or from the negotiations for a new Agreement, would be unsuccessful and damaging; the Commission would take their case to the European Court, whose decision would not only rule against us in the specific case of the rubber agreement but could also result in an extension of Community competence into new areas related to commodity trade which would be against UK interests. Unless this legal problem can be overcome, only two approaches appear to be open to us:

a. press for annulment of the European Community mandate in the present negotiations. This would mean convincing the rest of the Council to overturn the decision of April 1985 establishing the present mandate;

b. seek to stiffen the Community position within the existing mandate.

7. While we could argue that the recent experience with the tin agreement requires an overall reappraisal of the Community approach to commodity agreements, it is doubtful whether the majority of other member states would readily agree to withdraw from the negotiations for a new Rubber Agreement. France, Italy and the Netherlands might well dislike the implications this would have for their general stance towards developing countries, and there could be particular political difficulties for this country with Malaysia if we were seen to be the prime movers in a Community withdrawal from the negotiations. At the least we

should have to invest significant political credit in persuading other member countries to change their positions.

8. The Trade and Industry Secretary's recommendation is accordingly that we should seek to stiffen the Community position within the existing mandate, and hope that this leads to the breakdown of the negotiations. As Annex A to the officials' paper makes clear, there are some useful further elements which could be introduced into the negotiations - removing any provision for 'borrowing' even with the agreement of the INRA Council, making changes in the reference price more frequent and more automatic, and lowering the price range in the Agreement. It seems likely to be much easier to carry our Community partners with us in pressing for changes on these lines than it would be to persuade them to withdraw altogether from the negotiations. The advantage of the Agreement to the producers is limited, and it appears that some of them already have doubts whether renewal is worth the trouble; if they were to accept very tough Community conditions, the UK's position would be even better protected than it already is, but if they rejected them, then so much the better. It is note-worthy that exactly this tactic - stiffening the Community position within an agreed madate - led to the recent breakdown of the negotiations for a third International Cocoa Agreement.

HANDLING

9. You will wish to invite the Secretary of State for Trade and Industry to introduce his paper and present the options. The Foreign and Commonwealth Secretary and the Chancellor of the Exchequer will wish to speak on the political and financial aspects of the issue. The Attorney General will need to advise on the legal position, and particularly on the Community constraints and risks.

J B Unwin
Cabinet Office
8 May 1986



CC BG
BLUP

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Prime Minister

Paragraphs 12-14 of the paper by officials attached to this minute are well worth reading.

DEV
8/5

JU198

PRIME MINISTER

INTERNATIONAL NATURAL RUBBER AGREEMENT

1 The attached paper has been prepared by my officials in consultation with other interested Departments in response to the request in your Private Secretary's letter of 1 May. In view of the importance of the legal issues involved I have, as suggested by the Chief Secretary, referred them to the Law Officers for an opinion. I understand that the Attorney General will be present at the meeting arranged for this Friday and will be prepared to give an opinion then. The attached paper is therefore based upon the advice of Departmental legal advisers.

2 A new INRA would be of little or no benefit to the United Kingdom and I would be content to see the present agreement lapse without renewal. We shall therefore need to consider our future course of action principally in the light of the Law Officers' advice on the legal obligations under Community law and on the wider considerations which would apply if we were to decide to act contrary to our Community obligations.

3 Subject to the views of the Law Officers, the advice from officials is that our freedom of action is severely constrained

1786 1986 BOARD OF TRADE BICENTENARY

by Community Law. It is doubtful whether we can unilaterally withdraw from the present INRA, nor, since we are legally bound by a negotiating mandate agreed in April 1985, can we withdraw from the renewal negotiations. Were we to attempt to act unilaterally we might well provoke a damaging row on the eve of the UK Presidency. Legal action against the UK by the Commission would be inevitable and could result in an unwelcome extension of Community competence. Officials conclude that in the circumstances the most effective course would be to press the Community to take a tough line in negotiations within the existing mandate in the hope that this will be unacceptable to the producing countries, though there is a risk that we might not be able to prevent an eventual compromise leading to a new INRA. However, we could not afford to be seen to be aiming for the failure of negotiations since this would undoubtedly jeopardize our chances of maintaining the support necessary for a tough Community line. While we could in theory seek to change the negotiating mandate the chances of our succeeding are remote.

4 I am copying this minute to the Secretary of State for Foreign and Commonwealth Affairs, the Chief Secretary, the Attorney General, the Minister for Agriculture, Fisheries and Food and to Sir Robert Armstrong.

MRL

PAUL CHANNON

8 May 1986

Department of Trade & Industry

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The International Natural Rubber Agreement

Paper by the Department of Trade and Industry

This paper has been prepared by officials of the Department of Trade and Industry in consultation with officials from the Cabinet Office, Treasury, Foreign and Commonwealth Office, and the Ministry of Agriculture, Fisheries and Food.

2 The conclusions presented below are based upon the advice of Departmental legal advisers but are subject to the views of the Law Officers whose advice has been sought.

The Issues

3 How best to secure the withdrawal of the United Kingdom from the International Natural Rubber Agreement (INRA) bearing in mind existing legal obligations and the size of the outstanding stock.

4 If this is not possible, what negotiating line should the UK Delegation be instructed to take in the current negotiations.

Options

5 There are four possible approaches to the problem:

(i) To withdraw from the present INRA. But it is very doubtful whether the United Kingdom can unilaterally withdraw consistently with Community law.

(ii) To seek the agreement of Community partners to annul the existing European Community mandate for the negotiations. In April 1985 EC and Member States decided to enter negotiations on the basis of a common position (supported by the UK) couched in broad terms (see para 9 below), within which detailed positions would have to be formulated.

(iii) To stiffen the Community position within the existing mandate to the point where it becomes unacceptable to producing countries. This will require the UK to enlist the support of its EC and consumer partners but offers the best chance of success.

(iv) Unilaterally to withdraw from the renewal negotiations. But Community law, because of the mandate, constrains the UK's freedom of action.

Constraints

6 (i) Withdrawal from the Present INRA.

The present Agreement expires at the beginning of October 1987. The 12 months' notice of withdrawal required means that the UK would only be outside the Agreement for a maximum of 5 months (assuming that Community law would allow unilateral withdrawal).

(ii) Annulment of the EC mandate.

Annulment of the mandate would require EC partners formally to decide that they did not wish to negotiate a new INRA contrary to the objectives endorsed by the Council in April 1985. Such a decision would have political implications going beyond INRA, and amounting to

general EC opposition to International Commodity Agreements (ICAs). Whatever the reservations of some of our Comunity partners about ICAs, the majority is unlikely to be willing to adopt such a course before the Community has thoroughly reviewed existing policy on commodities in general.

(iii) Stiffening the EC Mandate.

There is a reasonable chance of mustering sufficient support within the Community for a tough line. Member States however would be reluctant to agree to such a line if the UK revealed that its ultimate objective was the failure of the Conference. Tactically, we should therefore press to the maximum the point that the UK's specific requirements are essential if the provisions of the mandate are to be fulfilled and the Community is to avoid concluding an Agreement which is not in line with market realities. But this line carries with it the danger either that the UK will be unable to muster sufficient support to prevent an eventual compromise solution which has the faults of INRA 1, (ie a tendency to support the price) or that the producing countries will accept what ever tough line the EC proposes.

(iv) Unilateral withdrawal from the negotiations.

Unilateral withdrawal would be contrary to the spirit, and probably to the legal obligations, of the April 1985 mandate. Non-participation would make it impossible for us to influence Community priorities in the negotiations, and would reduce our influence on other consumers. It would also make it very much more difficult to muster a blocking minority of EC member states to prevent the Council taking a decision contrary to our interests. At the end of the day, we might still find ourselves obliged by a Council decision taken by qualified majority to join a new Agreement. Most other EC member states are in favour of continuing the negotiations. Unilateral withdrawal from the negotiations would inevitably expose the UK's isolated position and lead to major disagreement in the Community on the eve of the UK Presidency.

Legal aspects

7 UKREP Brussels advise that the Commission would probably welcome the opportunity of seeking a ruling from the Court on the issues of Community competence raised. There are three aspects.

(i) A unilateral UK withdrawal from the current Agreement would be likely to be challenged by the Commission in the European Court of Justice.

(ii) As regards withdrawal from the current negotiations, the UK is bound by the terms of the mandate agreed by the Council in April 1985, unless the UK succeeds in having it changed. Unilateral withdrawal from the negotiations which carried an implication that UK would not participate in any eventual Agreement might also be challenged by the Commission before the Court.

(iii) Finally, and most important, if a Council Decision were to be taken under Articles 113 and 116 obliging the Community and Member States to sign and provisionally apply a new Agreement, the UK would be bound to comply with its terms and would undoubtedly be taken to the court by the Commission if it did not do so.

8 Subject to the views of the Law Officers the UK is thought unlikely to succeed in any action brought against it under (i) to (iii). Furthermore, if any case on commodity agreements is brought before the Court, we risk a Court judgment which extends Community competence, with serious implications for external agreements in other fields eg environment.

Renegotiation of the INRA

9 The first renegotiation session of the INRA was held in Geneva in April/May 1985. The European Community and its Member States entered the renegotiation, with Ministerial endorsement, on the basis of a Council decision agreed in April 1985. The principal EC objectives were as follows:

a) to encourage the conclusion of a viable agreement whose economic and financial provisions allow it to operate efficiently and take account of market realities.

b) to help achieve stability of natural rubber prices by preventing excessive price fluctuations and

c) to seek to guarantee adequate and regular supplies of natural rubber on reasonable terms for community industries.

This mandate is fairly broad in its terms but it assumes implicitly that the INRA is worth renewing.

10 Given the broad terms of the mandate there is a fine balance between what is referrable back to Council and what is an acceptable adjustment to the mandate by Member State consensus. The EC Working Grouping preparing the current session was developing a tough position which strengthened the mandate without recourse to Council. A radical change such as seeking to block any new Agreement would, however, result in a reference back to Council.

Other countries' views

11 The current Geneva session represents the second session of the renegotiation for a possible second INRA and by precedent it would not be the last such session. As at present known, the

divergence between the consumer and producer positions in such that the most likely outcome of the present session is either disagreement or breakdown. Initial reports suggest that the producers are seeking to ensure that the price mechanism under any new INRA pays regard to production costs, whereas the consuming countries are opposed to this. A tough Community position should further stiffen consumer resistance.

12 In the EC working group there is substantial support for a tough line. All accept that the key elements of the present agreement (as set out in para 7 of the paper annexed to the Secretary of State's letter of 25 April) should be maintained without dilution. There is also support for many of the ideas for strengthening INRA as set out in para 11 of the same paper. (The texts of these two references are repeated for convenience at Annex A to this paper). There is support for the maintenance of the present ceiling on the size of the buffer stock and the removal of all references to borrowing. The areas of difficulty relate to the need for greater price automaticity (where there is broad agreement on the principle but not on the frequency proposed by the UK) and on price levels (where there would be difficulty in getting support for a tough stance). No member state, however, is thought to contemplate a price range above the market level at the time that any new agreement might enter into force. Support will be easiest to obtain from the Federal Republic and Belgium. The smaller and newer member states may well become more supportive as may the Netherlands. France and Italy may be unwilling to come alongside. On the question of EC withdrawal in the event of a major producer or consumer withdrawing Italy and the Netherlands may be the most recalcitrant. For a variety of reasons others may well agree to the proposed UK line. In the event, however, of the UK seeking to adopt wrecking tactics or to change the mandate and seek withdrawal, the movement towards our position could well be reversed.

13 At the present time, all other members of the agreement, representing all major consumers and producers, are prepared to negotiate. The US in particular, normally anti-pathetic, is willing to contemplate renewal as are the Japanese and other consumers. The UK, therefore, although possibly able to bring its EC partners alongside would be seen as pushing the toughest individual line. On the producer side, despite expressed doubts, the Malaysians may be willing to join a new agreement, but probably only on terms which would be unacceptable to consumers. There remains some risk of political conflict and commercial repercussions if they identify the UK as the wrecker. Thailand and Indonesia who are the other two major producers seem to be seeking a successor agreement.

Economic Committee

14 The UK has the chair of the key Economic Committee for the duration of the Conference. Whilst the UK adopts the position of a tough negotiating stance, this can be viewed as a negotiating asset. If Ministers were to decide, however, on a withdrawal course, the Chairman's position would become difficult and of no UK benefit. Withdrawal from the Chair would however flag up the United Kingdom's intentions.

The current INRA

15 INRA was the first new Commodity Agreement negotiated under the UNCTAD Integrated Programme for Commodities. It came into force provisionally in 1980 and definitively in 1982. The present Agreement is due to expire in October 1987.

16 The principal objective of INRA is to reduce price fluctuations by means of a Buffer Stock. All major producers and consumers of natural rubber (NR) are members. To date the Buffer Stock has accumulated over a four year period 360k tonnes of rubber (about one month's world consumption) which represents 90% of the

normal buffer stock limit of 400,000 tonnes (on top of which there is the contingency of 150,000 tonnes). There have been no purchases of rubber during the past 6 months because the market price has been sufficiently high. There have been no sales from the stock. The direct cost to the UK has been £5¾m but we estimate that on current prices we have about £5m worth of stock share. The INRA is generally regarded as having worked satisfactorily, though it is not of significant benefit to the United Kingdom. The Agreement is a cash Agreement. Borrowing powers are clear and limited and can be used only with the Rubber Council's agreement which has not been given. The Buffer Stock Manager is not permitted to operate on the futures market. DTI lawyers advise that, as a result of the requirement on the buffer stock manager to trade only in physical rubber, the transparency attaching to his trading operations, and the Council's very limited borrowing powers, there is little likelihood of unfunded contingent liabilities arising. They have, however, prepared amendments, for use in negotiations on a new Agreement, to restrict the Council further, and to reduce the likelihood that members could incur additional liabilities (including liabilities of the kind which creditors of the ITC may allege have been incurred by members of the ITC).

17 In the event of there being no further INRA the stock existing at the close of the current agreement should be sold over a maximum period of 3 years from October 1987. This would probably put the Buffer stock manager in the role of a distressed seller and thereby adversely affect the value of the UK share of the stock.

Economic aspects

18 Annex B contains background information on the market. To date, under INRA, natural rubber costs have probably been higher than if there had been no Agreement. For the UK, as a consumer, the support of prices provided by past Buffer Stock operations represents one of the principal costs of participating in the present Agreement.

However, any greater stability of prices resulting from the Agreement may have produced benefits for UK consumers which, at least, partly offset the costs. If at the end of the day the UK cannot prevent renewal of INRA we need to ensure that any future Agreement remains viable and able to stabilise rubber prices whilst removing the likelihood that prices can be supported. The conditions set out at Annex A would need to be included.

19 There is no case for any increase in the price range. Indeed, there is a overwhelming case for arguing that the reference price should be significantly reduced in any new Agreement. It is relevant here that under the existing Agreement, prices are likely to be further reduced in a review due in October 1986. However, in assessing the need for adjustments in the reference price consideration needs to be given to the prospects for natural rubber prices. Whilst the recent fall in oil prices will undoubtedly have led to a reduction in the cost of producing synthetic rubber, and in turn some limited substitution of natural rubber with synthetic rubber, the extent of this shift will be dependent on technical possibilities as well as expectations about future relative prices, and hence future oil prices. Moreover, the fall in oil prices is expected to give a boost to overall levels of economic activity and hence to demand for natural rubber. The overall effect on natural rubber demand is thus ambiguous. Given the prospects for natural supply as recently planted trees mature, there must be uncertainty as to the movement of natural rubber prices in the immediate future.

Conclusions

Subject to the views of the Law Officers:-

a) The course offering the best chance of ensuring that there is no further INRA is to persuade EC partners to adopt and maintain a tough line in negotiations.

b) Officials should be instructed to seek to ensure that the points set out in Annex A to this paper are included in the EC negotiating position. Officials should refer back for instructions if there is opposition on any particular issue.

CTPS Division
Department of Trade and Industry
May 1986

ANNEX A

Extract from the paper annexed to the Secretary of State for Trade and Industry's letter of 25 April as referred to in para 12.

Key Elements of the Present INRA

(a) All major producers (c.93% of exports) and consumers (c.82% of imports) are members.

(b) The Agreement has semi-automatic veto-proof provisions for price adjustment around longer term market trends which have operated.

(c) The present INRA has an absolute maximum Buffer Stock level of 550k tonnes.

(d) Administration and Buffer Stock activity has been financed by cash contributions. The Buffer Stock Manager is expressly precluded from dealing in the future market. Borrowing powers are also clear, limited and triggered only with Council approval (which has not been done).

(e) Full details of Buffer Stock transactions are sent to members in clear monthly reports after a 60 day period, and

(f) Financial holdings in the Buffer Stock Account are managed in accordance with advice provided by Rothschilds to limit exposure to exchange rate fluctuations. The world price for rubber is determined on a basket of four currencies which reflect the dominant trading currencies in NR markets.

(Reference should be made here to para 16 of the covering paper on the question of contingent liabilities).

Objectives for the forthcoming session of the Renegotiation

In the light of our recent experiences with Commodity Agreements, particularly the ITA, we now need to review the UK position for the renegotiation in order to strengthen it. In all the circumstances, we would propose the following UK objectives:

(a) The existing key elements of the INRA which meet the desirable elements (listed in 6 (ii) above) for UK Commodity policy should not be diluted or eroded.

(b) The existing Buffer Stock should be transferred to any new Agreement and the current ceiling on size maintained.

(c) All references to "borrowing" should be removed from the text of the Agreement; (although noting that such powers are already highly constrained).

(d) The UK should seek even greater automaticity for reviewing the price range by reducing the interval for such reviews. At present the reference price is reviewed every 18 months. We will seek to reduce this interval in order to reflect more quickly market movements. Other ways of improving the automaticity provisions such as removing discretion as to the percentage change should also be pursued in the course of the negotiation, and

(e) The UK should explore the possibilities for a lowering of the current price range in the agreement and should not settle for a higher range.

ANNEX B

INRA

A. Market Facts

1. Production: In 1984 world production of natural rubber was 4.26 million tonnes (3.71 million tonnes in 1987). The main producing countries are Malaysia (36% of production in 1984), Indonesia (26%) and Thailand (15%).

2. Consumption: World consumption in 1984 was 4.24 million tonnes (3.7 million tonnes in 1981). The USA (18% of consumption in 1984), EC(15.4%) and Japan (12.4%) are the three main consumers. The UK consumed 2.8 per cent of world consumption in 1984.

3. Stocks: Estimated world stocks of natural rubber amounted to 1.7 million tonnes in October 1985 of which INRA stocks were less than one quarter (360,000 tonnes). World stocks increased by 30,000 tonnes between 1981 and October 1985.

4. Price Levels: From the start of INRA there has been a downward trend in the price of natural rubber and in November 1981 the buffer stock buying mechanism was triggered for the first time. Subsequently there have been two small reductions in the reference price and a third may be necessary in October 1986.

5. Substitutes: The main substitute for natural rubber is synthetic rubber which accounts for about two-thirds of total rubber consumption.

B. Costs and Benefits of the Present Agreement

6. Costs: So far the UK has contributed £5.74 million towards the purchase of buffer stocks. This is equivalent

to a payment of about £7.8 million today. Additionally, the UK has made a contribution of nearly £100,000 to the administration of INRA. If the UK continues to participate in the present agreement it could be called upon to contribute a further £2 million towards the purchase of its share of the contingency stock. In the event of the UK withdrawing from INRA or not participating in a new Agreement, the UK would take 9,000 tonnes (2.5 per cent)from the buffer stock together with its share of any cash reserves. At present prices, this rubber (together with the share of any cash reserves held by the Buffer Stock Manager) would be valued at £5½-6 million. However, in the event of there being no successor Agreement it would be unlikely that present prices would be obtained and accordingly the value would be lower. These calculations exclude any contingent liability arising from buffer stock operations.

7. The ageement,through its buffer stock purchases, will have sustained natural rubber prices above long-term market clearing levels and so have added to industrial costs. However, since the size of the buffer stock is small relative to world consumption of natural rubber these economic costs will have been correspondingly small.

8. Benefits: To the extent that INRA has produced greater assurance of supply for consumers, UK industries may have derived some benefits from INRA to set against the UK's costs of memberships. These are, however, likely to be small relative to costs.

9. Costs and Benefits of Possible Membership of a Successor Agreement: The economic costs to the UK of membership of a successor Agreement will depend on the particulars of the Agreement. If the reference price can

be suitably revised downwards, and the automatic price adjustment mechanism improved in line with the UK's proposals in Annex A, the costs to the UK from membership of a future Agreement should be reduced compared to the present Agreement. Provided that there is little scope for increasing the size of the buffer stock, a successor Agreement would not be able to sustain prices above market clearing levels for long.

10. If the maximum size of the buffer stock is not increased from its level in the present Agreement, the economic costs of membership should be limited to the opportunity costs of the resources tied up in the buffer stock plus a share of management charges.

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FCS/86/120

SECRETARY OF STATE FOR TRADE & INDUSTRY

International Tin Council: Legal Position

1. Thank you for sending me a copy of your letter of 28 April to Nigel Lawson.

2. I share your view that it is too early to contemplate an out-of-court settlement with ITC creditors. We should certainly keep this under review, particularly if and when an action is launched against HMG or other member states. When we have a clearer idea of the basis of such an action, we will be in a better position to assess the likelihood of creditors' succeeding in claims against governments and the extent of such claims. At the same time, we might conclude that it would be in the UK's interests to explore the possibility of an out-of-court settlement. Meanwhile we should continue to resist suggestions by creditors that HMG has any liability and should negotiate.

3. I am sending copies of this minute to the Prime Minister, the Chancellor of the Exchequer, the Solicitor General and Sir Robert Armstrong.

GEOFFREY HOWE

Foreign & Commonwealth Office
2 May 1986

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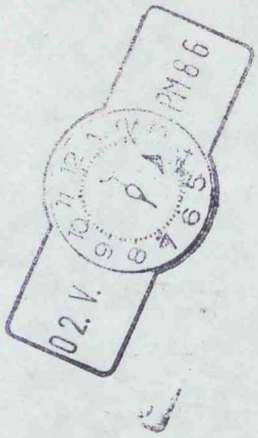
TRADS
Mouvements en Volume PT2



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CCBG

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

John Mogg Esq
Private Secretary to the
Secretary of State
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1

Show DN o/r

NBPM at this stage

Dear John,

/ May 1986

RUBBER

You will by now have seen the Chief Secretary's letter responding to your Secretary of State's letter to Sir Geoffrey Howe of 25 April about initial steps into forthcoming negotiations.

at Hoop

Looking further ahead, the Chief Secretary believes we also need to know what scope exists within the European Treaty for the UK to stand on the side-lines if sufficient of our EC partners decide they wish to participate in a new agreement despite the UK's arguments.

I understand that views on the competence position have already been exchanged between departmental lawyers. However, the Chief Secretary believes it is essential to have an authoritative and definitive opinion which can be applied in the case of rubber. He has suggested, therefore, that your Secretary of State should consult the Law Officers urgently. Ministers would then be able to appraise the options fully if our partners insist on elements which it is agreed would be unsatisfactory in any commodity agreement acceptable to the UK.

A copy of this letter goes to David Norgrove (No. 10) to Colin Budd (FCO), to Ivor Llewellyn (MAFF) and Michael Stark (Cabinet Office).

Yours ever,

Jill Rutter

JILL RUTTER
Private Secretary

TRADE, Movements in Volume of Trade by Commodity Pt 2



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10 DOWNING STREET

From the Private Secretary

1 May 1986

RENEGOTIATION OF THE INTERNATIONAL NATURAL RUBBER AGREEMENT

The Prime Minister has seen your Secretary of State's letter of 25 April to the Foreign Secretary and the Chief Secretary's letter of 29 April about the renegotiation of the International Natural Rubber Agreement. This subject was also discussed briefly by the Prime Minister, the Chancellor of the Exchequer and the Foreign Secretary at a meeting on another subject this morning (at which Mr. Lane, Head of ITP Division in the Department of Trade and Industry, was also present).

The Prime Minister was most surprised that we are about to enter a renegotiation of a commodity agreement after all the trouble over the tin agreement, and she has very serious doubts about it. There seems to be little or no economic benefit to the United Kingdom from such an agreement and the view of industry and trade is reported to be that we could manage without it. The Prime Minister believes the UK should not continue to be a party to the agreement. The Chancellor and the Foreign Secretary this morning agreed with this basic position.

In discussion it was suggested that the conditions which had been proposed for inclusion in the EC negotiating brief were unlikely to be acceptable to other parties to the agreement and that, provided the Community continued to adhere to them, the agreement would probably collapse. The Prime Minister noted this view, but was not convinced that it offered a satisfactory way forward. She has asked that the position of the United Kingdom on renegotiation should be reserved until Ministers have had an opportunity to consider the proposed negotiating line collectively.

I should be grateful if the Department of Trade and Industry could now prepare urgently a paper, in consultation with the other interested departments, for consideration by Ministers at the earliest opportunity. This may be towards the end of next week or early in the following week. The main question for consideration will be how best to secure the withdrawal of the United Kingdom from the agreement, bearing in mind among other things existing legal obligations and the size of the outstanding buffer stock.

EA

I am copying this letter to Rachel Lomax (HM Treasury), Robert Culshaw (Foreign and Commonwealth Office), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and Sir Robert Armstrong.

(DAVID NORGROVE)

John Mogg, Esq.,
Department of Trade and Industry.

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PRIME MINISTER

RENEGOTIATION OF THE INTERNATIONAL NATURAL RUBBER AGREEMENT

Negotiations start on Monday for a renegotiation of the International Rubber Agreement. Mr. Channon has proposed a negotiating position which he regards as a tough one, and taking account of the tin debacle. The Chief Secretary proposes some further toughening, but is prepared to go along with the renegotiation.

I wonder even so whether they are taking a tough enough position. Everybody agrees that the rubber agreement offers little or nothing to the UK in economic terms and I understand that there are divided views about it even in the Foreign Office. (There is Community competence on this).

It seems very odd to be entering negotiations about a commodity agreement just when we have been through such difficulties over tin. All the other countries concerned would surely understand if we were to say that we would have nothing to do with a renegotiation of the Rubber Agreement.

There is no time for a thorough discussion of all this and decisions cannot wait until after you return from Tokyo. But agree:

i) to say that you have very serious doubts about the proposal that we should join in a renegotiation of the Rubber Agreement;

ii) it may well be better to refuse from the outset to join in the discussions. You would like this option to be seriously considered by DTI, FCO and Treasury;

iii) but recognising that this has to be sorted out before you return from Tokyo you would reluctantly be prepared if necessary to go along with Mr. Channon's proposals as modified by the Chief Secretary?

Duty clerk

pp David Norgrove
30 April 1986

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CCPC

Prime Minister!

There seems to be several, reluctant, agreement that we cannot pull out of these negotiations. (There is Community competence.) It will be difficult to prevent this in your absence: the negotiations start on May 5. Do agree to support the Chief Secretary?

30/4.

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
SW1

29 April 1986

Dear Paul,

RENEGOTIATION OF THE

INTERNATIONAL NATURAL RUBBER AGREEMENT (INRA)

I have seen your letter of 25 April to Geoffrey Howe setting out your proposals for these negotiations. It is clearly right to scrutinise the line closely given recent experience with tin. We must be very clear just what the advantages are to the UK in entering agreements of this kind and - where an advantage can be demonstrated - whether the agreement is drawn in a way which avoids contingent liabilities. I am bound to say that I do not find the paper attached to your letter convincing on either count.

Under the current agreement natural rubber costs appear to have been higher than they otherwise would have been. No sales from the buffer stock have been made to influence prices downwards over the entire life of the agreement. The price regime is clearly inadequate, and, given weak oil prices and large scale planting of rubber now maturing, could become more so. Unless the new negotiations can set this right I am very doubtful about whether it would be in the UK's economic interest to go ahead. You confirm that UK trade and industry set no special store by a new agreement. It cannot be in our interest as a consumer to support a falling price level. Whatever the political advantages in going ahead, we should obviously not accept an agreement which was economically detrimental.

On the question of contingent liabilities, I note your commitment to a thorough legal examination of the terms of any agreement in advance of its acceptance. Our objective must be to write contingent liabilities out. If they cannot be, they will need to be subject to a limit and, as necessary, reported to Parliament.

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Turning to the detail of the mandate, we should insist that a set of inter-connected conditions be met to minimise the dangers of an agreement such as the one proposed. These conditions are well defined in paragraph 11. But they must be regarded collectively as the "bottom line". Thus, though I welcome your determination to secure the individual elements among these conditions e.g. removal of the references to borrowing, I believe all the conditions must be met if the new agreement is to be a viable prospect. The buffer stock must be limited to its current level. Most important, the intervention provisions must be thoroughly reformed so that they more quickly reflect the underlying trend of prices. Otherwise, continuing on its present course, the agreement will rapidly run up against its own buffer stock limits. We should then face political pressure to adopt expedients to keep the agreement going, which might be found difficult to resist. Tin again points out the danger.

As you suggest, the negotiators may need to exert considerable pressure on EC partners if this is to be achieved. If it cannot be, then I believe we should take all steps at our disposal to prevent the agreement going ahead. I am glad to note that the negotiators will be keeping us informed of progress. You will no doubt want to consult further with colleagues if a concession appears to be necessary to secure an agreement which you regard as acceptable.

I should say that I approach the proposed agreement, even on the conditions set out above, without enthusiasm. General support for such arrangements has evaporated in recent years, only partly on the basis of experience with tin. The emphasis in international economic policy is now towards the benefits of structural adjustment which would reduce dependence on primary commodities. I therefore attach considerable importance to an early opportunity to discuss our general approach to commodity policy, well in advance of the run up to UNCTAD VII. I hope the paper which officials are working on will be available soon.

Yours ever,

JOHN MacGREGOR

30 N. PM 8

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MR NORGROVE

29 April 1986

INTERNATIONAL NATURAL RUBBER AGREEMENT

Rubber differs from Tin in that 93% of producers by value are parties to the agreement, and the buffer stock manager can only deal in spot contracts - not in futures. Although some rubber is traded in London, Singapore (which is not party to the agreement) is the largest trading centre. To date the agreement has cost the UK £5.75m, and the maximum liability is only for a further £2.25m. DTI Solicitors state that other contingent liabilities are 'academic in the extreme'.

Since October 1980 (near the start of the world recession) the agreement has produced some price stability at the cost of accumulating roughly one month's buffer stock of rubber. Although the intervention price has been reduced by 4%, the buffer stock manager has never actually sold any of this stock. Recently planted trees reaching maturity will increase rubber supplies perhaps at a faster rate than the increase in demand for rubber. Clearly the intervention price should be further reduced but the major producers, particularly Malaysia, want an increase.

As well as the Exchequer cost, the Rubber Agreement probably costs British industry more in slightly higher prices than it saves through reduced price fluctuation. The arguments for continued membership are therefore only political. Assuming these to be adequate then we would recommend continuation provided:

a. the sensible additional safeguards listed in paragaph 11 of the DTI note are met in full and

b. at least 90% (currently 93%) of the rubber producers by value remain a party to the agreement.

Peter Warry

PETER WARRY

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[Mr. Baker]

trained to deal with emergencies. I emphasise again that the design of the Russian reactor—a light-water-cooled graphite moderated reactor—is unique and that there are no other stations like it in the West. I understand from the Central Electricity Generating Board that British experts have evaluated this design and rejected it as unstable.

Mr. D. E. Thomas (Meirionnydd Nant Conwy): Will the Secretary of State accept the deep concern and sympathy of those who have nuclear power stations in their constituencies for the community which has been affected by this disaster? Will he take new initiatives at the international level, through the International Atomic Energy Agency, to ensure that new safety standards worldwide are implemented? It is clear that radiological emission is no respecter of nations and state boundaries.

Mr. Baker: Yes, but that also implies that other countries have to conform to this country's standards. If there had been an accident of that kind in this country, there is no question but that we would have been open and frank about it straight away and that it would have been treated in that way. It is regrettable that that did not happen in this case.

Mr. David Madel (Bedfordshire, South-West): In view of the slow way in which the Russian Government let out this information, will Her Majesty's Government make a formal request to the Russian Government for international inspection of the disaster area?

Mr. Baker: My right hon. Friend the Secretary of State for Energy passed a message to the Soviet Government this morning asking for the fullest information. I am in no position to say whether or not the Soviet Government will respond to that message. Their response may be delayed, but I very much hope not. All sides of the House have made it clear that it is in everybody's interest that as much information as possible should be made available about this incident as soon as possible.

Mr. D. N. Campbell-Savours (Workington): If the present rules of the International Atomic Energy Agency do not provide for the earliest possible disclosure, will the Secretary of State set out to amend those rules, particularly as the Soviet Union is a participator in that agreement?

Mr. Baker: It is no good taking a unilateral position unless the other parties to the agreement are prepared also to be frank and open. The international agreement allows for international inspection of civil power stations. The CEGB was, and is, prepared to conform to that agreement, but I am afraid that that is not the case, as far as we know, in Russia.

Cornish Tin Industry

3.47 pm

Mr. David Penhaligon (Truro) *(by private notice)* asked the Secretary of State for Trade and Industry if he will make a statement indicating the Government's intention regarding the future of the Cornish tin industry.

The Minister of State, Department of Trade and Industry (Mr. Peter Morrison): The Government have made it cler that they are willing to consider applications for assistance towards the cost of projects which will make the mines competitive in a free tin market. An application from Geevor tin mines is already being considered. An application from the RTZ group is expected shortly. Both will be assessed as rapidly as possible.

Mr. Penhaligon: I remind the Minister of the seriousness of the situation, as these mines are in an area where average male unemployment is in excess of 25 per cent. Already this saga has been going on for six months. Furthermore, I remind the Minister that he still has the £50 million that was offered to the tin dealers. Will the Minister accept that because of the current price for tin very few mines in the world are breaking even, let alone making a profit? If, therefore, Rio Tinto Zinc could be persuaded to give the mines and the £15 million that they would incur in closure costs to a management-employee buy-out and if the employees could be persuaded to take a pay cut in lieu of some form of long-term profit sharing, would the Government be prepared to make a significant contribution towards enabling a new company to be relaunched on the market so that advantage could be taken of the rise in the price of tin when it occurs?

Mr. Morrison: As the hon. Gentleman knows, I am aware of the serious position in Cornwall. With every respect to him, his question about management buy-outs by those involved in the RTZ mines was hypothetical. As I said in my original answer, we expect a proposition to be put forward by RTZ on the ground that it will make the mines viable at some future stage. Like all Governments, we need to have a test of viability foremost in our minds.

Mr. David Harris (St. Ives): Is my hon. Friend aware of the desperate situation facing Geevor mine—that, unless help is forthcoming this week, it is almost certain that the pumps will be switched off at the weekend and that the mine will be flooded, probably never to reopen? I make an earnest and urgent plea that, before this week is out, the Government will make assistance available to Geevor, at least to keep those pumps going while negotiations continue on the Geevor application.

Mr. Morrison: I assure my hon. Friend that it is important to expedite the Geevor application. Whether we can have care and maintenance in the meantime will depend upon that.

Mr. Dennis Skinner (Bolsover): Do not the Government have a cheek to talk about a test of viability regarding the thousands of people who have lost or will lose their jobs in the tin mines in Cornwall and the south-west when the Government never applied that test of viability to the Exports Credits Guarantee Department, when it was £350 million in the red, but used taxpayers' money to bail it out? The Government found £252 million to bail out the Common Market, because it had run out of funds, and more than £100 million to bail out Johnson

Matthey Bank, because their friends were involved. The Government talk about a test of viability. Why do they not give people a chance to earn some money instead of throwing them on the scrap heap and paying out dole money which the taxpayers have to find?

