SUBJECT
cc MASTER

CONFIDENTIAL

file

LR

bc BG.

10 DOWNING STREET

From the Private Secretary

3 January 1986

Dear Catherine,

TIN

The Prime Minister today held a meeting to discuss your Secretary of State's minute to her of 2 January. The Foreign Secretary, Chancellor of the Exchequer, Chief Secretary, Solicitor General, the Governor of the Bank of England, Mr. Robin Mountfield (Department of Trade and Industry), Mr. Farrow (Bank of England), Mr. Peter Mountfield (H.M. Treasury), Mr. R. Braithwaite (Foreign and Commonwealth Office) and Professor Brian Griffiths were present, with your Secretary of State.

Your Secretary of State explained that he was not in favour of the package proposed by banks and brokers as a means of helping the banks and brokers themselves or the City. But it might be a means of reducing the possible costs to the Exchequer. The balance of probability was that in any legal action the Governments of the ITC would be held to be jointly and severally liable for the obligations entered into by the Buffer Stock Manager. The UK Government would be the obvious target for banks and brokers to sue and the advice was that it would probably not be possible to recover damages from other Governments through the Courts. We would have to rely on political and diplomatic pressure. UK representatives had consistently said that we were prepared to meet our share of the commitments of the ITC and we had called upon other Governments to do likewise.

Continuing, Mr. Brittan said that the banks and brokers had now proposed a burden-sharing package (as described in his minute). The UK's share in this was greater than its share in the International Tin Agreement. The extent of the call on the £50 million bank guarantee would depend on the price of tin when obligations under the outstanding contracts crystallised. It was by no means certain that the package would prove acceptable to other member Governments - the French, Germans and Dutch were proving particularly obdurate - but it was probably the best deal the UK could hope for.

The following points were made in discussion:

(i) the opinion given by Michael Beloff, Q.C., seemed diffident and uncertain in its views of the legal

/liability

liability. It would undoubtedly be right to defend any action brought against the UK Government with the utmost vigour. However, as Mr. Brittan had said, even with all the doubts the balance of probabilities was that the Government would lose. Other Governments claimed to have received advice that they were not legally liable; it was not clear what they might believe in private;

(ii) other countries expected the UK to carry more than its share of the costs of the package arguing that the UK had a greater interest in a rescue;

(iii) there was a substantial risk that the Government's £50 million guarantee would be called: the present market in tin was artificial and the price could fall substantially;

(iv) it would be extremely hard to defend the Government's agreement to take a greater share than other countries. It would look like another City rescue, and eight out of ten of the brokers with the largest exposures (representing 96 per cent of the total exposures) were foreign or foreign owned. UK participation could not be defended in terms of the potential loss of City earnings since in that case other Governments would press the UK to carry a still larger share;

(v) an argument to be used with European countries might be the need to keep metals trading in Europe rather than allow it to move to the United States which would happen if the tin market in London collapsed;

(vi) it would only be possible to persuade the LME to stay closed if members accepted that a package was being discussed seriously. They would need by 17/18 January to see the prospect of a resolution if they were to be persuaded to stay closed until the end of the month. If the LME were to re-open without a resolution to the crisis, contracts would be crystallised at a very low price. Some banks and brokers might be prepared to hold back from selling their tin at distress prices, though their willingness and ability to do this would depend on whether parent companies stood behind their subsidiaries;

(vii) it was common ground that the aim should be to ensure an orderly rundown of tin stocks. There was no question of wishing to continue intervention in the market to stabilise the price of tin.

/In the light

In the light of the discussion it was agreed that the UK should be prepared to support the package described in your Secretary of State's minute. The Government would not be able to mention its understanding of the legal position in defending this decision unless and until the package was accepted by other member Governments and the banks and brokers. However, the Government could point to the need to maintain integrity in financial dealings. One possibility would be to say that the Government had agreed to support the package in the interests of securing a settlement without which the gravest doubt would be cast on the good faith of the international community in discharging its obligations to the Third World. This form of words should be considered further. Indeed, the presentation would need to be considered with the greatest care.

It was also agreed that every possible action should be taken - in private - to bring pressure to bear on the Governments which were standing out against negotiations. The Prime Minister would send messages to President Mitterrand and Prime Minister Lubbers. (I understand amendments to the draft attached as Annex B to your Secretary of State's minute were discussed after the meeting.) The Foreign Secretary would contact Herr Genscher and other colleagues. A message to the Japanese Government would be prepared. The Governor of the Bank of England would urge his Central Bank colleagues to point out to their Governments the importance of meeting their ~~obligations.~~ share of the commitments of the ITC.

The Prime Minister concluded that if other Governments remained obdurate the UK Government should take a high profile in its criticism of their position. The problems caused by the Tin Agreement illustrated yet again the folly of entering into commodity agreements - a point acknowledged by many of those at the meeting.

It was agreed that consideration of the action, if any, to be taken if no settlement was reached should be deferred, but work on the options should continue.

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office), Rachel Lomax (H.M. Treasury), Richard Broadbent (Chief Secretary's Office), Henry Steel (Law Officers' Department), and John Bartlett (Bank of England).

Yours ever,

David.

DAVID NORGROVE

Miss Catherine Bradley,
Department of Trade and Industry.