PRIME MINISTER

INTERNATIONAL TIN AGREEMENT

The news from today's meeting of the International Tin Council is that the consumer countries said they had no authority to offer extra funds for the Agreement. The discussion was inconclusive.

The Department of Trade and Industry think the outcome tomorrow may be an offer from the producer countries to put up their share of the funds needed to maintain the tin price at about £6,000 per ton. This compares with a price of somewhat over £8,000 just before the market closed and an estimated short-term free market price of £4,000 - £5,000.

The Department of Trade and Industry believe the consumer countries will reaffirm that they have no authority to offer further funds but that they will consider what the producer countries have said.

On this we can do no more than wait and see.

Meanwhile the Governer now believes that collapse of the London Metal Exchange "is a very real possibility" if the Agreement collapses (letter at Flag A). He therefore proposes a further option for consideration, namely that the member governments of the Agreement should discharge existing obligations undertaken by the Buffer Stock Manager but should not agree to any new price support.

This strikes me as extremely naive. If there is no legal obligation, does the Governor really think that Malaysia, Indonesia and others will pay out tens of millions solely on the grounds that they have a moral obligation?

The Chancellor is concerned that you should know that although the Governor discussed his letter with him he is in no way committed to it.

The Policy Unit minute at Flag B supports Mr. Brittan's view of the right way to proceed on the Agreement. It touches on a rather temporizing minute from the Foreign Secretary at Flag C.

Agree to note the Governor's letter saying that his option will of course need to be considered if the circumstances arise, but that it seems doubtful that the member governments would meet the obligations of the Buffer Stock Manager unless they had a legal obligation to do so?

Nevertheless - if they would, it seems to me, the best course of action.

MT

DRN

David Norgrove
29 October 1985