PRIME MINISTER

INTERNATIONAL TIN AGREEMENT

The International Tin Council are to meet tomorrow (probably continuing into Wednesday) to discuss where to go on tin.

Mr. Brittan's assessment is below. His preferred option is to let the Tin Agreement collapse. However he expects that we may come under heavy pressure to agree a rescue package and in that case he recommends that we should undertake to examine without commitment any rescue package which may be put forward. We should only go along with such a rescue package if it involves substantial reforms, including a reduction in the price level to much nearer to what it would be in a free market, and proper control over the Buffer Stock Manager's operations.

The Chancellor agrees, though if we were pushed to look at an Agreement his instinct is then to refuse it.

The Foreign Secretary will be looking at the papers overnight, but he is in essence being recommended to go along with Mr. Brittan.

The Bank of England say they are also in general agreement with the proposed line. But they are now more uncertain than they were last week about the prospects for survival of the London Metal Exchange if the tin price collapses. They say the market's exposure is larger than they first thought. They believe survival will depend on whether the parent companies would support their subsidiaries and in turn they believe that the willingness of the parents to do so may be influenced by whether the Governments are prepared to stand behind the International Tin Council. The Bank does not say they would protect the LME at all costs. (They estimate that the LME is worth some £12-16 million a year in invisible earnings.)

Despite the Bank's doubts about the prospects for the LME it would clearly be impossible politically, and economically wrong, for the Government to go into the negotiations other than with a view to letting the Agreement collapse. If after discussion the UK is isolated and comes under strong pressure to join in the rescue, then clearly we should have to consider what was on offer.

Agree Mr. Brittan's proposals?

Yes but I am worried about the proposition that as a member of the Tin Council HMG is partly responsible for the Council's default.

pp DAVID NORGROVE
28 October 1985

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10 DOWNING STREET

From the Private Secretary

29 October 1985

INTERNATIONAL TIN AGREEMENT

The Prime Minister has seen your Secretary of State's minute of 28 October and the Chancellor's of the same date. I also received a message from the Bank of England to say - in summary - that while the exposure of the London Metal Exchange was larger than they had earlier thought and that they could not now say that ~~the~~ collapse would be unlikely if the ITC failed to meet the Buffer Stock Manager's obligations, they were in general agreement with the line proposed by your Secretary of State.

As you know, the Prime Minister also agreed with your Secretary of State's recommendations. She did, however, comment that she is concerned about the proposition that as a member of the Tin Council the Government would be partly responsible for the Council's default, if that is the way the decision eventually goes.

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office), Rachel Lomax (H.M. Treasury), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food) and to John Bartlett (Bank of England).

DAVID NORGROVE

Michael Gilbertson, Esq.,
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