N BPM

CONFIDENTIAL

Mr. Norgrove

~~MR POWELL~~ 14 November 1985

cc Mr Norgrove

INTERNATIONAL TIN AGREEMENT

I attended a meeting yesterday at the DTI, where it was agreed that the UK delegate should take the line at today's meeting of the International Tin Council, that the ITC should be prepared to negotiate with the banks on their proposal for a loan, without prejudice to the legal position of the ITC. It was thought that there was a chance the LME might be persuaded not to open on Monday next, if modestly encouraged by today's ITC meeting. It was judged that there is not much chance that the ITC will be able to concert a line today, given the lack of response from several other consumer countries to our suggestion that they should recognise their legal obligations. If the LME does open on Monday, Leon Brittan is prepared to let the cards fall where they will. In the Governor's view, the worst case would not be "fatal".

The main stumbling block to securing agreement in the ITC seems to be the French, who don't accept any legal obligation. They are supported by the Danes and Greeks. They do not appear to have sought legal advice. The Dutch, who have, have reached the same conclusions as we have.

No. CDP.

Would it be a good idea for the Prime Minister to raise this with President Mitterrand on Monday? You may wish to ask FCO and DTI for briefing.

Nicholas Owen

NICHOLAS OWEN

CONFIDENTIAL

10 DOWNING STREET

~~DN~~ NBPM.

Brian Griffiths was invited to this meeting following a meeting he held with Brian Hayes. I organised at short notice; couldn't get through to you.

I am ~~quite~~ more than happy to follow this topic if this would save you time.

I think that our concern, if and when ITC can be persuaded to act coherently and in the sense we want, will be to make sure that any package negotiated with the banks reduces, rather than increases, our liabilities. The banks are being greedy in seeking such comprehensive cover from member governments.

N. O.

14/11

OO

CC BG

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

PS/ Secretary of State for Trade and Industry

14 November 1985

Philip Wyn Owen Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Dear Philip,

INTERNATIONAL TIN AGREEMENT

... I attach a note of the meeting chaired yesterday by my Secretary of State.

2 I am sending copies of this letter and the attachment to Paul Pegler (Chief Secretary's Office), Peter Ricketts and Alistair Harrison (FCO), Henry Steel (LOD), John Bartlett (Bank of England), David Norgrove (No 10) and Ivor Llewelyn (MAFF).

Yours ever,
Michael

MICHAEL GILBERTSON
Private Secretary

JF4AMX

999-1

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MEETING TO DISCUSS THE INTERNATIONAL TIN AGREEMENT : 13 NOVEMBER 1985

Present:

Secretary of State for Trade and Industry
Chief Secretary to the Treasury
Solicitor General
Minister for Trade
Parliamentary Under Secretary of
State, Foreign and Commonwealth Office
Governor of Bank of England

Mr Mountfield	DTI
Mr Farrow	Bank of England
Mr Tate	FCO
Mr Mountfield	Treasury
Mr Rickford	DTI
Mr Saunders	LOD
Mr Murray	DTI
Mr Lunn	DTI

SUMMARY:

It was agreed that the UK representatives at the ITC meeting on 14 November would take the line set out in paragraph 11 of the paper circulated by DTI officials on 13 November. It was also agreed that if the agreement did collapse, the only options open to the UK Government would be either to do nothing and let events take their course, or to intervene with a massive guarantee covering all the obligations. It was agreed that on the basis of the evidence available so far, and our assessment of it, we should not contribute such a guarantee, though this may need to be re-considered if circumstances changed.

