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MEETING TO DISCUSS THE INTERNATIONAL TIN AGREEMENT: 16 DECEMBER 1985

Present
Secretary of State for Trade & Industry
Chief Secretary to the Treasury
Solicitor-General
Minister for Trade
Parliamentary Under-Secretary of State, Foreign & Commonwealth Office (Mr Eggar)
Deputy Governor of the Bank of England (Mr McMahon)
Mr Mountfield, DTI
Mr Rickford, DTI
Mr Murray, DTI
Mr Lunn, DTI
Mr Hosker, Treasury
Mrs Case, Treasury
Mr Braithwaite, FCO
Mr Tait, FCO
Mr Saunders, LOD
Mr Gardner, LOD
Mr Farrow, Bank of England
Mr Owen, No 10 Policy Unit

Summary

It was agreed that the Foreign Secretary should stress to Community colleagues later that day, the importance of reaching a settlement. It was agreed that it would be helpful to have the subject of tin raised at the FAC on 17 December, and it was agreed that we should try to get the Presidency to do this. It was agreed that, following the FAC, we should decide what tactics to adopt at the ITC meeting on 18 December. However, it was felt that trying to force a vote in the ITC on the issue of whether a negotiating team should be set up, might well be counter-productive. It was agreed that officials would update, where necessary, their assessment of the impact of the crisis on the tin market, and options for Government action. It was further agreed that work should be set in hand on drafting a statement for use in the event of a collapse of the Agreement.

Discussion

The Secretary of State said that until the meeting of COREPER on 13 December, the situation had not looked too bad, with the possibility of a burden-sharing arrangement being canvassed. However, the COREPER meeting had shied away from a settlement, and this was disappointing. Mr Eggar said that the Germans, supported by the French and the Dutch had argued at COREPER that the Commmission should take a passive role. He suggested that they had unravelled our strategy of using the Commission to promote the idea of a settlement. COREPER had decided that tin should be raised informally over lunch at the Foreign Affairs Council on 17 December. Mr Channon suggested that it might be helpful to get the Presidency to raise the subject at that time, and it was agreed that we should try to arrange this.

2 Mr Tait said that in the meantime, the Foreign Secretary was already at the FAC, and was ready to raise the subject of tin with colleagues over lunch that day. It was agreed that this would be useful, and that he should be advised to pursue the following line: if the Agreement collapsed, everyone's liabilities would be greater; the ITC member countries were now looking to the EC to take the initiative, and failure of the EC to do this might be seen as a block on progress; if the EC Member States refused to acknowledge their obligations, this would damage their integrity.

3 Mr Eggar asked whether the Bank had any more information on whether there would be cross defaults if Governments refused to pay the ITC's debts. Mr Farrow replied that the Bank's view was that the legal position was crucial. If it were not shown that the ITC's debt represented an obligation on the part of Member Governments, then there would of course be no cross default. If Governments did have a legal obligation, then there would be cross default under such circumstances.

4 The Solicitor-General said that if the UK were in the event sued for all of the ITC's debts, then although the UK would stand a good chance of having its claim against other member countries recognised in law, the procedure laid down under the Agreement for recovering such claims was weak. The arrangement simply referred the matter back to the ITC for a decision. The International Court of Justice would probably maintain that such claims were outside its jurisdiction. Therefore, in such circumstances the UK would have to rely largely on diplomatic pressure. He was proposing to circulate later that day a paper setting out his views on the international legal position.

5 Mr Farrow reported that the brokers and the bankers had been moving the previous week towards a settlement. The brokers had even volunteered a contribution towards a burden-sharing arrangement, and had said that an increase in the level of that contribution might be open to negotiation. The banks, however, had been hardening their attitude. Their view was that their legal position was strong, and so there was no need for them to make a contribution to a settlement. The Malaysian banks and the Arab Banking Corporation had been taking a particularly strong line, and the Bank of England had no influence over them.

6 The Secretary of State then asked what would happen at the ITC on 18 December, if we had made no progress in the Community in the meantime.

