2

PRIME MINISTER 19 February 1986

TIN

The predictable has happened: the Newco supporters are now asking HMG to put up an interest-free loan of £200 million! They claim this will mean a net contribution of only £80 million by HMG. The assumption on which this is based is that the ITC will come forward with £120 million, even though it hasn't yet agreed to put up £100 million. It is also obviously wrong to count an interest-free loan by HMG as costless. Under the latest Newco initiative, the net contribution of HMG would amount to well over £100 million.

No

On grounds of efficiency and politics, acceding to this request would be disastrous. The most worrying long-term aspect, however, is the lost business to London because of the LME's closure. If, as now seems probable, a negotiated settlement is not on, the sooner the LME reopens the better.

Recommendation

Give strong support to the Chancellor in keeping to the absolute limit of £50 million as a rescue figure.

MT

Linda Frost

pp BRIAN GRIFFITHS

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

PS/

CONFIDENTIAL

18 February 1986

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

Prime Minister!
Agree that a £200m interest free loan is inconceivable?
DRN 19/2

Dear David,

TIN

I attach the note of a meeting which my Secretary of State had this afternoon with Mr Peter Graham (Senior Deputy Chairman, Standard Chartered Bank), Sir Adam Ridley (Hambros) and Mr Ralph Kestenbaum (Gerald Metals).

2 The picture painted by Mr Graham was gloomy: in his view there is a real risk of the group of banks falling apart over the next few days. As a result, he proposed that HMG should make an immediate £200m interest free loan to get Newco started, of which £120m would be recovered by ITC contributions.

3 My Secretary of State told Mr Graham and his colleagues that it was inconceivable that these proposals would be acceptable to the Government. However, he undertook to pass on to colleagues the points which Mr Graham had made.

4 Subject to comments from colleagues by **noon on Thursday, 20 February**, my Secretary of State proposes to confirm to Mr Graham that the Government cannot do as he asks. My Secretary of State will however encourage Mr Graham to try to keep his group together while we attempt to achieve demonstrable further progress in the ITC (as we have done in the last two weeks).

5 I am sending copies of 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

JF2AWL

MICHAEL GILBERTSON
Private Secretary

1786 1986 BOARD OF TRADE BICENTENARY

999-1

CONFIDENTIAL

TIN : MEETING WITH SIR ADAM RIDLEY, MR GRAHAM, AND MR KESTENBAUM - 18 FEBRUARY 1986

SUMMARY

The banks believed defections from their group were accelerating, and would frustrate the Newco plan. They therefore proposed that HMG should make an immediate £200m interest free loan to get Newco started, of which £120m would be recovered from ITC contributions. The Secretary of State said he would pass on Mr Graham's points to colleagues, but warned that there was no chance of the Government agreeing to these proposals.

DETAIL

2 Sir Adam Ridley, Mr Graham and Mr Kestenbaum came in to see the Secretary of State this afternoon at their request. Mr Mountfield and Mr Murray were present.

3 **Sir Adam** said that the group of creditor banks was in danger of "falling apart". The Indo-Suez Bank and the Arab Banking Corporation had both left the group and had sold significant amounts of tin at over £6,000 per tonne. In addition, the Bank of Tokyo had informed Standard Chartered earlier in the day that they were not able to accept the latest Newco proposals. **Sir Adam** therefore said that the coherence of the group was at risk. It was essential to get back to the original Newco proposals if the banks which had broken ranks were to be brought back into the group, and if the remaining members of the group were to remain firm.

4 **Mr Graham** said that the offer on 6 February by HMG to convert £25 million of its proposed £50 million guarantee into cash if the ITC contributed £100 million, and to convert the whole of the guarantee in cash if the ITC contributed £120 million, had actually weakened the banks negotiating position, since it appeared to "cap" the amount which the ITC were expected to provide. **Mr Kestenbaum** however said that this move by HMG had been beneficial in breaking the deadlock in negotiations, and it was doubtful whether the ITC would ever contribute more than £120m anyway.

5 Following subsequent negotiations with the ITC, Mr Graham had gone back to the banks with ITC proposals which would require the bankers and brokers to fund equity of £100 million with an additional £25 million loan from the "old" banks against the old debt, and requiring further funds to be found from elsewhere in the City. Individual banks were now responding to these proposals, and the signs were

This is the proposal agreed at your meeting.

DW2ANS

not good. Indo-Suez and the Bank of Tokyo had both said that they were unacceptable.