Mr. Morrison: If I recall correctly, the hon. Gentleman supported a Government during the 1970s——

Mr. Skinner: Supported a what?

Mr. Morrison: —supported a Government during the 1974-79 period that used the test of viability to close down the Ebbw Vale steelworks in the constituency of the right hon. Member for Blaenau Gwent (Mr. Foot). They used the test of viability, as we must.

Mr. Robert Hicks (Cornwall, South-East): Is my hon. Friend aware of the rising sense of frustration and annoyance at the delay in resolving the tin question with specific reference to the Cornish tin-producing mines? Will he assure the House that the various suggestions and applications that have been made will be dealt with immediately by his Department in the context of our county, which is already in a hard-pressed economic position?

Mr. Morrison: The simple answer to my hon. Friend is yes. If my hon. Friend were to discuss the matter with the management of Geevor and of RTZ, he would be informed that my officials have dealt with the matter as expeditiously as possible in terms of the preparation of submissions, and so on. Therefore, the simple answer is yes.

Mr. Michael Foot (Blaenau Gwent): I advise the hon. Gentleman to check his facts a little more carefully before he again refers to Ebbw Vale. Regarding the specific question which he is supposed to be answering today—on the Cornish tin mines—will he look back and see what a Labour Government did to put money into those mines and to keep them going thereafter? Without that money, the closures might not have taken place in the late 1970s. Many miners in Cornwall know that that is the truth, even if some of their representatives in this place do not.

Mr. Morrison: I am delighted to be reminded by the right hon. Gentleman that I should check my facts more carefully on the steel works which I mentioned. I certainly am aware of what happened under the previous Administration.

Sir Peter Emery (Honiton): I remind my hon. Friend that, as long ago as Easter, the Select Committee on Trade and Industry published an interim report urging the Government to be prepared for the possibility of the action that has now come about and to be ready to take interim measures to sustain the position until final decisions can be made. Will my hon. Friend express a greater assurance which we can pass on to management and workers in Cornwall and which will allow them to continue until a final decision has been made? Surely it would be fatal to have the matter closed now, because the Government might come forward with a favourable decision in four or five weeks.

Mr. Morrison: I am aware that the Select Committee on Trade and Industry spent considerable time looking into the matter. Its report goes into detail in many ways about the whole tin problem. I am aware also that the Select Committee recommended certain proposals that the Government should adopt. I hope that my hon. Friend agrees that it would not be sensible to reply to the Select Committee's proposals until we have had an application from RTZ—we shall reply as soon as we can—because that would be the wrong way to proceed. I listened carefully to my hon. Friend's other question.

Mr. Stan Crowther (Rotherham): Would it not be disgraceful if this small but important industry, which contributes many millions of pounds a year to the national economy were allowed to die from lack of help from a Government who claim to be devoted to the free market philosophy but who have actively supported an international cartel which was set up to manipulate the market and whose activities the Select Committee found came pretty close to the borders of criminality? If Ministers are prepared, as they said they were, to put £50 million of taxpayers' money into trying to rescue the dealing end of the business, does it not make sense to accept the Select Committee's recommendation that the Government should invest at least that amount in the producing end of the business where the real wealth creation takes place?

Mr. Morrison: With respect, I do not think that the hon. Gentleman listened to my original answer. I said that my Department was looking carefully at applications to ascertain whether they passed the test of viability. That is precisely what we are doing and, I think, what the hon. Gentleman would want us to do. I can assure the hon. Gentleman that we could not be looking more closely at the applications.

Mr. Robin Maxwell-Hyslop (Tiverton): Is the problem for my hon. Friend as a Minister the fact that the test of viability depends upon predicting the world price of tin after the banks have finished unloading the tin warrants they hold as security and after the mines throughout the world have finished unloading the stock which they thought they had sold ahead but for which the contracts have gone bad? Will my hon. Friend follow the much more positive recommendations of the Select Committee on Trade and Industry, as expressed by my hon. Friend the Member for Honiton (Sir P. Emery), and support the development work in the mines which will reduce production costs, whatever the price in five years' time? None of us can possibly foresee that price. As this crisis will drive out many marginal producers in the world, is it not sensible to take a "risk"—no one can predict the price four or five years ahead — and support employment rather than suffer unemployment?

Mr. Morrison: I agree with my hon. Friend that one important element is the price of tin in three, four or five years. I agree also with his proposition that, if there is to be investment in any of the mines in Cornwall, it must be aimed at reducing production costs. The judgment to be taken is based more on the former than on the latter. We shall have to take those matters into account, as will the companies concerned.

Mr. Tam Dalyell (Linlithgow): Judging from the example of Polkemmet in my constituency, once the pumps have been turned off in any mine, one might as well call it quits. May I ask a question of fact? How much tin will actually be anaesthetised by any decision to close down the mines and cut off the pumps? It may not be

[Mr. Tam Dalyell]

possible to regain the tin at any time. Frankly, is this not another case of accountants in the City of London making decisions on matters for which they have little feeling?

Some of us support strongly the views of the Cornish tin miners. As one who has attended party meetings in Cornwall, I know how strongly they feel. Their factual questions have not been answered. What are the reserves of tin which will be anaesthetised? Does the Department know or does it have no notion?

Mr. Morrison: Of course the Department knows. The amount of tin produced at the current price, which is just under £4,000 a tonne, is equal to the sum of £25 million a year. Of course the hon. Gentleman will appreciate that tin is an international commodity——

Mr. Dalyell: What are the reserves? The Minister is not answering the question.

Mr. Morrison: I have answered the question. One of the points which must be taken into account is that there is, to a great extent, over-production; that is why the price of tin has come down gradually.

Mr. Kevin McNamara (Kingston upon Hull, North): Will the Minister confirm that, in 1979, RTZ was offered money under the Labour Government scheme to develop the mine? The company turned down that offer because it was confident that it would prosper under the present Government. More important, is the Minister aware that over 1,000 members of my union and other unions are likely to be made unemployed as a result of this action? While the Minister is waiting for RTZ and the other companies to state the schemes to make the mines viable, what are the Government prepared to offer the firms to maintain jobs? That is what Cornish people want to know, and that is what my union want to know. What are the Government prepared to offer the companies to keep people in jobs?

Mr. Morrison: The hon. Gentleman asks a hypothetical question. The answer depends entirely on what applications are made. The hon. Gentleman is aware that, under regional grant and regional assistance, aid is not cash-limited so the answer is as long as a piece of string.

Mr. Ian Wrigglesworth (Stockton, South): If these mines are closed there will be dire consequences for Cornwall, the industry and the country. In view of that, will the Minister explain more fully to the House what he means by viability? When considering viability, will the Minister take into account the long-term position of these mines, and the enormous cost to the public purse as well as the companies involved of closing any pits?

Mr. Morrison: I hope that it goes without saying that the long term is what we must take into account. Obviously, at this stage, there is no question of the mines being anything but unviable. Any investment will be in terms of production costs and the price of tin in three, four, or five years' time.

Mr. Dalyell: What a bloody way to run the country.

Mr. Alan Williams (Swansea, West): Why is the Minister reluctant to show any relevant intiative when he is faced with this critical problem? Will he recognise that this is not a normal rescue case? In addition to needing the appropriate investment decision to which he has referred, there is a desperate need for interim aid to meet the crisis which has followed the collapse of the International Tin Council. The Minister has sat back for six months. He has watched the situation develop, he has done nothing and now he has been caught unawares.

Does not the hon. Gentleman realise that it is not just a matter of 1,300 jobs at Geevor and RTZ, but also of more than 2,000 other jobs in the Cornish community which depend on those mines? The present 3,000 jobs in Cornwall will be impossible to replace now that regional aid has ben diminished to a cosmetic sham. When the Minister eventually makes his penny-pinching calculations, will he recollect that these mines put £26 million a year into the local Cornish economy? What is at risk is not just the viability of the mines, but the viability of a sub-region.

Will the Minister reflect on the fact that, last year, the same mines saved the country £40 million in import substitution? The Minister could rescue the mines for less than the annual £80 million cost of keeping 3,000 miners and dependent workers on the dole queues for two years.

Mr. Morrison: I do not think the right hon. Gentleman is correct when he says that no real initiatives have been taken. During the last few weeks my Department could not have done more in terms of encouraging applications, sifting them carefully and giving guidance on how best they could be put forward. That is the fact of the matter. The right hon. Gentleman suggests that we should go down the route of operating subsidies regardless. On reflection, that would not be the right course to pursue.

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Secretary of State for Trade and Industry

25 April 1986

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1

Prime Minister 2

DW
25/4.

Dear Nigel.

INTERNATIONAL TIN COUNCIL : LEGAL POSITION

I am writing to bring you and other colleagues up to date on the current position on legal actions against the International Tin Council.

Earlier this week, the ITC settled the claims of Standard Chartered Bank and of Maclaine Watson, both of which had taken successful legal action against the ITC. As a result of the settlement of these claims, the ITC has no resources. Pending and potential legal actions against the ITC, and subsequently against the member countries, could result in total further claims of £300m or more.

... I attach at Annex A a note setting out the current legal position in more detail. From it you will see that the line our delegates are taking in the ITC is that, now the ITC has run out of resources, no legal cases should be defended by the ITC, whether or not the ITC believes it has immunity in such cases. Lawyers in my Department and to the ITC advise that such a course would not prejudice the legal position of member countries.

Against this background, you should know that Sir Adam Ridley came to see me on 15 April on behalf of the group of banks which do not have waivers of immunity in their loan agreements with the ITC - and therefore cannot enforce payment by the ITC. Sir Adam raised, on a strictly informal and without prejudice basis, the possibility of an out of court settlement with the UK for its share of the debt in return for an undertaking that no further action would be taken against us in such an event.

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Sir Adam said that he believed that the banks could sue the member countries on a joint and several basis, and it would therefore be open to them to sue the UK for the whole amount due.

I gave Sir Adam no indication that the UK was in any way eager to seek a settlement and stressed that unless all creditors, including brokers, could be brought into any agreement we would not be prepared even to consider it.

Separately, I understand that Professor Lauterpacht, acting for most of the creditor brokers, came to see the Legal Advisor to the Foreign and Commonwealth Office on 21 April, and explored a number of possibilities with officials, including the possibility of reopening negotiations with the ITC. He also urged on HMG the possibility of its taking up the cause of its own nationals who suffered loss as a result of the insolvency of the ITC by espousing an international claim on their behalf, and renewed the request (already turned down in responses to the banks) that HMG should revoke the immunity of the ITC. He was not encouraged to pursue this line. It is still not clear how the group of brokers intends to proceed, but its preference appears to be for negotiation rather than litigation, even though all the brokers are likely to see establishment of their claims through the arbitration procedure provided for in their contracts.

In my view therefore it is too early to contemplate a settlement, particularly whilst there is a possibility, however remote, that negotiations could be re-opened with the ITC. I am advised that the case of the banks against members countries is somewhat less strong than that of the brokers, and it would be illogical to conclude any agreement with the banks but not the brokers. I believe that we should let matters take their course for a while longer, at least until proceedings are served on the members states and the basis of the claims is apparent, meanwhile saying that we do not accept liability and will defend any actions which may be brought against us.

However, at the appropriate time I believe we should seriously consider whether an out of court settlement which covered all creditors might not be to our advantage. A settlement of all claims against the UK at 4 per cent of £300 million would cost £12 million. Such an outcome, if it could be negotiated, would be more advantageous than a successful claim against HMG for £300 million on a joint and several basis, for as you know it would be optimistic to think in terms of recovering from other ITC member countries more than 50 per cent of the amount we were found liable to pay if a claim against us in the courts were successful.

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1786 1986 BOARD OF TRADE BICENTENARY

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I will keep you and other colleagues informed of developments, and will not take any steps towards a negotiated settlement as outlined above without further consultation.

Copies of this letter go to the Prime Minister, the Foreign and Commonwealth Secretary, the Solicitor General and Sir Robert Armstrong.

PAUL CHANNON

DW4BAO

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ANNEX A

THE INTERNATIONAL TIN COUNCIL

Legal Actions

Present Position on Legal Actions

The creditors may be divided into four broad groups:

a The LME brokers, all of who it is believed have an arbitration clause in their contracts.

b Those to whom the ITC has commitments made in the context of dealing on the Kuala Lumpur tin market.

c The Standard Chartered Bank (SCB) which has a waiver of immunity in its loan clause, both in respect of jurisdiction and enforcement, so that it may enforce payment by the ITC.

d Other creditor banks which have not got such waivers and are therefore not in the favourable position of SCB.

2 A number of the brokers have already commenced arbitration hearings and Maclaine Watson & Co was granted liberty on 7 April to enforce an arbitration award in the same manner as a judgement of the court. The award of £3.2m covers only Maclaine Watson's margin claim. This claim has now been settled by the ITC. At least five other brokers have begun arbitration proceedings.

3 The Malaysia Smelting Corporation and the Datuk Keramat Smelting Co have also both commenced legal proceedings against the ITC in the High Court of Malaysia at Penang. It is likely that the position

of both these companies will be similar to that of the LME brokers although formal legal advice has not yet been received. Similar proceedings have been commenced in Singapore by Manilal & Sons (Malaya).

4 The Standard Chartered Bank has reached agreement with the ITC in relation to recovery of its loan plus interest totalling £10.6m, so that enforcement proceedings will not be necessary.

5 The position of the other banks is that although they claim that they have a case against the member countries of the ITC on a joint and several basis, proceedings have not as yet been started.

The ITC's Response to Claims

6 With the settlement of the Maclaine Watson and SCB cases, the assets of the ITC are now effectively exhausted as there is no unpledged tin remaining.

7 Although consideration was given in the ITC to offering creditors a settlement on a pari passu basis no such offer was made, both because the members were unable to agree on which creditors should be included in such an offer, and because some of the creditors indicated that they would not be prepared to go along with the proposal. The member countries were not prepared to agree to the appointment of a receiver, and because of the immunity of the ITC the creditors will not be in a position to put one in themselves.

8 Now the ITC resources are exhausted, and assuming it is not possible to re-open negotiations, it is likely that creditors will proceed against member countries although the brokers are first likely to establish their claims through arbitration. They have so far issued no proceedings in the High Court.

ITC Policy on Defending Cases

9 The ITC is considering its policy on defending actions against it.

10 Actions brought by brokers who have arbitration clauses in their contracts will not be defended in principle, although they may be defended on points of detail. The position with regard to the Kuala Lumpur and Singapore cases has not yet been decided, but it appears that the ITC has no immunity in those two countries.

11 This leaves the cases where the banks do not have waivers of immunity. In such cases, should there be any now the ITC is without resources to meet claims, some ITC member countries may wish to defend them on the grounds that not to do so might be prejudicial to the immunity which they as member countries believe they possess against claims alleging liability for the debts of the ITC over and above its existing resources. We do not consider the defence of such cases would serve any purpose, but would be a waste of time and money. Hence UK delegates to the ITC will oppose the defence of such claims.

Department of Trade and Industry

23 April 1986

CCPC

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Secretary of State for Trade and Industry

CONFIDENTIAL

25 April 1986

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

Dear Geoffrey.

The second session of the Conference to renegotiate the Natural Rubber Agreement will start in Geneva on 5 May. The first session was held in April last year but proved to be inconclusive.

Officials here have looked carefully at the operation of the existing Agreement and have consulted your officials as well as those in MAFF and the Treasury. As you are well aware, in the light of our experiences with the International Tin Agreement, we have argued that we must take a more rigorous view of Commodity Agreements. The inter-Departmental review of commodity policy has not yet completed its work but the general view emerging is that, among other things, Commodity Agreements should include the following key elements: a wide and representative membership including the major producers and consumers; automaticity of price adjustments which are veto-proof; a ceiling to the size of the Buffer Stock; and the absence of futures trading, as well as a series of other points which are detailed in the attached paper prepared by my officials. I understand that an earlier version of this paper was seen by your officials but that the final version has not.

It can be argued that the INRA compares quite favourably with other Agreements and possesses some important features that have been identified as highly desirable in any Commodity Agreement. At an earlier stage one might have been content to renegotiate something along similar lines. But the position has changed with the collapse of the ITA and Commodity Agreements must now undergo more rigorous scrutiny. There are a number of improvements that can

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and should be made to the Agreement, if a new one is negotiated. The proposed negotiating position as outlined in paragraphs 11 and 12 of the paper is a tough one, without fallback and will no doubt prove difficult to achieve. However I believe the approach is the right one.

We will of course have to carry our Community partners with us and I suspect that we will face some resistance to our proposals from them as well as expected reactions from the producer countries. At this stage at least we need to take a hard line if we are to get an Agreement which does not fly in the face of economic realities. On the other hand, our industry and trade support the view that we could manage without a new Agreement. And even at this stage it is not clear what the attitude of the major producers, Malaysia, Thailand and Indonesia will be. They may indeed decide that a new INRA is not in their interests and our negotiators will not of course seek to influence them otherwise.

The ITA lessons have clearly had some influence on producing countries as well as other consumers. At the Committee on Commodities in UNCTAD last December both groups adopted a decision which gave support to Agreements being more market-related where possible. This should strengthen our hand.

I would be grateful if you could let me know fairly quickly if you have any comments on our proposed negotiating package. In the event of difficulties, particularly with the Community, the negotiators will of course need to report back to us.

Copies of this letter go to the Prime Minister, Nigel Lawson, Michael Jopling and to Sir Robert Armstrong.

PAUL CHANNON

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ANNEX

RENEGOTIATION OF THE INTERNATIONAL NATURAL RUBBER AGREEMENT (INRA)

1 Current Ministerial Position

(i) Ministers approval to enter into a renegotiation of the INRA was obtained in November 1983. Their endorsement of the UK and EC (see paragraph 10 below) objectives for the Renegotiation Conference the first session of which was held in Geneva last April was obtained at that time.

(ii) A second session of the Conference is to held in Geneva on 5 - 23 May 1986. In view of developments in commodity agreements, particularly the collapse of the International Tin Agreement (ITA) since last consulting Ministers, we have reviewed carefully the negotiating mandate in relation to the coming session and are now seeking Ministerial approval for new objectives.

2 Background to the INRA

(i) INRA was the first new commodity agreement negotiated under the UNCTAD Integrated Programme for Commodities (IPC). Its main objective is to reduce price fluctuations by means of a buffer stock. It came into force provisionally on 23 October 1980 and definitively on 15 April 1982. It was due to expire in October 1985 but a decision to extend it for a final 2 years was taken in June 1985.

(ii) All the major producers and consumers were prepared to join the first INRA, including the EC Member States. The UK also felt that membership could offer the following:

(a) greater price stability for an important industrial commodity to assist industrial planning and help to ensure continuity of supply.

(b) strategic value of buffer stocks stored in the West and that

(c) buffer stock dealings would provide business for the London rubber market.

At that time there was a political view that we should confirm our commitment to the UNCTAD Integrated Programme for Commodities.

(iii) INRA provides that the buffer stock is the sole mechanism for intervention in the natural rubber (NR) market. The Buffer Stock Manager (BSM) is allowed to operate by buying and selling within established price zones. There are zones for both discretionary and compulsory buying and selling, with an intermediate neutral zone. The mechanism also features semi-automatic provisions for price adjustment with no powers of veto.

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(iv) In the life of the Agreement there have been periodic downward trends in the price of NR and in November 1981 the buffer stock buying mechanism was triggered. There was a recovery of prices in 1983 but in 1985 the BSM was obliged to enter into the market again when prices weakened. As a consequence of this activity the stock has grown to 360k tonnes (the maximum size of the normal buffer stock is 400k tonnes but there is also provision for a contingency stock of 150k tonnes). This amount of NR represents less than 1 month's world consumption. This compares with almost 4/5 months' consumption being held off the market by the ITA at the time of the collapse.

(v) The first renegotiation session was inconclusive. The UK/EEC view and that of all major consumers at that time was that the original Agreement had worked reasonably well and that no major changes needed to be made. Producers took a different view. They argued for a higher price range and reduced automaticity for price adjustment.

3 Assessment of the INRA

(i) UK industry and trade representatives have worked closely with officials in the construction of the existing Agreement and in its management. This has helped to ensure that the Agreement met its principal objectives in the best way achievable. But the benefits have to be balanced against costs.

(ii) The principal objective of the Agreement was to reduce the degree to which NR prices fluctuated in the short-term whilst at the same time ensuring that prices continued to follow a path consistent with long term market clearing. As regards short term price fluctuations, average monthly prices have varied less during the period of the Agreement than they did in the 1970s (though this could reflect factors other than the Agreement). However the BSM has only purchased NR and an accumulated buffer stock of 360k tonnes might suggest that any element of increased price stability has been bought at the expense of providing an element of price support.

(iii)a) Benefits

It can be argued that the UK, as a consumer would have derived benefits from any greater stability of NR prices. Consumers would have been better able to undertake their long-term industrial planning. Additionally, they may also have benefited from a perceived reduction of producers' risks feeding through into greater security of supply or even a lower supply price.

b) Costs

The UK's participation in INRA has inevitably imposed costs on the Exchequer. To date, the UK has contributed £5.75m to the INRA and although the UK's share of the buffer stock is presently valued at about £5m opportunity cost arguments apply since the resources invested in rubber could have been invested elsewhere.

(iv) The maximum liability for the UK is limited to the cash requirements of financing the Buffer Stock (which has a defined ceiling) and the nominal costs of administering the Agreement. At current prices, the maximum additional call on the UK Exchequer is approximately £2.25m.

(v) In addition to the Exchequer costs of financing the UK's contribution to the buffer stock, the INRA may also have imposed some other economic costs. If the Agreement has resulted in the price of NR being higher in the long term than it otherwise would have been, this will have resulted in economic costs in consuming countries. Relatively inefficient producers may have been protected and consuming industries will have purchased rather less NR than would be appropriate if the NR price had not been distorted. However, since the size of the buffer stock is small relative to world consumption any economic costs will have been correspondingly small.

(vi) Though the above does not reflect all the benefits to the UK (there have, for example, been gains from trading on the London market, shipping freight charges, insurance placed in London, and UK warehousing) it is clear that such stability as has been achieved has been at some cost. But the fact remains that INRA is a much better agreement than the ITA and may well be the most effective of all commodity agreements.

4 Prospects for Natural Rubber Supply and Demand

(i) It is always difficult to make accurate projections of NR supply and demand since there is a wide range of factors which influence both. However, with recent movements in oil prices the present position is more uncertain than usual. As synthetic rubber (SR) is an oil based product it has been suggested that the fall in oil prices will result in some substitution of NR by SR. The extent of any substitution depends, however, on expectations about the future level of oil prices and the technical possibilities that exist: overall, it seems unlikely that there will be any major switch from NR to SR, especially in the short term.

(ii) The fall in oil prices is, however, expected to lead to a higher level of economic activity, particularly motoring activity from which much demand for NR derives, and this should strengthen

NR demand, and offset any weakening through substitution.

(iii) On the supply side, it is believed that as recent plantings of rubber trees come to maturity so the overall level of NR supply will rise steadily in the next few years. It is not clear whether the growth in supply of NR will outstrip that of demand but it seems unlikely that there will be any marked strengthening of the NR price in the foreseeable future.

5 INRA Price Range

We have considered carefully the question of the existing price levels in the INRA against the supply demand position outlined above and past experience of their operation. Though minimal buffer stock activity has taken place since September 1985, the price of NR has recently slipped back into the Agreement's discretionary purchasing zone, having been in the neutral price zone for the previous two months. Since the Agreement came into effect low NR prices and buffer stock buying have meant that the INRA price range has been revised downwards on two occasions (by 1% in 1982 and 3% in 1985) in accordance with INRA's semi-automatic price revision mechanism.

(ii) In view of the current depressed prices for NR in the world market and the agreement's history there is an argument for reviewing the price range downwards in the coming session. We will seek to do so. But the uncertainty as to the supply/demand position and considerable political resistance will make it difficult to achieve. There is, however, no case at all for revising INRA's current range upwards and we should firmly resist this.

6 UK Commodity Policy

(i) In the past the UK has expressed a willingness to join commodity agreements where they were seen to be feasible, cost effective and beneficial to producers and consumers alike. These considerations are still valid.

(ii) Following the collapse of the ITA, and with an eye to UNCTAD VII, officials are carrying out an interdepartmental review of commodity policy. The core view emerging from discussion is that we should look harder at individual commodity agreements with economic provisions. Ideally, such agreements should include the following elements;

(a) Wide participation of producer and consumer countries.

(b) Veto-proof automaticity in the adjustment of the price range to accord with longer term market trends.

(c) A clearly defined limit on the size of the Buffer Stock.

(d) The Agreement should be seen to be financially viable ie adequate cash funding, no forward dealing and no borrowings, and

(e) Transparency of buffer stock operations.

(iii) In addition officials have also said that any Agreement should have provisions for neutralizing currency fluctuations.

7 Key Elements of the Present INRA

Unlike the ITA the present INRA has features which come close to the above. In particular:

(a) All major producers (c.93% of exports) and consumers (c.82% of imports) are members.

(b) The Agreement has semi-automatic veto-proof provisions for price adjustment around longer term market trends which have operated.

(c) The present INRA has an absolute maximum Buffer Stock level of 550k tonnes.

(d) Administration and Buffer Stock activity has been financed by cash contributions. The Buffer Stock Manager is expressly precluded from dealing in the futures market. Borrowing powers are also clear, limited and triggered only with Council approval (which has not been done).

(e) Full details of Buffer Stock transactions are sent to members in clear monthly reports after a 60 day period, and

(f) Financial holdings in the Buffer Stock Account are managed in accordance with advice provided by Rothschilds to limit exposure to exchange rate fluctuations. The world price for rubber is determined on a basket of four currencies which reflect the dominant trading currencies in NR markets.

In addition the liabilities associated with the collapse of the ITA have focused attention on possible contingent liabilities arising from other commodity agreements. In the case of the INRA, DTI Solicitors have concluded that the arguments suggesting that there may be a contingent liability are academic in the extreme. We will ensure that the non-exposure to liabilities is maintained in any new Agreement.

8 Political Considerations

(i) The major producers of NR are three ASEAN countries, Malaysia, Indonesia and Thailand. When the Agreement was first negotiated there was general support for the concept of International Commodity Agreements and the producers had no doubts that INRA was in their general interest. Recent developments in the commodities field have prompted a number of producer as well as consumer countries to re-appraise their assumptions about ICA's.

(ii) We do not know current ASEAN producer thinking about INRA and its successor. But they may still be seeking some increase in the reference price and less automaticity in the revision of the price range, since they regard this as having operated against them in the present agreement. All three countries and in particular Malaysia, remain sensitive to any action by developed countries which they view as running counter to their interests. The South East Asian economies are under considerable pressure at present. Any action by the UK which could be interpreted as adding to their problems could have adverse political and economic repercussions for us.

(iii) These considerations need to be borne closely in mind in both our strategic and our tactical approach to the INRA negotiations. There is therefore a balance to be struck between our desire to ensure that the terms of the new INRA reflect the negotiating objectives set out below and the desirability of not being blamed by the producers for any failure of the negotiations.

(iv) All major participants have expressed support for the current agreement at one stage or another. On the consumer side even the USA, often antipathetic to such agreements, has been supportive. US officials recently affirmed their willingness to participate in a new agreement provided it was similar to the existing one. The position of the USSR and Japan is understood to be similar.

(v) We consider that both producers and consumers have a much clearer perception, as a result of the ITA experience, of the dangers of defending unreal prices and the costs that this involves. At a meeting of the Committee on Commodities in UNCTAD last December both producers and consumers adopted a decision which gave broad support to the need for prices to be market related, and for a degree of automaticity for price adjustments where possible. This should provide scope for consumers to take a tougher line in future negotiations.

9 Community Regime

(i) The Council and the Commission agreed in 1981 that all the IPC commodity agreements should be mixed agreements, negotiated

and concluded by the Community and the Member States on the basis of a common position. In negotiating, the Community and Member States are represented by a common delegation which expresses the joint position. If there is no agreement on a joint position, the Community remains silent. There is, however, an ability in principle for Member States to make in exceptional circumstances national statements on matters of fundamental national concern.

(ii) This arrangement is without prejudice to the legal position on the respective spheres of competence of the Community and the Member States over any particular community agreement. In the case of the INRA, however, the Court of Justice has upheld the "mixed" formula which recognises Community competence under Article 113 of the EEC Treaty (common commercial policy) and the competence of Member States to the extent that they are responsible for financing the buffer stock.

(iii) It is the practice that, in the event of failure to reach a common position during negotiations, the matter is referred first to COREPER and then, if necessary, to the Foreign Affairs Council. If, in the next Session on the INRA, the United Kingdom refused to support a position agreed by the Commission and the other Member States, recourse would be had to this mechanism for resolving the difficulty. It is possible that no solution might be reached at the Foreign Affairs Council, but, as a matter of practical procedure, unanimity is required, and compromise solutions have generally been found.

10 EC Negotiating Objectives

The agreed principal EC objectives for the renegotiation conference are as follows:

(a) to encourage the conclusion of a viable agreement whose economic and financial provisions allow it to operate efficiently and take account of market realities;

(b) to help achieve stability of natural rubber prices by preventing excessive price fluctuations without distorting long-term market trends, and

(c) to seek to guarantee adequate and regular supplies of natural rubber on reasonable terms for Community industries.

Apart from some administrative changes the Member States agreed in April 1985 that the existing Agreement reflected the above objectives, and that a new Agreement which was along the same lines as the existing Agreement would be acceptable, subject to a high constituency of membership.

11 Objectives for the forthcoming session of the Renegotiation

In the light of our recent experiences with Commodity Agreements, particularly the ITA, we now need to review the UK position for the renegotiation in order to strengthen it. In all the circumstances, we would propose the following UK objectives:

(a) The existing key elements of the INRA which meet the desirable elements (listed in 6(ii) above) for UK Commodity policy should not be diluted or eroded.

(b) The existing Buffer Stock should be transferred to any new Agreement and the current ceiling on size maintained.

(c) All references to "borrowing" should be removed from the text of the Agreement; (although noting that such powers are already highly constrained).

(d) The UK should seek even greater automaticity for reviewing the price range by reducing the interval for such reviews. At present the reference price is reviewed every 18 months. We will seek to reduce this interval in order to reflect more quickly market movements. Other ways of improving the automaticity provisions such as removing discretion as to the percentage change should also be pursued in the course of the negotiation, and

(e) the UK should explore the possibilities for a lowering of the current price range in the agreement and should not settle for a higher range.

12 Recommendations

Eventual failure to achieve a new Agreement could carry political risks if the producers are keen to get an INRA II and if they feel that consumers, or more particularly the UK, carried responsibility for the failure. Moreover, in the event that no new Agreement emerges from the negotiation, for whatever reason, the buffer stock from the existing INRA should be sold onto the market over a period of 3 years after October 1987. This could put the BSM in the role of distressed seller and could thus affect the value of our existing investment. But we nevertheless believe that the UK can live with or without a new agreement. This view is supported by industry and trade. What is quite clear is that the UK should not negotiate a new Agreement which is less than satisfactory. Accordingly, we recommend ministerial endorsement of the line that UK negotiators, whilst seeking to minimize exposure to the political risk, should:

(i) seek improvements to the existing Agreement through the EC joint position in line with the proposed negotiating objectives at 10 above.

(ii) seek to persuade other Member States to an EC joint position to withdraw in the event of a withdrawl from the renegotiation session of a major producer or consumer (US, USSR, Japan or any of the three ASEAN producers).

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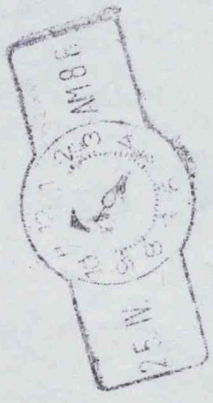
April 1986



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10 DOWNING STREET

THE PRIME MINISTER

4 April 1986

Dear David.

Thank you very much for your letter of 28 March, which I know you discussed with Peter Morrison.

I understand that, since you wrote, Geevor's management have announced that they intend to suspend operations at the mine next week. Naturally, I regret that they have found it necessary to take this step, particularly as it will involve laying off many of their employees. However, I hope that the company will now submit a detailed investment plan to the Department of Trade and Industry.

The Government have consistently made it clear that the DTI is ready to consider grants towards the cost of viable projects which would enable Geevor to adapt to the changed conditions in the tin market. I know that Peter Morrison will ensure that any proposals are appraised as quickly as possible and that there are no unnecessary delays in reaching decisions.

I have noted your comments on the Select Committee's Report. You will understand that I do not wish to pre-empt the Government's response by commenting on their recommendations at this stage. However, I have to say that it is very unlikely that we shall be able to agree to any form of operational subsidy.

Yours ever

Margaret

David Harris, Esq., M.P.

DEPARTMENT OF TRADE AND INDUSTRY
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From the Minister of State for Industry

Private Secretary to
THE HON PETER MORRISON MP

Tim Flesher Esq
10 Downing Street
London
SW1

4 April 1986

Dear Tim

GEEVOR TIN MINE

Thank you for your letter of 2 April. As requested, I attach a draft letter for the Prime Minister to send to David Harris MP. Mr Harris's letter was written before Geevor's expected announcement on 1 April that operations would be suspended and the workforce laid off from 7 April while the promised application for grants towards investment is appraised. His call for "interim assistance" has, therefore, been overtaken by events.

Mr Harris is probably correct in saying that the Select Committee's Report has altered the situation politically (the relevant paragraphs are attached). It also seems fairly clear that Geevor's management have been trying to engineer a situation in which the Government would be blamed for the closure of the mine.

The Department has consistently told the Company that no grants could be agreed until a realistic appraisal of the viability of the mine in the longer term could be undertaken. They have been invited on a number of occcasions to submit a detailed investment plan which would enable such an assessment to be made. They have not done so as yet.

In these circumstances, it would not be possible to agree to a request which Geevor have made for an operational subsidy of roughly £1000 per employee per month even if there were no other

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objections to such assistance. Although we should be careful not to pre-empt the Government's response to the Select Committee's Report, it would be sensible to warn Mr Harris that operational support will not be agreed in any event.

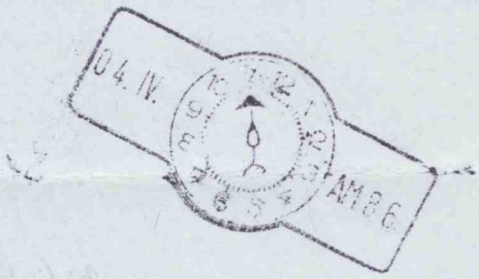
Yours ever

Malcolm McHardy

MALCOLM MCHARDY

PS

We understand that RTZ's people in Cornwall have been reported as saying that operations are vulnerable and that the company is in discussions with the Department on the problem. It is true that a number of meetings with officials have taken place but the company has made no formal application. In view of this uncertainty and since these RTZ mines are not in Mr Harris' constituency, there is a case for not including the last paragraph although it does set the Geevor situation in some sort of perspective.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Thank you very much for your letter of 28 March, which I know you discussed with Peter Morrison.

I understand that, since you wrote, Geevor's management have announced that they intend to suspend operations at the mine next week. Naturally, I regret that they have found it necessary to take this step, particularly as it will involve laying off many of their employees. However, I hope that the company will now submit a detailed investment plan to the Department of Trade and Industry.

The Government have consistently made it clear that the DTI is ready to consider grants towards the cost of viable projects which would enable Geevor to adapt to the changed conditions in the tin market. I know that Peter Morrison will ensure that any proposals are appraised as quickly as possible and that there are no unnecessary delays in reaching decisions.

