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SUBJECT cc MASTER.

10 DOWNING STREET

From the Private Secretary

6 February 1986

Dear Richael,

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The Prime Minister this morning held a meeting to discuss the latest developments in the tin crisis on the basis of the note attached to your letter to me of 5 February. Present were the Foreign Secretary, Chancellor of the Exchequer, Secretary of State for Trade and Industry, Solicitor General, Governor of the Bank of England, Mr. R. Mountfield and Mr. Lunn (Department of Trade and Industry), Mr. P. Mountfield (H.M. Treasury), Mr. Saunders (Law Officers' Department) and Mr. Farrow (Bank of England).

Your Secretary of State explained that the members of the ITC had offered £60 million as their share of the NEWCO proposal as against the £200 million which was needed if the banks and brokers were not prepared to increase their contribution. The urgency now was that the LME were about to make a rule change which would require payments by brokers to be made. This could result in the collapse of the LME. The Governor agreed that there was now strong pressure on the LME. Members of the LME had been carrying positions for three to four months and incurring heavy financing costs. Failure of the LME would have major knock-on effects on other commodity markets in the City, leading to great bitterness and probably legal actions, including legal action against the Government. A rescue of the LME would not be a rescue in the normal sense: the LME was in danger of being brought down by the action of foreign governments. It was also worth bearing in mind that it earned £50-100 million a year in foreign exchange and total earnings of the commodity markets amounted to £100-200 million a year.

In further discussion the Chancellor pointed to the political difficulties of a rescue which had been recognised in earlier meetings. Indeed there was a case now for reconsidering the £50 million guarantee which the UK had undertaken conditionally to offer. There could be no question of the UK entering into an open-ended commitment, but conversion of all or part of the guarantee to cash would not in fact be an additional commitment since the guarantee was anyway very likely to be called.

It was agreed that if there was a possibility that conversion of the guarantee into cash might be enough to secure an agreement this was a step the Government could not refuse to take. A shortfall of £30 million would remain, even if the ITC and the banks and brokers each agreed to contribute £120 million (third column of the table attached to your letter of 5 February). The Governor said that if a package of that kind could be negotiated the Bank would be prepared to see what could be done to secure contributions from banks in the City to raise the extra £30 million which would be needed. The Bank of England might contribute £10 million out of receipts from the sale of the Commonwealth Development Finance Corporation. It was recognised that under these arrangements the UK Government would be contributing half of the amount being put in by consumer governments even leaving aside the Bank of England's contribution, which was itself public funds.

Accordingly, officials representing the UK at the ITC discussions were authorised to offer conversion of part of the £50 million guarantee into cash, conditional upon other Governments increasing their contributions to achieve a total ITC contribution of £120 million. Officials would have latitude to offer conversion of the full £50 million if that seemed necessary. If the negotiations were successful, the Governor's offer would be taken up. This was the maximum the UK would be prepared to contribute. The Foreign Secretary and Chancellor would consider urgently what might be done to bring further pressure to bear on Germany, the Netherlands and France, the countries which were proving the major obstacles to successful negotiations.

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

Yours ever

David

(David Norgrove)

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