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DCC Prof. Griffiths

10 DOWNING STREET

CC Master

From the Private Secretary

16 January 1986

Dear Catherine,

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The Prime Minister today held a meeting to discuss your Secretary of State's minute of today and the papers attached to your letter to me of 15 January. Present were your Secretary of State, Foreign Secretary, Chancellor of the Exchequer, Chief Secretary, Solicitor General, the Governor of the Bank of England, Mr. R. Mountfield and Mr. Murray (Department of Trade and Industry), Mr. Braithwaite (Foreign and Commonwealth Office), Mr. P. Mountfield (H.M. Treeasury) and Mr. Farrow (Bank of England).

The meeting discussed the fall-back options described in the note by officials. The analysis suggested that the fall-back options would cost the Exchequer almost as much as an uncontrolled collapse, and that expenditure under the fall-back options would arise immediately, whereas expenditure after an uncontrolled collapse would only become payable some years in the future, as a result of successful legal action. There were, of course, major uncertainties about all the figures, but on that basis it would be difficult to justify a bail-out to the PAC (the Government would need to point to the benefits to the national economy of preventing damage to the City and our invisible earnings) and it would also make a bail-out politically even more difficult. It was further noted that the failure of an Arab bank's application for an injunction against the ITC (paragraph 4 of your Secretary of State's minute) suggested that the cost of collapse could be reduced, perhaps by as much as £210 million.

Some of the countries which had previously been obdurate were now showing signs of movement, including the Japanese, French and Dutch. The Germans continued to be difficult, arguing that they in any case had no legal basis for further expenditure. The response to the Prime Minister's message from Chancellor Kohl (enclosed) was seen as somewhat discouraging, but it was quite possible that the Germans were seeking to hold out in the expectation that the British Government and the banks and brokers would agree to pay a larger share. They needed to be convinced that this was most unlikely.

CJ.

There were signs that the banks were on the verge of walking out of the negotiations: they were fully secured in physical tin and had much less to lose than the brokers. If negotiations collapsed, parent companies of brokers might refuse to stand behind their subsidiaries, citing the failure of Governments to meet their demands. The results would be damaging to the City, in part because of the loss of business ancillary to the LME's activities, and it would demonstrate the truth of the Prime Minister's arguments in her messages to other Heads of Government that the financial system generally would be damaged by a failure of negotiations.

The LME had said that they could not postpone a reopening beyond the first week of February. They had, however, set similar deadlines in the past, and if a package had been agreed in principle by then it was almost certain that the Chairman of the LME could be persuaded to keep it closed while the details and legal agreements were tied up. However, the crunch could come as early as next week.

It was suggested that if the tin price collapsed one of the three Cornish tin mines would certainly collapse. The other two might possibly survive if the tin price recovered as some had forecast. But in any case, the certain damage to the Cornish tin industry would make it the more difficult to adopt one of the fall-back options to help the banks and brokers.

It was agreed that the Government's present line should be maintained. All those concerned should continue to make every effort to bring pressure to bear on other countries. The Foreign Secretary and the Chancellor would consider speaking by telephone to Dutch Ministers. The Chancellor would have an opportunity to tackle a number of colleagues from other countries over the weekend, and the Foreign Secretary would be able to speak to French and Japanese colleagues on Monday. It was agreed that briefing would be provided for the Chancellor and others on the Department of Trade and Industry's best guess about the real deadlines. The best hope was that as negotiations moved closer to the brink it was possible that other options would come forward and that other countries would move towards an agreement. At that stage, which would have to be before the market re-opened (the position would then be irretrievable), it might well be helpful for the Prime Minister to send a further message to other Heads of Government indicating that their Governments would be joined in any legal action. The Foreign and Commonwealth Office had prepared a draft which would be cleared with other Departments and the Law Officers.

It was also agreed that in answer to a request from banks and brokers for advice on whether they should invite help from Dr. Kissinger, they should be told that it was for them to decide, but that the Government did not believe it would assist a solution at present, as far as the Government was concerned.

The Chancellor reported that he had received an approach from Drexel Burnham Lambert about a new proposal. Your Secretary of State said that he, too, had had an approach, in which a variant of the present proposals had been suggested. There would be no point in the Chancellor seeing a representative from that company unless it was clear that they were going to make a proposal which was different from the one of which he had been told.

I am copying this letter, and enclosure, to Tony Kuczys (H.M. Treasury), Len Appleyard (Foreign and Commonwealth Office), Richard Broadbent (Chief Secretary's Office), Henry Steel (Law officers' Department) and John Bartlett (Office of the Governor of the Bank of England).

Yours ever
David.

DAVID NORGROVE

Miss Catherine Bradley,
Department of Trade and Industry.