I have noted your comments on the Select Committee's Report. You will understand that I do not wish to pre-empt the Government's response by commenting on their recommendations at this stage. However, I have to say that it is very unlikely that we shall be able to agree to any form of operational subsidy.

[Finally, I should mention that Sir Alistair Frame of RTZ, which controls the other Cornish mines, called to see Mr Channon last week. Sir Alistair said that decisions had not yet be taken on the future of these operations. He agreed to give the Department ~~of~~ advance notice if RTZ decided on closure of one, or both, of their mines. He also said that there would be no public announcement before the end of April.]

David Harris MP

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10 DOWNING STREET

From the Private Secretary

2 April 1986

I attach a letter the Prime Minister has received from David Harris, M.P.

I should be grateful if you could let us have a draft reply for the Prime Minister to send as soon as possible.

Tim Flesher

Malcolm McHardy, Esq.,
Department of Trade and Industry.

EA

PRIME MINISTER

Attached is a letter from David Harris following up your meeting on tin last week. The position has moved on since the meeting. Geevor Mine has laid off its workers for a month rather than making them redundant. They have announced at the same time that whether their workers will be re-engaged at the end of the month will be conditional on the DTI giving them a substantial development grant. In these circumstances Peter Morrison has deferred the extension of the Business Improvements Scheme to West Cornwall since to introduce the scheme now would give a clear indication that the Government was disposed already to turn down the Geevor bid. The DTI public line is that the Government has made clear its willingness to consider sympathetically grants which will assist in making the tin industry viable. No such applications have yet been made. When they are received they will be considered urgently. They are keeping David Harris closely in touch. In the meantime I shall get a draft reply to David Harris.

Tim Flesher

2 April 1986

MJ2BTN

DAVID HARRIS MP

HOUSE OF COMMONS
LONDON SW1A 0AA

28th March, 1986

The Rt. Hon. Margaret Thatcher, MP,
The Prime Minister,
10 Downing Street,
LONDON, SW1.

Dear Prime Minister,

Thank you very much indeed for your kindness in seeing me on Wednesday and for all your help and understanding over the tin crisis in Cornwall and, in particular, the situation facing Geevor mine. I am also most grateful for all the efforts undertaken by Peter Morrison.

As well as expressing my thanks, my purpose in writing is to make a plea for help in the light of the Select Committee for Trade and Industry's report which was published two hours after our meeting. As you know, the Committee made strong recommendations for financial help to Geevor in particular. Its final conclusion was: "It is of supreme importance that the Government should begin negotiations with the industry on the possible types and amounts of aid and conclude them without delay. We believe that the Cornish tin industry is worth saving."

It argued that the Government did have an obligation to the industry in the light of what had happened in the ITC itself.

The position is that Geevor now seems certain to give notice to its staff this Tuesday to take effect on Monday, April 7th unless there is some indication of Government help. During the course of the coming week, Geevor will be submitting its own applications for grant.

My request is that some interim assistance should be given to Geevor to enable the grant application and the Select Committee's recommendation to be considered. I am afraid that if this is not done then the Government will be blamed - quite unfairly - for the closure of the mine.

/Continued.

I think that the Select Committee's report has altered the situation politically as it has come out so clearly in favour of assistance for the industry in Cornwall. In view of this, I would hope that my request could be given urgent consideration. I have been in touch by telephone with Peter Morrison today and I am sending him a copy of this letter.

Yours ever,

David

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cc PG

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Overtaken

Treasury Chambers, Parliament Street, SW1P 3AG

Prime Minister

Geevor redundancies are being announced today (1/4). The extension of BIS is being announced tomorrow

The Hon Peter Morrison MP
Minister of State for Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1

27th March 1986

1/4

Dear Peter,

TIN CRISIS: GOVERNMENT SUPPORT FOR CORNWALL

Thank you for your letter of ~~26~~ 27th March.

You assure me that you will fund the £1 million within your existing Estimates and PES provision, and that you will resist any pressures to introduce similar arrangements outside the Penzance and St Ives travel to work area. On that basis, I can agree to your proposal.

I am copying this letter to the Prime Minister.

Yours ever,

John

JOHN MacGREGOR

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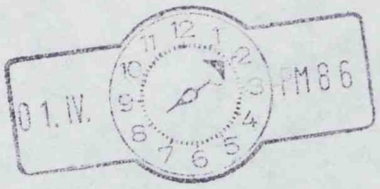
TRADE Tin Council P2



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10 DOWNING STREET

From the Private Secretary

26 March 1986

Dear Malcolm,

David Harris MP came to see the Prime Minister today to discuss the position of Geevor mine in his constituency following the collapse of the tin prices. Mr. Morrison was also present. Mr. Harris said that the position of Geevor was now desperate. It required a tin price of between £6-7,000 per tonne for viability at a time when tin was trading at £4,000 per tonne. Redundancy notices were likely to be issued to 340 of the 370 employees next week. The mine would then be operated on a care and maintenance basis employing some 30 or so staff. He was not seeking an operating subsidy and recognised that this would be impossible for the Government. Nevertheless the Government should recognise the very serious employment consequences which would see the unemployment rate in some parts of his constituency rise to some 40 per cent. Moreover, the political environment was becoming increasingly unfavourable with invidious comparisons being drawn between the £50 million the Government had apparently been prepared to offer the City with the absence of aid for tin miners themselves. This was of course a totally unfair comparison but it was one which was being made. He very much hoped therefore that, while the Government could not be expected to give assistance on the kind of scale that Geevor were likely to request they would be able to give an earnest of sympathy and faith in the future.

The Prime Minister said that she recognised the severe problems which have been caused in Cornwall by the closure of the Geevor mine and she was anxious to do everything possible to help. The problem was that although she had made it clear in the House of Commons that the Government would assist with grants to help achieve viability, there was no serious prospect of Geevor achieving viability in the foreseeable future. The Government was looking urgently at the prospects for extending the Business Improvement Scheme to West Cornwall to help the development of small businesses to replace the jobs which were being lost. At present they were thinking in terms of £750,000 over three years: they would also consider whether it might be possible to raise that to £1 million with flexibility on timing. Help for Geevor itself was more difficult. Mr. Morrison said that it was very unlikely that the Government could agree to assist

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Geevor's investment programme on the scale which they appeared to want. Quite apart from general policy considerations there would be serious difficulties with the European Commission. He was prepared to look seriously and urgently at proposals from the Company for assistance with care and maintenance but such proposals had not yet been received. Indeed the negotiations he had received suggested that the Company was funding such operations from its own resources.

Concluding the meeting the Prime Minister asked Mr. Morrison to look urgently into the possibility of an early announcement of the extension of the Business Improvement Scheme to West Cornwall and of the scale and timing of help which could be provided. In the meantime he would await proposals from Geevor for specific help which he would consider in accordance with the considerations which had been set out at the meeting.

TIMOTHY FLESHER

Malcolm McHardy, Esq.,
Minister of State's Office,
Department of Trade and Industry

G10

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From the Minister of State for Industry

THE HON PETER MORRISON MP

NBPM.

The Rt Hon John MacGregor CBE MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London
SW1

26 March 1986

Dear Chief Secretary

TIN CRISIS : GOVERNMENT SUPPORT FOR CORNWALL

As you know I had a meeting with the Prime Minister this morning about Government support for Cornwall. I also had a word with you earlier today at the Cabinet Office.

In the wake of the collapse of the International Tin Agreement, Geevor tin mine has decided that next Monday its workforce will be given seven days notice that the mine is being put on a care and maintenance basis. This will mean that 340 workers will be laid off in the week beginning 7 April. This will increase the unemployment rate in the Penzance and St Ives Travel to Work area (TTWA) from 24.1% to over 26%. However, the workforce is drawn mainly from Pendeen and St Just, where the effect on unemployment will be very severe. Because of the involvement of successive Governments with the International Tin Agreement, I am convinced that the Government should be seen to be doing something to help alleviate the problems of the area arising from the cessation of production at Geevor mine.

I have reviewed the options open to us, and I have come to the conclusion that the most appropriate additional help which we could give would be to make available in the Penzance and St Ives Travel to Work Area a slightly amended version of the Business Improvement Services package of schemes of assistance to small businesses which is currently operated by my Department. This would help enable the local economy to diversify into activities other than tin mining.

1WEBOZ

I propose that, subject to EC Commission approval, we should make available £1m for this purpose, which will be spent over the next 3 - 4 years, depending on demand. I will find the money for this proposal within my Department's existing estimates and PES provision. Under my proposal there would be 50% grants to small firms (200 or fewer employees) for consultancy, marketing, and feasibility projects, and 50% grants to providers of services to small firms in respect of market research, the provision of common services, and advisory and counselling services. There would also be 15% grants for investment projects in firms with 25 or fewer employees. These investment grants would be additional to any regional development grant but would not be available as well as regional selective assistance. The main eligible activities would be manufacturing - but not mining, steel, shipbuilding/repairing and textiles (unless diversifying into new activities) - and service activities in support of other eligible activities. However agriculture, horticulture, fishing, retailing and personal services would not be eligible.

The introduction of these special arrangements in the Penzance and St Ives Travel to Work Area can be expected to lead to strong pressures to introduce similar arrangements in one or two other parts of the country. I can assure you that I shall resist these pressures when they arise.

The present BIS package was introduced to take advantage of European Regional Development Fund (ERDF) non quota funds available for declining steel, shipbuilding and textile areas, and currently about two-thirds of the cost is met by the ERDF. Although the proposed BIS package in West Cornwall would be eligible for normal ERDF assistance I need to consider further whether the adminitrative costs of an application would be justified in the light of the likely overall effect on the UK's ERDF recepits.

I should be grateful for your urgent agreement to my proposals. As you know, the Prime Minister would like us to make an announcement tomorrow or when the redundancies are declared.

I am copying this letter to the Prime Minister.

Yours sincerely,

Malcolm McHardy

pp **PETER MORRISON**

Dictated by the Minister and signed in his absence

1WEBOZ

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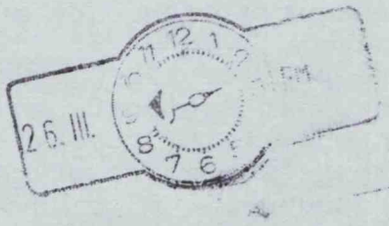
PM 8 6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MEETING WITH DAVID HARRIS MP, TUESDAY 24 MARCH 1986

GEEVOR TIN MINE

Purpose

1 The meeting is being held at the request of David Harris MP who wishes to discuss the future of the mine.

Background

2 Geevor is operated by a publicly owned company with an issued share capital of £756,250. The mine employs 377 people nearly all of whom live in the St Just area of the District of Penwith. Geevor produces ore equivalent to about 1000 tonnes of tin metal a year. Its output goes to the Billiton smelter at Arnhem and the RTZ smelter at Capper Pass, Humberside.

would go up to 27% if Geevor closes

3 Geevor is in a Development Area. Unemployment in the TTWA in which it is located is currently about 24%.

4 Since the tin crisis began, Geevor has managed to keep going by introducing a number of economy measures with the support of the workforce. However, the company say that their cash position is now critical. Mr Harris and representatives of the mine saw Mr Peter Morrison last Thursday. They indicated that without HMG's support closure was inevitable. They have also said that they will not be ready to submit detailed proposals for assistance towards an investment programme until 4 April but they are looking for an operating subsidy from 1 April. The information available now suggests that it is very unlikely that Geevor will be able to put forward acceptable proposals. Latest indications are that the company's application for assistance will be for a £22 million programme for which the Government will be asked to underwrite about 85 per cent of the cost.

5 Geevor's two largest shareholders, RTZ and Gencor, recently sold their holdings (about 40% of the total equity) to two unknown foreign businessmen. We do not know what motivated these purchases or what attitude the new shareholders will adopt towards the future of the mine.

Line to take

a HMG understand that Geevor is in a difficult financial position;

b HMG have made clear that the DTI will consider assistance

towards projects aimed at enabling Geevor adjust to the new market situation. However, assistance must be conditional upon viability;

c Geevor's request for an operating subsidy causes particular difficulties. It is not HMG's policy to provide such support and, even if it were, it is unlikely that the necessary European Commission approval would be forthcoming;

d If the company's position is such that it cannot continue operations while assistance towards investment is under consideration, the management could consider putting the mine on a care and maintenance basis. DTI support towards the costs of such action might be possible;

e If Geevor does close, HMG will consider providing additional regional support for West Cornwall. It is not possible to say now what would be appropriate.

I would be very wary of going as far as this at this stage.

DTI
MM3
March 1986

CAB/UP

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(Switchboard) 01-215 7877

From the Minister of State for Industry

5186

From the Private Secretary to
THE HON PETER MORRISON MP

Mark Addison Esq
Private Secretary
No 10 Downing Street
Whitehall
LONDON
SW1

25 March 1986

Dear Mark

Mr Morrison will be present when the Prime Minister meets David Harris MP to discuss the problems facing the Geevor tin mine in the light of the international tin crisis.As you are aware Mr Morrison met Mr Harris and representatives from the mine last Thursday.Since then, we have been examining how we might be able to help.

I attach a note which Mr Morrison sent to Mr Channon this morning setting out the position we have reached.Mr Channon agrees with the line proposed and we are in touch with Treasury now to see if it has any objections to the BIS scheme being extended to West Cornwall. Mr Morrison will update the Prime Minister orally before tomorrows meeting.

Yours ever
Malcolm McHardy

MALCOLM MCHARDY
Private Secretary

LS1ABT

TO:

Secretary of State

FROM:

Peter Morrison

25 March 1986

cc PS/Secretary of State
PS/Mr Clark
PS/Lord Lucas
PS/Sir Brian Hayes
Mr Mountfield
Mr Dell
Mr Murray MM
Mr Lodge SWRO
Mr Middleton IDU
Mr Berry IFA
Mr Bowen ECIP
Mr Bradbury EC2c
Miss Granados Sols
Mr Long MM4
Mr Lunn MM3
Mr Priston ID
Mr Winkett ID

GEEVOR TIN MINE

I attach a note from my Private Secretary describing what help can be given to West Cornwall if we do nothing about Geevor itself.

I have looked at and discarded an operating subsidy. I have also considered the possibility of financial help to assist the Company maintain the mine on a care and maintenance basis. Only this morning I heard that the Company has decided that next Tuesday the workforce will be given 7 days notice that the mine is being put on a care and maintenance basis. This will mean that 340 workers will be laid off in the week beginning 7 April. The company is doing this with its own money - which Brian Murray believes has given us a month's breathing space.

In the circumstances, I would suggest that we implement the BIS measures as soon as possible. It would be useful to announce this assistance tomorrow morning. The Select Committee is holding a Press Conference on Tin tomorrow and the Prime Minister is meeting David Harris tomorrow morning to discuss Geevor's problems.

PETER MORRISON

lWEBNJ

Reference.....

TO:

Mr Morrison

FROM:

Malcolm McHardy

25 March 1986

cc PS/Secretary of State
PS/Mr Clark
PS/Lord Lucas
PS/Sir Brian Hayes
Mr Mountfield
Mr Dell
Mr Murray MM
Mr Lodge SWRO
Mr Middleton IDU
Mr Berry IFA
Mr Bowen ECIP
Mr Bradbury EC2c
Miss Granados Sols
Mr Long MM4
Mr Lunn MM3
Mr Priston ID
Mr Winkett ID

GEEVOR TIN MINE

As agreed I have been investigating what support the Department might be able to offer if Geevor were to close. I understand that officials have had preliminary discussions with the Commission on the possibility of extending the Business Improvement Scheme (BIS) to West Cornwall. Initial reactions were good and officials would be able to obtain formal approval from the Treasury and the Commission hopefully by the end of April. The amount involved £750,000 would be totally funded by DTI and would be expected to run for a maximum of 3 or 4 years.

Mr Thompson (ID) explained that EIEC might be willing to consider factory units in the Geevor area but only in support of other measures such as BIS. The question of funding might arise here as EIEC may have already allocated its budget for this year.

Malcolm McHardy

MALCOLM MCHARDY

10 DOWNING STREET

File

DRN,

See your letter to DTI 5.3.86. (at Flap)
We have been chasing a reply but they have advised today that they do not feel it warrants one. Agree?

Yes

C.U

21/3

OTO

NLW

IDN

F

2,

70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

From the Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A086/875 14 March 1986

Dear Brian,

Select Committee on Trade and Industry

will request if req.

Thank you for your letter of 13 March enclosing a copy of your minute to you Secretary of State.

I do not think that the events reported in your minute constitute a very attractive precedent, but equally I do not think that the Government would be well-advised to make them a subject of a protest. It would be difficult to argue that what happened in this case was contrary to paragraph nine of the memorandum of guidance for officials appearing before Select Committees. The Trade and Industry Select Committee did invite named officials to appear. It was suggested to them that other officials could more appropriately give evidence to the Committee. The Committee insisted on the particular officials appearing before them and issued a formal order for their attendance. The officials concerned appeared before the Committee but scrupulously observed Ministerial instructions as to how they should answer questions.

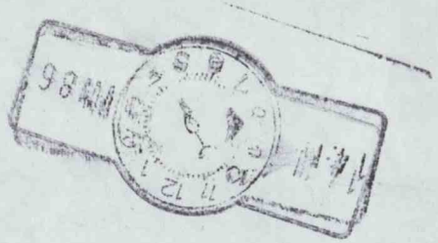
If this were considered a precedent which other Committees sought to follow, it might be appropriate or necessary for the Government to seek to redraw the rules; but I am not inclined to suggest doing that in this instance.

I am sending a copy of this letter to Nigel Wicks, Murdo MacLean, David Morris and Bob Hewes.

Yours ever

Robert

Sir Brian Hayes KCB



Sir Brian Hayes KCB
Permanent Secretary

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13 March 1986

Sir Robert Armstrong GCB CVO
Cabinet Office
70 Whitehall
LONDON SW1

Dear Sir Robert,

SELECT COMMITTEE ON TRADE AND INDUSTRY

.... I enclose a copy of a minute I have sent to my Secretary of State, reporting a brush with the Select Committee for Trade and Industry yesterday about the way in which the Department's witnesses should give evidence to the Committee. As you will see, I have advised against making any formal protest to the Committee's Chairman. The point is one for the Government as a whole, however, and if you or other recipients dissent from this view I should therefore be grateful if you would let me know.

I am sending copies of this letter to Nigel Wicks, Murdo Maclean, David Morris and Bob Hewes (MPO).

Yours sincerely

pp BRIAN HAYES

FOXACI

999-26

To:

SECRETARY OF STATE

From:

SIR BRIAN HAYES

13 March 1986

cc Mr Morrison
Mr Clark
Mr Mountfield
Mr Rickford
Mr Murray (OR)
Mr Mallinson
Mr Whitaker
Mr Lunn
Mrs Jones OFT

TRADE AND INDUSTRY COMMITTEE: TIN

A point of some difficulty arose before yesterday afternoon's hearing of the Trade and Industry Select Committee about tin. You will recall that the Committee had summoned Mrs Jones and Mr Lunn. You had agreed that I should write to the Chairman suggesting on your behalf that the best way forward would be for Mr Mountfield and me to give evidence instead. We heard from the Committee Clerk yesterday morning that the Committee would be happy to take evidence from Mr Mountfield and myself, but still wished to see Mrs Jones and Mr Lunn as well. You agreed that we should not object to this and so the four of us turned up in readiness to give evidence together.

2. When we did so, the Clerk came out from a deliberative session of the Committee to say that the Committee wished to take evidence from Mrs Jones and Mr Lunn first, and from Mr Mountfield and myself only when they had done so. The effect of this would of course be to prevent me from intervening if Mrs Jones or Mr Lunn were asked awkward questions or harried. I protested vigorously at this and asked to see the Chairman. Mr Warren came out and I put it to him that the Committee's proposal was contrary to what you had decided and, I understood, the Committee had agreed; that it was quite unprecedented for a Select Committee to decline to hear witnesses of senior rank when a Minister in charge of a Department had volunteered them;

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FOXACJ

that it was essentially for you to decide who should give evidence for a Department; and that the Committee was seeking to prevent me from affording members of my staff, who were in a difficult situation, any necessary protection. Mr Warren said he would discuss the matter further with the Committee.

3. He then did so at some length. When he came out again he said that the Committee remained adamant. I need not however worry about their harrying Mrs Jones and Mr Lunn; they would deal with them gently and would accept any statement by them that they could not, or were instructed not to, answer certain questions.

4. At this point I had the option of decamping with all our witnesses, on the grounds that your decision about the giving of evidence was being flouted. I decided not to do so, since I did not think you would wish to provoke a confrontation of this sort, which would certainly have attracted much public attention and from which, in the last resort, I doubted whether the Government would emerge victorious. I therefore contented myself with a further protest.

5. In the event the Committee kept to their word in questioning Mrs Jones and Mr Lunn, both of whom acquitted themselves admirably, firmly declining to answer several questions which went beyond what the Memorandum of Guidance or the confidentiality of International Tin Council proceedings permits.

6. The question now is whether any formal complaint should be made to the Committee Chairman. On the whole, I would advise against this. The Committee were obviously out to make the point that they, not you, should decide who gives evidence; and they would be able to argue that Mrs Jones and Mr Lunn were our named delegates to the International Tin Agreement and therefore deserved to be questioned separately. The point of principle is an important one; but there is no formal constraint on the Committee's powers to send for persons, and since they are formally within their rights I doubt whether any useful purpose would be served by a protest. The point is one for

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FOXACJ

the Government as a whole, however, and I am therefore sending copies of this minute to Sir Robert Armstrong, Mr Nigel Wicks, Mr Murdo Maclean, Mr David Morris and Mr Bob Hewes (MPO), with a request for comment if their views differ from mine.

pp BRIAN HAYES

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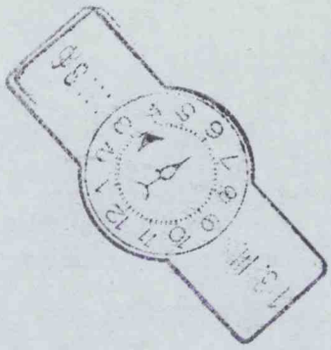


Lloyds List 13/3/86

the volume of cargo discharged at the various gateways dropped 7%, from 63.8m tonnes in 1984 to 59m tonnes in 1985.

This decline is attributed to lower shipments of general and bulk cargo into Singapore. The department also said 20.8m tonnes of cargo was shipped into the Republic in 1985 — 15.5% less than the previous year. Imports for

The volume of general and bulk cargo dropped by 1.2m tonnes to 15.1m tonnes. Of this 5.1m tonnes was for re-export. Mineral oil-in-bulk increased by 5% to 25m tonnes.

Of this 9.5m tonnes was shipped to north Asia, 6.5m tonnes to Malaysia and Thailand and 3.1m tonnes to Australia and New Zealand.

Swan Hunter strike

WORKERS at newly-privatised Swan Hunter Ltd on the Tyne said they were prepared to sacrifice their future if management did not improve an "unacceptable" pay offer.

The warning came from union leader Mr Paul Stockdale after the 3,000 hourly-paid workers agreed at a mass meeting at Newcastle City Hall yesterday to strike for the rest of the day and impose an overtime ban in protest.

The action could hit the company's hopes of winning orders for a Type 23 frigate and a naval supply ship from the Ministry of Defence.

The unions claim no new money has been offered and the proposed deal could leave some men worse off.

Mr Dennis Shadbolt, Swan Hunter's personnel and industrial relations director, said: "We hope this is a short-term demonstration that will not adversely affect current important contracts."

McDonnell orders

MCDONNELL Douglas Corporation has received orders for six MD-83 twinjets and options for six more from Trans Pacific Enterprises Inc, a subsidiary of Ansett Transport Industries Ltd of Australia.

The company said the aircraft would be marketed, in conjunction with other aircraft, by Ansett Worldwide Aviation Services.

Bristol stowaway

The case of a man who attempted to stow away on board a ship leaving the port of Bristol was being investigated by immigration officials yesterday.

He was discovered by the crew on board the Black Star Line of Ghana vessel *Keta Lagoon*, 13,004 tons gross just before she sailed from Avonmouth.

A Home Office spokesman said a man had been detained and was now being questioned.

where requested to act as 'broker' to bring together and suppliers working related areas to reduce th increase the likelihood of projects," he said.

"The OETB can dra part of the department's and development bud marked for the offshore in but as the main source o the board will be looking ing from the private secto promising projects. It is that the OETB will re funds should a project commercially viable."

At the moment, the b about £5 million ($7.3m available to put into proj

The board is currently l projects including downhole pumps, hyperba ing, heave compensators, emission, remotely vehicles and underwater la vision systems.

Thai tin mines face closures

UP to 40% of Thailand's 600 tin mines may shut down if prices don't go up soon, according to Mr Sivavong Changkasiri, a senior official in the Industry Ministry.

Prices on the Kuala Lumpur metals exchange have plunged since the International Tin Council (ITC) last Oct 24 ran out of money to support tin prices.

Manager of Anuphas and Sons Co, Mr Huck Boon Hongyok, said: "It is the worst period in my 52 years in the business. We cannot pin our hopes on tin any more."

The first squeeze on the tin industry came in 1982, when Thailand received an ITC annual quota of 18,300 tonnes, 39.6% less than its production the previous year.

A senior official of Thailand's Offshore Mining Organisation, based in Phuket, said Thailand had unsold stocks of about 30,000 tonnes of tin ore.

Mr Changkasiri, director general of the Industry Ministry's mineral resources department, said smuggling had also hurt the industry. He estimated that 12,000 tonnes of tin ore were smuggled annually out of Thailand, Malaysia and Indonesia for smelting and refining in Spain, the Netherlands and the Soviet Union.

The market has been flooded by the release of tin from US strategic stockpiles. Consuming nations such as Britain and Canada have increased domestic production.

In 1980, tin was Thailand's fourth leading foreign exchange earner, bringing in Baht11.347 billion ($430.5 million). Thailand produced 23,021 tons of tin ore last year, the fourth highest output in the world. But tin fell to ninth place on the foreign exchange earnings list, fetching only Bhat5.3bn.

The collapse of the ITC and spiralling prices have made Thailand's situation more precarious, and there are no immediate prospects for a rescue plan.

LME to pres ahead with tin 'ring-out

THE London Metal E (LME) has decided to g with its "ring-out" on the tract despite the law su Shearson Lehman Bros In

The move also follows t sion by Standard Charter to start legal action aga International Tin Counc bank is owed £10 million (by the council although it worth some £8m at today'

The LME announced la that it would hold a "ring- tin, settling all outstandi tracts at the fixed price of ($9,121) a metric ton.

As a result, Shearson Bros Inc and Shearson Metals Ltd commenced ar in the UK High Court aga LME's parent company, Market and Exchange Co members of the committee LME, and two brokerag which Shearson Lehma contracts.

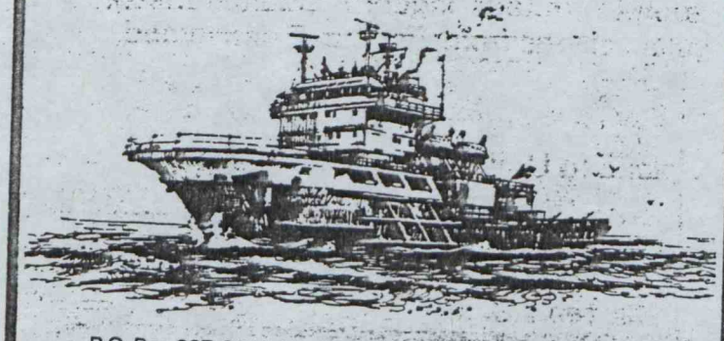
Shearson Lehman's sui lenges the validity of, an damages resulting from, th out" which the company fixes an artificial settlemer that disregards the true value of tin.

Shearson Lehman deputy man Mr Phillip Jevons has signed from the LME boar

Meanwhile, Mr Robert H son, chairman of banking Kleinwort, Benson Lonsdal in issuing the bank's annual that "leading council has the position that the Interr

85 years of specialized service to the offshore-and shipping industry

financing of new and used tonnage.
• Fast and courteous service.
• Various currencies.



P.O. Box 307, 3000 AH Rotterdam, phone (3110) 134900, telex 23398/21038 – *Branch Offices:* The Netherlands, Sappemeer - Greece, Piraeus - Netherlands Antilles, Willemstad - USA, New York

Nederlandse



GIBRALTAR for QUICK CREW CHANGES

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Sir Brian Hayes KCB
Permanent Secretary

11 March 1986

FOR INFORMATION

Sir Robert Armstron
Mr Wicks
Mr Morris
Mr MacLean
Mr Steel
Mr Mountfield
Mr Rickford
Mr Mallinson
Mr Middleton IFA
Mr Lunn
Mrs Jones OFT
Mr Whitaker FRM
Mr Hewes MPO

Kenneth Warren Esq MP
Chairman
Select Committee on Trade and Industry
House of Commons
LONDON SW1

Dear Mr. Warren,

I am sorry to learn that the Trade and Industry Select Committee felt that they were not receiving satisfactory answers from DTI officials during your session on tin on 4 March. I have discussed this with my Secretary of State and he feels that the best way forward would be for myself and Robin Mountfield (the Deputy Secretary responsible for tin) to attend and give evidence to the Committee at its session tomorrow, rather than Mrs Jones and Mr Lunn, who following last week's session have been summoned to attend.

When Mrs de Ste Croix wrote to Mr Lunn about tomorrow's session, she sent him the Committee's order to bring to tomorrow's session "all records and reports and warnings to Ministers concerning:

a. risks being incurred by the Buffer Stock Manager;

b. refusal by ITC personnel to supply information requested by British representatives at the ITC;

c. Ministerial responses and instructions resulting from or concerning the above."

1786 1986 BOARD OF TRADE BICENTENARY

FOXABW

My Secretary of State understands that the main point on which the Committee is focussing is the frequency and regularity of reports by officials to Ministers on the tin situation. He has therefore asked me to let you know the numbers of reports and briefs submitted by officials to Ministers during the relevant periods. They are as follows. Four such papers were submitted to Ministers between 1 July 1982 (when the Sixth International Tin Agreement came into force) and the end of 1982; three between March and December 1983; one in March 1984; and seven between June 1985 and the suspension of buffer stock operations on 24 October 1985.

My Secretary of State is anxious to give the Committee every assistance in his power, but has asked me to say that he very much regrets that he cannot go further than this and authorise the production of the documents referred to in the Committee's order. This is for two reasons. First, the papers in question include accounts of proceedings of the International Tin Council. These cannot be disclosed, for reasons of confidentiality which were described in the Department's memorandum of 3 March and by which the United Kingdom is bound as a Member State of the Council. Second, the papers also give, either explicitly or implicitly, advice to Ministers. It is, of course, an established convention that advice given to Ministers by their Departments should not be disclosed; and, as you know, paragraph 25(i) of the Memorandum of Guidance (GEN 80/38) instructs officials not to give evidence about or discuss the advice given to Ministers by their Departments.

I hope you and the Committee will understand the difficulty in which the Department is placed over this. Robin Mountfield and I will try to give all the help we can tomorrow.

Yours sincerely,

Brian Hayes

BRIAN HAYES

1786 1986 BOARD OF TRADE BICENTENARY

FOXABW

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Sir Brian Hayes KCB
Permanent Secretary

11 March 1986

Kenneth Warren Esq MP
Chairman
Select Committee on Trade and Industry
House of Commons
LONDON SW1A OAA

FOR INFORMATION

Sir Robert Armstrong
Mr Wicks
Mr Morris
Mr MacLean
Mr Steel
Mr Mountfield
Mr Rickford
Mr Mallinson
Mr Middleton IFA
Mr Lunn
Mrs Jones OFT
Mr Whitaker FRM
Mr Hewes MPO

Dear Mr. Warren,

INTERNATIONAL TIN COUNCIL

I understand that at its session tomorrow the Committee have asked for evidence from a lawyer in the Department about certain legal aspects of the tin crisis. I believe that the questions that are likely to be raised concern, first, the status of the ITC under UK law, having regard to its activities as a trading organisation; and, second, the extent of the liabilities of the ITC and its member states in the present circumstances.

I have discussed this with my Secretary of State. He has agreed that if the Committee does wish to call a lawyer, he will be happy for Mr J R Mallinson (the Under Secretary (Legal) in the Department who has been the lawyer most closely concerned with the matter) to attend, accompanied by me. He has asked me to make it clear, however, that Mr Mallinson will be able to give evidence only on certain limited aspects of the questions raised.

There are two reasons for this. The first is that the questions have been the subject of extensive advice to Ministers and senior officials within the Department, and it would, of course, be contrary to convention and to the Memorandum of Guidance (GEN 80/35, paragraph 25(i)) for this

FOXABE

1786 1986 BOARD OF TRADE BICENTENARY

advice to be disclosed. It is also a general principle that legal advice from solicitor to client is strictly confidential. Secondly, my Secretary of State has in mind the need not to prejudice the conduct of present and possible future proceedings arising from the tin crisis which may affect the interests of the Crown and, in that context, the need to preserve the complete confidentiality of the legal advice given.

If it would help the Committee, the Secretary of State would be happy that Mr Mallinson should give evidence to the Committee describing the content of the provisions of UK law which govern the status of the ITC (principally the International Tin Council (Immunities and Privileges) Order 1972, SI 1972/120, to which reference has already been made before the Committee). He would not however be able to provide any interpretation of these provisions or to describe how they may apply in the context of the tin crisis.

I should be very grateful to hear if the Committee would like Mr Mallinson to attend as a witness to give evidence on this basis.

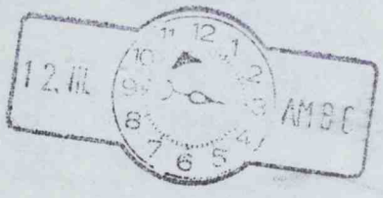
Yours sincerely,

Brian Hayes

BRIAN HAYES

1786 1986 BOARD OF TRADE BICENTENARY

FOXABE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CUBG

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Sir Brian Hayes KCB
Permanent Secretary

11 March 1986

Murdo MacLean Esq
Private Secretary to the Chief Whip
House of Commons
LONDON SW1

R Norgrove.

Better. I have not yet discovered from Murdo what happened when the Chief Whip

Dear Murdo,

.... Following our conversation this afternoon I attach draft letters for me to send to Mr Kenneth Warren, in place of the previous drafts addressed to the Committee Clerk. I have tried to make the tone friendlier, without softening the substance; and I have now made it clear that the Secretary of State is sending Robin Mountfield and myself to give evidence tomorrow, in place of Enid Jones and Michael Lunn.

I am sending copies of this letter to Robert Armstrong, Nigel Wicks, David Morris and Henry Steel.

Send to Mr Warren

Yours ever,

Brian

11.3

BRIAN HAYES

FOXABX

1786 1986 BOARD OF TRADE BICENTENARY

719-26

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Sir Brian Hayes KCB
Permanent Secretary

11 March 1986

Kenneth Warren Esq MP
Chairman
Select Committee on Trade and Industry
House of Commons
LONDON SW1A OAA

INTERNATIONAL TIN COUNCIL

I understand that at its session tomorrow the Committee may wish to receive evidence from a lawyer in the Department about certain legal aspects of the tin crisis. I believe that the questions that are likely to be raised concern, first, the status of the ITC under UK law, having regard to its activities as a trading organisation; and, second, the extent of the liabilities of the ITC and its member states in the present circumstances.

I have discussed this with my Secretary of State. He has agreed that if the Committee does wish to call a lawyer, he will be happy for Mr J R Mallinson (the Under Secretary (Legal) in the Department who has been the lawyer most closely concerned with the matter) to attend, accompanied by me. He has asked me to make it clear, however, that Mr Mallinson will be able to give evidence only on certain limited aspects of the questions raised.