7 Mr Murray said that under those circumstances, we could try to force a vote in the ITC, on the question of whether or not to set up a negotiating group. If the FAC responded negatively on 17 December to the idea of a settlement, then we should give notice at the FAC of our intention to force a vote in the ITC. Otherwise, with no vote in the ITC, delegates would probably hold a round of inconsequential discussions, and the Council would drift away.

8 The Secretary of State said that forcing a vote was a high risk strategy. He asked what the consequences would be of either losing such a vote, or allowing the ITC to proceed without taking a decision. Mr McMahon said that a vote in the ITC against the establishment of a negotiating group would hasten the re-opening of tin trading on the LME. The Secretary of State suggested that if the ITC were left to drift without taking a decision, then things would happen more slowly, though the result would still be that the LME would re-open in time. Mr Murray said that in such circumstances, the banks would probably be the first to move, selling tin where they could. Mr Farrow agreed: although there would be questions over whether the banks actually had title to the tin they were holding, they could sell first and then wait to be sued.

9 Mr Eggar was anxious to ensure that we would not be trespassing on Community competence if we sought to force a vote. Mr Murray said that the UK could speak and vote independently at the ITC. The Community did not have competence on financial matters in the ITC.

10 Mr Eggar said that in market terms, there would be no real difference in the results of forcing a vote on the one hand, and not forcing a vote on the other. However, he could see advantage in going for a vote, since this could force member countries to come out into the open.

11 The Secretary of State was concerned, however, at the diplomatic risk of forcing a vote in the ITC. It could provoke an adverse reaction along the lines of an argument that although progress had been slow, progress had at least been made, and the forcing of a vote would jeopardise the limited progress there had already been. Mr Murray suggested that it might be possible to get the Canadians, the other member country most sympathetic to our view, to force a vote. It was agreed that the Foreign Secretary should at least float the idea of a vote with colleagues later that day, he should say that the EC would need to establish a position, in case a vote was called. It was agreed that we should wait to see the outcome of the Foreign Secretary's meeting on 16 December and the FAC on 17 December before deciding what the UK approach to the ITC meeting should be, though the feeling was that it would be better not to seek to bring about a vote at the ITC.

12 There was some discussion of the schemes which the Bank had put forward for giving assistance to brokers. The Chief Secretary stressed that he was very opposed to schemes of

assistance on these lines, although he had not considered fully the question of whether loans might be made to individual brokers. Mr McMahon said that it might be in the Government's own interest to bail out the worst hit brokers, if that avoided a collapse of the LME, and thus avoided a larger loss to the Exchequer. Mr Mountfield said, however, that even if assistance were given to one or two brokers, that would not stop the brokers suing the UK Government. Therefore, assistance to the brokers should be seen as more of an exercise to maximise invisible earnings, rather than an exercise to minimise Exchequer loss. The Secretary of State concluded that the idea of giving assistance to the brokers was very unattractive.

13 The Secretary of State said more generally that officials' analysis of the likely effects of the crisis, including what might happen if the LME re-opened and the implications of various options the Government might take with regard to the tin market, might now need updating, since they had last been put to Ministers several weeks ago. It was agreed that officials should, as a matter of urgency, examine the analysis which had already been done, and consider whether it needed updating.

14 Mr Murray suggested that it would be prudent to begin drafting a UK statement for use in the event of a collapse of the Agreement. Such a statement would need to play down our previously expressed views on the legal position. It was agreed that this work should be set in hand.

MICHAEL GILBERTSON

cc BG

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Secretary of State for Trade and Industry

17 December 1985

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Philip Wynn Owen Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Whitehall SW1

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2. pa.

Dear Philip,

TIN

I attach a note of the meeting chaired by my Secretary of State yesterday. I am copying this letter and enclosure to Paul Pegler (Chief Secretary's Office), Robert Culshaw and Alistair Harrison (FCO), Henry Steel (LOD), John Bartlett (Bank of England), Ivor Llewelyn (MAFF), and David Norgrove (No 10).

Yours ever,
Michael

MICHAEL GILBERTSON
Private Secretary

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