Discussion

2 Mr Lunn gave an oral report on the EC co-ordination meeting which had taken place that morning. There had not been a great deal of progress. There was a general lack of sympathy for the banks, and Member States thought they were asking for too much. The Commission had asked whether they could have a mandate to negotiate with the banks: this was a helpful move, but Member States had not been able to

agree to give the Commission such a mandate. There was on the whole more sympathy for the brokers. On whether member countries were legally liable, the Dutch and to a lesser extent the Belgians had shown some support for our view, but the French, the Danes and the Greeks maintained that member countries were not legally liable. There had been no discussion of joint and several liability. The Commission had been asked to produce legal advice, but both they and the Council were reluctant to do this. Generally, Member States were not enthusiastic about making a declaration of support for a package until they were clearer on what their legal obligations were and what it might cost them. A German representative had been present at the meeting, but he had had no authority to commit his Government. Mr Eggar said that he understood the Germans had said elsewhere that they would be prepared to pay their "legitimate debts". Mr Lunn's view was that it would take time to get the EC to fall in behind a suitable package, but that eventually it might be possible to get agreement on this.

3 The Secretary of State asked what the extent of the total liability to banks and to brokers might be. Mr Farrow said that the total ITC obligations were £352m to the banks and £550m to the brokers. There were gross figures. The banks currently held stock of some 48,000 tonnes, representing security over about two-thirds of the buffer stock. Not all the debts had yet fallen due, but they had probably all crystallized by now, because of arrears on interest payments. The ITC might be declared now to be in default, but no one had yet chosen to make such a declaration.

4 The Secretary of State asked what the views of producer countries were. It was reported that the Thais appeared favourable to paying their share of a package, but the Malaysians were still firmly against committing further funds. The producer countries had not yet produced any counter proposals. The Secretary of State said that since our proposal would be very unlikely to be accepted at the meeting on 14 November, the lack of a positive counter proposal from producer countries might save us potential embarrassment.

5 The Governor said that Sir Adam Ridley was trying to persuade the LME not to re-open on 18 November. The LME was still considering its position, but the Banks view was that if the 14 November meeting of the ITC was even only moderately encouraging, the LME might well be persuaded to stay closed beyond 18 November.

6 The meeting then discussed the line which the UK representatives should take in the ITC meeting on 14 November. The Secretary of State said that we must continue to seek to persuade other member countries to recognize that they might be legally liable for the obligations of the ITC. Mr Murray agreed, but said that we should now seek to shift the focus somewhat, in line with paragraph 11 of the note circulated by officials on 13 November. The immediate objective should be to get negotiations going on the basis of the banks' proposals, without prejudice to the legal position, though we should try to ensure that the ITC and the member countries had a strong awareness of the legal liabilities they may face if the negotiations failed.

7 The Chief Secretary had one reservation about the line in paragraph 11. He said that if we went that far, we would need to be sure that we had the support of other consumer countries, since otherwise we could be left isolated, and having to pay the whole cost of the package ourselves. The Secretary of State said that we would be encouraging negotiations on an "without prejudice" basis, and that we would not be saying that we necessarily accepted the banks' package, nor adopting any particular position on guarantees. We had continually said that we were prepared to pay our share of the obligations, and that we would encourage others to do likewise.

8 Mr Mountfield (DTI) said that he talked to Sir Adam Ridley about the possibility of making the bankers' package more attractive to member countries, in order to encourage talks. Mr Mountfield (Treasury) suggested that the bankers' package could be restructured so that some of the potential loss fell on the bankers and brokers, rather than on member countries. The Secretary of State said that we could not go into negotiations saying that we were not prepared to pay our share in full. The Governor added that the banks would not accept such a package. Mr Farrow suggested that there was a change that those banks which had lent the £352m to the ITC might be prepared to consider a modified package on these lines, but the other banks, who were simply protecting their customers' interests, would be very unlikely to accept.

9 The Secretary of State said that it would be essential to make it known, immediately following the ITC meeting, what the UK was doing. It was agreed that a statement would be prepared.

10 The Secretary of State asked what the consequences would be if negotiations failed, and the LME re-opened. The Governor said that enquiries that day had borne out the assessment in the Deputy Governor's letter of 12 November, that parent companies would stand behind their subsidaries on the LME, and that the LME as a whole would not be at risk. It was however very difficult to be certain. As for other markets, the general turnover on the LME an on commodity exchanges had been falling because of lack of confidence in counter-parties. The view of the commodity exchanges was that a collapse of the agreement would be messy but not fatal. The Governor could not at the moment identify any alternative option to that set out in paragraphs 18 and 19 of the officials note (namely that in the event of a collapse, we should let events take their course).