There are two reasons for this. The first is that the questions have been the subject of extensive advice to Ministers and senior officials within the Department, and it would, of course, be contrary to convention and to the Memorandum of Guidance (GEN 80/35, paragraph 25(i)) for this

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1786 1986 BOARD OF TRADE BICENTENARY

advice to be disclosed. It is also a general principle that legal advice from solicitor to client is strictly confidential. Secondly, my Secretary of State has in mind the need not to prejudice the conduct of present and possible future proceedings arising from the tin crisis which may affect the interests of the Crown and, in that context, the need to preserve the complete confidentiality of the legal advice given.

If it would help the Committee, the Secretary of State would be happy that Mr Mallinson should give evidence to the Committee describing the content of the provisions of UK law which govern the status of the ITC (principally the International Tin Council (Immunities and Privileges) Order 1972, SI 1972/120, to which reference has already been made before the Committee). He would not however be able to provide any interpretation of these provisions or to describe how they may apply in the context of the tin crisis.

I should be very grateful to hear if the Committee would like Mr Mallinson to attend as a witness to give evidence on this basis.

BRIAN HAYES

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Sir Brian Hayes KCB
Permanent Secretary

11 March 1986

Kenneth Warren Esq MP
Chairman
Select Committee on Trade and Industry
House of Commons
LONDON SW1

I am sorry to learn that the Trade and Industry Select Committee felt that they were not receiving satisfactory answers from DTI officials during your session on tin on 4 March. I have discussed this with my Secretary of State and he feels that the best way forward would be for myself and Robin Mountfield (the Deputy Secretary responsible for tin) to attend and give evidence to the Committee at its session tomorrow, rather than Mrs Jones and Mr Lunn, who following last week's session have been summoned to attend.

When Mrs de Ste Croix wrote to Mr Lunn about tomorrow's session, she sent him the Committee's order to bring to tomorrow's session "all records and reports and warnings to Ministers concerning:

a. risks being incurred by the Buffer Stock Manager;

b. refusal by ITC personnel to supply information requested by British representatives at the ITC;

c. Ministerial responses and instructions resulting from or concerning the above."

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My Secretary of State understands that the main point on which the Committee is focussing is the frequency and regularity of reports by officials to Ministers on the tin situation. He has therefore asked me to let you know the numbers of reports and briefs submitted by officials to Ministers during the relevant periods. They are as follows. Four such papers were submitted to Ministers between 1 July 1982 (when the Sixth International Tin Agreement came into force) and the end of 1982; three during 1983; one during 1984; and seven between June 1985 and the suspension of buffer stock operations on 24 October 1985.

My Secretary of State is anxious to give the Committee every assistance in his power, but has asked me to say that he very much regrets that he cannot go further than this and authorise the production of the documents referred to in the Committee's order. This is for two reasons. First, the papers in question include accounts of proceedings of the International Tin Council. These cannot be disclosed, for reasons of confidentiality which were described in the Department's memorandum of 3 March and by which the United Kingdom is bound as a Member State of the Council. Second, the papers also give, either explicitly or implicitly, advice to Ministers. It is, of course, an established convention that advice given to Ministers by their Departments should not be disclosed; and, as you know, paragraph 25(i) of the Memorandum of Guidance (GEN 80/38) instructs officials not to give evidence about or discuss the advice given to Ministers by their Departments.

I hope you and the Committee will understand the difficulty in which the Department is placed over this. Robin Mountfield and I will try to give all the help we can tomorrow.

BRIAN HAYES

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FOXABW

NW

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Sir Brian Hayes KCB
Permanent Secretary

11 March 1986

Murdo MacLean Esq
Private Secretary to the Chief Whip
House of Commons
LONDON SW1A OAA

Dear Murdo

Following this morning's discussion I have revised the draft letter for me to send to the Clerk to the Select Committee on Trade and Industry, in reply to Mrs de Ste Croix's letter of 4 March conveying the Committee's order to Mr Lunn to bring certain documents to tomorrow's sesson. I enclose a copy of the revised draft, which the Chief Whip may wish to show to the Select Committee's Chairman. I shall not despatch it until I hear from you, but I very much hope that this will be in time for me to observe the courtesies by writing today.

I circulated yesterday a further letter for me to send to Mrs de Ste Croix, setting out the basis on which a lawyer from this Department, Mr Mallinson, could give evidence tomorrow. The Law Officers have agreed to this draft. The Chief Whip may wish to show this also to the Select Committee's Chairman, and I enclose another copy for that purpose. Again, I shall not despatch the letter until I hear from you.

FOXABU

Mr Norgrove,
I supported to Murdo but this might be made less formal + more helpful (without changing substance). On X in the letter, Murdo says the Cttee has asked for information in writing. Not to give it might provoke them.
N.L.W
11.3.

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BICENTENARY

9-26

I am sending copies of this letter to Robert Armstrong, Nigel Wicks, David Morris and Henry Steel.

Yours ever

Brian

BRIAN HAYES

FOXABU

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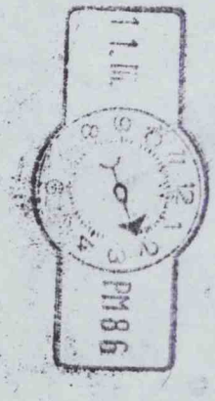
1786 1986 BOARD OF TRADE BICENTENARY


PM 86

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Sir Brian Hayes KCB
Permanent Secretary

11 March 1986

Mrs S A de Ste Croix
Clerk to the Committee
on Trade and Industry
Committee Office
House of Commons
LONDON SW1A OAA

I am replying on behalf of Mr Lunn to the Committee's order, which you conveyed to him on 4 March, to bring to the Committee's session on Wednesday 12 March "all records of reports and warnings to Ministers concerning:

a. risks being incurred by the Buffer Stock Manager;

b. refusal by ITC personnel to supply information requested by British representatives at the ITC;

c. Ministerial responses and instructions resulting from or concerning the above."

I am instructed by my Secretary of State to say that, while he wishes to give the Committee every assistance in his power, he is unable, in the light of the established conventions, to authorise the production of the documents concerned. This is for two reasons. First, the papers in question include accounts of proceedings of the International Tin Council. These cannot be disclosed, for reasons of confidentiality which were described in the

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My Secretary of State has considered whether there is any information he can give, in relation to the reports and briefs submitted to Ministers, which would help the Committee in its enquiries. He believes that it may help the Committee to know the frequency of such submissions. I am therefore authorised to inform the Committee that four such papers were submitted to Ministers between 1 July 1982 (when the 6th International Tin Agreement came into force) and the end of 1982; three during 1983; one during 1984; and seven between June 1985 and the suspension of buffer stock operations on 24 October 1985.

As you know, I shall be attending the Committee's hearing on the Secretary of State's instructions.

BRIAN HAYES

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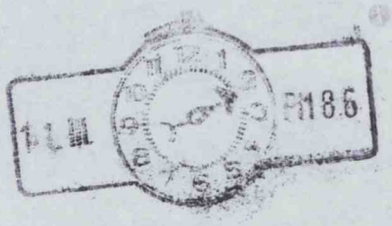
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Sir Brian Hayes KCB
Permanent Secretary

11 March 1986

Mrs S A de Ste Croix
Clerk to the Select Committee
on Trade and Industry
Committee Office
House of Commons
LONDON SW1A OAA

INTERNATIONAL TIN COUNCIL

I understand that at its session on 12 March the Committee may wish to receive evidence from a lawyer in the Department about certain legal aspects of the tin crisis. I am informed that the questions that are likely to be raised concern firstly the status of the ITC under UK law, having regard to its activities as a trading organisation, and secondly the extent of the liabilities of the ITC and its member states in the present circumstances.

My Secretary of State has agreed that if the Committee does wish to call a lawyer, he will be prepared to authorise the attendance of Mr J R Mallinson (Under Secretary (Legal) in the Department who has been the lawyer most closely concerned with the matter) accompanied by me. At this stage, however, it is right for me to tell you that Mr Mallinson will be able to give evidence only on certain limited aspects of the questions raised.

There are two reasons for this. The first is that the questions have been the subject of extensive advice to Ministers and senior officials within the Department, and it would be contrary to convention and to the Memorandum of Guidance (GEN 80/35, paragraph 25(i)) for this advice to be

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disclosed. It is of course in any case a general principle that legal advice from solicitor to client is strictly confidential. Secondly, my Secretary of State has in mind the need not to prejudice the conduct of present and possible future proceedings arising from the tin crisis which may affect the interests of the Crown and, in that context, the need to preserve the complete confidentiality of the legal advice given.

If it would assist the Committee, Mr Mallinson is authorised to give evidence to the Committee describing the content of the provisions of UK law which govern the status of the ITC (principally the International Tin Council (Immunities and Privileges) Order 1972, SI 1972/120, to which reference has already been made before the Committee). He would not however be authorised to provide any interpretation of these provisions or to describe how they may apply in the context of the tin crisis.

I should be grateful to hear if the Committee wishes Mr Mallinson to attend as a witness to give evidence on this basis.

BRIAN HAYES

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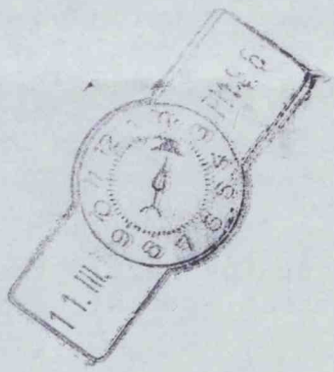

COPIED FROM TRADE ECGD 1/80

FILE (54) ECL

bc BG

10 DOWNING STREET

From the Private Secretary

10 March 1986

CONTINGENT LIABILITIES

You will have seen my separate letter of today to John Mogg about ECGD's finances.

Concern about ECGD finances has prompted the Prime Minister to enquire what steps are taken to control and monitor the contingent liabilities entered into by Government. I should be grateful to have a report on this.

The Prime Minister would also be grateful to know whether the monitoring arrangements identified the International Tin Agreement as a potential liability for Government.

Bf being dealt with on Trade, ECGD 1/80.

(David Norgrove)

Richard Broadbent, Esq.,
H.M. Treasury.

V6

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Ps | Sir Brian Hayes KCB
Permanent Secretary

Sir R Armstrong 10/3/86

Michael ~~Stark~~

Ps/ Sir Robert Armstrong GCB CVO
Cabinet Office

c/ M. Norgrove

CABINET OFFICE
A 2581
10 MAR 1986
FILING INSTRUCTIONS
FILE No. .....

Dear Michael

I attach further material which Sir Brian proposes to send to the Trade and Industry Select Committee. I would appreciate your urgent comments: we hope to be able to write to the Committee early tomorrow.

I am sending copies of this letter to Henry Steel at the Law Officers Department, to Mindo Maclean and to David Morris.

Yours ever

Ken Lussey

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Sir Brian Hayes KCB
Permanent Secretary

10 March 1986

Mrs S A de Ste Croix
Clerk to the Select Committee
on Trade and Industry
Committee Office
House of Commons
LONDON SW1A OAA

INTERNATIONAL TIN COUNCIL

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My Secretary of State has agreed that if the Committee does wish to call a lawyer, he will be prepared to authorise the attendance of Mr J R Mallinson (Under Secretary (Legal) in the Department who has been the lawyer most closely concerned with the matter) accompanied by me. At this stage, however, it is right for me to tell you that Mr Mallinson will be able to give evidence only on certain limited aspects of the questions raised.

There are two reasons for this. The first is that the questions have been the subject of extensive advice to Ministers and senior officials within the Department, and it would be contrary to convention and to the Memorandum of Guidance (GEN 80/35, paragraph 25(i)) for this advice to be

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If it would assist the Committee, Mr Mallinson is authorised to give evidence to the Committee describing the content of the provisions of UK law which govern the status of the ITC (principally the International Tin Council (Immunities and Privileges) Order 1972, SI 1972/120, to which reference has already been made before the Committee). He would not however be authorised to provide any interpretation of these provisions or to describe how they may apply in the context of the tin crisis.

I should be grateful to hear if the Committee wishes Mr Mallinson to attend as a witness to give evidence on this basis.

BRIAN HAYES

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Sir Brian Hayes KCB
Permanent Secretary

10 March 1986

Mrs S A de Ste Croix
Clerk to the Committee
on Trade and Industry
Committee Office
House of Commons
LONDON SW1A OAA

I am replying on behalf of Mr Lunn to the Committee's order, which you conveyed to him on 4 March, to bring to the Committee's session on Wednesday 12 March "all records of reports and warnings to Ministers concerning:

a. risks being incurred by the Buffer Stock Manager;

b. refusal by ITC personnel to supply information requested by British representatives at the ITC;

c. Ministerial responses and instructions resulting from or concerning the above."

I am instructed by my Secretary of State to say that, while he wishes to give the Committee every assistance in his power, he is unable, in the light of the established conventions, to authorise the production of the documents concerned. In paragraph 25(i) of the Memorandum of Guidance (GEN 80/38) officials are instructed not to give evidence about or discuss the advice given to Ministers by their Departments. The papers sought by the Committee are in part

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factual accounts of the position but also, either explicitly or implicitly, advice to Ministers. In so far as they are factual accounts they relate to proceedings of the International Tin Council which are immune from disclosure under the provisions of the Headquarters Agreement between HMG and the ITC, given effect to by the International Tin Council (Immunities and Privileges) Order 1972 (SI 1972. No 120). [The Secretary of State believes that it may help the Committee to have a record of the dates and nature of the reports made to Ministers during the relevant period, and .... has authorised me to provide such a record, which I enclose.]

As you know, Mrs Jones, Mr Lunn and I will be attending the Committee's hearing on the Secretary of State's instructions.

BRIAN HAYES

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999-49

Reports to Ministers on tin from 1 July 1982 (the coming into force of the 6th International Tin Agreement) to 24 October 1985 (suspension of buffer stock operations)

1982

5 August	Report on current situation and request for instructions for Special Session of the International Tin Council (ITC) on 9 August.
13 August	Report on Special Session of 9 August.
6 October	Report of ITC's quarterly session of 28-30 September 1982.
20 December	Report of ITC's quarterly session of 14-16 December 1982.

1983

18 March	Report of member states' reactions in the Buffer Finance Committee to HMG's proposals in relation to the activities of the Buffer Stock Manager. Request for instructions for ITC's March quarterly session.
4 May	Report of EC co-ordination meeting of 28 April 1983, and request for further instructions on line to be taken in ITC.
21 December	Brief for Ministerial visit to Thailand and Indonesia in January 1984, reporting on position in ITC.

1984

23/27 March	Brief for Ministerial visit to Malaya and Singapore in April/May 1984, reporting on position in ITC.

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1985

5 June	Brief for Ministerial visit to South East Asia in June/July 1985, reporting on position in ITC.
8 July	Report on impending difficulties in ITC's financial position.
13 September	Brief for Ministerial meeting on 18 September.
24 September	Report on meeting of Heads of Delegations on 23 September 1985.
30 September	Report on ITC quarterly session of 25-27 September.
4 October	Advice to Ministers
8 October	Further advice to Ministers.

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Sir Brian Hayes KCB
Permanent Secretary

10 March 1986

CABINET OFFICE
A 2580
10 MAR 1986
FILING INSTRUCTIONS
FILE No.

Mrs S A de Ste Croix
Clerk to the Committee
Trade and Industry Select Committee
Committee Office
House of Commons
LONDON SW1A OAA

: c- H. Norgrove.

pa tin

Dear Mrs. de Ste. Croix,

I am replying on behalf of Mrs Jones and Mr Lunn to the letters which you sent them on 5 March.

The answers to the Committee's questions are as follows. In accordance with normal practice, no formal instructions were given to Mrs Jones or Mr Lunn when they were appointed as United Kingdom delegates to the International Tin Council, nor were such instructions needed. Mrs Jones and Mr Lunn knew that they were expected to familiarise themselves with the recent history of the Council and with the positions adopted by Her Majesty's Government, and to conduct themselves in the Council in accordance with those positions. In doing so they in each case discussed the situation with their immediate predecessors and consulted senior officers. In 1983, after a period during which the United Kingdom had made intensive and unsuccessful attempts to secure a greater transparency in the operations of the buffer stock, both delegates in succession were reminded of the diplomatic aspects of continued efforts of this kind.

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These officers were under no specific requirements as to reporting the outcome of meetings of the International Tin Council. They knew however that matters requiring the attention of Ministers should be reported to them.

Yours sincerely,
Brian Hayes

BRIAN HAYES

FOXABD

1786 1986 BOARD OF TRADE BICENTENARY

International Tin Council

11 am

Mr. David Harris (St. Ives) (*by private notice*) asked the Secretary of State for Trade and Industry whether he will make a statement on the breakdown of the negotiations with the International Tin Council and the attempt to resolve the debts of that council.

The Minister for Trade (Mr. Alan Clark): The Government regret that the protracted negotiations between the International Tin Council and its bank and broker creditors have now broken down without reaching agreement to resolve the tin crisis.

We have constantly made it clear, following suspension by the ITC of its operations in the tin market on 24 October last with gross commitments exceeding £800 million, that the United Kingdom was prepared to accept its share of the liabilities of the ITC, and we called on all other members to do likewise.

It is especially unfortunate that the breakdown of negotiations has come at a time when substantial progress had been made towards resolving the tin crisis in an orderly fashion. Had the ITC member countries collectively shown a greater sense of urgency and responsibility from the outset, a solution might have been found. Discussions between members of the European Community were protracted, and formal negotiations by the ITC began only at the end of January. However, the final breakdown of negotiations was caused by the refusal of some producer countries to accept the proposals.

At this late stage, it seems unlikely that a settlement can now be reached in order to secure a return to orderly trading in tin. If a substantial number of other ITC countries were prepared to make a new effort to resolve the crisis, the Government would of course be willing to join such discussions. But it must be clear, as it has been throughout the earlier discussions and negotiations, that the United Kingdom Government are not prepared alone to take over the responsibility for the ITC's debts.

The Government deplore the failure of certain other Governments to agree to meet their share of the commitments of the ITC. That failure undermines good faith and integrity in international financial dealings.

Mr. Harris: First, I pay tribute to the Government for or the lead that they have taken in trying to achieve a resolution of this complex international problem and for their willingness to put up £50 million as their part of a bid to achieve a solution. Does my hon. Friend agree that it is a real tragedy that the negotiations have broken down after having got so far, and that the ramifications of that failure of negotiations are truly enormous, making the Westland affair look lik a minor financial incident?

Does my hon. Friend agree that there are enormous implications for the whole future of London as a commodity trading centre, major implications for the Third world and—this is my particular preoccupation—extremely worrying implications for the Cornish tin industry? May I press my hon. Friend the Minister and my right hon. Friend the Secretary of State for Trade and Industry to act with real urgency over the problems of the Cornish tin industry? May I impress upon my hon. Friend that, through no fault of its own, the Geevor tin mine in my constituency is really at risk now that the talks have broken down? Will the Government respond urgently to the request for special temporary assistance to enable the Cornish tin industry, and Geevor in particular, to survive?

Mr. Clark: I am obliged to my hon. Friend the Member for St. Ives (Mr. Harris) for the tribute that he paid to the Government's efforts to solve the crisis or to prevent it reaching its present dimension. The United Kingdom has played a leading part throughout in attempting to achieve a solution and in offering contributions greatly in excess of the 4 per cent. that we are bound under the agreement to contribute to costs.

I agree with my hon. Friend that at this early stage the implications, both in global terms and in the effect on the City, have yet to be seen in their entirety. I know that my hon. Friend has a particular constituency interest, and the whole House will applaud his efforts to draw our attention to the plight of his constituents. The Government are very much aware of that aspect, but we feel that it would not be appropriate to take action until the market has at any rate stabilised, so that we can see what the prospects for commercial trading in tin and the economics of mining it are likely to be. Once the market has stabilised and we see what the commercial prospects are, we would of course be willing to consider applications for grant towards the cost of capital investment. Those grants will be made in the light of the market conditions prevailing at the time.

Mr. Alan Williams (Swansea, West): I am grateful to the Minister for coming here and giving us a fairly interesting historical analysis of the situation leading up to today's statement, but he has said nothing about where we go from here. He has put forward no positive proposals. The negotiations have been running into trouble for more than four months, and collapse must have been a strong possibility throughout. What are the Government's contingency plans? Is the Minister seriously telling us that, having been aware for four months of the crisis that was liable to occur, the Government have not one positive proposal to make, apart from the suggestion that they might give some grant if someone is silly enough to invest in tin mines which will have no market for their product?

The Minister seems unaware that the price of tin is likely to collapse as 16 banks begin to offload 45 tonnes of tin on to the market. What does he think that that will do to the 13 brokers who are at risk for up to £550 million? Many of those brokers also deal in other commodities, so there may be repercussions way beyond the tin market, putting at risk the survival of the whole London metal exchange. The Minister seems completely unaware of all that or of the fact that there is about to be chaos in the world tin market.

What plans does the Minister have to help the Cornish tin workers, for whom his hon. Friend the Member for St. Ives (Mr. Harris) has pleaded, if the price of tin collapses below the level at which it is viable to produce it, for example, at Geevor? Does the Minister appreciate that if he has no plans to help, this could mean the end of tin production in the United Kingdom?

Mr. Clark: In answer to my hon. Friend the Member for St. Ives I stated Government's position in relation to the Geevor tin mine and tin production in Cornwall. We view the situation with great concern, we are watching it very closely, and at the appropriate moment we shall judge the level at which grants should be made for investment.

support his demand that we should rectify the matter, perhaps in this Budget, and sustain child benefit at its proper level.

I shall comment later on the speech made by the Parliamentary Under-Secretary of State for Employment in reply to Monday's Adjournment debate on Wapping. It was a deplorable speech.

The motion lists many different forms of action that must be taken by the Department of Employment, in which I have a special interest. I must clarify some of the misconceptions that have been spread, not necessarily by the Under-Secretary of State—he is young to the game—but by some of his Conservative predecessors at the Department, who have tried to spread strange tales about what it achieved during the Labour Government.

The main work of the Department falls into four categories, all of which must operate successfully to obtain a decent employment policy. First, the Manpower Services Commission was set up a little before we came into office in 1974, but all the substantial expansion and financing of the MSC, and the special role that it was asked to play in the training programme, which remains of such great importance, was the work of the 1974 Labour Government. Some Ministers have said, absurdly, that we were not interested in training programmes, but we spent greatly increased sums on training. We allowed the Manpower Services Commission to go full speed ahead with the work, and we wanted to graft the new training programmes on to the programmes that preceded them.

Unfortunately, the Conservative Government inflicted serious injury on many training and apprenticeship schemes. Their conversion to a better training policy arrived belatedly. If the Minister looks back at what we did on training, he will know how puerile is the tale that our approach was not ambitious and intelligent.

The Labour Government established the Health and Safety Commission and, therefore, extended safety provision to about 5 million people who had not had it previously. That aspect of the Department's work is increasingly important, especially since the development of the chemical and nuclear industries. I vividly remember the enthusiasm of the chief inspector of factories for the establishment of the commission. I am glad that even this Government have not dared to destroy it, although its effectiveness has been considerably impaired by the shortage of inspectors and the Government's failure to recognise what could be achieved by an imaginative programme for extending health and safety provisions into many other areas.

My hon. Friend the Member for St. Helens, North (Mr. Evans) mentioned what the Government have done, through a series of measures, to curb employment rights or remove them altogether. It is especially offensive that people who have never had to worry about their salaries should wish to cut the salaries of many youngsters and others. It is also offensive that, after so much effort was made to extend employment rights to women and to set up a programme by which that could be carried forward, during their six years in office the Government have been searching for ways to curb the extension of rights. We must ensure that we carry forward the work that was initiated during the years for which the Labour Government is sometimes attacked.

The Labour Government also established the Advisory, Conciliation and Arbitration Service. That has a direct bearing on the Wapping dispute and on how we might find a way out of it. Neither side of industry could accuse ACAS of being non-independent. It was established for that purpose, and great credit is due to its two main directors during its life, Jim Mortimer and his successor, both of whom carried out their tasks excellently. One advantage that the Government possess is that they could use ACAS in this dispute and in others much more effectively than they have. I urge them to do so.

Some Conservative Members—the worst offender is the chairman of the Conservative party, who had a brief and disastrous spell at the Department of Employment—try to say that the Labour Government did not contribute to industrial relations. However, we established the main independent body on which any sensible development of industrial relations must now depend. I hope, therefore, that the Government will pay particular attention to the constructive proposals that I shall be making later in my speech about the way in which we should seek an honourable and decent escape from the terrible dispute in Wapping. More than 5,000 people have had their jobs taken from them in the most shameful and shocking manner and it is the duty of the House of Commons to try to find a way out.

I see that the Minister for Trade is getting ready to speak. I thought for a moment that he had come to speak on behalf of his old Department, the Department of Employment, but I gather that he has risen on the stepping stones of his dead self to higher things at the Department of Trade and Industry—or perhaps he has descended to nether regions altogether. If I, like the Minister for Trade, had had a good job at the Department of Employment and was doing it fairly decently, I should not have gone off to join those racketeers.

It being Eleven o'clock, MR. SPEAKER *interrupted the proceedings, pursuant to Standing Order No. 5 (Friday sittings).*

The right hon. Member for Swansea, West (Mr. Williams) fell somewhat short of his objective in accusing the Government of failing to intervene on a greater scale to prevent chaos in the City. I am not sure what the right hon. Gentleman was recommending. We have already taken the lead in the efforts to solve the crisis. Our offer of a contribution to finance the agreement was extremely generous, both in absolute terms and in relation to our treaty obligations. Perhaps the right hon. Gentleman will enlighten the House on whether he is really suggesting that yet more taxpayers' money should be thrown into an extremely uncertain and difficult situation. He mentioned the difficulties that will face certain brokers. Is he suggesting that they should be individually bailed out by the Government?

Mr. Tim Smith (Beaconsfield): Does my hon. Friend accept that the United Kingdom was the only member of the International Tin Council prepared to stand behind its legal obligations? Is it not deplorable that other members, including members of the EEC, and in particular, West Germany, have refused to do so? What possible future can there be for international trade agreements if member states refuse to stand behind their legal obligations?

Mr. Clark: My hon. Friend's view is uncomfortable, but valid. At every stage the United Kingdom has done its best to bring about a solution to the crisis. It is regrettable that delays, indecisions, and a certain optimism—I am not the best person to judge that—prevented any of our Community partners or other countries from coming forward with positive suggestions. As to the future, it may be possible to reach agreement and for all the parties to mount a salvage operation, but at the moment the prospects look exceedingly bleak.

Mr. Robert Maclennan (Caithness and Sutherland): Is the Minister's statement not a deeply irresponsible and shocking abdication of Government responsibility which will be noted with appalled reactions throughout the City? Last night why did the Minister not respond positively to the proposal by Mr. Jacques Lyon that the Government should take a lead in the rescue plan and not simply rail against other countries for their failure to take a lead?

Does the hon. Gentleman have any understanding of the consequences, not only for the City, but for the banking system, of the collapse of the London metal exchange, which is at risk because of the Government's supine response to the crisis? Has the Minister nothing more to say to the 1,500 workers in the tin industry, and will he examine proposals for investment in the industry?

Mr. Clark: I am amazed at the hon. Gentleman. He knows the lead that the United Kingdom has adopted throughout. He has heard from both sides of the House how we received almost no support from the other partners to the agreement. He has heard the size of the sum—£50 million—which the United Kingdom has put on the table.

Is the hon. Gentleman suggesting that we should have increased the sum, and not put it into the founding of a new tin council, which would take over the obligations, but paid it directly to the City? What is the hon. Gentleman suggesting? It would be wrong and irresponsible to increase the sum and to use taxpayers' money for direct grants—if that is what the hon. Gentleman is suggesting—to those who are in difficulties in the City of London.

Mr. Harry Greenway (Ealing, North): Is my hon. Friend aware that the International Tin Research Institute is in my constituency? Is he aware also that I hope he will continue to attempt to drag European and other Governments kicking and screaming, towards an agreement on tin? Does he agree that without that agreement container commodities for food and drinks, including bottles, will not have the strength or unbreakability which is needed? Tin is essential.

Mr. Clark: My hon. Friend is right. The prospects are bleak. I do not know about dragging Governments kicking and screaming, but if there is a general perception of the gravity of the problem, the original possibilities remain. It has proved so difficult to achieve unanimity that the possibility of finding a solution is not promising.

Mr. Dennis Skinner (Bolsover): Is the Minister aware that if he started by being concerned, not about speculators in the City, but about the more than 1,000 workers engaged in the tin mining industry, and if he was prepared to strip himself of the dogma, he might be able to find a solution? Tin is a non-perishable commodity. If the Government want to keep the tin industry and to keep the tin miners and others in jobs, the Minister would take the stance that he took in October 1984 with another valuable commodity—gold. At that time the Government were not much bothered about market forces or uneconomic units of production and decided to save Johnson Matthey Bankers by nationalisation. The same process could be developed in the tin industry.

A previous Government took a similar attitude when Rolls-Royce got into an almighty mess. People felt that something should be done, so it was taken over. If the Government seriously want to look after the jobs of the tin workers and ensure a continuing tin industry, they would dismiss questions about the London metal exchange and get on with the job of saving the tin mines in Cornwall.

In the absence of the Liberals, who do not seem to be interested, will the Minister take the questions on board and do what was done with JMB and so save the jobs and the industry?

Mr. Clark: I appreciate that the hon. Gentleman could hardly let his chagrin fail to show. We are not bailing out the London metal exchange, although I am sure that that would be the solution that the hon. Gentleman would have predicted.

Mr. Skinner: I did not say that.

Mr. Clark: I can understand the hon. Gentleman's chagrin at the fact that we are not running true to the stereotype that he describes. I have already explained the measures that we envisage taking to help the plight of the Cornish tin miners. The miners' problem is different in quality from that of others who are in difficulties because of the situation. The hon. Gentleman is so ready—understandably — to condemn certain aspects of the Common Market and the CAP and the accumulation of mountains, and I was interested to hear that his solution is the accumulation of a giant mountain of tin.

Sir Anthony Buck (Colchester, North): Is my hon. Friend aware that I sympathise with him in having to deal with a difficult problem? Will he comment further on the attitude of our allies, because it seems that they, and West Germany in particular, have not fulfilled their obligations?

Mr. Clark: The House can reach its own conclusions and read the press, but I do not want to pick a fight with any of our Community partners or with any of the other countries involved. The facts speak for themselves. The failure to achieve harmony, a united attitude, or a level of contributions is at the root of the mishap.

Mr. Frank Cook (Stockton, North): Has the Minister tried to solicit American involvement as a means of rescuing the industry, or are Americans who invest in this country interested only in cleaning up profits and milking the economy?

Mr. Clark: I understand that America is not a member of the International Tin Council.

Vickers Shipbuilding and Engineering Ltd

11.18 am

The Secretary of State for Trade and Industry and President of the Board of Trade (Mr. Paul Channon): With permission, Mr. Speaker, I should like to make a statement.

I have today given my consent to the sale of Vickers Shipbuilding and Engineering Limited to the VSEL Employee Consortium plc. Its offer consists of a downpayment of £60 million, together with a profit-sharing arrangement for the period 1986 to1992, which could provide British Shipbuilders with further payments of up to £40 million in 1992 and 1993. The consortium has undertaken to complete and fund the remainder of the work on the submarine facilities project, which will modernise the production facilities at VSEL and enable the company to complete the Trident submarine programme in accordance with the Ministry of Defence's requirements.

As far as the Trident submarine programme is concerned, the consortium on Wednesday gave the Ministry of Defence an undertaking that it would negotiate a contract for the first Trident submarine on terms, price, programme and conditions which represent a significant improvement to the Ministry of Defence on the terms previously offered by VSEL while it remained under the control of British Shipbuilders.

The House will be aware that the consortium's bid was not the only one for VSEL. The commercial terms of the other bid were judged by British Shipbuilders and its financial advisers, in so far as they affected British Shipbuilders, to be superior to those of the consortium's bid. But there is a further term in the other bid, which I am bound not to disclose without the bidder's permission, which I found very difficult to accept. British Shipbuilders moreover acknowledged that other interests beyond the remit of British Shipbuilders to consider are involved in the sale. I agree with this. I have therefore decided that the consortium's bid is to be preferred. I wish the consortium well.

Mr. Alan Williams (Swansea, West): I strongly object to the right hon. Gentleman's grave discourtesy. He was aware that the Opposition had asked that the statement should be deferred until Monday, and not only did the Government persist in going ahead with it today, but they ensured that I received a copy of the statement only at 10.53 — seven minutes before the House was due to break into the morning business. As the Government were able yesterday to indicate to *The London Standard* that they planned to make some form of statement today, how on earth can the Secretary of State justify the discourtesy to the Opposition?

I also object to this furtive device of slipping such an important announcement through on a Friday. It is not only that it has taken up rare private Members' time—though that is an important consideration for hon. Members. It has also denied many hon. Members with a deep interest in this major policy decision a chance to ask questions on this important statement. Why was the matter so urgent that the statement had to be made this morning?

Does not the whole saga reveal the tensions and disagreements that exist between the Ministry of Defence

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CUBG

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Secretary of State for Trade and Industry

PS/

CONFIDENTIAL

6 March 1986

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

1. FF
2. pa.

Dear David,

TIN

As I explained on the telephone earlier, the ITC today failed to agree on a contribution to the settlement plans put forward by the banks and brokers. The ITC accordingly issued the attached press communique this evening, recording the collapse of negotiations.

2 Mr Lion, Chairman of the LME came into see my Secretary of State this evening. He said that in the light of this afternoon's developments the LME faced two alternatives. First, they could reopen the market and allow the tin price to fall to a free market level. They would not do this until next week, since 48 hours notice had to be given before the market could be reopened. Second, they could organise a "ring out". This would involve a kind of burden sharing exercise among brokers. No tin would actually change hands, but the LME would set a settlement price lying someway between the pre-crisis price and what the price might be expected to fall to in the free market. Buyers, presently contracted to purchase tin at perhaps £8,900 per tonne would be released from this obligation in return for paying the seller of the tin the difference between the settlement price and the contract price. The sellers would be left holding the tin, which would now only be worth perhaps £4,000 per tonne on the free market, but they would have the cash compensation which the buyers had provided. Thus the burden of the price fall would be shared amongst the brokers. A "ring out" would have to take place tomorrow morning, without the market opening, since a prior announcement that a "ring out" would take place would undermine the LME's ability to set a settlement price.

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3 Mr Lion said that allowing the price to fall freely would mean that ten or eleven brokers would be unable to trade since they would become immediately insolvent. He said that there would be so many defaults that the whole LME would have to close, and that this would have a ripple effect into other commodity markets. He said that if the LME chose to have a "ring out", then the effect on the LME would be equally catastrophic. Mr Lion's colleagues, however, appear less pessimistic about the prospects for the LME in the aftermath of a "ring out".

4 Mr Lion said that since HMG had been prepared to offer £50m to the Newco package, we should be prepared to allow £50m in order to save the LME. The Secretary of State said that the £50m which the Government had offered was a contribution we were prepared to make to a settlement. It was a quite different matter to give this sum to the LME, and it was absolutely inconceivable that the Government would agree to this.

5 Mr Lion said that the Secretary of State's comments sounded the death knell for the LME.

6 I attach a copy of the Statement for use in the event of the collapse of the negotiations, which has been revised in the light of comments from Departments. A PNQ has been put down for answer tomorrow morning on the tin crisis. If this is allowed, the Statement will be used in response to it. Failing that, we are arranging for the statement to be given by way of written answer to an arranged PQ, also tomorrow morning.

