Tim

10 DOWNING STREET

5/2

Prime Minister

DTI have requested an urgent meeting on this. They assure me that the paper they will be circulating late this evening (enclosed) is self-contained.

Martin Sawer
(Duty Clerk)

pp. D. NORGROVE

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JU348
Secretary of State for Trade and Industry

5 February 1986

CONFIDENTIAL

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

Dear David,

MD

TIN

In advance of the meeting which the Prime Minister is to chair at 9.30 tomorrow morning, I attach a paper prepared by officials here as a basis for discussion.

I am copying this letter and attachment to Philip Wyn Owen (Treasury), Robert Culshaw (FCO), Henry Steel (Law Officers Department), John Bartlett (Bank of England), and Ivor Llewelyn (MAFF).

Yours ever,

Michael

MICHAEL GILBERTSON
Private Secretary

CONFIDENTIAL

JU347

AIDE MEMOIRE

TIN

Negotiations between the ITC and the bank and broker creditors are stalled. The ITC offered £60 million on 5 February, as a counter proposal to the bank and broker package under which the ITC would be expected to contribute £200 million to NEWCO.

2 The banks and brokers do not consider £60 million from the ITC as a serious offer. They will not enter serious negotiations unless the ITC increase their offer. If no advance is made, it seems likely that the LME on Friday will take decisions which will quickly lead to bankruptcy of a number of brokers, and perhaps the collapse of the LME as a whole.

3 Discussions within the ITC after the negotiations on 5 February indicated that, in order for the negotiations to make any progress, the "other interested parties" would need to contribute more towards a solution to the crisis.

4 By "other interested parties" is meant the banks, the brokers and HMG. The other European Community countries, especially the Dutch and the Germans, are insistent that they will only consider a move if the UK is prepared to put forward more money.

5 At present, under the "Newco" proposals, summarised in the attached Table, HMG has undertaken to guarantee a £50 million

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loan. The question is whether Ministers are prepared to authorise a move on the part of the UK negotiators ~~at the~~ ITC, in order to secure a significant move by the other ITC members. If a move by HMG were to lead to a much improved offer by the ITC - say to £90 million, it would permit substantive negotiations between the ITC and the banks and brokers. In that event, it is likely that the LME would defer irreversible decisions on the tin contract while these negotiations proceed.

POSSIBLE HMG MOVE

6 The Dutch, who as EC Presidency are taking a lead in the ITC negotiations, have suggested that a suitable gesture by the UK would be to switch the £50 million guarantee into a straight £50 million cash injection into Newco. We consider this to be going too far, but suggest that the UK negotiators be authorised to convert up to half the £50 million guarantee into a cash subscription to Newco, but only on condition that the ITC increase its contribution from £60 million to at least £90 million and preferably £100 million, and also that the banks and brokers increase their present combined contribution of £70 million to Newco.

7 The effect of this further HMG step would be to move in the direction of the solution set out in the attached table. Ministers should, however, note that in order to reach a solution the ITC will need to increase its offer to at least £120 million, and that it is unlikely that the total HMG special contribution (i.e cash plus guarantee) could be limited to £50 million.

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£m

	Newco Proposal	Position 5 February	Approach to Solution - Maximum Forseeable Contribution
ITC	200	60	120 ?
Banks	20	20	30
Brokers	50	50	90
Cash Shortfall	0	140	0
HMG	0	0	50 (might be part guarantee)
	270	270	290
HMG Guarantee	50	50	0
Shortfall	0	0	30
	320	320	320

Gov
Private
Sector

Banks in all cases bear contingent liabilty above 320

Arguments on the other side

(i) when a major manufacturing company goes bust, suppliers go bust too; there are knock-on effects there too. ~~The Government would have to point to new~~

~~(ii)~~

(ii)