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DEPARTMENT OF TRADE AND INDUSTRY
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JU734
Secretary of State for Trade and Industry

25 November 1985

Philip Wynn-Owen Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

CXP

See paras 12-21

DLW
26/11

Dear Philip,

INTERNATIONAL TIN AGREEMENT

I attach a note of the meeting which my Secretary of State chaired on 22 November.

I am copying this letter and attachment to Peter Ricketts (FCO), Henry Steel (LOD), John Bartlett (Bank of England), David Norgrove (No 10) and Ivor Llewelyn (MAFF).

Yours ever,

Michael

MICHAEL GILBERTSON
Private Secretary

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CONFIDENTIAL

JU733

MEETING TO DISCUSS THE INTERNATIONAL TIN AGREEMENT: 22 NOVEMBER 1985

Present: Secretary of State for Trade and Industry
Chancellor of the Exchequer
Solicitor General
Minister for Trade
Minister of State, Foreign & Commonwealth Office
Deputy Governor of the Bank of England (Mr McMahon)
Professor Griffiths (No 10 Policy Unit)
Mr Mountfield DTI
Mr Rickford DTI
Mr Murray DTI
Mr Mallinson DTI
Mr Lunn DTI
Mr Mountfield, Treasury
Mr Hosker, Treasury
Mr Saunders LOD
Mr Gardiner LOD
Mr Tate FCO
Mr Farrow Bank of England
Mr Braithwaite FCO

Summary

It was agreed that officials would keep in touch with the LME in a way that would reassure them, without revealing sensitive information. The Deputy Governor's paper of 20 November was discussed, and the Chancellor said that on the evidence he had seen to date, he would be wholly unable to support such proposals. However, it was agreed that officials should produce a paper setting out all the likely options the Government could take, with their costs. It was agreed that before further action was taken in the Community, Mr Hannay should be consulted.

Discussion

Mr Channon reported the outcome of his meeting with the Chairman of the LME the previous day. The LME were confident of being able to keep trading in tin closed until December 6. Mr Lion had floated the idea that the Bank of England could make available a bridging loan of around £550m to cover the ITC's debts until it reached agreement on its liabilities. The LME wanted the Government to give them more information, in particular on discussions in the ITC.

2 The Secretary of State asked if there were any difficulties in giving the LME more information. The Solicitor-General saw no particular difficulties. The Chancellor, however, warned that we could not share our legal advice with the LME, and Mr Murray said that we could not expose to the LME internal dissensions within

the ITC. Mr Farrow said that he understood that the auditors' report on the activities of the buffer stock manager was already in the hands of the LME, and that in talking to the LME we should start from that premise. It was agreed that we should keep in touch with the LME in a way that would reassure them, without revealing sensitive information. It was agreed that Mr Farrow and Mr Murray would work out what could be said to the LME, in more detail.

3 The Solicitor General said that he hoped his paper on the legal position, as agreed with Counsel, would be available later that day.

4 Mr McMahon introduced his paper, circulated on 20 November, which set out two alternative options for a UK-financed rescue of the LME if the ITC did not come up with cash or guarantees. Mr McMahon said that it was impossible at this stage to give a proper assessment, but there was a serious risk that failure to reach a solution would result in wide damage. The LME itself might be threatened, and brokers in other markets would be susceptible to a ripple effect. He did not judge that there was a real threat to any banks. The proposals in his paper aimed to minimise the payments which HMG might have to make. He stressed that fundamental to both proposals in the paper was that assistance should be provided by way of loans at a severe rate of interest which ought to be recoverable from any court judgement which may be enforced against the ITC. He said that the proposals were only suggestions, and the Bank was not recommending that they should be implemented.

5 The Secretary of State said that the cost of either proposal was greater than simply paying our share of the ITC's obligations. He was not convinced that a rescue package of the kind set out in the Bank's paper would be effective in stopping damage to the City's reputation, since that damage had already been done.

6 The Chancellor said that on the evidence he had seen, he would be wholly unable to support a proposal of the kind set out in the paper were it to be made. The cost of such a proposal would be large and might well in the end be much larger than initially thought. Politically, a rescue would be very difficult in the wake of the JMB affair. The Government would be rescuing brokers who had substantial parents, mostly foreign. Of the ten brokers who had the largest exposure in the market, only two were UK-owned, and these both had substantial parent companies (Dalgetty, and Berisfords).

7 Mr Farrow said that the tin trading on the LME was small compared with trading in aluminium and copper. He warned that if the LME collapsed, it was quite probable that dealing in aluminium and copper would move away from London. This might also be true of trading in soft commodities. Trading in metals other than tin on the LME was already down to less than half normal turnover, and some softs were now being sold elsewhere rather than in London because the producers did not have confidence in the London market. He said that if the cloud of insolvency which hung over the LME could be removed, then it might be possible to retrieve the situation. He said that brokers on the LME, as principals, held £50,000 tons (I guess) ~~worth~~ of tin which the BSM had contracted to buy. If they slid into bankruptcy, they would be forced to tip this tin onto the market in a

fire sale, and this would increase the fall in price of tin. The Secretary of State suggested that creditors would not unload tin in this way, since it was not in their interests to do so. Mr Farrow replied that some brokers would be under such intense pressure that they would be forced to sell.

8 Mr Renton said that some of the banks who held tin might also sell, since they operated arrangements which dictated that they should sell their stocks when the price fell below a certain threshold, perhaps £6,000 per tonne. He also said that many of the contracts to which Mr Farrow referred were forward purchases and it might be difficult to decide precisely who owned the tin involved.