7 I am copying this letter to Robert Culshaw (FCO), Philip Wynn Owen (Treasury), Henry Steel (Law Officers' Department), and John Bartlett (Bank of England).

Yours ever,
Michael

MICHAEL GILBERTSON
Private Secretary

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THE INTERNATIONAL TIN COUNCIL

1 OXENDON STREET, LONDON, SW1Y 4EQ

Press communiqué
[For immediate release]

Statement by the ITC

On 24 October 1985 the resources of the buffer stock were exhausted and the ITC suspended its buffer stock operations. Since that time the Council has been examining with other involved parties, ways and means of bringing about an orderly resolution to the situation.

Although Member Governments admit no legal liability, the Council since 23 December 1985, has been giving serious consideration to a proposal which involved, in essence, financial contributions from all Member countries of the ITC, creditor brokers and creditor bankers and the formation of a new company. The new company was to take over the assets and liabilities of the buffer stocks of the Fifth and Sixth Tin Agreements, including the tin stocks and contracts to purchase tin, and dispose of the tin held in an orderly fashion. Negotiations, which were without commitment and without prejudice, were held between a small group from the Council and representatives of the creditor banks and brokers. These resulted in a Memorandum of Understanding for consideration by the Council as well as by the bankers and the brokers.

For its part the Council could not arrive at a consensus and, consequently, the Memorandum of Understanding could not be adopted. The representatives of the banks and brokers concerned have been advised of this accordingly.

The Council will continue to give consideration to the current situation and to work for whatever the Council can do in the present circumstances.

Issued by:

Date: 6 March 1986

The International Tin Council,
Haymarket House,
1 Oxendon Street,
London, SW1Y 4EQ.

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TIN CRISIS - BREAKDOWN OF NEGOTIATIONS

REVISED DRAFT STATEMENT

The Government regrets that the protracted negotiations between the International Tin Council and its bank and broker creditors have now broken down, without reaching agreement to resolve the tin crisis.

2 We have constantly made it clear, following suspension by the ITC of its operations in the tin market on 24 October last with gross commitments exceeding £800 million, that the UK was prepared to accept its share of the liabilities of the ITC, and we called on all other members to do likewise.

3 It is especially unfortunate that the breakdown of negotiations has come at a time when substantial progress had been made towards resolving the tin crisis in an orderly fashion. Had the ITC member countries collectively shown a greater sense of urgency and responsibility from the outset, a solution might have been found. Most EC Member States contributed to this by blocking any formal negotiations by the ITC until late in January.

4 At this late stage it seems unlikely that a settlement can now be reached in order to secure a return to orderly trading in tin. If a substantial number of other ITC countries are prepared to

make a new effort to resolve the crisis, the Government would of course be willing to join such discussions. But it must be clear, as it has been throughout the earlier discussions and negotiations, that the UK Government is not prepared alone to take over the responsibility for the ITC's debts.

5 The Government deplores the failure of certain other Governments to agree to meet their share of the commitments of the ITC. This failure undermines good faith and integrity in international financial dealings.

BACKGROUND

6 Most ITC member countries have refused to acknowledge any responsibility for the ITC's debts to creditor banks and brokers. Early proposals put forward by the banks for refinancing the whole of the ITC's debts were rejected, and in informal discussions between the ITC and bank and brokers representatives it was suggested that, if a solution was to be reached, it should be through "burden sharing" between the ITC and its creditors. As a result of these informal discussions, on 23 December a package of proposals was put to the ITC and its member Governments. This package, prepared by Mr Peter Graham of Standard Chartered Bank and Mr Ralph Kestenbaum of brokers Gerald Metals, provided for the establishment of a new company which would discharge all the liabilities of the ITC. The proposal envisaged that the ITC member countries would subscribe £200m to this new company, the banks and brokers £70m, with the UK Government guaranteeing £50m of bank loans to the new company.

7 This package provided a constructive framework for negotiations with the ITC, which formally got under way late in January, three months after the crisis began. These negotiations covered not only the financial contributions to the new company, but also the detailed legal framework within which it should operate, and the policy to be followed in disposing of the tin stocks which would be acquired by the company: disposal over a period of about three years was envisaged.

8 During the negotiations the banks and brokers agreed to increase the amount of their contributions to the new company to £100m, and the UK Government agreed to subscribe £50m in cash to the new company rather than guarantee a £50m loan. This left the ITC members being asked to contribute £115m to £120m to the new company to discharge all their liabilities.

9 A substantial number of ITC member countries indicated that they were prepared to agree to contribute their share of the £115m required provided all other countries did likewise. However, by Thursday 6 March, the final deadline set by banks and brokers for agreeing the package of proposals, a number of ITC members had not agreed to provide the necessary finance and, in addition, agreement had not been possible on a number of other features of the rescue package. This failure by the ITC to meet the 6 March deadline has led to the breakdown of negotiations.

6 March 1986

Q. Why did the UK join the Sixth International Tin Agreement in the first place?

A. The UK had been a member of all the previous International Tin Agreements. While we had some reservations about joining the Sixth International Tin Agreement, we decided that, on balance, our interests in maintaining a stable international market in tin would be better served by remaining members of the International Tin Council. We were also influenced by the fact that the majority of the other members of the European Community were in favour of joining the Sixth Agreement. Failure to join might have had adverse effects on the Cornish tin mining industry and on our relations with tin producing countries. And if we had ceased to be members of the International Tin Council, the headquarters of the Council, under the terms of its Treaty, would have moved from London. At the time, we would have considered such a move to have been a disadvantage.

Q. Why has the ITC not been run in a proper fashion?

A. It was clear from the outset that there were shortcomings in the Sixth International Tin Agreement. First, the target price range set for tin was too high. Second the Buffer Stock Manager had insufficient resources to maintain the floor price, given the prevailing excess of tin production over consumption. Third, a considerable proportion of tin consumers and tin producers failed to join the Agreement, thereby weakening its effectiveness. Furthermore, during the period that the Agreement was in force, a further factor came into play, namely the effects of exchange rate movements on the Buffer Stock Manager's operations. The floor price for tin is set in Malaysian currency, which is linked to the US$, while most of the ITC's operations were conducted in sterling.

At various times during the course of the current Agreement, attempts were made to correct some of these factors, for example to reduce the floor price of tin, and to increase the financial resources available to the Council. Only minor improvements resulted, and the Buffer Stock Manager kept a number of important details of his operations hidden from the representatives of the ITC's member countries. This secrecy meant that the activities of the Buffer Stock Manager were not monitored or controlled in a satisfactory manner.

Q. What did the UK do to try to make sure the ITC was properly run?

A. In the early stages of the agreement the UK attempted to obtain more information about the nature and scale of the Buffer Stock Manager's operations, and to secure greater control over those operations. Unfortunately we were unable to obtain the general support of other members of the Agreement, particularly the producer members, to improve control and transparency of the ITC's operations. The UK, as a relatively small contributor to the financing of the Agreement - about 4% of the total - meant that our influence was in any case very limited.

BREAKDOWN OF THE ITC NEGOTIATIONS: QUESTION AND ANSWER BRIEF

Q What has happened?

A Considerable progress was made in the protracted negotiations between the International Tin Council and its bank and broker creditors and a Memorandum of Understanding was drawn up. In order for a solution to be reached it was necessary for all member countries to agree to the package. It was not possible to secure the agreement of all countries.

Q Why have the talks failed?

A A substantial number of ITC member countries agreed in principle to contribute to a settlement of the Council's debts based on the TINCO proposals put forward by Mr Peter Graham of Standard Charter Bank and Mr Ralph Kestenbaum of Gerald Metals on Friday 21 February 1986. Unfortunately, by Thursday 6 March, the deadline set by the creditors for agreeing the TINCO package, a number of member countries had not agreed to provide the necessary finance. This failure by the ITC to meet the deadline has led to the breakdown of negotiations.

Q Which countries refused to pay?

A I must refer you to the International Tin Council for details of the position of individual countries.

Q Did the UK notify its acceptance of the TINCO package?

A Conditionally. The UK said that it was prepared to meet its share of the ITC's contribution and that it was willing to contribute an additional £50m, provided the ITC's contribution was £120m, or alternatively our £50m would stand if the banks and brokers were content with an ITC contribution of £115m.

Q Was the UK inflexible and did this cause the talks to collapse?

A No. The negotiations have broken down becuase certain ITC member countries either indicated that they could not agree, or failed to notify their agreement, to contribute to the TINCO package within the deadline set by the creditors. We believe that, if all ITC member countries had agreed, a settlement would have proved possible even though the UK's offer of £50m over and above our share of the ITC contribution was the maximum we were prepared to contribute.

Q What will happen next?

A It is difficult to be certain. The authorities of the LME will, no doubt, consider ending the suspension of their tin contract . When that happens, the ITC's debts will crystallise and the Council's creditors will consider what steps to take in relaton to those debts.

Q When will the LME open the tin makret?

A That is a matter for the authorities of the Exchange.

Q What will the price of tin be?

A It is not for the Government to speculate. However, there is cleary a likelihood that the price will be significantly lower than it would have been had agreement on the TINCO package been reached, to ensure orderly disposal of the tin stocks.

Q What will be the impact on the LME/other commodities market/ City?

A Although the implications of the breakdown in negotiations are serious, we cannot be certain now what the consequences of the ITC's failure to meet its obligations will be. The size of those obligations cannot be calculated precisely until the tin market reopens and the debts crystallise.

Q What are you going to do about Cornwall?

A It is too early to say. Cornish mining companies will be better able to assess their commercial prospects once a market price for tin has been re-established. The Department is willing to consider making grants towards investment projects aimed

at making the mines competitive in the new market situation. However, no decisions will be taken until a realistic assessment of viability can be made.

Q Will the Government defend any claims against them by the ITC's creditors.

A That is a hypothetical question.

Q (Any other questions on legal points)

A No further comment. No actions have been taken. Unwilling to answer hypothetical questions.

Q The Government was prepared to put in £50m plus its share of the ITC's contribution. Will this money be available to the LME?

A No. [See first para. next question.]

Q Why were HMG prepared to give £50m to bail out the LME but nothing for Geevor?

A The Government offer, to contribute £50m towards the finance of the proposed company which would have taken over the obligations of the International Tin Council was not directed at bailing out the LME but was intended to help secure a return to orderly

trading in tin which will benefit the Cornish tin mining companies as well as the LME.

We are not ruling out financial help for Geevor. We are not at present in a position to make a proper assessment of the assistance that may be justified. Whereas in the case of the problems arising from the default of the ITC, the position has already been clearly established and the financial requirements identified.

Q Will the Government bail out the LME?

A No. We deplore the position in which members of the LME have been placed as a result of the refusal of some ITC member countries to accept a solution based on the TINCO package but we have no intention of taking on the entire burden of settlement; that is something which should properly be shared by all 22 ITC member countries.

Q Is it not just a question of money? Why does HMG not just bridge the gap to bring about a settlement? You were willing to pay £50m to rescue the LME.

A The Government's offer to contribute £50m in addition to its share of the ITC contribution towards a settlement was not directed at bailing out the LME. It was intended to help secure a return to orderly trading in tin which would have been in the interests of all concerned, including the Cornish

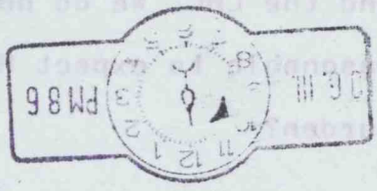
tin industry and the LME. We do not, however, consider that it would be reasonable to expect HMG to bear an even larger share of the burden?

Q What is the Government's attitude to commodity agreements?

A In general, we have been willing to participate in commodity agreements with price stabilisation mechanisms, provided that they are cost effective and beneficial to both producers and consumers alike. We are currently reviewing our approach to commodities policy, including the membership of commodity agreements. The lessons of the tin crisis are being taken into account in this review.

Further information for use if required

There are only three other international commodity agreements, besides tin, with market intervention provisions. They cover Rubber, Cocoa (which looks unlikely to be renewed) and Coffee. The UK is a member of all these agreements, but none of these three permit the kind of forward trading or unregulated borrowing which have caused trouble in the Sixth International Tin Agreement.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PRIME MINISTER

TIN

The negotiations seem now finally to have broken down.

The LME are meeting this evening to decide what to do next.

One option is to open the market, having given the necessary 48 hours notice, and then allow free trading. They believe this would do grave damage to the LME and possibly lead to its collapse.

The alternative is to seek some form of burden-sharing within the market. The LME would set a notional market clearing price. Brokers with buy contracts would pay to the sellers the difference between this notional price and the price at which they have bought the tin (presumably often on behalf of the buffer stock managers). Brokers with sell contracts would gain this amount in cash, but be left with the risk of their holdings of tin.

It is not clear whether the brokers will be prepared to agree to this, and the procedure could also be open to legal challenge.

Amanda Ross

pp DN

6 March, 1986.

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CWB

BANK OF ENGLAND
Threadneedle Street
London
EC2R 8AH

6 March 1986

Michael Gilbertson Esq
Private Secretary to the
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
London
SW1H OET

NBPM

Dear Michael

TIN

In your letter of ~~4~~ at Map March you asked for comments on the draft statement against the possible breakdown of the tin negotiations.

We suggest that in the fourth line of paragraph 4 the word "final" should be replaced by "new". It would be wrong to give any impression that there is a prospect that the existing plan could be resurrected if its negotiations break down this week. The text may need to be reconsidered in light of the cause of the break down.

I am sending copies of this letter to the recipients of yours.

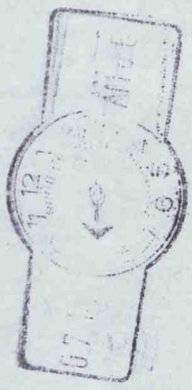
Yours sincerely

John Bartlett

John Bartlett
Private Secretary
to the Governor

TRADE

Tim Connor PT2.



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NBPM

YOUR TELNO 53 TO KUALA LUMPUR: TIN.

1. BELGIAN FINANCE MINISTER, EYSKENS, TOLD ME LAST NIGHT THAT SINCE THE CRUNCH WAS REALLY AT HAND HE WAS NOW PREPARED TO SEEK CLEARANCE FROM HIS COLLEAGUES FOR BELGIAN ACCEPTANCE OF THE ARRANGEMENTS, INVOLVING IN PARTICULAR A BELGIAN CONTRIBUTION OF 90 MILLION BELGIAN FRANCS ON THE STRICT UNDERSTANDING THAT THERE WAS NO FURTHER LIABILITY. THE BELGIAN FOREIGN MINISTER, TINDEMANS, CONFIRMED TO ME SEPARATELY THAT EYSKENS HAD ASSURED HIM HE WOULD PROPOSE THIS AT TODAY'S MEETING OF THE ECONOMIC COMMITTEE OF THE BELGIAN CABINET FOR CONFIRMATION BY THE BELGIAN COUNCIL OF MINISTERS TOMORROW.

2. I HAD THESE CONVERSATIONS LAST NIGHT AND OF COURSE WAS NOT AWARE OF TODAY'S DEADLINE REPORTED IN YOUR TUR. I EXPECT THAT THE BELGIAN REPRESENTATIVE AT TODAY'S MEETING IN LONDON WILL HAVE THE NECESSARY DISCRETION BUT YOU WILL NO DOUBT LET ME KNOW IF A FURTHER APPROACH TO BELGIAN MINISTERS COULD EXPEDITE THEIR AGREEMENT.

PETRIE

INTERNATIONAL TIN AGREEMENT

FRAME EXTERNAL

ERD
SEAD
S AM D
PUSD
WAD
C AF D
LEGAL ADVISERS
FED

NAD
UND
SIR W HARDING
MR DAVID THOMAS

COPIES TO:-
MR M LUNN(MM)) DTI ASHDOWN HOUSE
MR J DENISON CROSS) DTI ASHDOWN HOUSE
MR K HALL (MM)) DTI ASHDOWN HOUSE
MR T VENESS ITP2) DTI 1 VICTORIA ST
MR R TAYLOR ITP2) DTI 1 VICTORIA ST
MR BRIAN MURRAY) DTI 1 VICTORIA ST
MR R THOMAS)MAFF
MR D FRY)MAFF
MR MOUNTFIELD)H M TREASURY
MR M REDLEY)H M TREASURY
MR B GUNN) BANK OF ENGLAND
MR M SAUNDERS LAW OFFICERS DEPT
ROYAL COURTS OF JUSTICE THE STRAND

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Foreign and Commonwealth Office

London SW1A 2AH

6 March 1986

Dear David,

Tin

The Foreign Secretary is broadly content with the draft statement enclosed with Michael Gilbertson's letter to you of 4 March setting out a line to take in the event that current negotiations fail. He is however concerned about three passages in the text. The first comes at the end of paragraph 3, where EC member states are singled out for criticism. The Foreign Secretary entirely agrees that most Community members have played an unhelpful, if not positively obstructive part. He nevertheless considers it important to refrain from public criticism of friendly nations, whose cooperation we shall continue to need on tin - if court actions are brought against us - as well as in many other areas. We therefore suggest that this sentence should be replaced by a more veiled reference to those whom we hold responsible, such as the following:

> "We were particularly disappointed that a number of countries to whom we looked for support in solving the problem refused to agree to negotiations by the ITC until late in January. This delay undoubtedly contributed to the failure to reach agreement."

Sir Geoffrey would have no objection to spokesmen identifying particular culprits in off-the-record briefing. He would also recommend that in any message the Prime Minister may decide to send her opposite numbers, we should make no secret of our opinion that some of them are greatly to blame for the failure of negotiations. We are preparing a draft message of this kind, which we will submit as soon as possible.

The Foreign Secretary's second concern relates to paragraph 5. In order to avoid confusion, the reference to "22 Member Governments" should be preceded by the word "other" to establish that HMG is not included. Twenty three Governments are members of the ITC. The last phrase of the second sentence of paragraph 5 however implies that the ITC was acting as Agent for Governments, who would therefore be legally responsible for its actions. To safeguard our position should creditors take us to court, we recommend that "... by the ITC on behalf of 22 Sovereign Governments" should be replaced by "... by the ITC, of which they are members".

/Sir Geoffrey's

Sir Geoffrey's final concern relates to the sentence about legal responsibilities in paragraph 6. As presently formulated, this carries the implication that the UK, unlike other ITC members, has acknowledged legal responsibility. This could be very damaging to the UK's defence case in any court actions that may be brought by banks and brokers. In order to protect our position the sentence might be redrafted as follows:

> "Many ITC member countries have refused to acknowledge any responsibility for the ITC's debt to creditor banks and brokers."

I am sending copies of this letter to Michael Gilbertson (DTI), Philip Wyn Owen (HM Treasury), Alison Smith (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office), Henry Steel (Law Officers' Department), John Barlett (Governor of the Bank of England's Office), and Michael Stark (Cabinet Office).

Yours ever,

R Culshaw

(R N Culshaw)
Private Secretary

David Norgrove Esq
10 Downing Street

Trade; Tin Part 2



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CC BG/1



Treasury Chambers, Parliament Street, SW1P 3AG

Michael Gilbertson Esq
Private Secretary to the Secretary of State
for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1

NBPM

5 March 1986

Dear Michael

TIN

Thank you for sending me a copy of your letter of 4 March to David Norgrove together with the draft statement.

In general, the Chief Secretary is content with what is proposed. But he has asked me to pass on four particular points. First, in order to leave the door open to a negotiated settlement (which may allow compromises helpful to public expenditure) he thinks the first sentence of paragraph 5 might be rephrased as follows:

> "Failure to reach a settlement will mean that unresolved disputes will have to be determined by the courts."

Second, since the likely cause of possible breakdown is not finally known, you may need to include a more robust reference to the negative part played by the producers. The Chief Secretary feels that since they were the main - perhaps the sole - beneficiaries of the Tin Agreement, and on a substantial scale over some years, any failure on their part to rally round at this point would be particularly blameworthy.

Third, the Chief Secretary thinks that the UK might make more of its own role by adding at the end of paragraph 2:

> "Since then we have worked consistently and constructively in trying to lead the negotiations towards a successful outcome."

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TRADE : Tin : Part 2.

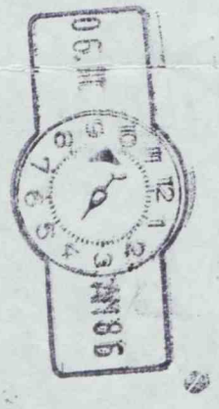
Finally, the Chief Secretary feels paragraph 5 may go a little too far in referring to the lack of control in the past. The fact is that the UK was a member and a party to its decisions (even if it opposed them). His preference would be to delete the reference to the ITC's failure "to exercise sufficient control" in paragraph 5.

I am copying this letter to David Norgrove (No. 10), Len Appleyard (FCO), Henry Steel (Law Officers' Department), John Bartlett (Bank of England) and Michael Stark (Cabinet Office).

Yours sincerely

Richard Broadbent

RICHARD BROADBENT
Private Secretary



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MS

ABG.

10 DOWNING STREET

5 March 1986

From the Private Secretary

Dear Mike,

TIN

The Prime Minister has seen your letter to me of 4 March and its attachment.

The Prime Minister has the following points on the line to take.

In paragraph 2, the word "commitments" has in the past been used rather than "liabilities" in this context. Is there a reason for the change?

In paragraph 3, the phrase "a very bad example" is weak and the sentence might be reworded:-

"... States contributed to this by blocking ..."

In the last sentence of paragraph 4 add the word "alone" after "prepared".

The Prime Minister thinks it would be better to delete paragraph 5. The first sentence seems to invite legal actions. The second and third sentences raise the question what the UK's role was in going along with the deplorable failure of the 21 other Member Governments to exercise sufficient control over the ITC's operations. The final sentence raises the question why the UK was prepared to join an international agreement which was constructed so badly.

Paragraph 5 could be replaced by a sentence along the lines:-

"The Government deplores the failure of other Governments to agree to meet their share of the commmitments of the ITC. This failure undermines good faith and integrity in international financial dealings."

In paragraph 6, delete the word "legal".

The Prime Minister thinks it would be important for the

Government to have good answers available to the questions she raised in relation to paragraph 5 of the line to take, namely, how the UK came to participate in an agreement which was constructed in such a defective way, and how the UK came to go along with the irresponsible behaviour of the ITC? The Prime Minister is aware that some work has already been done on the actions which will be taken by the banks and brokers and others once the negotiations have broken down. She would be grateful for information about the likely timetable now for reopening the London Metal Exchange, and about the future of the stocks of tin now held in the buffer stock.

I am copying this letter to Robert Culshaw (Foreign and Commonwealth Office), Philip Wynn Owen (HM Treasury), Alison Smith (Lord Privy Seal's office), Murdo Maclean (Chief Whip's Office), Henry Steel (Law Officers' Department), John Bartlett (Governor of the Bank of England's Office), and Michael Stark (Cabinet Office).

Yours ever

Tim Flesher

pp. David Norgrove

Michael Gilbertson Esq
Department of Trade and Industry.

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
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(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

PS/

CONFIDENTIAL

4 March 1986

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Future?
Buffer stock?
Metal Exchange open?
Tin traded on other Exchanges?

Dear David,

TIN

At the Prime Minister's meeting on 26 February to discuss tin, we were asked to prepare a line to take covering the possibility that the current negotiations on the rescue package would fail.

... I attach a draft line to take. It could easily be adapted to be used as a Parliamentary statement if necessary. You will see that it does not rule out entirely the possibility of a last minute package being put together. We believe this is a very unlikely possibility, but we should be prepared to support it if others do.

The deadline set by the banks and brokers for completion of negotiations with the ITC is Wednesday, 5 March. We have been told that the bankers group will meet on the morning of Thursday, 6 March and that they are expected to disband, bringing to an end the current negotiations, if agreement with the ITC is not by then achieved or very close to achievement. My Secretary of State would be grateful for any comments as soon as possible.

The Select Committee on Trade and Industry today questioned Mr Morrison, Mr Clark and officials about the crisis. The Committee have expressed dissatisfaction with the information they were given on the Government's handling of the crisis and have asked for more information in time for a further hearing on 12 March.

JF2AYB

1786 1986 BOARD OF TRADE BICENTENARY

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I am sending copies of this letter to Robert Culshaw (Foreign and Commonwealth Office) Philip Wynn Owen (HM Treasury), Alison Smith, (Lord Privy Seal's Office, Murdo Maclean (Chief Whip's Office) Henry Steel (Law Officers' Department), John Bartlett (Governor of the Bank of England's Office), and Michael Stark (Cabinet Office).

Yours ever,

Michael

MICHAEL GILBERTSON
Private Secretary

Encl

1786 1986 BOARD OF TRADE BICENTENARY

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TIN CRISIS - BREAKDOWN OF NEGOTIATIONS

LINE TO TAKE

The Government regrets that the protracted negotiations between the International Tin Council and its bank and broker creditors have now broken down, without reaching agreement to resolve the tin crisis.

2 We have constantly made it clear, following suspension by the ITC of its operations in the tin market on 24 October last with gross liabilities exceeding £800 million, that the UK was prepared to accept its share of the liabilities of the ITC, and we called on all other members to do likewise.

3 It is especially unfortunate that the breakdown of negotiations has come at a time when substantial progress had been made towards resolving the tin crisis in an orderly fashion. Had the ITC member countries collectively shown a greater sense of urgency and responsibility from the outset, a solution might have been found. Most EC Member States ~~set a very bad example~~ contributed to this by blocking any formal negotiations by the ITC until late in January.

4 At this late stage it seems unlikely that a settlement can now be reached in order to secure a return to orderly trading in tin. If a substantial number of other ITC countries are prepared to make a final effort to resolve the crisis, the Government would of course be willing to join such discussions. But it must be clear, as it has been throughout the earlier discussions and negotiations, that the

UK Government is not prepared alone to take over the reponsibility for the ITC's debts.

5 Failure to reach a settlement will mean that the question of the legal liabilities of the ITC and its members will be a matter for the courts. Whatever the outcome of court proceedings, the Government ~~regards it as~~ deplorable ~~that~~ the 22 Member Governments of the ITC ~~failed first~~ to exercise sufficient control over the ITC's operations and, ~~second, were not prepared~~ their refusal to take responsibility for the debts which were incurred by the ITC on behalf of 22 Sovereign Governments. The UK Government is examining other international agreements of which it is a member in order to make sure the ITC example will not be repeated. We will not be prepared to join in future any international agreement which does not permit proper and effective control by the members over the operations of the organisation set up to implement that agreement and provide clear rules on members liabilities.

BACKGROUND

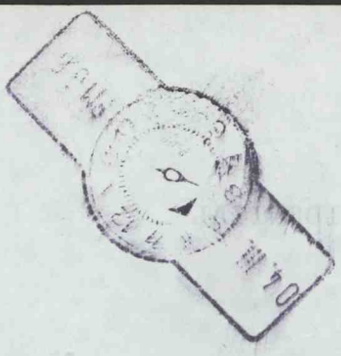
6 Most ITC member countries have refused to acknowledge any legal responsibility for the ITC's debts to creditor banks and brokers. Early proposals put forward by the banks for refinancing the whole of the ITC's debts were rejected, and in informal discussions between the ITC and bank and brokers representatives it was suggested that, if a solution was to be reached, it should be through "burden sharing" between the ITC and its creditors. As a result of these informal discussions, on 23 December a package of proposals was put to the ITC and its member Governments. This package, prepared by Mr Peter Graham of Standard Chartered Bank and Mr Ralph Kestenbaum of brokers Gerald Metals,

provided for the establishment of a new company which would discharge all the liabilities of the ITC. The proposal envisaged that the ITC member countries would subscribe £200m to this new company, the banks and brokers £70m, with the UK Government guaranteeing £50m of bank loans to the new company.

7 This package provided a constructive framework for negotiations with the ITC, which formally got under way late in January, three months after the crisis began. These negotiations covered not only the financial contributions to the new company, but also the detailed legal framework within which it should operate, and the policy to be followed in disposing of the tin stocks which would be acquired by the company: disposal over a period of about three years was envisaged.

8 During the negotiations the banks and brokers agreed to increase the amount of their contributions to the new company to £100m, and the UK Government agreed to subscribe £50m in cash to the new company rather than guarantee a £50m loan. This left the ITC members being asked to contribute £115m to £120m to the new company to discharge all their liabilities.

9 A substantial number of ITC member countries indicated that they were prepared to agree to contribute their share of the £115m required provided all other countries did likewise. However, by Wednesday, 5 March, the deadline set by banks and brokers for agreeing the package of proposals, a number of ITC members had not agreed to provide the necessary finance and, in addition, agreement had not been possible on a number of other features of the rescue package. This failure by the ITC to meet the 5 March deadline has led to the breakdown of negotiations.



CONFIDENTIAL cc Mr. Norgrove

CABINET OFFICE
A 2418
- 5 MAR 1986
FILING INSTRUCTIONS
FILE No. .....

PS/SIR ROBERT ARMSTRONG

It looks as though this is being handled OK so far. M. Stark is keeping me in touch. DCW

TRADE AND INDUSTRY SELECT COMMITTEE: TIN COUNCIL

1. The attached report from the FT of 5 March indicates that DTI may have another confrontation brewing in the Select Committee. The Trade and Industry Committee are inquiring into the tin council crisis and took evidence on 4 March from DTI Ministers (Mr Clark and Mr Morrison) and officials (Mr Murray, Grade 3 and Mr Lunn, Grade 5).

2. The Committee have obviously formed the view that Ministers were not kept sufficiently informed about a worsening position leading up to the collapse of the Tin Council's position. They seem to be of the opinion that officials must have known what the position was and should have told Ministers more.

3. From discussions with DTI officials, it appears that the reason Ministers were not kept more informed was that in fact officials were not aware of the true position. Audited accounts available prior to the collapse failed to make clear that the buffer stock manager's liabilities for forward purchases of tin were not properly covered in the market. DTI is, however, in some difficulty as to what documents should be disclosed to the Committee. They are now proposing to make available to the Committee the relevant accounts, which the Committee has not previously seen. Other relevant documents cannot, however, be disclosed to the Committee without breaching our international obligations to the International Tin Council, which has various immunities as an independent international body, including immunity from disclosure of its proceedings. This has been explained to the Committee in the attached note (after taking advice from solicitors in DTI and FCO), but has not satisfied the Committee's desire to have more information. For DTI to ignore these international obligations could not be contemplated without the Foreign Secretary's agreement, since it could have repercussions for our relationship with other international organisations. Moreover, disclosure of the proceedings would risk disclosing the views of other member countries (including some of our EC partners). But in any case it is far from clear that these documents would satisfy the Committee's concern that Ministers had been inadequately informed.

4. Without further documents though the Committee clearly continues to feel that the full picture is not being disclosed to it. Mr Lunn and Mrs Jones (his predecessor in post) have been ordered to appear before the Committee next Wednesday. I understand that Sir Brian Hayes may appear with them. The exact line of questioning that the Committee will follow at that time is unclear.

5. There is one further factor that is relevant. There was I understand some difference of view between Departments in 1982 as to whether the UK should be a member of the Tin Council. The decision in favour of membership was eventually taken after consultation between the Prime Minister and Chancellor Schmidt.

6. Ministers and senior officials in DTI are still giving urgent consideration to how best to handle this matter and further consultations with FCO will be needed. There is no obvious solution to the difficulties; the only answer may be for DTI officials to continue to decline to provide information to the Committee, no doubt having rather a rough ride from the Committee in the process. I will keep in close touch with DTI as their thinking develops and will advise you if I think Sir Robert should intervene or if there is a possibility of a compromise which might require the Chief Whip's intervention.

R A C HEWES

5 March 1986.

Ministers kept in the dark about tin crisis

BY WALTER ELLIS

OFFICIALS at the Department of Trade and Industry were accused by a Commons Select Committee yesterday of refusing to keep ministers informed of the troubles of the international tin market both before and after the crisis broke last October.

Mr Peter Morrison, the Trade Minister, was asked repeatedly during a session of the committee on trade and industry to give details on how much British tax payers stood to lose as a result of the tin crisis. He did not answer and eventually admitted that only his officials possessed the necessary information.

Sir Peter Emery, Conservative MP for Honiton, immediately said the situation was unbelievable. Mr Morrison replied: "It certainly has proved to be unfortunate."

The committee then turned to Mr Michael Lunn, an assistant secretary at the department concerned with tin issues. Could he give the information required?

Mr Lunn said that the total sum of international indebtedness had been discussed by officials and the UK Government's possible losses had been assessed. Minister, however, had not been informed.

Mr Robert Maxwell-Hyslop, the Tory member for Tiverton, and one of the committee's most formidable interrogators, asked Mr Lunn why he had not told ministers.

Mr Lunn replied: "The options for ministerial action to correct this situation were limited."

The committee's chairman, Mr Kenneth Warren, Tory MP for Hastings and Rye, intervened to say that if mistakes had been made, the committee would prefer to know about it. It appeared that large amounts of tax-payers' money was just swilling around and no one was talking about it.

SELECT COMMITTEE ON TRADE AND INDUSTRY

NOTE BY DTI OFFICIALS ON CERTAIN LEGAL ASPECTS OF THE OPERATIONS OF THE INTERNATIONAL TIN COUNCIL

At its session on 19 February 1986, the Committee asked officials to prepare a note on the status and confidentiality of papers and proceedings of the ITC; and asked about the law governing the operations of the ITC.

Papers and Proceedings

There are two aspects of this question; firstly the responsibilities of the employees of the ITC in relation to its papers and proceedings, and secondly the responsibilities in that context of the Member States and the delegates to the ITC. These responsibilities are interconnected, but based on different rules.

2 Under Article 13.8 of the Sixth International Tin Agreement -

> "No information concerning the administration or operation of this Agreement shall be revealed by the executive chairman, the manager, the Secretary or other staff of the Council, except as may be authorised by the Council or as is necessary for the proper discharge of their duties under this Agreement."

3 This paragraph has to be understood as covering disclosure of information to third parties, that is parties other than the Member States of the ITC and their delegates who (with certain exceptions relating to buffer stock activities, see below) have unrestricted access to all papers and proceedings of the ITC. In practice the paragraph is applied restrictively by the ITC who do not authorise disclosure to third parties.

4 Under Rule 12(d) of the Rules of Procedure of the ITC -

> "All records of the proceedings of the Council shall be treated as confidential, both by the recipients of such records and the issuing body, unless the Council decides otherwise and shall be so marked."

Under Rule 16 of these Rules of Procedure -

> "All sessions and meetings of the Council shall be private unless the Council decides that all or part of any session or meeting shall be public. Statements made in and documents presented to the private sessions and meetings shall be confidential."

This effectively places the ITC and its subsidiary organs, as well as Member States and their delegates, under an obligation not to disclose the course of proceedings to third parties unless the ITC as a whole resolves to make an exception. In practice

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this is not done, all records are classified confidential.

5 The rules governing the operation of the buffer stock are even more restrictive as regards disclosure of information. Each Member State is required to designate a person to receive details of buffer stock operations and Rule 12 of the Buffer Stock Operational Rules provides as follows:-

> "(a) Within a period of fifteen days following the end of each quarter the Manager shall forward to the designated persons of the Members a statement in a form approved by the Council of his operations relating to the quarter immediately preceding the quarter which has just ended.
>
> (b) The delegates and designated persons receiving the quarterly statements under this Rule and persons to whom they communicate the statements shall maintain the confidential character of the contents and shall give such statements no publicity whatever.
>
> (c) No officer of the Council shall provide any further information on the buffer stock in whatever form, explicit or implicit, except in sessions of the Council or in meetings to which all the delegates of the Members have been invited, and then only if the Council or such meeting agrees disclosure to be available."