11 The Secretary of State asked whether we were prepared to see the Agreement collapse without doing anything about it. In practice, the only alternative he could see would be a massive Government guarantee, and this would probably mean that we would never get any of the money back from other member countries. The Chief Secretary agreed that we should not give such a guarantee. Mr Eggar said that on current evidence he too would oppose giving such a guarantee, but thought that we should not rule it out completely, in case the situation changed. The Governor agreed that such a guarantee should not be given, but he wanted to reserve the right to re-open the question if the Bank's assessment of the position was subsequently proved to have been wrong.

12 It was generally thought that the UK chances of regaining other member countries' shares of the obligations, once we had put ourselves in the position of paying for the whole amount, were slim. Mr Farrow suggested that since some Governments of member countries were borrowing on the Eurobond market, they might be inclined to comply with a UK Court ruling. Mr Eggar suggested that more work should be done on examining the cross default clauses on Eurobonds and Euro-syndicated loans, since this could be a good bargaining lever with other consumer countries.

13 Mr Murray said that we might come under pressure to share our legal advice with the banks. It was agreed that we should not accede to such pressure, since it might be seen in an unfavourable light by other member countries.

14 Mr Lunn said that we could not realistically expect to make a great deal of progress in the ITC on 14 November. The Secretary of State said that if we could keep negotiations going for long enough, he thought that there was a good chance that most member countries might pay their share, and the banks might take the rest of the burden.

15 Mr Mountfield (Treasury) asked if there was any thing else we should be doing to mitigate the potential damage to HMG in the event of a collapse. The Solicitor General replied that he knew of nothing else at the moment, but that Counsel was now being consulted and may have ideas on this.

16 Mr Eggar said that until there were further developments it would be difficult to go back to the other member countries via diplomatic channels. The Secretary of State agreed, but also said that if it became clear that an irrevocable collapse was clearly imminent, then it may be necessary to make one last diplomatic effort.

Michael Gilbertson

MICHAEL GILBERTSON
14 November 1985

JF4AMW

CONFIDENTIAL

cc: PS/Solicitor General
PS/Chief Secretary, Treasury
PS/Mr Rifkind, FCO
PS/Governor, Bank of England
PS/Mr Channon
PS/Mr Howard
Professor Brian Griffiths,
No 10 Policy Unit
PS/Sir Brian Hayes
Mr P Mountfield, Treasury
Mr Farrow, Bank of England
Mr Tait, FCO
Mr R Mountfield, Dep Sec
Mr Hilton FS
Mr Mallinson Sols
Mr Lane ITP
Mr Lunn MM3
Mr Riley MM3

To:
PS/SECRETARY OF STATE

From:
B MURRAY
HD/MM
906 Ashdown Hse
212 8705

13 November 1985

INTERNATIONAL TIN AGREEMENT

I attach as requested a paper to form the basis of the discussion at the meeting being chaired by the Secretary of State at 4.30 p.m. this afternoon. As agreed, I am distributing copies direct to the offices of all those who are expected to attend the meeting, as well as to others who have an interest.

Bm

B MURRAY

999-80

CONFIDENTIAL

INTERNATIONAL TIN AGREEMENT

Note by DTI officials

At the meeting to be chaired by the Secretary of State for Trade and Industry at 4.30 p.m. on 13 November, it is proposed that the discussion should cover the following points.

A. <u>The Legal Position</u>

2 The personal message sent by Mr Brittan to Ministers responsible in the other member countries of the ITA has led to greater awareness of the fact that there may be legal obligations on the member countries to meet their share of the ITC's debts. But the legal position is subject to a significant amount of questioning and argument; in particular a number of countries seek to distinguish between liabilities to the brokers and liabilities to the banks. Information obtained from the bankers representatives yesterday tends to confirm that the legal position of the banks may indeed be weaker.

