See also DTI Sit Rep attached

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14 February 1986

PRIME MINISTER

TIN: DEVELOPMENTS AND THE COST OF LOSING THE LME

Developments

The DTI and the Bank of England are continuing to try to raise more funds to make the Newco proposals viable.

The evidence of Kestenbaum (one of the brokers) before the Select Committee last Wednesday - in which he said that a solution to the four-month crisis was possible, if not probable, this week - was considered extremely unhelpful. It created euphoria in the market. The grey market price of tin (ie tin traded outside the LME, probably in Kuala Lumpur) rose by £1,000 a tonne to over £6,000 within a day! As a result of this price rise, one bank is rumoured to have unloaded most of its tin on the market.

This, plus the fact that the ITC has put up only $100 million (rather than $200 million as under the original Newco proposal) will make the head offices of the other banks involved more sceptical about increasing their contribution to Newco.

The banks and brokers have cried wolf many times. My personal view, however, is that the events of this week make it more unlikely that a solution can be found without further requests for funding from HMG. Be prepared to say no. As always, the major argument will be the knock-on effect on the City, and the LME in particular, of not establishing a Newco-type proposal.

What are the costs to the country of losing the LME?

The Bank's figure of £50-100 million of income from invisible earnings is income from all metals, not just tin. It is, anyway, very much a guess.

Total employment in this area is at most 1,000 (there are 3,500 working in Cornish tin mines). Of these most are support staff who could be redeployed in other City institutions fairly easily. The skills of brokers could be transferred to other markets without too much difficulty, not least because of the demand for dealers and brokers created by the Big Bang (October 1986).

Conclusion

It is highly doubtful if the City will lose invisible earnings on a net basis through the demise of the LME. Earnings in other areas will grow, eg international securities trading, and staff can quite easily be transferred. All of which amounts to a strong argument against the further use of taxpayers' money to bail out the LME.

As long as HMG is prepared to stand by and rescue the JMBs and LMEs of this world, there will be a queue in need of treatment.

BG.

BRIAN GRIFFITHS

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Secretary of State for Trade and Industry

PS/

CONFIDENTIAL

14 February 1986

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

PA

Dear David,

TIN

... I attach for information the latest situation report by officials. It has not yet been seen by my Secretary of State.

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

Yours ever,
Michael

MICHAEL GILBERTSON
Private Secretary

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BOARD OF TRADE
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Tin: Position Week Ending 14 February

Summary

1. Reasonable progress on key non-financial issues on basis of broker proposals. Agreement to set up a sub group to discuss main legal issues, to meet next week.

2. Further slightly modified financial proposals from the banks and brokers on which a response is requested by 21 February. No change this week in ITC position on finance for Newco.

3. Some signs of instability in the banks and brokers' positions emerging which could make it difficult to prolong negotiations much beyond the end of next week.

4. The International Tin Council resumes its meetings next Wednesday, 19 February. No further negotiations with banks and brokers before then. The sub groups on legal matters and on disposals meet on 18 February.

Detail

1. Belgium and Italy have still not clarified their position, but we understand the Belgians are studying the Prime Minister's letter carefully.

2. The European Commission has said it may put forward proposals for a settlement on behalf of the Community by the end of next week.

X 3. Whilst discussions on non-financial matters, particularly disposal policy have been generally constructive, it is clear that a number of countries would have difficulty in moving beyond a figure of £100m for the ITC as a whole. These include France, Germany (FR) and the Netherlands, and probably the three ASEAN producers.

4. The new bank and broker proposals would entail a contribution of £120m from the ITC; £50m in cash from the UK; £100m from the banks and brokers (all as reported last week); plus (new element) a contribution of some £25m by the banks towards the £50m required as a guarantee. There is no likelihood of a positive response to these proposals from the ITC by the requested deadline of 21 February.

5. The Chairman of the ITC will meet the Chairman of the London Metal Exchange on 17 February to discuss how the tin market could be re-opened so as to enable Newco to operate successfully in its early days.

Assessment

Some progress but there are still serious legal hurdles to overcome, and major financial issues to be resolved. Perhaps most important, there is not a lot of time left and the Bank of England is particularly concerned about this.

Next Steps

If reasonable progress can be made on the legal and other non-financial issues by the end of next week, we should be prepared to endorse a package which would include an increase in the ITC financial contribution to be urged on other members at the highest level.

M A R Lunn

M A R LUNN

14 February 1986

Prime Minister

I would not react to this suggestion at this stage. Looks an unlikely runner in view of X [illegible].

N.L.W.

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