Prime Minister 2

This idea will need to be studied very carefully. But the Chancellor will I am sure share exactly your concerns.

DHN 8/11

MR. NORGROVE

TIN

Leon Brittan has sent a message to all Tin Council governments urging them to rally round and honour their share of obligations under the agreement. A copy is on its way to us. attached

The London Metal Exchange decided this afternoon to remain closed until 18 November.

There is to be a meeting on Monday of all interested parties - banks, brokers, clearers, Bank of England - at which the idea will be floated of a loan to the ITC. This would be placed in a separate account and used to meet the ITC's obligations. The loan would be backed by guarantees from member governments. The Bank of England will be able to let you have fuller information.

You may like to put this in the Prime Minister's box.

C.D.P.

Charles Powell

8 November 1985

Message from LB to Tin agreement governments 8/11/85

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I am sure that you share my deep concern about the difficulties which led to the suspension of the International Tin Agreement's buffer stock operation on 24 October. The International Tin Council has met twice to consider what should be done, but adjourned on 7 November without reaching any conclusion.

Since 24 October tin trading on the London Metal Exchange has been suspended. HMG has no powers to control whether trading reopens or not but is using its influence on the LME to try to ensure that the members of the LME exercise restraint. But we can only continue to influence them if we and they believe that an early settlement of the obligations to brokers and bankers is in prospect. If trading recommences without a clear undertaking that these obligations will be met, large losses on transactions entered into by the Buffer Stock Manager will be sustained, the tin price is likely to fall to low levels, and both banks and the brokers can be expected to initiate further legal action against the Council. It is in the interests of all members of the Tin Council to avoid such a situation arising.

As you will know, I announced on 1 November the UK's willingness to join with others to enable the International Tin Council to meet its obligations so that order could be restored to markets. We tabled a proposal to this effect at the Tin Council on 6 November. I enclose a copy. The members of the Council were unable to agree

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to these proposals at their meeting on 6 and 7 November but the proposals remain before them for consideration at the meeting on 14 November.

I greatly welcome the Council's decision to establish a working party to study proposals made by the sixteen financial institutions which have provided credit to the Council. I hope that the working party will be able to present the Council with recommendations on 14 November in a form which will enable agreement to be reached.

Beyond the severe practical problems of the tin market there is the important issue of principle, namely the treatment of debts incurred under an international agreement to which sovereign states are parties. Failure to honour these obligations promptly could risk establishing default as an acceptable solution to debt problems on a wider scale. Such a precedent would have seriously damaging repercussions for the international trading system ~~[and would complicate the settlement of current international debt problems about which we are all concerned. We should avoid setting an example of default.]~~ .

HMG is examining the legal position: this is extremely complex, but I should tell you that the legal advice in summary is that each member country would be found to be liable for its share of all liabilities on ITC tin contracts, not limited to the contributions specified under the Sixth International Tin Agreement. This is because they have acquiesced in the Buffer Stock Manager as their agent transacting business which we believe

This is of course only part of the legal advice: no hint that liability may be joint and several.

to have been outside the terms of the Sixth International Tin Agreement. Under UK law which governs the situation, member countries are therefore proportionately committed to that further extent. There is no state immunity in respect of these transactions.

I would be grateful if you would give personal consideration to the issues set out above, and ensure that your Government representative at the meeting of the International Tion Council on 14 November will be authorised to agree to a settlement of the immediate problem of the outstanding obligations entered into by the Buffer Stock Manager.