CONFIDENTIAL

cc BG

Bank of England
London EC2R 8AH

The Governor

29 October 1985

The Rt Hon Margaret Thatcher MP
10 Downing Street
London SW1

Dear Prime Minister,

TIN

In his minute to you of 28 October (PBS attached) the Secretary of State for Trade and Industry expressed the view that it is unlikely that the London Metal Exchange as a whole would fall in the event of a collapse of the International Tin Agreement. I am now not so sure of the basis for that view. As new evidence has come to light of the scale of the commitments of the Buffer Stock Manager, and of the extent of his prospective default, I believe that collapse of the LME as a whole is a very real possibility. The defaults of brokers in the tin market would inevitably affect the other metal markets; and there would also be damaging repercussions on other London futures markets both in soft commodities and in financial instruments as a result of the defaults of LME brokers who were also members of those other markets.

In addition to the options addressed in his minute it seems to me that there is one more that should be considered - that the member Governments of the ITA should discharge the existing obligations undertaken by the Buffer Stock Manager, but should not agree to any new price support. It is at least arguable, whether or not there is a legal obligation, that governments have a responsibility for the acts of their agent, but this course of action would avoid the disadvantages of continuing subsidy - on which point I entirely share the views of the Secretary of State and the Chancellor of the Exchequer. It is not clear whether such an option is yet practical or what expenditure implications are involved.

By discharging this obligation the threat to the future of the LME would be removed, to the particular benefit of the UK. While the members of the LME are entirely responsible for the commercial risks they chose to incur in trading with the Buffer Stock, in spite of cautionary advice from the Bank, nevertheless the operations of the market in London bring a national benefit. The pre-tax earnings of LME members retained in the UK are estimated at around £50 million per annum. This has to be set in the balance against the cost of meeting the Buffer Stock Manager's existing commitments.

Yesterday they said 12-16.

I am copying this letter to the Foreign Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, and the Minister of Agriculture, Fisheries and Food.

Yours ever,

Robin

file DB

C03ANN

10 DOWNING STREET

30 October 1985

From the Private Secretary

TIN

The Prime Minister was grateful for the Governor's letter of 29 October. She notes that the option that the Governments of the ITA might discharge the existing obligations of the Buffer Stock Manager without a new price support scheme is one which may need to be considered after we know the outcome of the meeting of the International Tin Council.

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry and the Minister of State for Agriculture, Fisheries and Food.

DAVID NORGROVE

John Bartlett, Esq.,
Bank of England.

JB

file KW
LO3ANIL

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.,
Department of Trade and Industry.