PRIME MINISTER

TIN

A note by the Policy Unit and a report by the Department of Trade and Industry are below.

2. The International Tin Council met today. They agreed to return to capitals to seek authority to enter into negotiations with the brokers and banks. They will reconvene next Wednesday.

3. As the DTI say, the Foreign Affairs Council is likely to discuss tin next week. The UK line will be that the best solution would be for member countries to meet their obligations. But the UK will accept as second-best that we would be prepared to consider burden-sharing arrangements.

4. Burden-sharing would mean the banks and brokers carrying some of the loss. The main disadvantage is that in effect the member countries of the ITC would be reneging on part of their obligations. The Chancellor in particular is concerned that this could be seen as a precedent in debt negotiations with developing countries.

5. My impression is that the DTI and Foreign and Commonwealth Office really are working as fast as possible to try to bring these discussions to a conclusion. But there are limitations, both because of the number of countries involved and because excessive concern could weaken our bargaining position.

6. Agree to note the DTI report?

DRN

DN

Yes mt

12 December, 1985.

JD3AGB

PRIME MINISTER 12 December 1985

TIN

There appears to be a fighting chance of resolving the tin crisis by negotiation, at significantly lower cost to ITC members (possibly as little as £150 million, of which the UK's share would be £6 million). This would compare very favourably with the possible cost of walking away, which would place the UK on risk to be sued for the ITC's debts of £700 million and recovering, say, 60% of this from other ITC members, and that with some difficulty.

Neither the brokers nor the bankers want litigation, because of its uncertainties, and because it could only be preceded by a dramatic collapse in the price of tin. The recent letter to you from Mr Peter Graham, the Chairman of the consortium of financial institutions which have been financing the ITC's operations, suggests that the banks are not too confident that they could bring a successful legal action against the members of the ITC.

DTI have not yet replied, for tactical reasons.

Delaying the opening of the LME would reduce the losses of all parties. The ITC's losses arise from having to sell its physical stock in order to meet its forward contracts to buy tin at around £8,900 per tonne. While the LME remains closed, the demand for tin will build up, making it easier for the ITC to trickle its stock onto the market once trading resumes, at not too disastrous a price (say £6,000 per tonne).

We recommend that, at this point, you merely acknowledge the DTI's report, and do not press for an early solution. We may be in a situation where there is as much pressure on the other parties to settle as on the Government. A self-imposed deadline might weaken our bargaining position.

Nicholas Owen

NICHOLAS OWEN

File DA

10 DOWNING STREET

From the Private Secretary

13 December 1985

TIN

The Prime Minister was grateful for the report on the current situation on tin prices which you gave in your letter to me of 12 December.

I am copying this letter to Rachel Lomax (HM Treasury) and to Len Appleyard (Foreign and Commonwealth Office).

(David Norgrove)

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

OVO.

CC NO

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JU905
Secretary of State for Trade and Industry

CONFIDENTIAL

12 December 1985

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear David,

TIN

You asked for a report on the current situation on the tin crisis.

On Tuesday the International Tin Council agreed to set up an informal group of member countries to hold discussions with the LME brokers, and the banks which have made loans to the ITC, with the aim of exploring the possibility of an orderly resolution to this crisis. The informal group comprises four tin producers and four consumers, plus a representative of the EC Commission. The UK is not represented.

The setting up of this ITC Group follows informal discussions which have taken place over the last two weeks between the banks, the brokers, the Bank of England, and Commission officials. The LME brokers made a presentation to the full International Tin Council last Thursday which was followed by a very constructive discussion.

The first meeting of the ITC informal group took place yesterday; it is holding detailed discussions with the LME brokers. The ITC group are meeting the bankers this morning.

It is too early to be sure whether the current round of talks will lead to a successful conclusion. Most member countries of the ITC take the view that they have no legal responsibility for the ITC's debts. But there seems to be growing recognition that a negotiated settlement would be preferable to a complete collapse, followed by protracted legal action against the member countries.

It has been decided that the crisis should be discussed in COREPER on Friday. The Commission are firmly of the view that the subject should be discussed substantively in the Foreign Affairs Council next week. This is a welcome development.

In order to leave the field clear for constructive discussions to take place, the Select Committee on Trade and Industry agreed, following a private discussion with my Secretary of State, to postpone the urgent Inquiry it had intended to begin yesterday into the tin crisis.

If a negotiated settlement is to be reached, it will be essential for the LME to keep the tin market closed for a further period beyond Monday 16 December. The LME is meeting today to discuss this.

We will keep you informed of any further significant developments. Generally, there are a few hopeful signs, but the rate of progress towards a solution remains very slow and the outcome remains extremely uncertain.

I am sending a copy of this letter to the Private Secretary to the Chancellor of the Exchequer and to the Private Secretary to the Foreign and Commonwealth Secretary.

Yours ever,

Michael

MICHAEL GILBERTSON
Private Secretary

020

CC BI BG

JF

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TRADE AND INDUSTRY COMMITTEE

4 December 1985

INFORMATION FOR THE PRESS

1 The Committee has invited the organisations most directly concerned to give evidence on the Tin Crisis. The International Tin Council has declined to give evidence, and the Committee is unable to summon the Council because of its diplomatic immunity.

Oral evidence sessions have been arranged as follows:-

Wednesday 11 December:	at 10.45 am representatives of the London Metal Exchange
	at 11.30 am Mr G J O'Neill, F Murphy (Metals) Ltd
Wednesday 18 December:	at 10.45 am Mr Peter Graham and Sir Adam Ridley, spokesmen for Creditor Banks
	at 11.30 representatives of the Department of Trade and Industry.