3 The question of joint and several liability of the member countries for the debts of the ITC has been brought into the open by the Netherlands: they recognise that the Dutch Government could be at risk of legal action to recover the whole of the debts of the ITC.

4 The position of the European Community will be crucial to a decision by the consumer members of the ITC on whether they should meet their legal responsibilities for the ITC's debts. The Commission are now treating this matter seriously, but we will not know the Community position until after the EC Coordination Meeting which is taking place in Brussels on the morning of Wednesday 13 November. The outcome will be reported orally to the meeting of Ministers.

5 Whether or not we succeed in getting the European Community to back our stance, it is recommended that, at the ITC meeting on 14 November, the UK delegate should continue to press the member countries to declare that they will meet their legal obligations.

B. Proposal by the Banks

6 The Banks put forward yesterday detailed proposals to the ITC executive chairman and a working party of the ITC: these proposals, a copy of which is at Annex A, are aimed at enabling the ITC to borrow further funds, up to a maximum of £900 million, to enable existing obligations to both banks and brokers to be met and to enable tin trading to be recommenced in an orderly fashion.

7 These proposals were given a rather cool reception by the ITC representatives. The size of the facility at £900 million, is far larger than any estimate made so far of the net liabilities of the ITC. There is also criticism of the banks requirement of full security as well as Government guarantees, together with a

rather high interest rate of 1 per cent over LIBOR.

8 We do not consider that there is any possibility that the ITC could be persuaded to accept the banks' proposals at the meeting on 14 November. It is not recommended that the UK should seek to support the banks proposals in their present form. But since these are the only proposals before the ITC which offer a way forward, we do not wish to see them rejected. Instead, we suggest that the ITC should be steered towards negotiations with the banks and brokers on a modified package.

9 A suitable modified package might contain two separate (but linked) elements: first a 3 year loan to the ITC to refinance the bank debts of about £350 million. This would keep existing tin stocks pledged to the banks off the market during this period. Second a shorter term loan facility to finance the payment of the ITC's debts to the brokers, to be repaid by the member countries over, say, one year. Such a package would deal quite separately with the problems of the banks and the brokers, and would also clearly signal the end of buffer stock operations by the ITC to manage the tin price.

10 It will be essential, if the ITC is to negotiate effectively with the banks and brokers, for there to be a strong negotiating team with a clear mandate. This mandate need not be based on an acceptance of any specific legal obligation by the ITC or the member countries: the ITC negotiations would be conducted on a "without

prejudice" basis, as the banks themselves are doing.

11 It is recommended that at the ITC meeting on 14 November, the UK delegate should take the line that the banks' proposals should be used as a basis for negotiation by the ITC; that a strong negotiating team should be established to conduct the negotiations within a clear mandate and within a defined timescale; and that while the negotiations will be without prejudice to the legal position the ITC and member countries will have a strong awareness of the legal liabilities they may face if the negotiations fail.

C. Producer Countries

12 Of the producer countries only Thailand appears to favour a rescue package which would enable the ITC to continue to operate a buffer stock to maintain the tin price above market levels. The Thais have not revealed their proposals, hoping first to secure the support of other ASEAN producers. There are increasingly clear signs that such support will not be forthcoming.

13 In view of the lack of cohesion among the producers, it is recommended that the UK seek an opportunity to persuade the ITC, at the meeting on 14 November, to announce that it will withdraw permanently from buffer stock operations intended to maintain the level of tin prices. Such a decision by the ITC would ensure that the focus in future discussions will be confined to dealing with the present crisis.

D. The LME

14 The LME have announced that they will reopen the market for tin on Monday 18 November. The LME are expected to decide today on the special rules which will apply to tin trading when the market reopens; the aim will be to enable a market price to be set fairly quickly.

15 If the ITC decide to enter serious negotiations with the banks, along the lines indicated in paragraph 11 above, with the aim of reaching an early resolution of the crisis, then it is likely that the LME could be persuaded to keep the tin market closed for a further period. If the LME reopens the market on 18 November, the ITC will be in default of its obligations, brokers exposed to the ITC will quickly run out of funds, and a welter of legal actions will ensue.

