GPS 340

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FM KUALA LUMPUR

TO DESKBY 250900Z FCO

TELNO 505

OF 250730Z OCTOBER 85

INFO IMMEDIATE DTI (MM DIVISION)

INFO PRIORITY JAKARTA, BANGKOK

YOUR TELNO 459: INTERNATIONAL TIN AGREEMENT

1. THE SUSPENSION OF TRADING IN TIN CONTRACTS ON THE LONDON METAL EXCHANGE (LME) IS WIDELY REPORTED IN THE MORNING PRESS HERE TODAY. TIN TRADING IN KUALA LUMPUR HAS ALSO BEEN SUSPENDED TODAY.

2. THE BUSINESS TIMES REPORTS A REUTER TELEPHONE INTERVIEW WITH THE BUFFER STOCK MANAGER. IN COMMON WITH OTHER PRESS REPORTS, THE BUSINESS TIMES ARTICLE IS BALANCED AND CONTAINS NO HINT WHATEVER OF LAI'S ALLEGATIONS ABOUT THE BANK OF ENGLAND. IN THE REUTERS INTERVIEW, THE BUFFER STOCK MANAGER (BSM) ATTRIBUTES THE CRISIS TO OVERSUPPLY BY NON-ITC MEMBERS, RECENT HEAVY SPECULATION AND HEDGING ON ACCOUNT OF WIDESPREAD KNOWLEDGE ON THE LIMITS ON THE BSM'S AND THE DELAY IN MAKING THE''SIGNIFICANT AND EFFECTIVE''CONTRIBUTIONS PROMISED BY SOME PRODUCING COUNTRIES.

3. THE BUSINESS TIMES ARTICLE GOES ON TO SAY THAT HIGH-LEVEL CONSULTATIONS BETWEEN ITC MEMBERS, TRADERS, NON-ITC PRODUCERS AND THE BANKS ARE NOW NECESSARY TO SHORE UP THE ITA. SUSPENSION OF TIN TRADING ON THE LME OFFERS THE CHANCE TO DO THIS.

4. ACCORDING TO OUR CONTACTS IN THE TIN INDUSTRY HERE, MUCH OF THE BLAME FOR THE PRESENT CRISIS STEMS FROM ARGUMENTS BETWEEN REGIONAL PRODUCERS WHICH HAVE DELAYED ADDITIONAL CONTRIBUTIONS FOR THE BSM. OUR SOURCES TELL US THAT MALAYSIA IS ONLY WILLING TO MAKE FURTHER CONTRIBUTIONS TO BUFFER STOCK FUNDS IF OTHER PRODUCERS MAKE A FULL PROPORTIONATE CONTRIBUTION. THAILAND HAS AGREED TO THIS, BUT INDONESIA, CLAIMING THAT MALAYSIA BENEFITS MORE FROM THE ITA, IS ONLY READY TO OFFER 70% OF ITS SHARE. MALAYSIA AND THAILAND HAVE ACCORDINGLY WITHHELD THEIR ADDITIONAL CONTRIBUTIONS IN A BID TO FORCE INDONESIA'S HAND.

5. SO FAR, THEREFORE, THERE APPEARS TO BE NO ATTEMPT HERE TO LAY THE BLAME FOR THE PRESENT SITUATION AT OUR DOOR. I DO NOT IN PRESENT CIRCUMSTANCES PROPOSE TO TAKE ANY INITIATIVE WITH THE MALAYSIAN AUTHORITIES. THERE IS A RISK THAT BY PROTESTING TOO MUCH OUR INNOCENCE, WE COULD STIMULATE THEM TO LOOK FOR GUILT WHERE THERE IS NONE. MEANWHILE DTI OR TREASURY MAY WISH TO TACKLE PETER LAI PRIVATELY IN ORDER TO DISABUSE HIM OF HIS OPINION ABOUT THE BANK OF ENGLAND'S ROLE. LAI HAS ALWAYS SEEMED TO US A SENSIBLE AND RATIONAL FELLOW. IF, HOWEVER, THERE ARE ALLEGATIONS HERE ABOUT THE BANK OF ENGLAND OR ANY OTHER BRITISH INSTITUTIONS, WE SHALL OF COURSE DRAW ON THE GUIDANCE IN YOUR TUR.

GILLMORE

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