6 The above rules, which form part of the constitution and working arrangements of the ITC, are complemented by certain provisions of the Headquarters Agreement between the ITC and HMG (Misc No 22 of 1971). Article 4 of this Agreement provides the archives of the Council are inviolable; "archives" are broadly defined and include all kinds of written material. Furthermore, the immunities required to be given under Article 8 of the Agreement would enable the ITC to resist any legal process to compel the disclosure of its records and proceedings. These provisions of the Agreement are given legal effect in the UK by the International Tin Council (Immunities and Privileges) Order 1972 (SI 1972 No. 120) - see in particular Articles 6 and 7(1). Apart from the immunity from jurisdiction of the Council itself, representatives to the Council and officers and experts of the Council enjoy immunity from jurisdiction for official acts under the Headquarters Agreement, Articles 16-19 and the Order, Articles 14-17. In practice, the ITC has not been prepared to waive any of the immunities attaching to its records and proceedings.

7 In the result, these rules mean that Ministers and officials of HMG are not in a position to disclose to the Committee any ITC papers or proceedings without the consent of the ITC; the same restriction applies to prevent oral or written evidence quoting from, or describing the substance of, such papers or proceedings. The fact that these papers and proceedings have through unofficial leaks come into the public domain does not alter the formal legal

position. With a view to assisting the Committee, officials have written again to the Executive Chairman of the ITC seeking ITC consent to the release of documents and details of proceedings; this request was put before the ITC as its session on 26 February but rejected.

Governing Law

8 It is understood that the Committee wishes to know whether or not the ITC operates under UK law.

9 There are two aspects to this. Firstly, the ITC is an international body having legal status and personality as a matter of international law - see Article 16.1 of ITA 6, the relevant part of which states -

> "The Council shall have legal personality. It shall in particular have the capacity to contract ....."

10 Article 16.4 of this Agreement supplements the above by requiring the host Government (in this case HMG) to enter into the Headquarters Agreement referred to above, for the purposes inter alia of giving legal status to the ITC within the framework of UK law: this is done by means of Article 3 of the Headquarters Agreement and, as a matter of UK law, by Article 5 of the 1972 Order which provides that "The Council shall have the legal capacities of a body corporate". These include the capacity to contract.

11 Secondly, as regards the domestic operations of the ITC, there is no requirement in ITA 6 or elsewhere that the ITC's contracts (principally the contracts for the sale and purchase of tin and tin futures) be governed by UK law; in practice however a large proportion of its contracts are governed by UK law, including contracts entered into by the Buffer Stock Manager which are subject to the Rules of the London Metal Exchange.

DTI

3 March 1986

PRIME MINISTER

TIN

The ITC has now adjourned until Monday.

Community and Nordic countries seem reasonably content with an ITC contribution of £115 million, and they have accepted that this should go along with a contribution of £50 million from the United Kingdom.

Further progress now depends on Malaysia, Indonesia and Thailand. If they agree, Japan is expected to fall into line.

The banks and brokers were most concerned earlier about the position of the European Community countries. Now that they seem to have accepted a contribution of £115 million, it is apparently likely that the banks and brokers would be content to extend Wednesday's deadline in order to try to gain an agreement with the remaining countries.

It is hard to know whether to be pleased or sorry about this progress, but it certainly vindicates your decision on Wednesday not to increase the UK contribution.

David Norgrove

28 February 1986

GRS 1200

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TELNO 674
OF 281350Z FEBRUARY 86
INFO IMMEDIATE EUROPEAN COMMUNITY POSTS

COREPER (DEPUTIES) 28 FEBRUARY : TIN.

SUMMARY.

1. THE MAIN STUMBLING BLOCKS REMAIN. UK EMPHASISED FIRMNESS OF DECISION NOT TO GO BEYOND POUNDS 50 M. NO REAL CONCLUSIONS DRAWN, ALTHOUGH VAN OVERBEKE HAS RETURNED TO LONDON WITH A LIST OF POINTS TO NEGOTIATE WITH THE BANKS AND BROKERS IN A FINAL NEGOTIATION ON THE MOU THIS EVENING.

2. INFORMAL COREPER TO MEET AGAIN IN THE MARGINS OF THE INDUSTRY COUNCIL ON MONDAY (3 MARCH). THE PRESIDENCY APPEAR TO HOPE THAT CONCLUSIONS CAN BE ADOPTED BY THE INDUSTRY COUNCIL.

DETAIL.

3. VAN OVERBEKE (PRESIDENCY) REPORTED THAT SINCE THE PREVIOUS DAY'S MEETING HE HAD PUT IT TO THE BANKS AND BROKERS THAT THE COMMUNITY REJECTED THE MOU. HE HAD LISTED THE POINTS OF DIFFICULTY. THE RESPONSE HAD BEEN FIRM ON 2 POINTS : NO DELAY WAS POSSIBLE AND THE FINANCIAL AMOUNTS WERE NOT NEGOTIABLE. BUT THEY HAD SUGGESTED THAT THE ITC SHOULD DRAW UP A LIST OF DIFFICULT POINTS AT ITS SESSION TODAY AND THAT THERE WOULD BE A FINAL NEGOTIATING ROUND ON THE TEXT OF THE MOU TONIGHT.

4. ASKED BY THE CHAIR WHETHER THERE WAS ANY CHANGE IN POSITIONS ON THE FINANCIAL AMOUNT, ELLIOTT (UK) SAID, EMPHATICALLY, THAT HMG'S DECISION TO OFFER NO MORE THAN POUNDS 50 M WAS FIRM. THERE WAS NO CHANCE OF A CHANGE OF DECISION. LYMBEROPOLOUS (GREECE) SAID THAT GREECE WOULD NOT PAY MORE THAN HER SHARE OF A CONSUMER CONTRIBUTION OF POUNDS 40 M, THOUGH OTHERS COULD PAY MORE.

5. HERTZ SAID THAT GERMANY HAVE 3 DIFFICULT POINTS: THE DELETION OF 12(D) AND (E) (DISPOSALS STRATEGY), NO INTERST ON BRIDGING FINANCE AND AN EXTENSION OF THE SIX-MONTH BRIDGING PERIOD TO 10 MONTHS (TO ENABLE THEM TO PAY FROM THE 1987 BUDGET).

6. MARTIN SAID THAT THE FUNDAMENTAL POINT FOR FRANCE WAS THAT THE BRITISH GOVERNMENT SHOULD BE A SCREEN BETWEEN THE ITC CONTRIBUTION AND TINCO. THE FUNDAMENTAL AMENDMENTS FOR THEM WERE TO ARTICLES 2, 3, 5, 6 AND 7 OF THE MOU, WHICH THEY SAW AS A LEGAL BASE, WHETHER OR NOT IT WAS A LEGAL DOCUMENT.

7. ELLIOTT HAD ALREADY ARGUED THAT THE LEGAL GUARANTEES THE FRENCH SOUGHT WOULD BE SECURED BY OTHER MEANS AND THAT IT WAS NOT APPROPRIATE TO CHANGE THE MOU, SINCE IT WAS NOT A LEGAL DOCUMENT. UK /WAS

WAS NOT KEEN ON BEING A CHANNEL FOR THE ITC CONTRIBUTION: NO OTHER ITC MEMBER SHARED THE FRENCH VIEW AND SOME PRODUCERS WERE OPPOSED. VAN OVERBEKE AGREED: SOME OF THE PRODUCERS HAD POLITICAL REASONS FOR NOT WANTING IT TO APPEAR THAT WHAT THEY WERE DOING WAS FOR THE BRITISH GOVERNMENT. BUT HE ADDED THAT WHEN THE QUESTION OF THE UK ACTING AS AN INTERMEDIARY HAD COME UP DURING THE NEGOTIATIONS, THE ROLE ENVISAGED HAD BEEN MORE SUBSTANTIAL. NOW THE FRENCH SEEMED TO BE THINKING OF NO MORE THAN A SIMPLE TECHNICAL TRANSFER: THE ITC WOULD PASS THEIR CONTRIBUTION TO THE BRITISH GOVERNMENT WHO WOULD PROMPTLY PASS IT ON TO TINCO.

8. ELLIOTT REPEATED THAT THERE WAS NO SUPPORT FOR FRANCE, AND INDEED OPPOSITION WITHIN THE ITC. BUT UK WANTED TO HELP. WE COULD NOT ACCEPT A ROLE WHICH INCREASED OUR LIABILITY OR SUBSTITUTED US FOR OTHER ITC MEMBERS. BUT IF THERE WAS A GENERAL DESIRE FOR THE UK TO PLAY A ROLE, WE WOULD BE PREPARED TO CONSIDER ACTING AS A SIMPLE CHANNEL. WE WOULD NOT ACCEPT ANY OBLIGATION TO PAY UNTIL WE HAD RECEIVED A CONTRIBUTION.

9. GALLI (ITALY) SAID THAT IT WAS ESSENTIAL THAT CONTRIBUTIONS MUST NOT BE VOLUNTARY, AS THE FRENCH POSITION IMPLIED. ON BRIDGING FINANCE HE CIRCULATED AN ADDITION TO THE COMMUNITY CONCLUSIONS, WHICH, AFTER BRIEF DISCUSSION, READ ''THE MEMBER STATES OF THE COMMUNITY RECOGNISE THE POSSIBLE NEED FOR BRIDGING FINANCE, AND AGREE THAT SHOULD THIS NECESSITY ARISE THEY WILL HAVE RECOURSE TO THE MECHANISMS MENTIONED IN THE MEMORANDUM OF UNDERSTANDING.'' THIS WAS ACCEPTED SUBJECT TO A FRENCH STUDY RESERVE.

10. AT THIS POINT VAN BEUGE (CHAIRMAN) ANNOUNCED THAT VAN OVERBEKE HAD TO LEAVE TO FLY TO LONDON FOR THE TIN COUNCIL AND READ OUT FROM A PIECE OF PAPER WRITTEN BEFORE THE MEETING WHAT HE DESCRIBED AS CONCLUSIONS OF THE MEETING WHICH WOULD GUIDE VAN OVERBEKE AT THE ITC AND IN NEGOTIATION WITH THE BANKS AND BROKERS:
''SINCE IT IS POSSIBLE TO DISCUSS THE MOU, WE SHOULD TRY TO IMPROVE IT ON THE BASIS OF THE FOLLOWING GUIDELINES''

(1) IT SHOULD BE CLEAR THAT THE ITC CONTRIBUTION MUST BE SOLE AND FINAL.

(2) THE TEXT OF THE MOU AND THE LEGAL DOCUMENTS SHOULD BE DRAFTED IN SUCH A WAY THAT THERE IS NO RISK WHATSOEVER OF OTHER PARTIES TO THE MOU TAKING LEGAL ACTION AGAINST THE ITC OR ITS MEMBERS.

(3) IT MUST BE CLEAR IN THE MOU AND THE LEGAL DOCUMENTS THAT THE ITC AND ITS MEMBERS CANNOT BE HELD LIABLE FOR TINCO. IN THIS CONTEXT, PARAGRAPHS CONCERNING THE ADMINISTRATIVE SETUP OF TINCO SHOULD BE DELETED FROM THE MOU.

(4) THE TEXT OF THE MOU ON DISPOSAL POLICY SHALL BE MODIFIED TO REFLECT THE FOLLOWING CONCERNS:

(A) THE DISPOSAL PERIOD WOULD IN NO CIRCUMSTANCES BE LONGER THAN FOUR YEARS:

(B) THE DISPOSAL POLICY MUST BE CARRIED OUT IN FULL RESPECT OF RELEVANT LEGISLATION CONCERNING ABUSE OF DOMINANT POSITION.''

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11. VAN BEUGE ADDED THAT VAN OVERBEKE WOULD ALSO TAKE UP THE POSSIBILITY OF INTEREST-FREE BRIDGING FINANCE AND AN EXTENTION OF THE BRIDGING PERIOD FROM SIX TO TEN MONTHS. THE MESSAGE WOULD NOT BE THAT THE MOU AND LEGAL DOCUMENTS WOULD BE ACCEPTED IF THESE POINTS WERE MET, BUT THAT THERE WOULD BE NO AGREEMENT IF THEY WERE NOT.

12. ELLIOTT SAID THAT GIVEN THE BRITISH POSITION ON THE POUNDS 50 M IT WAS NOT POSSIBLE TO SUBSCRIBE TO A FIXED ITC CONTRIBUTION OF POUNDS 115 M. IT MIGHT HAVE TO GO UP. THE BRITISH POSITION REMAINED THAT WE OFFERED POUNDS 50 M IF THE ITC ACCEPTED POUNDS 120 M. IF IT PROVED POSSIBLE TO REACH AGREEMENT ON 115 PLUS 50, SO MUCH THE BETTER. WHATEVER HAPPENED, WE WOULD NOT (NOT) ACCEPT POUNDS 55 M. LYMBEROPOLOUS CHIPPED IN TO REPEAT THAT THE GREEKS WOULD NOT ACCEPT A HIGHER SUM THAN THE ONE HE HAD STATED. FRANCE RECALLED THE FUNDAMENTAL IMPORTANCE TO THEM OF HAVING A SCREEN BETWEEN THE ITC AND TINCO.

13. IN CONCLUSION VAN BEUGE SAID THAT COREPER WOULD MEET AGAIN IN THE SAME INFORMAL FORMAT IN THE MARGINS OF THE INDUSTRY COUNCIL. HE CONFIRMED, AT ELLIOTT'S REQUEST, THAT THE POINTS HE HAD OUTLINED WERE A COLLECTION OF CONCERNS EXPRESSED, NOT A COMMON POSITION. THE FINANCIAL DIFFICULTIES REMAINED AND WOULD BE HANDLED IN LONDON.

14. BEFORE HE RUSHED OFF FOR HIS 'PLANE, WE REPEATED TO VAN OVERBEKE THAT HMG'S DECISION ON THE POUNDS 50 M WAS FIRM AND FINAL.

HANNAY

YYYY
ADVANCES
BRAITHWAITE FCO
MAUD FCO
TAIT FCO
MS REID ERD FCO
MISS EVANS ECDE FCO
JAY CAB
MURRAY DTI
LUNN DTI
DENISON-CROSS (MM) DTI
MISS BARBER MAFF
REDLEY MAFF

INTERNATIONAL TIN AGREEMENT

FRAME EXTERNAL

ERD
SEAD
S AM D
PUSD
WAD
C AF D
LEGAL ADVISERS
FED

NAD
UND
SIR W HARDING
MR DAVID THOMAS

COPIES TO:-
MR M LUNN(MM)) DTI ASHDOWN HOUSE
MR J DENISON CROSS) DTI ASHDOWN HOUSE
MR K HALL (MM)) DTI ASHDOWN HOUSE
MR T VENESS ITP2) DTI 1 VICTORIA ST
MR R TAYLOR ITP2) DTI 1 VICTORIA ST
MR BRIAN MURRAY) DTI 1 VICTORIA ST
MR R THOMAS)MAFF
MR D FRY)MAFF
MR MOUNTFIELD)H M TREASURY
MR M REDLEY)H M TREASURY
MR B GUNN) BANK OF ENGLAND
MR M SAUNDERS LAW OFFICERS DEPT
ROYAL COURTS OF JUSTICE THE STRAND

CONFIDENTIAL

PRIME MINISTER

TIN

The UK representatives this afternoon told the ITC that the UK would not be prepared to increase its £50 million contribution.

This did not throw the discussions into disarray, and in fact one or two countries privately expressed sympathy for the UK's position.

It is not clear whether other countries think the UK's refusal to increase its contribution is a negotiating tactic or whether they are prepared to try to find another way round the shortfall. At this stage the shortfall is of course more than £5 million: the total still falls short even of £115 million.

DKN

DAVID NORGROVE
26 February 1986

ECL/02

File

BM

Subject cc Master.

cc BG

10 DOWNING STREET

From the Private Secretary

26 February 1986

Dear Michael,

TIN

The Prime Minister today held a meeting to discuss tin, on the basis of your Secretary of State's minute of 25 February. Present were your Secretary of State, the Foreign Secretary, the Chancellor of the Exchequer, the Chief Secretary, the Solicitor General, the Deputy Governor of the Bank of England, Mr. R. Mountfield and Mr. Murray (DTI), the Hon. Humphrey Maud (FCO), Mr. P. Mountfield (Treasury), Mr. R.K. Gardner (Law Officers' Department) and Mr. C. Farrow (Bank of England).

The meeting first discussed the position reached by other countries. Belgium was continuing to stand out but a message received from the Belgian Prime Minister today could on one interpretation be taken to mean that they would go along with the agreement if pushed hard enough. There were, however, still doubts about whether all the European countries, and particularly the producer countries, would go along with the proposed agreement.

On the question whether the UK should be prepared to increase its contribution from £50m to £55m (on top of its share of the proposed ITC contribution of £115m) it was argued that to do so, even at the last minute, could well lead to further pressure for an even larger contribution. The UK had said that £50m was the maximum that could be offered, and it should stick to that position. To stick to £50 million could lead to a breakdown of the discussions. Or it could lead to an increase in loans or other contributions, or an acceptance that contributions of £265 million were adequate.

It was agreed that the UK representatives should tell the ITC that the Government were not prepared to increase their contribution beyond £50m. That was a final offer.

It was further agreed that the Department of Trade and Industry would prepare a line to take and briefing against the possibility both that the rescue package would succeed and that it would break down. It was particularly important that if the rescue attempt failed the Government should be ready immediately to put across its point of view. If the rescue package succeeded it would not be possible for the Government to explain the legal advice it had received until all the banks and brokers had signed up to the rescue package and the related loan agreements.

SRW

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office), Tony Kuczys (HM Treasury), Richard Broadbent (Chief Secretary's Office), Henry Steel (Law Officers' Department) and John Bartlett (Governor of the Bank of England's Office).

Yours ever

David

(David Norgrove)

Michael Gilbertson, Esq.,
Department of Trade and Industry.

SUBJECT CC MASTERS OPS

DE EERSTE MINISTER

PRIME MINISTER'S PERSONAL MESSAGE SERIAL No. T 40A/86

Brussels, 25-02-1986

R28

A4/AV2165

Prime Minister +

DRS 28/2

Dear Prime Minister,

I wish to refer to your message of 6 February, 1986, about the current discussions in the International Tin Council.

In my Government's view, it is of primary importance that all parties involved should first of all genuinely admit and consequantly face their own responsabilities in the present crisis.

It would actually be misleading to forget the basic aims of the International Tin Agreements. The commitments of the consumer group within the ITC never implied an overall guarantee on their behalf allowing others to take advantage by ignoring, like most tin producers did, basic trends in supply and demand for tin, or by forsaking, like brokers and bankers, elementary managerial prudence in their dealings or their lendings.

Quite!

The solution to the crisis will be considered as a test case. Hence, it is of paramount importance that the scope and conditions of the contribution of EC member states to resolve the problem should not be misinterpreted and later misused.

This being said, the Belgian Government shall not fail to assess in due course the result of the on-going negotiations.

Yours sincerely,

Wilfried Martens

Wilfried MARTENS

The Rt Hon. Margaret THATCHER
Prime Minister

10 Downing Street

LONDON

TRADE

TIN

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CC/BU

PRIME MINISTER 25 February 1986

TIN

The Memorandum of Understanding is a last ditch attempt by banks, brokers and other ITC members to force HMG to pay more. It needs to be treated with scepticism for a number of reasons.

First, it is outrageous that we should be 'bounced' into increasing our contribution from £50-£55m - and a very bad negotiating precedent.

Second, a number of EEC countries, especially France, have not yet finally agreed to subscribe to £100m let alone £115m.

Third, there are far more doubts over the contributions from Asean producing countries - and their numbers are big - Malaysian £22-£24m, Indonesia £16-£18m and Thailand £15m.

Fourth, in paragraph 15 of the Memorandum of Understanding (page 5) the producing members of the ITC will not agree to production and export quotas to keep up the price of tin over the three year expected life of TINCO.

The conclusion of all of this is that if we agree to this Memorandum of Understanding we could end up paying an uncertain bill for participation in a very dubious venture. More than that, low cost producers could flood the market with

newly produced tin - which would make it impossible for the price to remain high as is assumed in the proposals.

It is also important to notice two omissions in Paul Channon's minute:-

a. it is nowhere suggested that the Bank of England now think it desirable to rescue LME;

b. you are not asked to write any further letters to Heads of State.

Recommendation

1. Stick to your word and a limit of £50m rescue money from HMG.

2. Alternatively if we are sure the Aseans will not sign up, agree to £55m for 48 hours and grab some of the glory!

BG.

BRIAN GRIFFITHS

PRIME MINISTER

TIN

This meeting tomorrow afternoon has been arranged to consider Mr Channon's minute to you of today. It seems important to have one immediately to ensure that the position proposed is not another piece of salami tactics, and also to start to consider how a rescue package will be presented, if it is finally agreed.

As you know, the ITC negotiating team has proposed that the UK should provide £55m., on top of its share of the £115m which ITC member countries would put up as a group.

You agreed at the last meeting on tin that the DTI could offer to convert into cash the £50m. loan guarantee which had earlier been offered. £50m. was clearly understood to be the limit of the UK contribution, and it was accepted that member countries would be expected to put up £120m. alongside it.

The proposal that we should contribute £55m. therefore goes outside the existing negotiating remit.

Now that we have got this far, it may seem hard to cavil at the extra £5m., particularly since the Government were at the last meeting prepared to countenance the Bank of England putting up £10m. from its own (i.e. public sector) finances.

But there is substantial risk in the line the DTI propose to take. In paragraph 8 the line they suggest implies that the UK would go to £55m. once we had been assured that all other Community countries were prepared to subscribe their share of £115m. In practice however the negotiations on this seem likely to continue until the very last minute, that is until the middle of next week, and, on past form, beyond. If we are not to be pushed little step by little step there is a case for adopting a tougher line, sticking to the position that

£50m. is our limit. We would give way only at the last moment, when we were sure that everyone else would sign up when we did so.

Mr Channon may well say that we shall have to concede £55m. in order to secure agreement amongst the EEC countries and that they are the group which really matter. But, as his minute says, it is by no means clear that the producer countries will put up their share of the £115m. and they are likely to look to the UK to make up any shortfall. If we have already conceded the £55m. we risk being forced still further.

You will also want to discuss any lobbying the UK should undertake both with the consumer and the producer countries.

The other main area for discussion is the presentation of an agreement if one is finally reached. You might like to commission further work on this. But a point for discussion at the meeting, about which I have warned the Solicitor General's Office, is whether after an agreement the Government would be able to cite the legal advice it had been given. The presentational problems would be greatly eased if it could, but it is possible that this may be ruled out because some banks may not subscribe to the agreement, or for other reasons.

I suggest you invite the Secretary of State for Trade and Industry to introduce the discussion and then take the questions as follows:-

i) Is the Goverment prepared in principle to offer £55m.?;

ii) What negotiating line should be given to UK representatives, and how should the tactics of the discussions be handled?;

iii) What lobbying should the UK undertake (see paragraphs 8 and 10 of Mr Channon's minute)?;

iv) Preliminary discussion of the presentation of a rescue package, and what could be said about the legal advice the Government had received.

Julie Bowers

pp David Norgrove
25 February 1986

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cc BG
BO

FROM: CHIEF SECRETARY
DATE: **25 February 1986**

PRIME MINISTER

TIN

The Secretary of State for Trade and Industry has sent the Chancellor a copy of his minute of 25 February, reporting the latest state of the negotiations. WITH DN

2 As the Chancellor and I have repeatedly made clear £50 million was our final offer, and we should stand firm on that. The putative move to £55 million was made without the UK's agreement, and DTI officials very rightly protested about it at the time. Even at £50 million, we would be providing about one-third of the equity required for the establishment of "Tinco". There is no way in which we can be blamed if the negotiations collapse.

I am sending copies of this minute to the Chancellor of the Exchequer, to the Foreign Secretary, the Solicitor General and the Governor of the Bank of England.

JM

JOHN MacGREGOR


25. 11.
PM 8 6

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PRIME MINISTER

TIN

Negotiations between the International Tin Council and creditor banks and brokers, which continued late last Friday night, 21 February, resulted in the attached Memorandum of Understanding being prepared as a basis for settling the tin crisis.

2 The key feature of this Memorandum of Understanding is the financial contributions set out in paragraph 6, from which you will see that it is now proposed that the ITC member countries should subscribe £115m to Newco, with the UK Government providing £55m.

3 The UK delegates to the ITC were not involved in the detailed negotiations, but they had made it clear to all parties concerned that we would not go beyond a £50m contribution. When the ITC reconvened at 2.15 a.m. on Saturday morning, we protested strongly that we had not been consulted about the proposed increase in our contribution to £55m, and that we could not accept it.

4 However, all parties concerned with this long running dispute regard negotiations as having now been brought to an end, and that a solution will be found on the basis of the attached Memorandum of Understanding or not at all. Furthermore, the banks and brokers have stated clearly that they require acceptance of the provisions in the Memorandum

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of Understanding, together with firm commitments to provide the necessary finance, from all parties by Wednesday 5 March.

5 We need to decide whether we can accept this "final" package of proposals, and if so whether and by what means we should promote its acceptance by other member countries of the ITC.

6 In considering our position we need to bear in mind that several European Community countries have not yet indicated willingness to support the proposal by the ITC to subscribe £100m to Newco, agreed by the majority of ITC members on 7 February. We should I believe concentrate our efforts on trying to secure a firm commitment by all Community countries to providing the necessary finance to resolve the tin crisis. Even if we succeed with the European Community countries, however, we are far from confident that the Asean tin producing countries will be prepared to finance a rescue package by paying their share of an ITC contribution of £115m.

7 If we appear too ready to accept an increase in our contribution to £55m, we risk giving entirely the wrong signal to others, who may believe that by hanging back the UK could be persuaded to shoulder an even greater share of the burden of the ITC's debts.

8 Therefore I propose that in EEC meetings this week, beginning tomorrow, our delegates should take the line that we will only consider the proposition that the UK

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contribution should be increased to £55m, once we have been assured that all other Community countries are prepared to subscribe their share of £115m. We should accompany this message by a repeated warning at Ministerial level within the Community of the wider consequences of the Community countries being seen to be responsible for the failure of these proposals for resolving the tin crisis, as well as the failure to honour sovereign debt obligations.

9 It is less easy to decide how best to bring effective pressure to bear on the Asean tin producers. They have most to lose from a "crash landing" in the tin price. However, some have doubts about whether the Newco proposal will in practice maintain the tin price at a satisfactory level, despite the stated target average price of not less than £6000 per tonne. In addition, the Asean producers also tend to believe that the UK Government will bail out the LME and hence provide the tin producers with a free "soft landing".

10 I suggest that, rather than seeking to persuade the Asean producers directly of the benefits of this package, we should in discussion with them refer to the advantages we see to all parties from an orderly resolution to the tin crisis. We should also make it clear, both in public and private, that if the latest package of proposals fails there is no possibility of the UK Government rescuing either the Tin Council or the LME brokers.

11 It is far from certain that this package will be adopted by all the parties concerned. If it fails to attract the necessary level of acceptance then it is likely that, by Friday 7 March the bankers group will break up, and the LME

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creditor brokers will abandon their efforts to keep the LME tin contract suspended. A collapse of the market, probably with several LME brokers going into liquidation, is likely to follow within a few days.

12 In these circumstances, unless there are fresh developments which clearly suggest otherwise, I believe we should take no further action and allow matters to take their course.

CORNWALL

13 Whether or not a solution is found to the ITC debt problem, we will need to reach a view on whether to give assistance to those areas of Cornwall currently dependent on tin mining. Despite a great deal of publicity and political lobbying, we have not received detailed proposals for assistance from the companies concerned. The major tin mines in Cornwall are owned by RTZ, and we know that they are prepared to wait and see how the tin market settles down before taking any decisions. The only significant mine not owned by RTZ is Geevor. Nearly 40 per cent of the equity in this company has changed hands over the past two weeks, and we would normally expect new investors in a company of this kind to put up money for future developments, rather than offer generous Government assistance.

14 Urgent further work is in hand in my Department on the problems of Cornwall and I will report separately on this.

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15 I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Solicitor General and the Governor of the Bank of England.

PC

PAUL CHANNON
February 1986

Department of Trade and Industry

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ANNEX A.

MEMORANDUM OF UNDERSTANDING

PARTIES:

A. International Tin Council (the I.T.C.) acting in accordance with its constitutional requirements.

B. Creditor Banks:

Algemene Bank Nederland N.V.
Arbuthnot Latham Bank Limited
Australia and New Zealand Banking Group
Bangkok Bank Ltd.
Bank Bumiputra Malaysia
Hambros Bank Ltd.
Kleinwort, Benson Limited
Malayan Banking Berhad, London
The Bank of Nova Scotia
Standard Chartered Bank
Central Trustee Savings Bank Ltd.
The Bank of Tokyo Ltd.

It is a condition precedent to this Memorandum of Understanding that Arab Banking Corporation and Banque Indosuez will cease further legal actions against the I.T.C.

C. Creditor Brokers: (subject to Paragraph 7)
Amalgamated Metal Trading Ltd.
Amalgamated Metals Corporation
Berisford Metals Corporation
Boustead Davis (Metal Brokers) Ltd.
Gerald Metals Limited
Gill and Duffus Limited
Henry Bath & Son Limited
Holco Trading Company Limited
Lazmet Limited
Maclaine Watson & Company Limited
Metalgesellschaft Limited
Metalgesellschaft A.G., Frankfurt
Metdist Limited
Mocatta Commercial Limited
J.H. Rayner (Mincing Lane) Ltd.
Rudolff Wolff & Co. Limited

Manilal London
Manilal Penang
Transworld Metals Limited
Shearson Lehman
MMC Metals (in liquidation)
Datuk Keramat Smelting Bhd.
Malaysia Smelting Corporation Bhd.

D. The Government of the United Kingdom of Great Britain and Northern Ireland.

Desirous of reaching a solution to the crisis caused by the financial problems of the I.T.C., the above noted parties have reached the following understanding on the basis of the certainty that a disorderly tin market will result if finance

by way of contributions or bridging finance is not in place by 5th March, 1986. Therefore an acceptance in principle of this Memorandum of Understanding should be received by 28th February, 1986 if at all possible.

1. The I.T.C. and its members do not in any way waive their respective immunities by this Memorandum of Understanding.

2. The members of the I.T.C. do not accept liability for the debts of the I.T.C. beyond the payments they have already made as their contributions to the buffer stocks of the Fifth and Sixth Agreements. Nevertheless, the I.T.C. will make a monetary contribution as specified below.

3. The Creditor Banks and Creditor Brokers reserve their position on the immunities of the members and the I.T.C., and while noting the views expressed in the first sentence of paragraph 2, do not acquiesce in those views.

4. Upon receipt of the contribution of the I.T.C. as specified below, the creditors, as specified in this Memorandum of Understanding, covenant not to enter into any action in law against the I.T.C. or its members in respect of the affairs of the I.T.C. as conducted prior to 5th March, 1986. Furthermore, those arbitrations already instituted by Creditor Brokers against the I.T.C. will be withdrawn.

5. The Creditor Banks and Creditor Brokers, as specified above, will establish TINCO LTD. under the national laws of the United Kingdom. An agreement will be reached under which the Creditor Banks, Creditor Brokers, the Government of the U.K., and the I.T.C. will contribute funds to TINCO LTD. via the channels appropriate to them. The contribution by the I.T.C., as well as the additional contribution by the U.K., will be by way of junior interest free subordinated loans to TINCO LTD. The bulk of equity contributions by the Creditor Banks and Creditor Brokers will be by way of senior interest free subordinated loans.

6. The parties will contribute (via the channels appropriate to them) as per the following schedule:

CONTRIBUTIONS:

	£115 million	by the I.T.C.
	£ 55 million	by the U.K.
	£ 75 million	by the Creditor Brokers and other brokers
	£ 25 million	by the Creditor Banks
TOTAL	£270 million	

INTEREST BEARING LOANS:

£175 million	Standard Chartered Bank loan (at LIBOR plus 3/8% p.a.)
£260 million approximately	Old Banks (at LIBOR plus 1/8% p.a.)
£ 25 million	Other commercial sources (at LIBOR plus 3/8% p.a.)
TOTAL £460 million approximately	

7. The assets and liabilities of the I.T.C. Buffer Stock, as they pertain to the Creditor Banks and Creditor Brokers specified above and who have made their appropriate contributions and loans to TINCO LTD., will be transferred to TINCO LTD. The mechanics of transfer will involve:-

   (a) novation of contracts for the purchase and sale of metal from the ITC to TINCO LTD. although these may be subject to renegotiation;

   (b) The making of secured new loans by the Creditor Banks to TINCO LTD. to enable it to purchase tin from the I.T.C., which will repay all outstanding liabilities to Creditor Banks (including principal, interest and costs) with the proceeds of such sale.

   Additionally, the unencumbered assets of the I.T.C. Buffer Stock will also be transferred to TINCO LTD. except that the I.T.C. will reserve sufficient of the unencumbered tin to pay sundry creditors the details of which will be specified prior to the coming into force of TINCO LTD. and which approximate £500,000.

8. The Board of Directors of TINCO LTD. will consist of up to seven persons:

   One Director appointed by the Government of the U.K.
   Two Directors appointed by the Creditor Brokers
   Two Directors appointed by the Creditor Banks (of which one shall be the Chairman)
   Two Directorships will be available to members of the I.T.C., other than the Government of the U.K., who will sit on the Board on their own account and not as representatives of the I.T.C. (with statements being made to this effect).

9. The staff of TINCO LTD. will normally consist of one manager, one assistant manager (who will also act as bookkeeper), one clerk (who will handle shipping/invoicing/traffic) and one secretary.

10. The office of TINCO LTD. will be situated within the facilities of Standard Chartered Bank, London. It will require telephones and access to telex.

11. The bank account of TINCO LTD. is to be with a first class commercial bank nominated by the Bank of England. All warehouse warrants and LME warrants are to be lodged with Standard Chartered Bank who will act on behalf of any other holders of collateral.

12. Disposal policy.

Objectives of the disposal policy

The objectives of the disposal policy will be to dispose of all the tin stocks TINCO LTD. holds after it has taken up its contractual obligations to purchase, over a three-year period at an average price of at least £6,000 per tonne.

Strategies for disposal

(a) TINCO LTD. will at all times be sellers.

(b) TINCO LTD. will never be a buyer or a borrower or a lender of tin. It is authorised to sell tin for immediate delivery; it is also authorised to sell forward tin provided that the price shall be higher than the spot price and shall take into consideration the carrying costs.

(c) In order to meet the objectives of the disposal policy TINCO LTD. shall sell a minimum of 2 per cent of the original stocks during each month for its lifetime. Additional sales shall be made provided the price is above the minimum price (a minimum price is to be fixed quarterly bearing in mind the objectives of the policy, by a majority vote of the Board of Directors and can only be changed during the quarter by a new vote of the majority of the Board of Directors).

(d) The Board of Directors may by a majority vote modify the strategies for disposal set out in (c) above, in order to achieve a balance between the objectives of the disposal policy should circumstances require it. For this purpose the Chairman or any other two directors can call a meeting of the Board of Directors at any time during the quarter. The Chairman must, however, call a meeting of the Board of Directors no less than once per quarter.

(e) No sales may take place if the majority in value of the Creditor Banks object whilst their outstanding loans are significant.

13. Sales can be made to consumers, merchants, members of the London Metal Exchange and of the Kuala Lumpur Tin Market. A list of buyers must be maintained by the manager, and in

order to be placed on the list, the name must first be approved by the Board of Directors who shall ascertain credit standing.

