CCBG

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215) ....
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

PS/

24 January 1986

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

NBPM.

Dear David,

TIN

At the Prime Minister's meeting on 16 January it was agreed that a note would be provided on the Department of Trade and Industry's best guess about the real deadline in the tin crisis.

2 In summary, failure to enter into substantive negotiations by the ITC by the end of this week would be likely to cause the LME to decide to bring the tin crisis to a head by announcing a date for reopening the market for trading in tin. This date would be unlikely to be after 3 February. But the LME Chairman in his letter to the Prime Minister of 21 January indicates that such a course would lead to the end of the LME as a whole.

3 If the ITC does agree to enter into positive negotiations, the LME could possibly delay a decision on reopening for a further week or two after 3 February.

... 4 The attached note spells out the position as we see it in a little more detail. The Bank of England has undertaken to clarify some of the points relating to the likely position should trading on the LME be resumed in the absence of a solution to the crisis.

5 I am copying this letter to Philip Wynn Owen (HM Treasury), Robert Culshaw (Foreign and Commonwealth Office), Paul Pegler (Chief Secretary's Office), Henry Steel (Law Officer's Department) and John Bartlett (Office of the Governor of the Bank of England).

Yours ever,

Michael

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MICHAEL GILBERTSON
Private Secretary

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The position is complex, and a breakdown could arise through various factors, including a decision by the LME to reopen for trading in tin before a settlement was reached; a decision by the banks and/or brokers that there was no point in further talking to the International Tin Council; or various actions by traders against LME ring members for the fulfilment of contracts or actions by traders to force the LME to open. The situation may also be approaching where certain LME ring dealers will begin to suffer so seriously from their inability to trade in tin whilst having to meet other commitments that they would be unable to continue.

2 The LME decided at its meeting on 20 January that it would put off a decision on when to reopen for trading in tin until 24 January. It had been thought that the LME would not be prepared to stay closed for trading in tin beyond 3 February, but it has now been indicated by some brokers that if there are positive signs of progress it might be possible to stay closed for at least a week or two longer. The Chairman of the LME and at least some ring dealers believe that to open the LME for trading in tin without a solution to the crisis would precipitate an immediate collapse of the market, through the calling by some dealers for margins. Thus it would appear logical that the LME would not reopen for trading if a solution appeared likely to be achievable.

3 The most likely factor which would precipitate a breakdown would appear to be that the banks and brokers would decide that it was no longer worthwhile continuing discussions with the International Tin Council. The banks which are reasonably well secured, haved no great incentive to continue talking without prospect of success. So far the Council has proved unwilling to enter into serious negotiations on the bank and broker rescue package, mainly because of resistance from certain members of the EEC, led by the FRG. We believe that if the Council does not show itself willing to negotiate in a meaningful way by the end of this week, then the banks and brokers would no longer be prepared to talk further. The Japanese tabled a new proposal on 21 January, which would be compatible with Newco, in order to try to secure the basis of a settlement, but it has not so far secured the support of the EEC countries.

4 If the International Tin Council does give serious indications that it is prepared to talk properly about a negotiated solution, it is likely that the deadline could be postponed for at least two or three weeks longer. At present, however, with no clear indications from the FRG in particular, and to a lesser extent from the Belgiums, French and the Netherlands, that they are prepared to agree to negotiations, the prospects of serious talks getting under way this week do not appear good.

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