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Secretary of State for Trade and Industry

We must go back to the EEC countries vigorously. This is an anti-EEC card, if they leave UK position like this. not.

24 December 1985

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

Prime Minister

This is disturbing, particularly the legal advice in para 8 (new to me).

Agree to hold a meeting in the week beginning 6 January (I'm afraid)?

DRN 24/12

Dear David,

TIN

I am writing to let you know the current position on the tin crisis, together with an assessment of the outlook.

2 The ITC adjourned its special session on Friday and has decided to reconvene on 14 January with an informal meeting on 7 January. The LME has decided to keep the tin market closed until 13 January to enable further discussions to take place with the ITC to try to find a solution to the crisis.

3 All the member countries of the ITC, including the UK but with the exception of the other European Community countries, are prepared to enter into negotiations with the LME brokers and the banks on a without commitment basis. Although several other EC delegations, including particularly the Belgians and the Italians tell us informally that they would be prepared to agree to negotiations, none is willing to support the UK in formal EC meetings or at the ITC itself.

4 Further discussions with the banks and brokers are now being undertaken by a very small informal group convened by the ITC Executive Chairman, Mr Peter Lai, supported by a Malaysian and a Swiss delegate drawn from the producer and consumer sides of the ITC respectively. These discussions have continued over the weekend and, as a result, a new package of proposals was put yesterday to the ITC member countries. A decision is required on this new package by 14 January.

5 The contribution required from the ITC member countries to this new proposed package would be £200 million, with a return

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But how would that be achieved?

to orderly trading in tin at a price of £6,000 per tonne (as against an average price of £8,900 a tonne for the ITC Buffer Stock Manager's forward purchase contracts). The UK contribution to this cost would normally be 4 per cent, i.e £8 million. However, in putting this package together, the banks and brokers envisage that HMG would, in addition, guarantee £50 million of loan finance which would be at risk if the average price of tin fell below £6,000.

6 Ministers will need to consider, in the week beginning 6 January, whether HMG will be able to accept this new package, with its enhanced contribution from the UK. There can be no certainty that other ITC member countries will be prepared to accept this proposal as it stands; and for HMG to appear too eager to accept an enhanced contribution could backfire, with other ITC members trying to manoeuvre us into taking full responsibility for resolving the tin crisis.

7 We also need to consider our position if negotiations fail, the LME reopens the tin market, and the price of tin collapses. Estimates vary, but the tin price could fall as low as £3,500 a tonne in such circumstances. At this low price level, the claims of the brokers and the banks against the ITC could be about £500 million. A number of LME brokers would go into liquidation, and the whole future of the LME might be at risk.

8 If there is a collapse of this nature, my Secretary of State would not recommend that we should intervene in order to save the LME. However, there might be a case for intervention in order to reduce Exchequer costs. The LME brokers have made it clear that if a settlement is not reached they will take legal action in the UK courts. The brokers have been advised that they can sue HMG for the entire amount owed to them by the ITC, on the principle of joint and several liability. The Solicitor General's advice is that such an action (which we would vigorously defend) has a good chance of succeeding. But he further advises that recovery of contributions from other member countries would need to rely on diplomatic and political pressures, rather than by legal action through any international tribunal or court. It is therefore difficult to assess how much might be recovered from other ITC member countries if a UK court found HMG jointly and severally liable for up to £500 million.

9 On a contingency basis, DTI officials and the Bank of England are considering whether suitable mechanisms can be devised to reduce the extent of the losses suffered by the brokers and the banks if no negotiated solution can be found. Any such mechanisms will certainly entail a contribution by HMG of far more than the £8 million estimate for a negotiated solution. We will clearly need to consider very carefully, at the appropriate time, whether it would be likely to represent good value for money for the Exchequer to implement a rescue of this kind, whether financed wholly by HMG

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or by a group of ITC member countries, if we could persuade others to join us.

10 I am sending copies of this letter to Philip Wynn Owen (Treasury), Robert Culshaw (FCO), Henry Steel (LOD), John Bartlett (Bank of England and Ivor Llewelyn (MAFF).

Yours ever,

Michael

MICHAEL GILBERTSON
Private Secretary

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10 DOWNING STREET

30 December 1985

From the Private Secretary

TIN

The Prime Minister, as you know, intends to hold a meeting, if possible on Friday to discuss the UK's position in the next round of discussions about tin, following Michael Gilbertson's letter to me of 24 December. You are preparing a note to serve as a basis for that meeting.

The Prime Minister believes that we shall in any event need to make a further forceful attempt to bring Community partners to recognise their obligations, taking account of the appalling example which is being set for other negotiations, including in particular debt negotiations. The Prime Minister has of course already written to Chancellor Kohl. You will wish to consider urgently what other messages might be sent or action taken with Community partners, and I should be grateful if drafts could be prepared so that there is the basis for very quick action, if necessary, after Friday's meeting.

I am copying this letter to Richard Broadbent (HM Treasury), Colin Budd (Foreign and Commonwealth Office), Henry Steel (Law Officer's Department), John Bartlett (Bank of England) and Ruth Rawling (Ministry of Agriculture, Fisheries and Food).

J. Bowers
Duty clerk
PP. DAVID NORGROVE

Miss Catherine Bradley,
Department of Trade and Industry