14. All sales should be based upon payment on delivery. Disbursements of cash receipts of TINCO LTD. will be made monthly.

15. The Members of the I.T.C. will use their best endeavours to maintain production and exports at such levels as to contribute to the fulfilment of the objectives of the disposal policy. In undertaking their efforts in this respect, the Members of the I.T.C. shall have regard to the effectiveness of the approaches to be made to the appropriate authorities in non-I.T.C. Producing Countries in an effort to obtain their co-operation in the achievement of the objectives of TINCO LTD.

16. Arrangements satisfactory to the parties to obviate antitrust risk will be devised.

17. To cover the interest of all parties in the re-opening of the tin market at an early date there is a need for bridging finance to allow time for the I.T.C. to make its contribution via the channels appropriate to its members. ANNEX B ——> A separate document in respect of bridging finance is available.

18. None of the provisions of this Memorandum constitutes a legally binding commitment of any party.

19. All parties as listed under paragraphs A,B,C and D will signify their acceptance in principle of this Memorandum of Understanding to one of the under-named if at all possible by the 28th February, 1986. Unless all parties have signified agreement by 5th March, 1986 and all contributions or bridging finance are in place by that date, then this Memorandum shall be void ab initio.

	Telex	Telephone
P.A. Graham	London 885951	01-280 7500
R. Kestenbaum	London 884377	01-481 0681
P. Lai	Intertin London 918939	01-930 0451

ANNEX B.

BRIDGING FINANCE IN RESPECT OF THE INTERNATIONAL TIN COUNCIL'S CONTRIBUTION TO TINCO LTD.

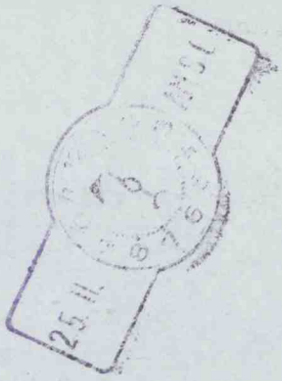
Standard Chartered Bank is prepared to provide bridging finance in an amount of up to an aggregate amount of £115 million in respect of individual I.T.C. member government contributions as follows:-

Country	Maximum amount £
Australia	
Indonesia	
Malaysia	
Nigeria	
Thailand	
Zaire	
Canada	
European Economic Community	
Belgium/Luxembourg	
Denmark	
France	
Federal Republic of Germany	
Greece	
Republic of Ireland	
Italy	
Netherlands	
United Kingdom	
Finland	
India	
Japan	
Norway	
Sweden	
Switzerland	
TOTAL	

Bridging finance would be granted for a period of up to six months and would only be made available on the basis of acceptable telex messages from the Ministers of Finance or other responsible Ministers of the I.T.C. Governments concerned, confirming how much finance is required, that the funds are to be paid to the account of TINCO LTD., stating the required bridging period. These telex messages should be sent through London diplomatic missions.

Interest on the bridging loans would be payable by the member Government concerned at the London Interbank Offered Rate as determined by Standard Chartered Bank for the relevant amount and bridging period concerned, and will be payable by the relevant member Government on the last day of the bridging period.

Standard Chartered Bank reserves the right not to provide bridging finance to any country which is in default of any loan obligations.



PRIME MINISTER

TIN

The ITC over the weekend moved much closer to an agreement on tin. The negotiating team for the producer countries agreed to ask member governments to pay their share of a contribution of £115 million. This falls £5 million short of the £120 million which was assumed in the package which was discussed at your last meeting on tin. The ITC want the UK to put up an extra £5 million, on top of the £50 million which Ministers have agreed they would be prepared to offer in the last resort.

The banks and brokers would put up £75 million, and a further £55 million would be found in various forms of contributions and loans from the banks.

Member governments have been given until Friday this week to say whether or not they can agree to this package.

DTI will be consulting you and other Ministers. At this stage there seems to be no suggestion of the Bank of England putting in a further contribution on its own account, so £55 million would in fact be less than the Government was earlier prepared to countenance. But the UK clearly could not agree to the proposal until it seemed reasonably certain that everyone else was likely to go along with the package.

One other comment. If the Government is seen to be putting in £55 million beyond its proper share to save the LME, there will be immense pressures for action to ease the problems of the Cornish tin industry. It would be preferable to offer this support voluntarily rather than have it forced on the Government later. But this is something you would not wish to be seen proposing yourself.

DTI should be thinking now about how a rescue package would be presented. I shall ask them to set this in hand, and particularly to consult the Law Officers on whether the Government can explain publicly the legal advice it was given on the nature of the legal liability and the risk that the UK would have to pay up the whole amount and then seek to recover from other countries. The Government's position will be much harder to defend if this legal advice cannot be avowed.

DN

24 February, 1986.

JD54

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
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GTN 215) 5422
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

PS/

24 February 1986

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear David,

TIN

Thank you for your letter of 14 February, with which you enclosed a copy of M. Mitterrand's letter of 11 February to the Prime Minister.

We agree that no reply is needed.

I copying this letter to Phillip Wynn Owen (Treasury), Colin Budd (FCO), Henry Steel (Law Officer's Dept), and John Bartlett (Bank of England).

Yours ever,
Michael

MICHAEL GILBERTSON
Private Secretary

DW4ARZ

999-1

TRADE : TIN : PT 2.

File

10 DOWNING STREET

From the Private Secretary

21 February 1986

TIN

I enclose a copy of the reply from Mr. Lubbers to the Prime Minister's letter of 6 January about tin.

I am copying this letter and enclosure to Colin Budd (Foreign and Commonwealth Office), Tony Kuczys (H.M. Treasury), Henry Steel (Law Officers Department) and John Bartlett (Bank of England).

David Norgrove

Michael Gilbertson, Esq.,
Department of Trade and Industry.

DX; This is final version. Already 'T'd'. cc PC

NBPM.

MINISTER-PRESIDENT

Nr:362886. The Hague, 21st February, 1986.

Dear Prime Minister,

In reply to your letter of 6th January 1986, I should like to inform you that the Government of the Netherlands has, pursuant to your request, reconsidered its position with regard to a possible solution of the tin-crisis. While we are under no legal obligation to do so, my Government may participate in such a solution, provided all other interested parties do likewise. We have also undertaken an initiative which, on the one hand, succeeded in finally bringing the EC member states to the negotiating table and, on the other, resulted in a commitment by almost all Member States of the ITC to an ITC contribution of £ 60 million to a solution of the crisis.
Recently the Netherlands Government undertook a second initiative which proved to be instrumental in reaching a decision on a final offer by the ITC member states of £ 100 million.
I trust you are aware that this offer does not, as yet, enjoy unanimous support within the European Community. However, further contributions from the banks and brokers and from your Government, which has an obvious interest in a solution of this crisis, might persuade those governments still refusing to participate in any rescue package to change their position and contribute their share of the final ITC offer of 100 million pounds.

Yours sincerely

Ruud Lubbers.

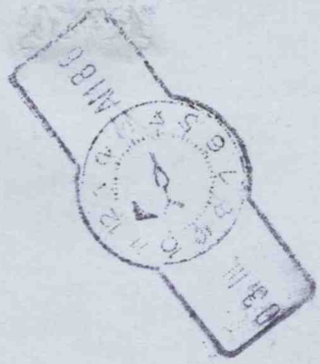
The Right Honourable
Mrs Margaret Thatcher
Prime Minister of
the United Kingdom
10, Downing Street
London.

Postbus 20001 - 2500 EA 's-Gravenhage - Kantooradres: Binnenhof 20 - Tel. 070 - 61 40 31

TRADE

TIN

PT 2



BOX

CCPC

Royal Netherlands Embassy
38 Hyde Park Gate
London SW7 5DP

London, 21st February, 1986.

The Right Honorable
Margaret Thatcher MP
Prime Minister
10 Downing Street
London SW1

~~Prime Min~~
Prime Minister 2
A slightly offensive reply from Mr Lubbers.
DRN
21/2.

Dear Prime Minister,

./. I have pleasure in forwarding the attached message from Mr. Lubbers about the International Tin Council in reply to your message of 6th January last.

at trap pt 1

Yours sincerely,

L.W. Veenendaal

L.W. Veenendaal
Chargé d'Affaires a.i.

Subject cc Ops master

PRIME MINISTER'S PERSONAL MESSAGE SERIAL No. T36A/86

TEXT OF MESSAGE FROM MR LUBBERS TO MRS THATCHER

In reply to your letter of 6 January I should like to inform you that the Government of The Netherlands has, pursuant to your request, reconsidered its position with regard to a possible solution of the tin-crisis.

While we are under no legal obligation to do so, my Government may participate in such a solution, provided all other interested parties do likewise.

We have also undertaken an initiative, which on the one hand, succeeded in finally bringing the EC Member States to the negotiating table and on the other, resulted in a commitment by almost all Member States of the ITC to an ITC contribution of £ 60 million to a solution of the crisis.

Recently the Netherlands Government undertook a second initiative which proved to be instrumental in reaching a decision on a final offer by the ITC Member States of £ 100 million.

I trust you are aware that this offer does not, as yet, enjoy unanimous support within the European Community.

However, further contributions from the banks and brokers and from your Government, which has a special interest in a solution of this crisis, might persuade those governments still refusing to participate in any rescue package to change their position and contribute their share of the final ITC offer of £ 100 million.

PRIME MINISTER'S PERSONAL MESSAGE SERIAL No. T36A/86

TRADS

Documented Trade PT2

C4BG

Foreign and Commonwealth Office

London SW1A 2AH

20 February 1986

Dear Mike,

NBPM.

Tin

Thank you for sending me a copy of your letter of 18 February to David Norgrove about our reaction to the banks and brokers' suggestion that HMG should make an immediate £200m interest-free loan to get NEWCO started.

The Secretary of State is out of the country and has not been consulted. We are confident however that he would not wish to propose that HMG should make such a loan to NEWCO. To act in this way would mean that HMG had effectively assumed the whole burden of the rescue operation. The task of further negotiation would be greatly complicated by such a move and the possibilities of recouping this sum would be, to say the least, doubtful.

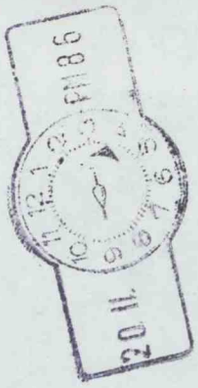
I am copying this letter to Philip Wynn Owen (Treasury), Henry Steel (Law Officers Department), John Bartlett (Bank of England) and David Norgrove (No.10 Downing Street).

Yours ever

R N Culshaw

(R N Culshaw)
Private Secretary

Michael Gilbertson Esq
PS/Secretary of State for
Trade and Industry



TRADS

Volume of Trade P12

CONFIDENTIAL

DSG (CATACK)

file

bc: Prof. Griffiths

10 DOWNING STREET

From the Private Secretary

20 February 1986

TIN

The Prime Minister has seen your letter to me of 18 February reporting the request from banks and brokers that the Government should make an immediate £200 million interest-free loan to get NEWCO started. The Prime Minister agrees with your Secretary of State that this proposal is totally unacceptable.

I am copying this letter to Philip Wynn Owen (HM Treasury), Robert Culshaw (Foreign and Commonwealth Office), Henry Steel (Law Officers Department) and John Bartlett (Bank of England).

David Norgrove

Michael Gilbertson, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

EAL

PRIME MINISTER 19 February 1986

TIN

The predictable has happened: the Newco supporters are now asking HMG to put up an interest-free loan of £200 million! No They claim this will mean a net contribution of only £80 million by HMG. The assumption on which this is based is that the ITC will come forward with £120 million, even though it hasn't yet agreed to put up £100 million. It is also obviously wrong to count an interest-free loan by HMG as costless. Under the latest Newco initiative, the net contribution of HMG would amount to well over £100 million.

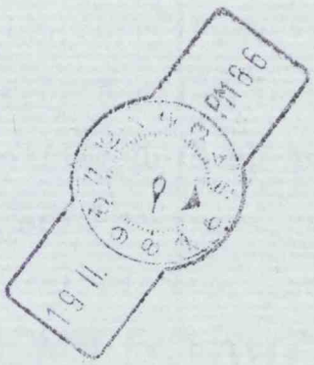
On grounds of efficiency and politics, acceding to this request would be disastrous. The most worrying long-term aspect, however, is the lost business to London because of the LME's closure. If, as now seems probable, a negotiated settlement is not on, the sooner the LME reopens the better.

Recommendation

Give strong support to the Chancellor in keeping to the absolute limit of £50 million as a rescue figure.

Linda Frost

BRIAN GRIFFITHS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CLBG

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(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

PS/

CONFIDENTIAL

18 February 1986

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Prime Minister!
Agree that a £200m interest free loan is inconceivable?
DRS 19/2

Dear David,

TIN

... I attach the note of a meeting which my Secretary of State had this afternoon with Mr Peter Graham (Senior Deputy Chairman, Standard Chartered Bank), Sir Adam Ridley (Hambros) and Mr Ralph Kestenbaum (Gerald Metals).

2 The picture painted by Mr Graham was gloomy: in his view there is a real risk of the group of banks falling apart over the next few days. As a result, he proposed that HMG should make an immediate £200m interest free loan to get Newco started, of which £120m would be recovered by ITC contributions.

3 My Secretary of State told Mr Graham and his colleagues that it was inconceivable that these proposals would be acceptable to the Government. However, he undertook to pass on to colleagues the points which Mr Graham had made.

4 Subject to comments from colleagues by **noon** on **Thursday, 20 February**, my Secretary of State proposes to confirm to Mr Graham that the Government cannot do as he asks. My Secretary of State will however encourage Mr Graham to try to keep his group together while we attempt to achieve demonstrable further progress in the ITC (as we have done in the last two weeks).

5 I am sending copies of this letter and attachment to Philip Wynn Owen (Treasury), Robert Culshaw (FCO), Henry Steel (Law Officers Department), and John Bartlett (Bank of England).

Yours ever,
Michael

JF2AWL

MICHAEL GILBERTSON
Private Secretary

1786 1986 BOARD OF TRADE BICENTENARY

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CONFIDENTIAL

TIN : MEETING WITH SIR ADAM RIDLEY, MR GRAHAM, AND MR KESTENBAUM - 18 FEBRUARY 1986

SUMMARY

The banks believed defections from their group were accelerating, and would frustrate the Newco plan. They therefore proposed that HMG should make an immediate £200m interest free loan to get Newco started, of which £120m would be recovered from ITC contributions. The Secretary of State said he would pass on Mr Graham's points to colleagues, but warned that there was no chance of the Government agreeing to these proposals.

DETAIL

2 Sir Adam Ridley, Mr Graham and Mr Kestenbaum came in to see the Secretary of State this afternoon at their request. Mr Mountfield and Mr Murray were present.

3 **Sir Adam** said that the group of creditor banks was in danger of "falling apart". The Indo-Suez Bank and the Arab Banking Corporation had both left the group and had sold significant amounts of tin at over £6,000 per tonne. In addition, the Bank of Tokyo had informed Standard Chartered earlier in the day that they were not able to accept the latest Newco proposals. **Sir Adam** therefore said that the coherence of the group was at risk. It was essential to get back to the original Newco proposals if the banks which had broken ranks were to be brought back into the group, and if the remaining members of the group were to remain firm.

4 **Mr Graham** said that the offer on 6 February by HMG to convert £25 million of its proposed £50 million guarantee into cash if the ITC contributed £100 million, and to convert the whole of the guarantee in cash if the ITC contributed £120 million, had actually weakened the banks negotiating position, since it appeared to "cap" the amount which the ITC were expected to provide. **Mr Kestenbaum** however said that this move by HMG had been beneficial in breaking the deadlock in negotiations, and it was doubtful whether the ITC would ever contribute more than £120m anyway.

5 Following subsequent negotiations with the ITC, Mr Graham had gone back to the banks with ITC proposals which would require the bankers and brokers to fund equity of £100 million with an additional £25 million loan from the "old" banks against the old debt, and requiring further funds to be found from elsewhere in the City. Individual banks were now responding to these proposals, and the signs were

This is the proposal agreed at Jan meeting.

not good. Indo-Suez and the Bank of Tokyo had both said that they were unacceptable.

6 Mr Graham said that the rejection by individual banks of the Newco proposals and subsequently sales of tin were creating a very dangerous situation. The viability of Newco was based on the need to buy up a stock of 40,000 tonnes of tin. If there were more tin on the market, as a result of sales by banks, the amount Newco would have to buy would be increased, and its viability would be undermined. In particular, Mr Kestenbaum warned that further delay would mean that tin from elsewhere in the world would arrive on the market, leaving a total of perhaps 63,000 tonnes for Newco to take up, and this would make Newco unviable from the start.

7 Mr Graham said that if a package satisfactory to the banks and brokers were unavailable by the end of this week, the possibility of a negotiated settlement would disappear. He therefore set out a possible package, based on the premise that by Friday, the ITC would have come forward with firm promises of £120 million. The package would involve a UK Government contribution of an interest free loan of £200 million, to fund a settlement until the £120 million ITC contribution was paid. This would leave the UK Government with a maximum commitment of £80 million. Such an agreement would be kept strictly confidential until Friday when the banks would inform the ITC. The banks and brokers would ensure that the ITC was free from the threat of legal action, and Newco might be up and running by the end of next week. Mr Kestenbaum suggested that if the price of tin remained reasonably strong, then the eventual UK commitment would be substantially less than £80 million, and probably only around £30 million.

8 The Secretary of State said that while of course he would pass on Mr Graham's views to colleagues, he thought it absolutely inconceivable that the Government would be able to agree to a £200 million interest free loan. He said the Government would feel that each week it was being asked for an increased contribution, and that the more it offered, the more it would be asked for. Mr Murray warned that the ITC had not even definitely committed itself to providing £100 million, let alone £120 million and he could not believe that the ITC would be ready to make a definite commitment to contribute £120 million by the end of the week.

9 There was some discussion of the possibilities of further sales of tin by the banks. Sir Adam said that the banks patience was fast running out, and they felt that their bargaining position had been eroded. If they could see banks such as the Indo-Suez bank and the Arab Banking Corporation selling tin at around £6,000 per tonne, they might well be

tempted to break ranks and sell tin also. **Mr Mountfield** suggested that if a significant number of banks did this, the price of tin would fall substantially, and this in turn would discourage them from selling. However, Mr Graham said that banks could dispose of small amounts of tin without substantially affecting the price. He cited the example of Indo-Suez, where selling their entire stocks of tin would involve them in a loss of perhaps £1 million, whereas joining Newco could cost them £2 million. **Sir Adam Ridley** said that once banks became convinced that a negotiated settlement was impossible, they would consider that whatever happened they would be selling in a disorderly market, and they may well decide to sell quickly in order that at least part of their stocks would fetch a reasonably high price of perhaps £6,000 per tonne.

10 **Mr Graham** emphasised that Standard Chartered and Kleinwort Benson could without too much difficulty extricate themselves : they had an agreement with the ITC which would enable them to seize the remaining 2,700 tonnes of tin in the ITC's hands, and this would cover their losses. Hence, their efforts in trying to find a solution were not primarily prompted by self interest.

11 **Mr Murray** warned that defections from the group of bankers would serve to increase the ITC's fear of litigation against it, and would therefore make a settlement more remote. **Mr Graham** responded that there was a strong likelihood that Indo-Suez could be brought back into the group, and a reasonable chance with the Arab Banking Corporation. If all else failed, then the remaining banks in the group could buy out the defectors. The banks and brokers would be meeting the ITC's lawyers tomorrow to try to iron out outstanding legal difficulties, possibly including the question of legal action by creditor banks against the ITC.

12 **Mr Graham** said that under the package he was proposing, HMG would not be asked for its £200 million loan until there was a firm statement from the ITC that they would pay the necessary £120 million. He suggested that once such a statement was forthcoming, the UK Government should be prepared to pay. The **Secretary of State** said that a statement by the ITC that it would pay could not on past experience be taken as an absolute assurance that it would : besides, as he had already made clear, it was absolutely inconceivable that the Government would be prepared to contribute a loan of £200 million.

13 The **Secretary of State** undertook to reflect urgently with colleagues on what Mr Graham, Mr Kestenbaum and Sir Adam Ridley had said.

DW2ANS

Department of Trade and Industry
18 February 1986

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1-19 VICTORIA STREET
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(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

PS/

CONFIDENTIAL

14 February 1986

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear David,

TIN

... I attach for information the latest situation report by officials. It has not yet been seen by my Secretary of State.

2 I am copying this letter and attachment to Philip Wynn-Owen (Treasury), Robert Culshaw (FCO), Henry Steel (Law Officers Department), and John Bartlett (Bank of England).

Yours ever,
Michael

MICHAEL GILBERTSON
Private Secretary

JF5AXP

999-1

Tin: Position Week Ending 14 February

Summary

1. Reasonable progress on key non-financial issues on basis of broker proposals. Agreement to set up a sub group to discuss main legal issues, to meet next week.

2. Further slightly modified financial proposals from the banks and brokers on which a response is requested by 21 February. No change this week in ITC position on finance for Newco.

3. Some signs of instability in the banks and brokers' positions emerging which could make it difficult to prolong negotiations much beyond the end of next week.

4. The International Tin Council resumes its meetings next Wednesday, 19 February. No further negotiations with banks and brokers before then. The sub groups on legal matters and on disposals meet on 18 February.

Detail

1. Belgium and Italy have still not clarified their position, but we understand the Belgians are studying the Prime Minister's letter carefully.

2. The European Commission has said it may put forward proposals for a settlement on behalf of the Community by the end of next week.

3. Whilst discussions on non-financial matters, particularly disposal policy have been generally constructive, it is clear that a number of countries would have difficulty in moving beyond a figure of £100m for the ITC as a whole. These include Finance, Germany (FR) and the Netherlands, and probably the three Asean producers.

4. The new bank and broker proposals would entail a contribution of £120m from the ITC; £50m in cash from the UK; £100m from the banks and brokers (all as reported last week); plus (new element) a contribution of some £25m by the banks towards the £50m required as a guarantee. There is no likelihood of a positive response to these proposals from the ITC by the requested deadline of 21 February.

5. The Chairman of the ITC will meet the Chairman of the London Metal Exchange on 17 February to discuss how the tin market could be re-opened so as to enable Newco to operate successfully in its early days.

Assessment

Some progress but there are still serious legal hurdles to overcome, and major financial issues to be resolved. Perhaps most important, there is not a lot of time left and the Bank of England is particularly concerned about this.

Next Steps

If reasonable progress can be made on the legal and other non-financial issues by the end of next week, we should be prepared to endorse a package which would include an increase in the ITC financial contribution to be urged on other members at the highest level.

M A R LUNN

14 February 1986

Prime Minister

I would not react to this suggestion at this stage. Looks an unlikely runner in view of X over.

N.L.W

14.2

999-80

See also DTI Sit Rep attached

2

14 February 1986

PRIME MINISTER

TIN: DEVELOPMENTS AND THE COST OF LOSING THE LME

Developments

The DTI and the Bank of England are continuing to try to raise more funds to make the Newco proposals viable.

The evidence of Kestenbaum (one of the brokers) before the Select Committee last Wednesday - in which he said that a solution to the four-month crisis was possible, if not probable, this week - was considered extremely unhelpful. It created euphoria in the market. The grey market price of tin (ie tin traded outside the LME, probably in Kuala Lumpur) rose by £1,000 a tonne to over £6,000 within a day! As a result of this price rise, one bank is rumoured to have unloaded most of its tin on the market.

This, plus the fact that the ITC has put up only $100 million (rather than $200 million as under the original Newco proposal) will make the head offices of the other banks involved more sceptical about increasing their contribution to Newco.

The banks and brokers have cried wolf many times. My personal view, however, is that the events of this week make it more

unlikely that a solution can be found without further requests for funding from HMG. Be prepared to say no. As always, the major argument will be the knock-on effect on the City, and the LME in particular, of not establishing a Newco-type proposal.

What are the costs to the country of losing the LME?

The Bank's figure of £50-100 million of income from invisible earnings is income from all metals, not just tin. It is, anyway, very much a guess.

Total employment in this area is at most 1,000 (there are 3,500 working in Cornish tin mines). Of these most are support staff who could be redeployed in other City institutions fairly easily. The skills of brokers could be transferred to other markets without too much difficulty, not least because of the demand for dealers and brokers created by the Big Bang (October 1986).

Conclusion

It is highly doubtful if the City will lose invisible earnings on a net basis through the demise of the LME. Earnings in other areas will grow, eg international securities trading, and staff can quite easily be transferred. All of which amounts to a strong argument against the further use of taxpayers' money to bail out the LME.

As long as HMG is prepared to stand by and rescue the JMBs and LMEs of this world, there will be a queue in need of treatment.

BRIAN GRIFFITHS

file KB
LO4 AB 9

cc Prof Griffiths

10 DOWNING STREET

From the Private Secretary

14 February 1986

TIN

I enclose a copy of a letter from M. Mitterrand to the Prime Minister.

DTI
FCO

At first sight it looks as though no reply is needed, but I should be grateful if you could consider this.

I should also be grateful if the Foreign Office could please provide a translation for the Prime Minister's use.

I am copying this letter, and enclosure, to Tony Kuczys (H.M. Treasury), Colin Budd (Foreign and Commonwealth Office), Henry Steel (Law Officers' Department) and to John Bartlett (Bank of England).

DAVID NORGROVE

Michael Gilbertson, Esq.,
Department of Trade and Industry.

AMBASSADE DE FRANCE
LONDRES

L'AMBASSADEUR

13th February, 1986

Dear Prime Minister,

I have just received a letter addressed to you by Monsieur François Mitterrand, Président de la République française.

I enclose it herewith.

Yours sincerely,

J. Viot

Jacques Viot

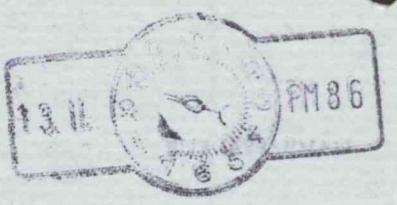
Prime Minister 2
See the final paragraph of the letter - encouraging as far as it goes.

DRS
17/2

Not put in box
as per DRN
MAB 17/2

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
10, Downing Street,
LONDON S.W.1

TRADE : Tin : Pt 2



0292D

Prime Minister 2
This is Mitterrand's reply to your letter on tin. It says nothing new.
DEV
18/2

cc PC

Already 'T'd' This is the translation

TRANSLATION

THE PRESIDENT OF THE REPUBLIC

Paris, 11 February 1986

Mrs Margaret THATCHER
Prime Minister of the
United Kingdom

Dear Prime Minister

Your letter concerning the tin crisis calls for some comments from me.

The crisis in the tin market, which is partly due to the International Tin Council's difficulties, is very worrying. This metal accounts for a major part of the export receipts of the developing producer countries. Bearing in mind the situation in the tin market - overproduction, declining demand, existence of substantial stocks - and the fact that not enough producer countries are members of the current tin agreement, I find it difficult to see the International Tin Council returning to normal operations. The situation was made worse by the obscurity surrounding some transactions effected in the futures markets, although up to 24 October 1985, when tin quotations were suspended, these transactions did not worry those responsible for or operating in these markets.

France's position, which moreover is shared by the majority of the EEC member countries, has always been clearly stated since the beginning of the crisis.

Generally speaking, and in the absence of a specific commitment, Member States of an international organisation are not bound by the organisation's commitments to third parties. Examination of the International Tin Agreement shows that it contains no provisions which waive this principle. For this reason the liability of the Member States of the International Tin Council could not be substituted for that of the Council itself, which possesses full and complete legal personality.

The Tin Council's financial difficulties must be looked at on the basis of its specific character. They cannot be compared with the situation relating to the other commodity agreements and organisations, which do not have recourse to bank loans and which cannot operate in the futures markets.

During discussions on this question, especially in the Community bodies, France has never necessarily ruled out the possibility of participating with the other consumer countries, on a purely voluntary basis, in an equitable solution which would involve all the producer country members of the Tin Council as well as the Tin Council creditors.

In this connection the proposal put forward on 23 December 1985 by the Tin Council creditors is the first concrete attempt to solve the tin crisis. This proposal might serve as a basis for discussion with the International Tin Council creditors; however, it presents considerable legal and financial difficulties.

For, if it is to be acceptable, any solution would have to stipulate clearly that the creditors undertake not to take any legal action against the Tin Council; from the financial point of view, only an equitable contribution by all the parties concerned would be conceivable, whereas the proposal put forward is heavily weighted against the Member States of the Tin Council. Moreover, any mechanism established with a view to carrying out the orderly liquidation of the tin stock would have to preserve the legal position of the countries concerned.

Finally, like Her Majesty's Government, France is ready to participate in a negotiated settlement of the tin crisis if and only if all the other members of the International Tin Council do likewise.

With kind regards I remain, Prime Minister,

Yours sincerely

(Signed)

François MITTERRAND

Translating Services, HO-5
DEH
18.2.86

BANK OF ENGLAND



Subject cc ops master

LE PRÉSIDENT DE LA RÉPUBLIQUE

Paris, le 11 février 1986

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T30B/86

Madame le Premier Ministre,

6.1.86 Part One.

Votre lettre sur la crise de l'étain appelle de ma part un certain nombre de commentaires.

La crise du marché de l'étain, due en partie aux difficultés financières du Conseil International de l'Etain, est très préoccupante. Ce métal représente une part importante des recettes d'exportation des pays producteurs en développement. Compte tenu de la situation du marché de l'étain -surproduction, diminution de la demande, existence de stocks considérables- et de la participation d'un nombre insuffisant de pays producteurs à l'accord actuel sur l'étain, il semble difficile de prévoir un retour à un fonctionnement normal du Conseil International de l'Etain. Cette situation a été aggravée par des opérations effectuées sur les marchés à terme dans des conditions peu claires, sans toutefois que ces opérations préoccupent jusqu'au 24 octobre dernier, date de la suspension des cotations sur l'étain, les responsables et les opérateurs de ces marchés à terme.

La position de la France, qui est au demeurant partagée par une majorité de pays membres de la CEE, a depuis le début de cette crise, toujours été clairement exprimée.

D'une manière générale et à défaut d'engagement spécifique, les Etats membres d'une organisation internationale ne sont pas tenus par les engagements de l'organisation à l'égard des tiers. L'examen de l'accord international sur l'étain montre qu'il n'y a pas dans cet accord de dispositions dérogeant à ce principe. C'est pourquoi la responsabilité des Etats membres du Conseil International de l'Etain ne saurait se substituer à celle du Conseil lui-même, qui possède une pleine et entière personnalité juridique.

Madame Margaret THATCHER
Premier Ministre du
Royaume-Uni

Les difficultés financières du Conseil de l'étain doivent être examinées en fonction de sa spécificité. Elles ne peuvent être rapprochées de la situation des autres accords et organisations de produits, qui n'ont pas recours à des emprunts bancaires et qui ne peuvent pas opérer sur les marchés à terme.

Dans les discussions sur cette question, notamment dans les instances de la Communauté, la France n'a jamais exclu a priori de participer avec les autres pays consommateurs, sur une base purement volontaire, à une solution équitable qui associerait tous les pays producteurs membres du Conseil de l'étain ainsi que les créanciers de ce dernier.

La proposition présentée le 23 décembre dernier par les créanciers du Conseil de l'étain est à cet égard la première tentative concrète de solution de la crise de l'étain. Cette proposition pourrait éventuellement servir de base de discussion avec les créanciers du Conseil international de l'étain ; elle présente cependant des difficultés juridiques et financières considérables.

Pour être acceptable, une solution devrait en effet stipuler clairement que les créanciers acceptent de renoncer à toute action contentieuse contre le Conseil de l'étain ; sur le plan financier, seul un apport équitable de toutes les parties en présence serait concevable, alors que la proposition avancée est gravement déséquilibrée au détriment des Etats-membres du Conseil de l'étain ; de plus, le dispositif éventuellement établi pour gérer la liquidation ordonnée du stock d'étain devrait préserver la situation juridique des Etats.

Enfin, comme le Gouvernement de sa Majesté, la France est disposée à participer à un règlement négocié de la crise de l'étain si et seulement si tous les autres membres du Conseil International de l'étain en font autant.

Je vous prie d'agréer, Madame le Premier Ministre, l'expression de ma haute considération et de mes fidèles sentiments

François Mitterrand

François MITTERRAND.

TRADE: International Tin Council: Pt 2

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Secretary of State for Trade and Industry

10 February 1986

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1

Dear Nigel

TIN

Thank you for your letter of 7 February.

The complex sequence of moves in the negotiations on 6 and 7 February, were designed to achieve two things. The first was to break the log-jam in the talks and get sufficient movement during last Thursday 6 February, to forestall a decision by the LME which would have frustrated the entire negotiation. The second was to retain enough negotiating headroom to have some chance of securing further moves, after last Thursday, which might lead on to a settlement.

In the event, our negotiators secured both objectives. First, by offering, conditionally, conversion of £25m of our £50m guarantee offer into cash, the EC blockage was removed and an ITC offer of £100m was made leading to a counter offer by the brokers and banks; as a result of this, the LME decided to remain shut. Second, by offering only £25m in return for the ITC move to £100m, we have retained some headroom for later stages in the negotiation.

It remains, of course, most uncertain whether a deal can be struck. Nevertheless, I believe our negotiators did a good job last week in using the flexibility we gave them on the morning of 6 February. They achieved the immediate objective we set them

DW1AOD

1786 1986 BOARD OF TRADE BICENTENARY

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whilst retaining some ammunition for the remaining stages of the negotiation.

I am sending copies of this letter to the Prime Minister and the Governor of the Bank of England.

PAUL CHANNON

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TRADE

TIN PT 2

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Secretary of State for Trade and Industry

PS/

CONFIDENTIAL

7 February 1986

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Prime Minister 2
DFR
7/2

Dear David,

TIN

... I attach for information a report on the latest position from officials who attended the ITC today. It has not yet been seen by my Secretary of State.

2 I am copying this letter and attachment to Philip Wynn Owen (Treasury), Robert Culshaw (FCO), Henry Steel (MOD), and John Bartlett (Bank of England).

Yours ever,

Michael

MICHAEL GILBERTSON
Private Secretary

JF5AXG

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TIN : POSITION AS AT 7 FEBRUARY 1986

SUMMARY

Reasonably encouraging in that the International Tin Council agreed to put an offer of £100m to the banks and brokers, plus £25m from the UK up-front in the form of cash. The proposal was, as expected, rejected as inadequate, the banks and brokers have asked for £120m from the ITC plus a guarantee of the first £50m of loss above £270m. The Council will meet next week on 10 February; discussion is planned to cover the non-financial aspects of the package. London Metal Exchange has agreed to stay closed until mid-March subject to a suitable package being agreed.

DETAIL

2 (i) The International Tin Council agreed that the banks and brokers could be offered £100m as a final offer, without prejudice to legal liability and the whole package including non-financial matters to be ad referendum to Member Governments. Two countries, Italy and Belgium, have reserved their positions. The UK has in addition agreed to put in £25m of its proposed £50m guarantee under the Newco plan up-front in cash. The remaining £25m will remain available as guarantee.

The Chancellor's information seems to have been inaccurate.

JF5AXF

(ii) This offer was put to the banks and brokers who said that if the International Tin Council increased its offer to £120m this with a UK contribution of £50m in cash and the guarantee of the first £50m of losses over £270m by the ITC would secure a settlement.

(iii) Several member countries of the ITC including France and the Netherlands, said they could not go to £120m.

(iv) The Council agreed to meet again on Wednesday, 10 February to discuss some of the non-financial aspects of the proposed package. Meanwhile the current offer would remain on the table.

