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MEETING TO DISCUSS THE INTERNATIONAL TIN AGREEMENT : THURSDAY, 24 OCTOBER 1985

Present: Secretary of State for Trade and Industry
Secretary of State for Foreign and Commonwealth Affairs
Chancellor of the Exchequer
Governor of the Bank of England
Mr Mountfield (Try)
Mr Tait (FCO)
Mr Lunn (DTI)
Mr Norgrove (No 10)

BACKGROUND

Earlier in the day the International Tin Council had told the London Metal Exchange that the Buffer Stock Manager would be unable to meet his commitments. The LME whad suspended trading in tin at least for that day and 25 October: no decision had been taken on when trading would resume. A meeting of the Heads of Delegations to the ITC had been called for the morning of 25 October and a full Council Session called for Tuesday, 29 October.

PURPOSE

2 To discuss the possible implications of these developments for the future of the International Tin Agreement, the London Metal Exchange (and the City as a whole) and our relations with producer countries, particularly Malaysia, and to discuss what action the Government might take.

SUMMARY OF DISCUSSION

3 It was unclear to what extent the LME as a whole might be under threat. The risk to the City as a whole was judged by the Bank not to be serious. There were risks to our relations with Malaysia, particularly because of allegations that the Bank had wrecked the agreement. Further clarification of the position would be sought urgently, following which the Secretary of State for Trade and Industry would circulate a note to colleagues, setting out options for action.

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DETAIL

4 The Secretary of State for Trade and Industry began by arguing that the International Tin Agreement was an absurd arrangement from the UK's point of view. It had cost the UK £8m to join, it had meant that UK tin consumers had been paying £50m p.a. more than they would have done, and traders on the LME now stood to lose £200-300m. The only benefit for the UK had been keeping the Cornish tin industry, which employed 1,500, viable. Because the tin price had been set far too high, the BSM had been forced to buy more and more tin and engage in dubious transactions to sustain the price.

5 The Foreign Secretary was not familiar with the detailed structure of the agreement; he was very concerned however that we might have to meet some of the Buffer Stock Manager's unsecured liabilities. One further benefit for the UK of the ITA had been that it had sustained the LME market at a high level. He was concerned about the possible effects on our relations with Malaysia. At CHOGM, Dr Mahathir had been very critical of the role of Western Governments and dealers in the agreement, which he felt had operated to the disadvantage of producers such as Malaysia. It was known that Malaysia thought the Bank of England had sabotaged the agreement by advising brokers not to increase their exposure with the BSM. The Prime Minister had not had an opportunity to speak to Dr Mahathir about this issue at CHOGM.

6 The Chancellor said that had a free market been operating, London would have had its share of the market: it was the Agreement itself which now threatened the London market.

7 Mr Lunn said that legal advice was that members of the ITC were probably not liable for the debts of the BSM. It would be up to individual members to decide whether to contribute in respect of the BSM's commitments. As far as contributions to a new agreement were concerned two-thirds majorities among both producers and consumers would be required. The European Commission had sought competence in relation to new contributions by proposing a rescue package: Member States had rejected the proposals.

8 The Governor said that it had been known for some time that the BSM had been borrowing beyond his authorisation. The collapse of the Agreement would not be a fatal embarrassment to the banks: no one bank had more than £10m exposure. Three or four firms of metal brokers could be in dificulties, but might well survive. One was a subsidiary of a larger group; he believed the rest were independent. He was not yet clear how seriously the stability of the LME as a whole would be affected. Cessation of tin trading for

a few days would not seriously affect the rest of the LME. He did not yet know what the impact might be on Malaysian banks: it could be more severe than on UK banks. Collapse of the ITA would not be that serious a blow to the prestige of the City: collapse of the LME would.

9 Mr Lunn confirmed that the Chairman of the LME had said that brokers' exposure was so great that the whole of the LME might be at risk. DTI's view was that this view might be an exaggeration.

10 The Chancellor said that although a collapse of the LME would be a serious matter, bailing it out would be worse. It was essential that participants in financial markets recognized that they were in a risk business. In the case of JMB, where the risks to the banks and to the gold market were much greater than the potential implications in this case, the decision to intervene had still been a difficult one. It we rescued the LME, it would cause political difficulties, partly because it would be seen as an example of the Government aiding financial institutions when it was reluctant to aid manufacturing industry, and partly because it would be a signal to the LME that it could be as imprudent as it liked, with impunity. Moreover, the largest firm involved was a subsidiary of American Express.

11 The Secretary of State for Trade and Industry asked what the UK would be paying for if it contributed a 4 per cent share of the estimated £300m cost of a rescue of the agreement.

12 Mr Lunn said that the rescue would cover the BSM's liabilities to brokers and to banks, and possibly the cost of new buffer stock. If a new agreement fixed a sensible price, it might work: it would be foolish to rescue the agreement on its current terms.

13 The Foreign Secretary said that re-negotiating the agreement before it finally collapsed, and possibly being liable for the BSM's debts following a collapse were two separate issues.

14 It was agreed that it was essential to discover quickly more clearly what our legal obligations were. If we were legally liable for the BSM's commitments, it might make sense to intervene now, to save the agreement to mitigate further losses. If we were not legally liable, then it might be better to allow the agreement to collapse to allow a more rational state of affairs to be established in its place. The Chancellor did not consider that a package could be put together in time to save the Agreement, partly because a

collapse would happen so suddenly, and partly because other consumer countries would take a hard line: the ITA was therefore likely to collapse and the realistic question was whether we should then seek to re-constitute it or not.

15 The meeting then discussed what action should be taken:

(a) A telegram to Kuala Lumpur had been drafted at official level. It was agreed that this would be re-drafted, to reflect the following:

- the situation was serious and had been caused by the attempt to maintain prices at unrealistically high levels

- the Bank of England had not sought to undermine the Agreement. Collapse had been caused by market forces

- we were considering the serious situation that had arisen.

(b) It was agreed that the press line should for the moment be unchanged, viz no plans for restructuring the agreement had been put forward; if a plan were put forward we would look at it, without commitment. The Bank would also have to set out a press line refuting allegations that it had precipitated the difficulty.

(c) The approach at the Heads of Delegations meeting on 25 October would simply be to listen.

(d) Clarification would be sought urgently on the extent of our legal liability, the extent of Community competence to govern Member States' involvement, the likely effect on the City of the crisis, the LME's latest view, and the views of other consumer countries, especially Japan.

(e) The Secretary of State for Trade and Industry would circulate to colleagues a paper setting out the latest position and options for Ministerial decision on the line to take at the full ITC meeting on Tuesday, 29 October.

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Secretary of State for Trade and Industry

25 October 1985

Len Appleyard Esq
Private Secretary to the
Secretary of State for Foreign and
Commonwealth Affairs
Downing Street
LONDON
SW1

Dear Len,

INTERNATIONAL TIN AGREEMENT

... I attach a note of last night's meeting on this issue, chaired by my Secretary of State.

2 Copies also to to David Norgrove (No 10), Tony Kuczys (Treasury), Ivor Llewelyn (MAFF) and John Bartlett (Bank of England).

Yours ever,

Michael Gilbertson

MICHAEL R GILBERTSON
Private Secretary

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