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Treasury Chambers, Parliament Street, SW1P 3AG
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N BPM

The Rt Hon Paul Channon MP
Secretary of State for Trade & Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1H OET

7 February 1986

Dear Paul

TIN

I was disappointed to hear that your delegate to the ITC saw fit to play all his cards soon after the ITC recommenced following our meeting yesterday morning.

I understand that this was done in order to secure Dutch agreement to a £100 million ITC contribution, in the hope of nudging them up to £120 million when delegations had fresh instructions from capitals. But it was clear from my conversation with the Dutch Finance Minister, Mr Ruding, yesterday afternoon that the Dutch (and probably the Germans) had already agreed to go to £100 million provided the banks and brokers stumped up too, and with only a token move of converting part of the UK guarantee to cash. In other words, the £100 million ITC package was already in the bag and the precipitate behaviour of your officials at the ITC has thrown away our negotiating hand to no purpose and without any settlement being secured. I must repeat that there can be no question of any further UK contribution.

I recognise that the situation was very fast-moving and negotiators must sometimes take on-the-spot decisions. But I fear this went beyond my understanding, at least, of the remit from yesterday morning's meeting.

I am copying this letter to the Prime Minister and the Governor of the Bank of England.

Yours ever
Nigel

NIGEL LAWSON

Trotte, Tim, 9/86

CLB

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Secretary of State for Trade and Industry

10 February 1986

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1

NBPM

Dear Nigel

TIN

Thank you for your letter of 7 February.

The complex sequence of moves in the negotiations on 6 and 7 February, were designed to achieve two things. The first was to break the log-jam in the talks and get sufficient movement during last Thursday 6 February, to forestall a decision by the LME which would have frustrated the entire negotiation. The second was to retain enough negotiating headroom to have some chance of securing further moves, after last Thursday, which might lead on to a settlement.

In the event, our negotiators secured both objectives. First, by offering, conditionally, conversion of £25m of our £50m guarantee offer into cash, the EC blockage was removed and an ITC offer of £100m was made leading to a counter offer by the brokers and banks; as a result of this, the LME decided to remain shut. Second, by offering only £25m in return for the ITC move to £100m, we have retained some headroom for later stages in the negotiation.

It remains, of course, most uncertain whether a deal can be struck. Nevertheless, I believe our negotiators did a good job last week in using the flexibility we gave them on the morning of 6 February. They achieved the immediate objective we set them whilst retaining some ammunition for the remaining stages of the negotiation.

I am sending copies of this letter to the Prime Minister and the Governor of the Bank of England.

Yours,

Paul

PAUL CHANNON

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