2 Some newspaper reports today indicated that the Committee would be inquiring into the operation of Lloyd's of London. The Committee wishes to make clear that it has at present no plans to do so.

Sally de Ste Croix
Simon Patrick

Clerks to the Committee

put to the ITC without prejudice to the legal positions of Member States: this would take between a week and fifteen days. The Secretary of State said that this timescale appeared rather too relaxed. Mr Murray said that it was really other Member States who were dragging their feet, rather than the Commission themselves. Mr Mountfield (DTI) said that if even a modest amount of progress were made this week by the Commission, the LME might well now stay closed until the end of the year.

2 The Solicitor-General commented on the legal position. He had had a paper from Henry Darwin, which he wanted to consider further. He felt that we should not reveal details of our legal advice to the Select Committee, if it was asked for, since this might prejudice our negotiating position. The Chancellor said that although it was true that EC Member States would not move until the Commission came forward with proposals, they were also being held back by the fact that they did not accept legal liability for the ITC's debts. He asked whether the Commission had any views on the legal liability of Member countries.

3 Mr Mallinson said that some EC Member States did accept our analysis, but would not say so publicly. There was also some sympathy for our view in the Commission legal services, but since the Commission was not a financial contributor to the ITA, it wanted to leave it to Member States to make up their own minds on this issue.

4 The Secretary of State said that the issue of legal liability was not cut and dried, and there were legal arguments to support the view that Member countries did not have legal liability. Indeed, if the UK were sued for the whole of the obligations, we would fall back on those arguments. Mr Mountfield (DTI) said that politically it would be difficult to argue against paying, if writs were brought against the UK, given that we had previously argued that each member of the ITC should pay its share of the obligations. The Secretary of State said, however, that our willingness to pay our share of the obligations was dependent on other countries being willing to do the same. Our willingness to pay our share did not depend on strict liability.

5 The Secretary of State raised the issue of a negotiated settlement. He suggested that this would involve the UK paying less than its share of the total obligations, assuming all countries were party to such a settlement. Mr Mountfield (DTI) explained that a negotiated settlement would mean that those who took part in it would be free from further legal action: those who did not take part would not be. The Secretary of State said that it would be reasonable to explore this option, though what was negotiatiable was not yet clear, and in the event may not be acceptable.

6 Mr Renton said that there might be tactical advantage in getting the Commission to lead in pressing for a negotiated settlement. The Chancellor said that he was happy for the possibilities of a negotiated settlement to be explored, but he had two reservations. First, a negotiated settlement would be inferior to our preferred option of getting all Member countries to pay their share of the obligations. We had not yet written

off our third option, and we might be prejudicing its chances were we now to raise the possibility of a negotiated settlement. Second, he said that a negotiated settlement would involve a partial repudiation of debt. It was important that the UK should get credit for having said strongly that all Member countries should pay their share. Mr MacMahon said they did not consider that a negotiated settlement would in the event set an unfortunate example to international debtors.

7 The Secretary of State said that while it was unlikely that we would succeed in achieving our preferred option, it was still tactically better if the pressure for a negotiated settlement was led by the Commission. In the meantime, we could continue to hold out for a "100%" settlement.

8 It was agreed that on 2 and 3 December in the ITC, the UK should continue to press for a "100%" settlement, while in the meantime talking to the Commission about the possibilities of a negotiated settlement. Talks with the Commission should be conducted initially "a deux", and the banks and brokers should be brought in later. Then, on, say, 4 December, the UK would be able to shift its stance to say that while it would favour a 100% settlement, in the light of international reluctance for this, it would fall in behind the Commission's plan for a negotiated settlement. The Secretary of State would put it a public statement immediately, reaffirming the UK's readiness to pay its share of the obligations and calling on the rest to do the same. Such a statement would shut the door on a possible future negotiated settlement.

9 There was some discussion of the merits of a negotiated settlement. Mr Mountfield (DTI) said that if the banks and brokers assessed their chances of successful legal actions to recover the ITC's debts as being less than even, they might well be attracted by a negotiated settlement. Mr Renton said that if a negotiated settlement could help stop the price of tin falling as much as it would do otherwise, the brokers' and bankers' losses would be reduced. Mr MacMahon considered that the banks would be inclined to accept a negotiated settlement which was even only moderately good from their point of view in the end.

10 The decision of the Commons Select Committee on Trade & Industry to examine the tin crisis was then discussed. Mr Mountfield (DTI) said there were three areas which would cause difficulties in terms of giving evidence to the Committee. First, there was the legal advice we had received. Second, there was the issue of how far officials had warned Ministers of the crisis as it had arisen. Third, there were the proceedings of the ITC, which were confidential. Mr Murray suggested that we should write to the Executive Chairman of the ITC on the last point, to get a definitive view from the ITC on whether its proceedings could be disclosed to the Committee. He said that if the Select Committee put its weight behind a negotiated settlement, it might be useful in helping to explain any policy change in this direction by the UK Government. It was agreed that the memo the Committee had asked for by 6 December should be produced. It was also agreed that on 4 or 5 December, the

Secretary of State should see Kenneth Warren MP, the Chairman of the Committee, to try to persuade him to defer the hearing. The Chancellor warned that the Select Committee would have wide-ranging powers to obtain documents. It would be necessary to examine in advance what documents this might cover, and what effect their disclosure might have. It would be very important to avoid having to defend a decision not to disclose documents to the Committee, on the floor of the House.

MICHAEL GILBERTSON
PS/SOS/DTI
Rm 803 V/S 215 5422

3 December 1985