E. Fallback

16 Despite the diplomatic efforts which have been made following the Secretary of State's message to Ministers in other ITA member countries and to the Commission, the ITC at its meeting tomorrow may nevertheless make little progress either in acknowledging the legal position or on entering into serious negotiations with the banks and brokers to resolve the crisis. What then?

17 In such circumstances it would be difficult to prevent the LME opening on Monday 18 November. The consequences of this are discussed in the letter from the Deputy Governor of the Bank of England dated 12 November (copy at Annex B). While he cannot

give clear predictions about the wider effects on London commodity markets if there is a collapse on reopening tin trading on the LME, Mr McMahon considers that most parent companies would stand behind subsidiaries which are LME traders, hence the immediate effects might not be too severe.

18 Without underestimating the possible wider damage from reopening the LME and putting both the ITC in default and certain traders in a position where they cannot meet their liabilities, the Government may have no practical alternative to allowing events to take this course.

19 The UK delegate at the ITC may well be asked if HMG is prepared to see this happen. It is recommended that the line to be taken is that HMG would much prefer not to see the collapse of the LME and the consequent initiation of legal actions against the ITC, but if the ITC and its member countries are unable to make any significant progress at this week's meeting, then no other course may be possible. We would greatly regret this, but would not be able to prevent it.

13 November 1985

ANNEX A.

STRICTLY CONFIDENTIAL 12TH NOVEMBER, 1985

DISCUSSION DOCUMENT ONLY
WITHOUT COMMITMENT

Borrower: The International Tin Council (ITC).

Amount: Up to a maximum of £900 million. limited to 3 yrs

Type of Facility: Syndicated term loan.

Purpose: The loan proceeds will be applied as follows:-

(a) £352 million plus accrued interest to prepay outstanding loans from banks and financial institutions.

(b) the balance to enable the ITC to meet its existing purchase obligations to the London Metal Exchange Tin Ring.

Drawdown Period: Up to 23rd January, 1986.

Cancellation: Any amount undrawn as at close of business 23rd January, 1986 will be cancelled.

Period: To be discussed. However it is envisaged that this would be linked to the period covered by the 6th International Tin Agreement and would not exceed three years in total.

There would be monthly repayments commencing after an agreed grace period.

Prepayment: As and when any tin forming part of the security package is sold, the loan will be prepaid in an amount not less than the proceeds of such tin sale.

Otherwise prepayment will be permitted in whole or part on any interest payment date.

Security: The security package will comprise 130% of outstandings, and this level will at all times be maintained.

Security will be made up of cash collateral, state guarantees (i.e. Central Bank or Government as appropriate) of acceptable producer and consumer member countries of the ITC, and tin stock, provided that:-

(a) cash collateral and guarantees provided by consumer countries will be for a minimum of 30% of the overall outstandings;

Which will depend on how LME operates.

(b) physical tin warehoused in Europe will be such that its current market value will represent at least 70% of overall outstandings. – ? from producers.

(c) as to the balance not covered by (a) and (b) above, this would take the form of security acceptable to the banks.

Additional Security:

(a) Guarantees by the members of the LME for 10% of the outstandings as determined at the end of the drawdown period.

(b) Undertakings by all ITC member countries to cover interest on a monthly basis, storage, and insurance.

Lenders: A syndicate of banks and financial institutions, including the 16 who presently lend to the ITC.

Interest Margin: 1% p.a. over London Interbank Offered rate (LIBOR) for one month sterling deposits of a selection of reference banks, plus the additional costs to each bank of maintaining reserve assets, special deposits, or similar regulatory requirements.

Commitment Fee: 1/4% p.a. on the daily undrawn and uncancelled balance of the facility during the drawing period.

Arrangement Fee: 1/4% flat payable by the ITC to the lending banks.

Agent Bank: Standard Chartered Bank.

Agency Fee: To be determined.

Law: English law.

Jurisdiction: Non-exclusive jurisdiction of the English courts.

