THE RT HON DR DAVID OWEN MP

HOUSE OF COMMONS
LONDON SWIA OAA

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DTI are preparing an urgent draft reply.

DRN 1/11

1 November 1985

The Rt. Hon. Margaret Thatcher MP
Prime Minister
10 Downing Street
LONDON SW1

Dear Prime Minister

The current tin crisis extends beyond a bout of temporary turbulence in the international commodity markets. Today's decision by the London Metal Exchange (LME) not to resume trading next week means that the future of the tin market and even the LME itself will remain uncertain for the next twelve working days. The earliest the LME can reopen is now effectively November 11th and this gap can only serve to weaken London's premier role in the world metal markets and damage the position of a number of developing nations who depend on tin trading for valuable overseas earnings.

The Secretary of State for Trade and Industry's statement this afternoon has apparently succeeded in bringing forward the ITC meeting to November 6th. This is welcome news. But the statement makes it clear that Britain and the ITC should honour outstanding commitments to the LME up to October 24th, when trading ceased, only on the condition that no additional commitments are entered into by the ITC in future. This will mean effectively that the ITC ceases to exist, in terms of supporting the tin price in world markets, and that a price free-for-all will prevail. The implications of this will be highly disruptive for the tin mining industry worldwide and devastating for the Cornwall tin industry which will become uneconomic if the price plunges to below at least £6,000 per ton. It must be in the interests of all tin producers, both inside and outside the ITC, to maintain an effective International Tin Agreement.

To fill the gap of time before the ITC meeting next week, the Bank of England should be instructed to act. In concert with the central banks of other countries within the ITC, the Bank of England should put together a 'bridging loan' either for the LME brokers who are confronted with financial difficulties or directly to the ITC's Buffer Stock Manager so that he can continue to meet the ITC's financial obligations.

Once the ITC has appropriate funding the LME will then, in a carefully controlled manner, be able to reopen the tin market so that the normal pricing mechanism can be set in motion and the price of tin lowered gradually to a more competitive level. This would restore confidence to all the other metal markets and re-establish Britain's credibility in the eyes of the world's financial community.

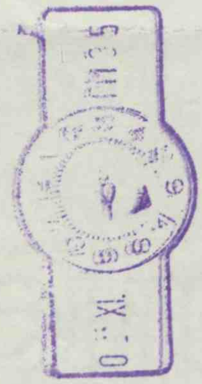
I stress that this would be a loan facility to the ITC and not a bail-out or take-over of that body. Once in place, the British Government could then approach the other twenty one signatories to the ITA and make appropriate arrangements with them to restructure the International Tin Agreement and repay the loan arranged by the Bank of England for the ITC. This is not interventionism to distort the workings of the metal market, it is to stabilise and re-order the market which must be in the interests of everyone. I accept that the price support mechanism of the ITC must be reformed, in order to bring the price into line with market realities, but there is a critical need to ensure that the tin price is adjusted downwards in a steady and controlled manner. A free market by itself is not in the interests of both tin producers and consumers either inside or outside the ITC at the present time.

It is helpful to no-one, least of all Britain, that the ITC should have no role in future. A long-term solution is essential. Were a banking consortium to be formed, backed by Government guarantees, then the tin price could yet be stabilised, say, at £6,000 - £7,000 per ton. This would be a very realistic tin price in the market and would cost the governments of the ITA much less than a freely falling tin price which could drop to below £4,000 per ton. The Government should take the lead in this direction by instructing and authorising the Bank of England to initiate such a consortium.

Action is needed now and next week whilst the markets remain closed. In view of today's decision by the LME and the statement by the Secretary of State for Trade and Industry, I am making this letter public and releasing it to the press.

Yours sincerely

David Owen



Dr. David OWEN MP

8/11

JL

CMA

10 DOWNING STREET

From the Private Secretary

1 November 1985

I attach a copy of a letter the Prime Minister has received from Dr David Owen MP.

I should be grateful if you could provide an urgent draft reply for the Prime Minister's signature, to reach me by Friday 8 November.

(DAVID NORGROVE)

M. Gilbertson, Esq.,
Department of Trade and Industry.