(v) The London Metal Exchange has agreed to remain closed until the first half of next month, subject to a suitable package being agreed.

(vi) The Arab Banking Corporation has obtained a judgement against the International Tin Council for £15m. It is not clear whether the judgement can be enforced.

(vii) The Minister for Trade has been called to appear before the Select Committee on Trade and Industry on 19 February to be questioned on tin.

NEXT STEPS

3 (i) It would be premature at this stage to try to push the International Tin Council or individual

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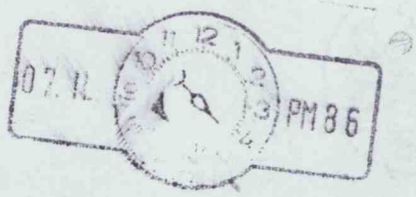
member countries into agreeing to offer the further £20m plus the £50m guarantee. Pressure to do so at this stage could be counter-productive. The banks and brokers should again be asked to be patient.

(ii) Meanwhile discussion of some of the non-financial matters will proceed e.g. stock disposal policy; control of Newco; export controls. At some time next week we should consider the appropriateness of again bringing up the question of the need for a greater ITC contribution and possibly approaching other countries. We shall also need to consider what steps we might take if negotiations break down which in the event of the ITC being unable to increase its present offer, or in the event of non-agreement on the non-financial matters, is possible.

The message from you giving final warning has already been prepared.

M LUNN
7 February 1986

JF5AXF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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

The Rt Hon Paul Channon MP
Secretary of State for Trade & Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1H OET

7 February 1986

Dear Paul

TIN

I was disappointed to hear that your delegate to the ITC saw fit to play all his cards soon after the ITC recommenced following our meeting yesterday morning.

I understand that this was done in order to secure Dutch agreement to a £100 million ITC contribution, in the hope of nudging them up to £120 million when delegations had fresh instructions from capitals. But it was clear from my conversation with the Dutch Finance Minister, Mr Ruding, yesterday afternoon that the Dutch (and probably the Germans) had already agreed to go to £100 million provided the banks and brokers stumped up too, and with only a token move of converting part of the UK guarantee to cash. In other words, the £100 million ITC package was already in the bag and the precipitate behaviour of your officials at the ITC has thrown away our negotiating hand to no purpose and without any settlement being secured. I must repeat that there can be no question of any further UK contribution.

I recognise that the situation was very fast-moving and negotiators must sometimes take on-the-spot decisions. But I fear this went beyond my understanding, at least, of the remit from yesterday morning's meeting.

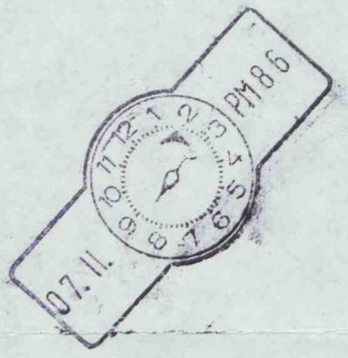
I am copying this letter to the Prime Minister and the Governor of the Bank of England.

Yours ever
Nigel

NIGEL LAWSON

Trattle, Tim 9/85

07.11. PM86



SUBJECT cc MASTER.

10 DOWNING STREET

From the Private Secretary

6 February 1986

Dear Richard,

TIN

The Prime Minister this morning held a meeting to discuss the latest developments in the tin crisis on the basis of the note attached to your letter to me of 5 February. Present were the Foreign Secretary, Chancellor of the Exchequer, Secretary of State for Trade and Industry, Solicitor General, Governor of the Bank of England, Mr. R. Mountfield and Mr. Lunn (Department of Trade and Industry), Mr. P. Mountfield (H.M. Treasury), Mr. Saunders (Law Officers' Department) and Mr. Farrow (Bank of England).

Your Secretary of State explained that the members of the ITC had offered £60 million as their share of the NEWCO proposal as against the £200 million which was needed if the banks and brokers were not prepared to increase their contribution. The urgency now was that the LME were about to make a rule change which would require payments by brokers to be made. This could result in the collapse of the LME. The Governor agreed that there was now strong pressure on the LME. Members of the LME had been carrying positions for three to four months and incurring heavy financing costs. Failure of the LME would have major knock-on effects on other commodity markets in the City, leading to great bitterness and probably legal actions, including legal action against the Government. A rescue of the LME would not be a rescue in the normal sense: the LME was in danger of being brought down by the action of foreign governments. It was also worth bearing in mind that it earned £50-100 million a year in foreign exchange and total earnings of the commodity markets amounted to £100-200 million a year.

In further discussion the Chancellor pointed to the political difficulties of a rescue which had been recognised in earlier meetings. Indeed there was a case now for reconsidering the £50 million guarantee which the UK had undertaken conditionally to offer. There could be no question of the UK entering into an open-ended commitment, but conversion of all or part of the guarantee to cash would not in fact be an additional commitment since the guarantee was anyway very likely to be called.

It was agreed that if there was a possibility that conversion of the guarantee into cash might be enough to secure an agreement this was a step the Government could not

refuse to take. A shortfall of £30 million would remain, even if the ITC and the banks and brokers each agreed to contribute £120 million (third column of the table attached to your letter of 5 February). The Governor said that if a package of that kind could be negotiated the Bank would be prepared to see what could be done to secure contributions from banks in the City to raise the extra £30 million which would be needed. The Bank of England might contribute £10 million out of receipts from the sale of the Commonwealth Development Finance Corporation. It was recognised that under these arrangements the UK Government would be contributing half of the amount being put in by consumer governments even leaving aside the Bank of England's contribution, which was itself public funds.

Accordingly, officials representing the UK at the ITC discussions were authorised to offer conversion of part of the £50 million guarantee into cash, conditional upon other Governments increasing their contributions to achieve a total ITC contribution of £120 million. Officials would have latitude to offer conversion of the full £50 million if that seemed necessary. If the negotiations were successful, the Governor's offer would be taken up. This was the maximum the UK would be prepared to contribute. The Foreign Secretary and Chancellor would consider urgently what might be done to bring further pressure to bear on Germany, the Netherlands and France, the countries which were proving the major obstacles to successful negotiations.

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office), Rachel Lomax (H.M. Treasury), Henry Steel (Law Officers' Department) and John Bartlett (Bank of England).

Yours ever

David

(David Norgrove)

Michael Gilbertson, Esq.,
Department of Trade and Industry.

JD

File
cifo

10 DOWNING STREET

THE PRIME MINISTER

6 February 1986

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 25/86

SUBJECT cc MASTER
OPS

Dear Prime Minister,

The International Tin Council's efforts to resolve the crisis in the tin market brought about by the Council's failure to meet its financial obligations are a cause for mounting concern. I am writing to ask your personal support in the search for a solution.

As you know, since the announcement on 24 October 1985 that the ITC could no longer honour its contracts, the member countries of the 6th International Tin Agreement have been trying to agree on a course of action to deal with the crisis.

From the outset, we made it clear that we were prepared to meet our share of the ITC's commitments, and we called on other governments to do likewise. We also circulated to other member governments a note setting out our analysis of the legal position.

If a settlement is to be reached, the position of the European Community countries, as the largest consumer group within the ITC, will be crucial. On 23 January, the European

Community made a statement announcing its readiness to negotiate with representatives of banks and brokers on certain conditions. On 30 January, the ITC was at last able to agree to set up a small team to enter into negotiations. The team held its first meeting with bank and broker representatives on 31 January. When the ITC reconvenes on 5 February, it is hoped that members will be in a position to authorise the negotiating team to put a counter-proposal to creditors. It will be essential for the ITC to offer a realistic figure as its contribution to a settlement.

I understand that, although Belgium was party to the European Community's statement on 23 January, your representative was unable to join the ITC consensus on 30 January. In these circumstances I wish to express my very strong hope that your Government, now the only one that has not yet felt able to join support in the search for a burden-sharing solution, will be prepared to reconsider its position. The ITC has a difficult task in its negotiations with creditors, and it needs the full support of every member government. The possibility of a successful conclusion to the negotiations would be seriously threatened if the member governments do not achieve a consensus.

As members of the European Community, I believe we have an increased responsibility for doing everything possible to resolve this problem. What concerns me above all is the impression which governments, as members of the ITC, would give to the rest of the world if we appeared to disclaim responsibility for the actions of a body set up to act on our behalf, and on whose governing council we as member states are directly represented. I trust you share my own view of the importance of finding orderly solutions to the debt crisis which avoid any question of unilateral default. The maintenance of good faith and integrity in international

financial dealings is of vital importance to your country and to mine. I feel confident that you will wish Belgium to be associated with her Community partners in the effort to ensure that this is achieved.

Yours sincerely

Margaret Thatcher

His Excellency Mr. Wilfried Martens

BP/34

CONFIDENTIAL

FROM: P WYNN OWEN
DATE: 6 February 1986

MR MOUNTFIELD

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir P Middleton
Sir G Littler
Mr F E R Butler
Mr Lavelle
Mr Monck
Mr Burgner
Mr Peretz
Mr Scholar
Mr Culpin
Mr Perry
Mrs Case
Mr Davies
Mr Redley
Miss Wilson
Mr Cropper
Mr Lord
Mr Hosker (T.Sol)
Mr Gilbertson
PS/Sos DTI
Mr Norgrove (No 10)

Prime Minister
See me.
DAS
6/2

TIN: CONVERSATION WITH MR RUDING

The Chancellor spoke to Mr Ruding, the Dutch Finance Minister at 3.45pm today.

2. The Chancellor said there had been some movement in the right direction since they last spoke. He was grateful for Mr Ruding's part in that. But the position was nowhere near what was needed to make NEWCO, the only possible solution, viable. All parties seemed prepared to go further, with the exception of the EC. The matter was urgent (a matter of days) and he spoke to Mr Ruding as President of ECOFIN. The issue was not one of legal obligations, but of responsibilities to developing countries, many of whom, such as Indonesia, were hard hit by the recent oil price fall. The proposed ITC contribution of £60 million must be doubled to £120 million - the very least that could attain a deal. Additional to any ITC contribution was HMG's £50 million guarantee. At the latest Kuala Lumpur price of around £5,450 per tonne a large proportion of that guarantee would be called. The UK would therefore probably be liable for as much as all the

other consumers put together. The UK could do no more.

3. Mr Ruding said the Dutch could accept a total ITC contribution of up to £100 million. He thought the Germans and Belgians could probably wear that too. But any such move would be on the conditions that:

(i) the UK was prepared to turn as much as possible of its £50 million guarantee into a straight cash advance

(ii) the banks and brokers combined matched the ITC contribution at the very least.

(iii) all parties should confirm there was no remaining legal liability.

4. The Chancellor said the UK might be willing to convert half its guarantee into cash, provided a deal could be struck with all other parties at a reasonable figure. He pressed Mr Ruding hard to agree to a £120 million ITC contribution. Mr Ruding said no one had authority to go over a £100 million ITC contribution. It would be very difficult to get up to £120 million, though it might be possible to get a little beyond £100 million. He would talk urgently to EC colleagues and raise the matter in the Dutch Cabinet tomorrow.

5. The Chancellor thanked Mr Ruding for his co-operation and both Ministers expressed the hope that a solution could be found.

Rwo.

P WYNN OWEN

'T'd above

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PP ROMEE
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051910Z FEB
GRS 664

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FM FCO
TO DESKBY 060830Z BRUSSELS
TELNO 14
OF 051910Z FEB 86
INFO PRIORITY EUROPEAN COMMUNITY POSTS

MY TELNOS 47 TO UKREP BRUSSELS AND 58 TO BONN: INTERNATIONAL TIN COUNCIL

1. FOLLOWING IS THE TEXT OF A MESSAGE FROM THE PRIME MINISTER - AGREED TODAY - TO MR MARTENS. GRATEFUL IF YOU WOULD DELIVER IMMEDIATELY.

2. IN HANDING IT OVER YOU SHOULD POINT OUT THAT THERE HAVE BEEN DEVELOPMENTS IN THE ITC THIS AFTERNOON SINCE THE PRIME MINISTER SIGNED THE LETTER AND, IN PARTICULAR, AN OFFER HAS BEEN MADE BY THE ITC AS A CONTRIBUTION TO A SETTLEMENT. HOWEVER, THE MAIN THRUST OF THE MESSAGE REMAINS RELEVANT, IN PARTICULAR THE NEED FOR A MORE REALISTIC FIGURE TO BE PUT FORWARD BY THE ITC AND THE NEED FOR BELGIUM TO PLAY A FULL PART IN THE DIFFICULT PROCESS OF NEGOTIATING A SOLUTION TO THIS PROBLEM.

BEGINS.

THE INTERNATIONAL TIN COUNCIL'S EFFORTS TO RESOLVE THE CRISIS IN THE TIN MARKET BROUGHT ABOUT BY THE COUNCIL'S FAILURE TO MEET ITS FINANCIAL OBLIGATIONS ARE A CAUSE FOR MOUNTING CONCERN. I

/AN

AM WRITING TO ASK YOUR PERSONAL SUPPORT IN THE SEARCH FOR A SOLUTION.

AS YOU KNOW, SINCE THE ANNOUNCEMENT ON 24 OCTOBER 1985 THAT THE ITC COULD NO LONGER HONOUR ITS CONTRACTS, THE MEMBER COUNTRIES OF THE 6TH INTERNATIONAL TIN AGREEMENT HAVE BEEN TRYING TO AGREE ON A COURSE OF ACTION TO DEAL WITH THE CRISIS.

FROM THE OUTSET, WE MADE IT CLEAR THAT WE WERE PREPARED TO MEET OUR SHARE OF THE ITC'S COMMITMENTS, AND WE CALLED ON OTHER GOVERNMENTS TO DO LIKEWISE. WE ALSO CIRCULATED TO OTHER MEMBER GOVERNMENTS A NOTE SETTING OUT OUR ANALYSIS OF THE LEGAL POSITION.

IF A SETTLEMENT IS TO BE REACHED, THE POSITION OF THE EUROPEAN COMMUNITY COUNTRIES, AS THE LARGEST CONSUMER GROUP WITHIN THE ITC, WILL BE CRUCIAL. ON 23 JANUARY, THE EUROPEAN COMMUNITY MADE A STATEMENT ANNOUNCING ITS READINESS TO NEGOTIATE WITH REPRESENTATIVES OF BANKS AND BROKERS ON CERTAIN CONDITIONS. ON 30 JANUARY, THE ITC WAS AT LAST ABLE TO AGREE TO SET UP A SMALL TEAM TO ENTER INTO NEGOTIATIONS. THE TEAM HELD ITS FIRST MEETING WITH BANK AND BROKER REPRESENTATIVES ON 31 JANUARY. WHEN THE ITC RECONVENES ON TODAY, IT IS HOPED THAT MEMBERS WILL BE IN A POSITION TO AUTHORISE THE NEGOTIATING TEAM TO PUT A COUNTER-PROPOSAL TO CREDITORS. IT WILL BE ESSENTIAL FOR THE ITC TO OFFER A REALISTIC FIGURE AS ITS CONTRIBUTION TO A SETTLEMENT.

I UNDERSTAND THAT, ALTHOUGH BELGIUM WAS PARTY TO THE EUROPEAN COMMUNITY'S STATEMENT ON 23 JANUARY, YOUR REPRESENTATIVE WAS UNABLE TO JOIN THE ITC CONSENSUS ON 30 JANUARY. IN THESE CIRCUMSTANCES I WISH TO EXPRESS MY VERY STRONG HOPE THAT YOUR GOVERNMENT, NOW THE ONLY ONE THAT HAS NOT YET FELT ABLE TO JOIN SUPPORT IN THE SEARCH FOR A BURDEN-SHARING SOLUTION, WILL BE PREPARED TO RECONSIDER ITS POSITION. THE ITC HAS A DIFFICULT TASK IN ITS NEGOTIATIONS WITH CREDITORS, AND IT NEEDS THE FULL SUPPORT OF EVERY MEMBER GOVERNMENT. THE POSSIBILITY OF A

/SUCCESSFUL

SUCCESSFUL CONCLUSION TO THE NEGOTIATIONS WOULD BE SERIOUSLY THREATENED IF THE MEMBER GOVERNMENTS DO NOT ACHIEVE A CONSENSUS.

AS MEMBERS OF THE EUROPEAN COMMUNITY, I BELIEVE WE HAVE AN INCREASED RESPONSIBILITY FOR DOING EVERYTHING POSSIBLE TO RESOLVE THIS PROBLEM. WHAT CONCERNS ME ABOVE ALL IS THE IMPRESSION WHICH GOVERNMENTS, AS MEMBERS OF THE ITC, WOULD GIVE TO THE REST OF THE WORLD IF WE APPEARED TO DISCLAIM RESPONSIBILITY FOR THE ACTIONS OF A BODY SET UP TO ACT ON OUR BEHALF, AND ON WHOSE GOVERNING COUNCIL WE AS MEMBER STATES ARE DIRECTLY REPRESENTED. I TRUST YOU SHARE MY OWN VIEW OF THE IMPORTANCE OF FINDING ORDERLY SOLUTIONS TO THE DEBT CRISIS WHICH AVOID ANY QUESTION OF UNILATERAL DEFAULT. THE MAINTENANCE OF GOOD FAITH AND INTEGRITY IN INTERNATIONAL FINANCIAL DEALINGS IS OF VITAL IMPORTANCE TO YOUR COUNTRY AND TO MINE. I FEEL CONFIDENT THAT YOU WILL WISH BELGIUM TO BE ASSOCIATED WITH HER COMMUNITY PARTNERS IN THE EFFORT TO ENSURE THAT THIS IS ACHIEVED.
ENDS.

HOWE

INTERNATIONAL TIN AGREEMENT

FRAME EXTERNAL

ERD
SEAD
S AM D
PUSD
WAD
C AF D
LEGAL ADVISERS
FED
SAD
NAD
UND
SIR W HARDING
MR DAVID THOMAS

COPIES TO:-
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MR K HALL (MM)) DTI ASHDOWN HOUSE
MR T VENESS ITP2) DTI 1 VICTORIA ST
MR R TAYLOR ITP2) DTI 1 VICTORIA ST
MR BRIAN MURRAY) DTI 1 VICTORIA ST
MR R THOMAS)MAFF
MR D FRY)MAFF
MR MOUNTFIELD)H M TREASURY
MR M REDLEY)H M TREASURY
MR B GUNN) BANK OF ENGLAND
MR M SAUNDERS LAW OFFICERS DEPT
ROYAL COURTS OF JUSTICE THE STRAND

10 DOWNING STREET

Tim

5/2

Prime Minister

DTI have requested an urgent meeting on this. They assure me that the paper they will be circulating late this evening (enclosed) is self-contained.

Mark Lavelle
(Duty Clerk)

pp. D. NORGROVE

Arguments on the other side

(i) When a major manufacturing company goes bust, suppliers go bust too: there are knock-on effects there too. ~~The Government would have to point to ...~~

(ii)

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(Switchboard) 01-215 7877

JU348
Secretary of State for Trade and Industry

5 February 1986

CONFIDENTIAL

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear David,

TIN

In advance of the meeting which the Prime Minister is to chair at 9.30 tomorrow morning, I attach a paper prepared by officials here as a basis for discussion.

I am copying this letter and attachment to Philip Wyn Owen (Treasury), Robert Culshaw (FCO), Henry Steel (Law Officers Department), John Bartlett (Bank of England), and Ivor Llewelyn (MAFF).

Yours ever,
Michael

MICHAEL GILBERTSON
Private Secretary

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JU347

AIDE MEMOIRE

TIN

Negotiations between the ITC and the bank and broker creditors are stalled. The ITC offered £60 million on 5 February, as a counter proposal to the bank and broker package under which the ITC would be expected to contribute £200 million to NEWCO.

2 The banks and brokers do not consider £60 million from the ITC as a serious offer. They will not enter serious negotiations unless the ITC increase their offer. If no advance is made, it seems likely that the LME on Friday will take decisions which will quickly lead to bankruptcy of a number of brokers, and perhaps the collapse of the LME as a whole.

3 Discussions within the ITC after the negotiations on 5 February indicated that, in order for the negotiations to make any progress, the "other interested parties" would need to contribute more towards a solution to the crisis.

4 By "other interested parties" is meant the banks, the brokers and HMG. The other European Community countries, especially the Dutch and the Germans, are insistent that they will only consider a move if the UK is prepared to put forward more money.

5 At present, under the "Newco" proposals, summarised in the attached Table, HMG has undertaken to guarantee a £50 million

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loan. The question is whether Ministers are prepared to authorise a move on the part of the UK negotiators at the ITC, in order to secure a significant move by the other ITC members. If a move by HMG were to lead to a much improved offer by the ITC - say to £90 million, it would permit substantive negotiations between the ITC and the banks and brokers. In that event, it is likely that the LME would defer irreversible decisions on the tin contract while these negotiations proceed.

POSSIBLE HMG MOVE

6 The Dutch, who as EC Presidency are taking a lead in the ITC negotiations, have suggested that a suitable gesture by the UK would be to switch the £50 million guarantee into a straight £50 million cash injection into Newco. We consider this to be going too far, but suggest that the UK negotiators be authorised to convert up to half the £50 million guarantee into a cash subscription to Newco, but only on condition that the ITC increase its contribution from £60 million to at least £90 million and preferably £100 million, and also that the banks and brokers increase their present combined contribution of £70 million to Newco.

7 The effect of this further HMG step would be to move in the direction of the solution set out in the attached table. Ministers should, however, note that in order to reach a solution the ITC will need to increase its offer to at least £120 million, and that it is unlikely that the total HMG special contribution (i.e cash plus guarantee) could be limited to £50 million.

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5 February 1986

£m

	Newco Proposal	Position 5 February	Approach to Solution - Maximum Forseeable Contribution
ITC	200	60	120 ?
Banks	20	20	30
Brokers	50	50	90
Cash Shortfall	0	140	0
HMG	0	0	50 (might be part guarantee)
	270	270	290
HMG Guarantee	50	50	0
[illegible] Shortfall	0	0	30
	320	320	320

Gov Provide Sub

Banks in all cases bear contingent liabilty above 320

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215 5422
GTN 215) .....
(Switchboard) 01-215 7877

PS/ *Secretary of State for Trade and Industry*

5 February 1986

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear David,

TIN

As you will see from the attached record of a meeting my Secretary of State held on 4 February with Mr Jacques Lion, the LME Chairman, the progress now being made by the ITC towards negotiations to resolve the tin crisis may be too late to prevent the collapse of the LME. I also attach a note from the Bank of England which sets out the background.

2 I understand that the LME have now deferred decisions on the unfulfilled tin contracts until Friday, 7 February.

3 There is a significant possibility that, following the meeting of the International Tin Council today, the ITC will be in a position to put forward a serious counter proposal to the banks and brokers on finance for "Newco". If the ITC offer to provide finance of £80m to £100m, this could lead to genuine negotiations to settle the crisis.

4 If the LME were to decide, despite such a move by the ITC this week, that it could hold out no longer, it is doubtful whether any intervention by HMG could be justified. If the ITC do not make any serious move this week, then the Bank of England may wish to consider whether any scheme to support the LME should be put to Ministers for urgent consideration.

5 Once the LME decides that payment must be made on suspended tin contracts, there appears to be no way in which the Government could intervene to delay or prevent a collapse of a number of the LME brokers.

JF2AVA

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999-1

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6 I am sending a copy of this letter and attachments to Philip Wynn Owen (Treasury), Robert Culshaw (FCO) and John Bartlett (Bank of England).

Yours ever,

Michael

MICHAEL GILBERTSON
Private Secretary

Encls

DW2AJJ

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MEETING WITH THE LONDON METAL EXCHANGE : 4 FEBRUARY 1986

Present:

Secretary of State for Trade & Industry	
Mr Mountfield	DTI
Mr Lunn	DTI
Mr Lion	Chairman, LME
Mr Gee	Deputy Chairman, LME
Mr Brown	Chief Executive, LME

The Secretary of State said that the Government well understood the difficulties which the LME faced, and appreciated that some LME brokers were nearing exhaustion. However, there was now a real prospect of achieving credible negotiations between the ITC, the banks, and the brokers, and if a credible counter-offer from the ITC countries to the £200m share which the banks and brokers had said ITC countries should bear, then real progress could be made. The Government was concerned that, although any decision the LME should take must be its own decision, the process of negotiation might be prejudiced if the LME took the decision to require payment on suspended tin contracts. He asked Mr Lion what the latest situation was.

2 Mr Lion said the position was "bloody and bloody-minded". He said that for the first time since the crisis begun, there was a division of views on the LME which was irreconcilable. He said that although he had been able to keep the market closed for three months, in practical terms there had been no progress in reaching a viable solution to the crisis. The "shorts", essentially brokers acting on behalf of clients outside the LME who had taken a hedge on the market, were financing an enormous amount of unpaid differences, and were demanding part payments from those brokers who were creditors of the ITC ("longs"). In addition, members of the Board and Committee of the LME were being threatened with writs by the "shorts", though none had actually been issued as yet.

3 Mr Lion was also very concerned about the implications for him and his fellow directors vis-a-vis their various responsibilities under the Companies Acts. They would have to be able to show that they had acted in the best interest of the LME as a whole. Mr Gee therefore asked whether it would be possible for the Government to indemnify members of the Board and Committee of the LME, to enable them to maintain their policy of sitting tight.

JF2AUZ

4 Mr Brown said that of the 52,000 tons of tin that the 26 ring dealing brokers had sold to the Buffer Stock Manager 47,000 tons had come from clients outside the LME, who had sold tin short and could now not get their money back. These clients included producers, fabricators, and stockists. It was pressure from these clients on the "short" brokers which led to the present situation.

5 Mr Brown said that of the the 26 ring dealing brokers, 13 had contracts with the ITC. Seven of these 13 had said they would refuse to pay up if a proposal requiring them to pay the "shorts" were passed by the LME. If they refused to pay, then the LME Board would have no alternative but to suspend them.

6 Mr Brown said that these seven brokers would actually be able to make payments were a proposal to call further margins passed, but they would refuse to do so because it would make their negotiating position with the ITC untenable, since they would no longer have any resources to commit to a burden sharing agreement. Mr Brown said however that this was a false argument since if Newco were set up, then the brokers who were creditors of the ITC would immediately be able to borrow money from the banks. Mr Lion said, however, that in his opinion some of the seven ITC creditor brokers who had said that they would not pay up would in fact not be able to pay.

7 Mr Lion stressed that it was essential for the UK Government to be prepared to commit more money to the Newco proposals. The exact level of a further commitment was less important than the comfort that a readiness to make it would give to the LME.

8 Mr Lion said that up until now, the LME Board, in keeping the market closed, had been favouring the ITC creditor brokers at the expense of the "shorts", but from now on this would have to change. As Directors, they had a duty to the LME as a whole.

9 Mr Mountfield asked why the "shorts" would press for payment, given that the Government had said that it would not bail out the LME, and given that pressing for payment might well prejudice the burden-sharing negotiations and hence bring about a collapse of the LME. Mr Lion replied that the clients of the "shorts" as distinct from the "short" brokers themselves were only interested in being paid. They did not really have much interest in the continued existence of the LME.

10 Mr Lion said that he hoped that the LME meeting later that afternoon would defer a decision on requiring payments to be made to the "shorts" until 7 February. However, he was sure that it could not be delayed any further beyond that. The Secretary of State stressed that the Government's position on bailing out the LME remained the same as in his letter to Mr Lion of 30 January. Mr Lion said that he would not mislead the LME as to the Government's position, but he stressed that the future of the LME "rested in the Government's hands".

11 Mr Brown said that the only way the LME would be able to buy time beyond 7 February would be to require the ITC creditor brokers to pay the "shorts". If the ITC creditor brokers refused to do this, then that might lead to the closure of the LME as a whole.

12 Mr Gee warned that Chilean and African copper producers were quite likely within the next 48 hours to decide to abandon the LME as their yardstick for pricing purposes. This would have a very serious effect on the LME and on UK copper-using industry.

13 The Secretary of State concluded the meeting by repeating that it was for the LME to decide what it did, but that the Government were anxious that it took decisions in the light of the fact that there appeared at last to be a real prospect of credible negotiations between the ITC, the banks and the brokers.

Michael Gilbertson

MICHAEL GILBERTSON
5 February 1986

CONFIDENTIAL

LME - TIN - PROPOSAL TO CALL FURTHER MARGINS

A The Proposal

The LME Board is to consider further at a meeting this afternoon, a proposal that there should be margin calls on (all members who have purchase commitments from other members on tin contracts which are now in suspence "longs") based on a notional price for tin - reportedly either £7,500 or £7,000 a tonne.

The intention is to ease the burden falling on those who, because delivery of tin metal has been frustrated by market suspension, ("shorts") have faced difficulties with finance and the cost thereof in holding the tin. The assistance would take the form of provisional part payment to the shorts and it must be assumed that the MEMO system would be the route taken since such payments reflect directly the levels of open indebtedness by each broker to the ring as a whole.

It is also intended to release the original £50mn or so to those who provided it after all margin calls had been met. It would appear, therefore, that there would be a short but possibly crucial period when firms or their parents would need to finance both calls. It should, however, be possible to finance part of the margin call against the security of the trust and status of funds originally provided in most cases, one assumes.

B Why it is being done at this time

The LME Board has been under mounting pressure from shorts to take action to mitigate hardship. This pressure first manifested itself in a threat by Shearson to issue and serve a writ on MacLain Watson

and others for fullfilment of "B" contracts. The threat was also made to the LME as the body whose decision had led to the frustration. This, as a potential legal wrangle between ring dealing members, strikes at the very heart of the LME and it is clearly more difficult for the Board to ignore or defer action on issues involving their central membership.

C The Effects of Such a Margin Call

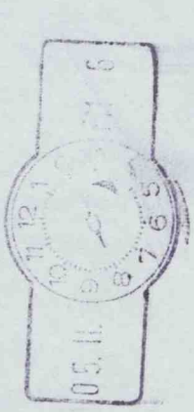
The view has been expressed to us that the margin call at this time cannot be beneficial to the market as a whole because -

(i) if the call is met by all firms, it may be seen by the ITC as an indication that brokers are able to contribute significantly more to Newco than the £50mn offered so far;

(ii) if one or more firms are unable to meet the call it may at worst precipitate declarations of insolvency. Equally damaging would be simple default where solvency is unclear but where it would nevertheless be necessary for the LME to determine whether a member should be suspended on grounds of commission of an act of bankruptcy.

If Newco were to prove a viable solution, the ability of ITC creditor members to make subscription to capital might be critically impaired as a result of strains on liquidity imposed by the margin call. Firms affected would, of course, recoup the sum as a result of reduced payment liability to shorts but again there is a gap to be breached unless capital subscription can be temporarily deferred.

The only way out appears to b;c to persuade the LME Kto defer action for a further few days and for the talks with the ITC in that period to provide confidence that a Newco solution will emerge.



COVERING CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

5 February, 1986.

Thank you for your letter of 5 February to Charles Powell. I enclose a slightly revised version of the message. This can be transmitted now. A signed top copy will follow tomorrow.

(David Norgrove)

R.N. Culshaw, Esq.,
Foreign and Commonwealth Office.

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SCBG

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Foreign and Commonwealth Office

London SW1A 2AH

5 February 1986

Dear Charles,

International Tin Council (ITC): Message to Belgian Prime Minister

The Foreign Secretary considers that it would be valuable if the Prime Minister would send a message to Mr Martens, similar to the messages she sent to Chancellor Kohl, President Mitterrand, Mr Lubbers and Mr Nakasone, urging him to reconsider his Government's opposition to the International Tin Council's negotiations with creditors.

Belgium concurred in the EC's decision of 23 January to participate in a negotiation with the creditors, subject to certain conditions. But it is now isolated within the European Community in being the only ITA member to dissociate itself from the subsequent ITA decision to set up a negotiating team. We understand that Belgian Ministers will meet on 7 February to consider the Government's position. The Belgian representative to the ITC told DTI officials on 31 January that a message from Mrs Thatcher could well produce the right decision. We believe that the Prime Minister's messages to other Heads of Government played an important part in persuading them to abandon their opposition to negotiations.

/ I enclose a draft. The Department of Trade & Industry, with whom we have discussed the need for a message to Mr Martens, concur.

I am sending copies of this letter to John Mogg at the DTI and Rachel Lomax at the Treasury.

Yours ever,

Robert Culshaw

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street

P.S. Please let me know by telephone if the Prime Minister is content. We shall then telegraph the text to Brussels.

CONFIDENTIAL


PM 8 6

DSR 11 (Revised)

CONFIDENTIAL

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:
Prime Minister

DEPARTMENT: **TEL. NO:**

Reference

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

TO:
HE Mr Wilfred Martens

Your Reference

Copies to:

AIV

PRIVACY MARKING

.....In Confidence

CAVEAT.....

SUBJECT:

~~I am writing to you to enlist~~ ask for your personal support ~~on a matter which is now the cause of mounting concern, about~~ I refer to the International Tin Council's efforts to resolve the crisis in the tin market brought about by the Council's failure to meet its financial obligations are a ~~matter of~~ cause for mounting concern. I am writing to ask your personal support in the search for a solution.

As you know, since the announcement on 24 October 1985 that the ITC could no longer honour its contracts, the member countries of the 6th International Tin Agreement have been trying to agree on a course of action to deal with this crisis.

From the outset, we made it clear that we were prepared to meet our share of the ITC's commitments, and we called on other governments to do likewise. We also circulated to other member governments a note setting out our analysis of the legal position.

Enclosures—flag(s).....

/If

If a settlement is to be reached, the position of the European Community countries, as the largest consumer group within the ITC, will be crucial. On 23 January, the European Community made a statement announcing its readiness to negotiate with representatives of banks and brokers on certain conditions. On 30 January, the ITC was at last able to agree to set up a small team to enter into negotiations. The team held its first meeting with bank and broker representatives on 31 January. When the ITC reconvenes on 5 February, it is hoped that members will be in a position to authorise the negotiating team to put a counter-proposal to creditors. It ~~is~~ will be essential for the ITC to offer a realistic figure as its contribution to a settlement.

I understand that, although Belgium was party to the European Community's statement of 23 January, your representative was unable to join the ITC consensus on 30 January. ~~It is~~ In these circumstances ~~that~~ I wish to express my ~~urgent~~ very strong hope that your Government, ~~which is~~ now the only one that has not yet felt able to join support in the search for a burden-sharing solution, will be prepared to reconsider its position. ~~The~~ The ITC has a difficult task ~~facing the ITC~~ in its negotiations with creditors and it needs the full support of every member government. The possibility of ~~carrying~~ a successful conclusion to the negotiations ~~forward to a successful conclusion~~ would be seriously threatened ~~by~~ if there is ~~absence~~ no absence of consensus during the member governments. ~~and none of us would, I am sure, wish to be seen by producers and consumers alike as an obstacle in the way of a fruitful negotiation.~~

/As

As members of the European Community, I believe we have an ~~enhanced~~ inward responsibility for doing everything possible to resolve this problem. What concerns me above all is the impression which governments, as members of the ITC, would give to the rest of the world if we appeared to disclaim responsibility for the actions of a body set up to act on our behalf, and on whose governing council we as member states are directly represented. I trust you share my own view of the importance of finding orderly solutions to the debt crisis which avoids any question of unilateral default. The maintenance of good faith and integrity in international financial dealings is of vital importance to your country and to mine. I feel confident that you will wish Belgium to be associated with her Community partners in the effort to ensure that this is achieved.



PART ONE ends:-

CC (86) 4th Item 4 30.1.86

PART TWO begins:-

FCO to CDP 5/2/86.


Grey Scale #13
C
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A 1 2 3 4 5 6 M 8 9 10 11 12 13 14 15 B 17 18 19