Waivers: Waivers of immunity from suit, legal process and execution by the ITC and member countries.

Expenses: All out-of-pocket expenses (including Banks' legal fees) incurred in the negotiation of these arrangements, the preparation of documentation and any enforcement of these arrangements or the Security to be paid by the ITC.

Documentation: Standard documentation (in form acceptable to lenders) for a facility of this type.

ANNEX B.

CONFIDENTIAL

THE DEPUTY GOVERNOR

BANK OF ENGLAND
LONDON
EC2R 8AH

12 November 1985

TO Mr Lunn/MM3
FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE)
PLEASE BY: ASAP
IF DEADLINE CANNOT BE MET PLEASE PHONE 215 5422

COPIES TO
PS/MFT
PS/MH
PS/LL
PS/Sir BH
Mr Mountfield
Mr Rickford
Mr Caines
Mr Brecknell EC
Mr Murray/MM
Miss Bone/Inf
Mr Corley/CTF
Mr Bradbury/EC
Mr Russell/FRA
Mr Hilton/FS
Mr Hutton/OT
Mr Lane/ITP
Mr Mallinson/SOL
Mr Mathers

The Rt Hon Leon Brittan QC MP
Secretary of State for Trade and Industry
1 Victoria Street
London SW1H OET

Dear Secretary of State,

TIN

In the absence of the Governor, who is abroad, I am writing to report on developments in the City over the default of the International Tin Council (ITC).

There has been an initiative by some of the banking interests with exposure to the ITC and to the members of the London Metal Exchange to offer a loan to the ITC sufficient in size to enable it to meet all its existing obligations. A loan of this magnitude - some £550mn - would only be feasible if it were guaranteed by the member governments of the ITC. It does not, therefore, offer any way out of the need for the members to accept the obligations of the ITC. What it is designed to do is to make it easier for the members to respect their obligations by avoiding the need for them to put up cash in the short term, and enabling them to pay off the debts to the market over a period of several years. It is not yet clear whether the banks will be successful in putting together a loan offer, but a substantial effort is being made. It is hoped that sufficient progress will be made today for it to be possible for the banks to advise the ITC that the proposal is being developed. One of the attractions of the proposal is the wide international spread of the banks concerned. If the proposal makes progress it is likely that the banks would require the members of the LME to contribute a part of the loan.

What is banks' alternative?

The continued uncertainty over the future of the tin market, and over the creditworthiness of the members of the LME if the ITC defaults on its obligations to them, is having a damaging effect on the LME as a whole. It seems, however, that matters can continue as at present until after the next meeting of the ITC. As you will know, the LME intends at present to reopen trading in tin next Monday. If in the event there is sufficient progress at the ITC meeting to hold out a real prospect that the ITC would be able to meet its obligations in a reasonable time, I am confident that the LME would keep the tin contract suspended. If, however, there is no sign of progress they will no doubt need to go ahead as they have announced.

I am unable to give any clear prediction about the wider repercussions on the London commodity markets if tin trading resumes with the LME in default. Much will depend on whether the parent companies of the LME brokers stand behind the debts of their subsidiaries. I would expect most to do so, in which case the short term repercussions should not be too severe. You will, however, have seen that one broker, MMC Metals, has been suspended. This was in essence because its Malaysian parent did not provide it support. That decision was no doubt taken against the strategic approach to the tin problem as a whole. I can certainly not rule out the possibility that other parent companies will walk away from their LME subsidiaries on the argument that the whole problem arises because governments have not stood behind the obligations of their joint enterprise. In that event, the ripples could spread out quite widely.

The Bank, in the circumstances, very strongly supports the efforts which you are making to get other governments to respect the obligations of the ITC. I hope that a bankers' loan might be prospectively available by the time that the ITC meets, though that is very far from assured. Thereafter the behaviour of the markets will, I believe, be largely determined by their assessment of the prospect of the ITC being able to meet its obligations within a reasonable period.

I am sending copies of this letter to the Chancellor of the Exchequer, the Foreign Secretary and the Solicitor General.

Yours sincerely

Kit McMahon