9 The Secretary of State suggested that parents of brokers in difficulties would suffer damage to their reputations if they simply allowed their subsidiaries to go bankrupt. Mr Farrow said that the Deputy Governor's paper took account of that. Three traders in particular would be unlikely to be rescued by their parents: one was owned by a company for which commodity dealing was only a marginal interest, one was owned by a parent which was itself in trouble, and one had no substantial parent behind it at all. The Bank assumed that parents such as banks, Dalgetty, and Berisfords would stand behind their subsidiaries. The Chancellor said that his impression was that most of the parents involved would stand behind their subsidiaries. He said it would be helpful to have figures on this. In particular, he wanted to know what was the amount of tin belonging to those brokers whose parents, in the Bank's judgement, would not stand behind them. He repeated his opposition to a rescue on the lines proposed in the Bank's paper. There would be disadvantage in proclaiming publicly that sovereign states were defaulting on their debts. It would be difficult to explain to the PAC why we were embarking on a rescue of this kind (the explanation would be that we were cutting our losses, and in order to explain that fully we would have to disclose our full view of our legal liability; he was reluctant to do this).

10 Mr Murray warned that a City rescue would be difficult to explain to Cornwall, unless we took measures to help Cornwall as well.

11 The Solicitor General said that if the Government were to embark on any rescue package, it would be necessary to ensure that it was not champertous.

12 Mr Renton asked that officials should produce, late the following week, after the Foreign Affairs Council, and after the Commission attitude had become clearer, a paper setting out all the likely options the Government could take and an evaluation of the likely costs of those options. Such a paper would necessarily still largely be hypothetical; but it would enable the Government to consider the way forward more clearly.

13 The Chancellor said that he had attended an ECOFIN meeting on 18 November, where he raised the subject of tin. Finance Ministers had generally not been well informed about the issue. Those who had expressed a view had said that if there were a legal obligation on Member Countries, they would meet it, since it was a serious matter for sovereign states to default. However, none of them was satisfied that there was a legal obligation, and therefore they could not justify spending public money on meeting the ITC's obligations. Lord Cockfield, who was present at the meeting, had said that the Commission was considering the problem: the Finance Ministers at the meeting had told him to encourage the Commission to make as rapid progress as possible.

14 The Secretary of State said that he had written to Commissioner Narjes, and that Mr Channon was ready to raise the issue at the Foreign Affairs Council the following week.

15 Mr Murray said that the Commission's legal services were now dragging their feet. He reported that the meeting which was to have taken place on 26 November, between Member States and their legal advisers had been postponed and that the Commission would now not be putting forward proposals in the course of the week beginning 25 November. Mr Channon warned that Commissioner Narjes was strongly influenced by the German Government, and that there was a chance of a metal exchange emerging in Frankfurt.

16 Mr Mountfield (DTI) said that we needed to demonstrate to other countries the urgency of the situation. The longer a resolution was delayed, the greater the flood of tin would be onto the market when it reopened, and therefore the lower the price would fall, and the greater the debts of the ITC would be. The Chancellor said that the key point was to persuade Member Countries of their legal liability. The Secretary of State suggested that the UK could still argue with Member Countries that delay in resolving the problem would mean bigger losses, if they did turn out to be legally liable, than they would have been had the problem been resolved more quickly.

17 It was agreed that HMG should urge the Community to make faster progress. The Chancellor suggested that the UK could threaten that the Prime Minister would raise the issue at the European Council on 2 December, unless sufficiently rapid progress was made. Mr Renton said that, in the end, he did not believe that the Commission would help very much. But he agreed that tactically it would be useful to urge the Commission to act, since it left the UK slightly less exposed. The Secretary of State suggested that once one or two EC Member States admitted their legal liability, others might well follow suit.

18 It was agreed, however, that before further action such as that set out in paragraphs 14 - 17 above, was taken in the Community at Ministerial level, Mr Hannay should be consulted.

19 Mr Murray said that one reason why other Member Countries were reluctant to agree to a package might well be that they considered that a scheme to enable the buffer stock manager to

honour his forward contracts would be tantamount to allowing the BSM could continue as before. Mr Mountfield (Treasury), however, said that the proposal by the banks involved cash settlements only, and not more forward contracts.

20 Mr Channon said that he was seeing the Malaysian Minister of Mines, who was in the UK on a private visit over the next few days. Mr Renton said that Dr Mahathir had blamed London speculators for the crisis. Mr Farrow suggested that the Malaysians might not be too concerned about establishing a new Agreement, since they believed that to some extent, the current Agreement had led to producers, such as Brazil, who were outside the Agreement, being subsidised by Member Countries, including Malaysia.

21 The Secretary of State asked whether it would make banks wary about lending to Governments if those Governments were seen not to meet their obligations. Mr Farrow said that if Governments' obligations were purely moral ones, it would probably not matter too much, but if States were seen to be defaulting on legal obligations, then banks might well begin to seek more explicit guarantees in future.

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Secretary of State for Trade and Industry

27 November 1985

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

Dear Mr Wynn-Owen

INTERNATIONAL TIN AGREEMENT

Further to Michael Gilbertson's letter of 25 November you may wish to note that Mr Braithwaite of the FCO also attended the meeting that my Secretary of State chaired on 22 November.

2 I am copying this letter to the same recipients of Michael Gilbertson's letter.

Yours sincerely

Carol Reid

CAROL REID
Private Secretary

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