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PRIME MINISTER 2

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The purpose of this minute is to bring you up to date with developments since the meeting you held on 16 January.

2 The International Tin Council (ITC) continued its meetings last week. The most important development was that the EEC has now agreed that the Council should enter into negotiations with the bankers and brokers and has tabled a statement to that effect (copy attached). The Japanese have also put forward a proposal for a negotiated settlement. Although this has a number of unwelcome features such as definitive entry into force of the Agreement and a levy on trade in tin which would need careful examination, it is now clear that the Japanese are firmly committed to the principle of a negotiated solution.

3 Although these are welcome developments, there are still a number of issues to be resolved. In particular the statement in the last sentence of the EEC document that "even the figure of £100m that has been mentioned unofficially is still too high" indicates that there is likely to be considerable difficulty in persuading Member States of the Community to be prepared to go along with a figure which the

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banks and brokers would regard as a reasonable basis for negotiation. In this context a reported Ministerial statement that the Netherlands were thinking of a maximum figure of £30m for the consumers is not encouraging. You will recollect that the bank and broker proposal envisages a contribution of £200m from the ITC.

4 There are a number of other points which need further clarification within the Council, including the distribution of any burden as between producers and consumers. Some of the consumer countries particularly the FRG and the Netherlands, believe that the producers having the greater interest in a soft landing, should bear a greater share of the burden than the consumers. We believe that such an approach is difficult to justify in logic, and would be unacceptable to the producers in practice. We therefore propose to take the line that burden sharing within the ITC should be on the basis of a 50-50 share between producers and consumers which is the normal basis for funding the ITC.

5 It is also clear as was mentioned at your meeting on 16 January, that there will be pressure from some other countries particularly the Netherlands and the Federal Republic, for the UK to take an even larger share of the burden than is currently proposed, in view of its particular interest in seeking a settlement. At the end of the day we may find this pressure difficult to resist, if we see an opportunity to secure a reasonable settlement. But for the moment I believe that we should strongly oppose any proposal for an increased UK share.

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6 The preparedness of the ITC to negotiate has encouraged the London Metal Exchange to keep the tin market closed for a further week until 31 January in order that negotiations may begin. It is therefore important that the International Tin Council should get down to negotiations quickly.

7 For the moment, there is no need to arrange a further Ministerial discussion on the tin crisis. I will monitor progress closely and report to colleagues on any significant developments. We should all continue to impress on other members of the ITC the importance of maintaining the momentum towards a settlement of the tin crisis, now that it has been formally agreed that the ITC can negotiate with its creditors.

8 I am sending copies of this minute to the Foreign Secretary, the Chancellor of the Exchequer, the Chief Secretary, the Solicitor General, and the Governor of the Bank of England.

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28 January 1986

DEPARTMENT OF TRADE AND INDUSTRY

As has been stated on several occasions, we are ready to participate in a constructive way to a solution making possible:

- an orderly re-opening of the market

- an orderly disposal of the buffer stock.

In this perspective, the proposal made by Messrs Graham and Kestenbaum on 23 December 1985 appears to us to be the first serious attempt towards a solution to the present crisis. Although it presents considerable legal and financial difficulties, we think that it could be used as a basis for discussions with all parties concerned. In our attempts to find a solution we are also considering the recent Japanese proposal.

At this stage we can now inform you that we are willing to negotiate.

However, our willingness to negotiate can in no way be interpreted as an admission of legal liability for the ITC debts. Instead it is an attempt to avoid a drastic fall in prices and to restore order to the tin market and its harmonious development over the years to come. In order to be able to negotiate successfully with other parties involved, a number of important matters need first to be addressed within the ITC. These matters include:

1 The legal framework, excluding all liabilities of member states. There should be no legal actions whatsoever against the Council and its member states.

2 The distribution key to be applied to a possible financial contribution by the ITC to a solution of the tin crisis.

3 The transition to orderly market conditions, including:

a achieving a soft landing of prices;

b orderly disposal of tin stocks;

c future export levels;

d suspension of buffer stock operations;

e link between ITC and a possible Newco.

4 The burden-sharing, taking into account the varying degress of interest of all parties concerned.

At this stage, we can also inform the Council that we are in a position to make a gesture on a purely voluntary and non-committal basis provided there will be a general consensus amongst all parties concerned inside and outside of the Council. The figures mentioned by the bankers and the brokers are, however, unacceptable. It is felt by all delegations, except the UK that even the figure of £100m that has been mentioned unofficially is still too high.

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10 DOWNING STREET

From the Private Secretary

29 January 1986

Dear Richard,

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The Prime Minister was grateful for your Secretary of State's minute of 28 January reporting the latest position in the tin discussions. She agrees that there is no need for a further Ministerial discussion at this stage.

I am copying this letter to Robert Culshaw (Foreign and Commonwealth Office), Rachel Lomax (HM Treasury), Richard Broadbent (Chief Secretary's Office), Michael Saunders (Law Officers' Department) and John Bartlett (Bank of England).

Yours ever

David.

(David Norgrove)

Michael Gilbertson, Esq.,
Department of Trade and Industry.