6 Mr Graham said that the rejection by individual banks of the Newco proposals and subsequently sales of tin were creating a very dangerous situation. The viability of Newco was based on the need to buy up a stock of 40,000 tonnes of tin. If there were more tin on the market, as a result of sales by banks, the amount Newco would have to buy would be increased, and its viability would be undermined. In particular, Mr Kestenbaum warned that further delay would mean that tin from elsewhere in the world would arrive on the market, leaving a total of perhaps 63,000 tonnes for Newco to take up, and this would make Newco unviable from the start.

7 Mr Graham said that if a package satisfactory to the banks and brokers were unavailable by the end of this week, the possibility of a negotiated settlement would disappear. He therefore set out a possible package, based on the premise that by Friday, the ITC would have come forward with firm promises of £120 million. The package would involve a UK Government contribution of an interest free loan of £200 million, to fund a settlement until the £120 million ITC contribution was paid. This would leave the UK Government with a maximum commitment of £80 million. Such an agreement would be kept strictly confidential until Friday when the banks would inform the ITC. The banks and brokers would ensure that the ITC was free from the threat of legal action, and Newco might be up and running by the end of next week. Mr Kestenbaum suggested that if the price of tin remained reasonably strong, then the eventual UK commitment would be substantially less than £80 million, and probably only around £30 million.

8 The Secretary of State said that while of course he would pass on Mr Graham's views to colleagues, he thought it absolutely inconceivable that the Government would be able to agree to a £200 million interest free loan. He said the Government would feel that each week it was being asked for an increased contribution, and that the more it offered, the more it would be asked for. Mr Murray warned that the ITC had not even definitely committed itself to providing £100 million, let alone £120 million and he could not believe that the ITC would be ready to make a definite commitment to contribute £120 million by the end of the week.

9 There was some discussion of the possibilities of further sales of tin by the banks. Sir Adam said that the banks patience was fast running out, and they felt that their bargaining position had been eroded. If they could see banks such as the Indo-Suez bank and the Arab Banking Corporation selling tin at around £6,000 per tonne, they might well be

tempted to break ranks and sell tin also. **Mr Mountfield** suggested that if a significant number of banks did this, the price of tin would fall substantially, and this in turn would discourage them from selling. However, Mr Graham said that banks could dispose of small amounts of tin without substantially affecting the price. He cited the example of Indo-Suez, where selling their entire stocks of tin would involve them in a loss of perhaps £1 million, whereas joining Newco could cost them £2 million. **Sir Adam Ridley** said that once banks became convinced that a negotiated settlement was impossible, they would consider that whatever happened they would be selling in a disorderly market, and they may well decide to sell quickly in order that at least part of their stocks would fetch a reasonably high price of perhaps £6,000 per tonne.

10 **Mr Graham** emphasised that Standard Chartered and Kleinwort Benson could without too much difficulty extricate themselves : they had an agreement with the ITC which would enable them to seize the remaining 2,700 tonnes of tin in the ITC's hands, and this would cover their losses. Hence, their efforts in trying to find a solution were not primarily prompted by self interest.

11 **Mr Murray** warned that defections from the group of bankers would serve to increase the ITC's fear of litigation against it, and would therefore make a settlement more remote. **Mr Graham** responded that there was a strong likelihood that Indo-Suez could be brought back into the group, and a reasonable chance with the Arab Banking Corporation. If all else failed, then the remaining banks in the group could buy out the defectors. The banks and brokers would be meeting the ITC's lawyers tomorrow to try to iron out outstanding legal difficulties, possibly including the question of legal action by creditor banks against the ITC.

12 **Mr Graham** said that under the package he was proposing, HMG would not be asked for its £200 million loan until there was a firm statement from the ITC that they would pay the necessary £120 million. He suggested that once such a statement was forthcoming, the UK Government should be prepared to pay. The **Secretary of State** said that a statement by the ITC that it would pay could not on past experience be taken as an absolute assurance that it would : besides, as he had already made clear, it was absolutely inconceivable that the Government would be prepared to contribute a loan of £200 million.

13 The **Secretary of State** undertook to reflect urgently with colleagues on what Mr Graham, Mr Kestenbaum and Sir Adam Ridley had said.

DW2ANS

Department of Trade and Industry
18 February 1986

CONFIDENTIAL

file

DBG (CATACK)

bc: Prof. Griffiths

10 DOWNING STREET

From the Private Secretary

20 February 1986

TIN

The Prime Minister has seen your letter to me of 18 February reporting the request from banks and brokers that the Government should make an immediate £200 million interest-free loan to get NEWCO started. The Prime Minister agrees with your Secretary of State that this proposal is totally unacceptable.

I am copying this letter to Philip Wynn Owen (HM Treasury), Robert Culshaw (Foreign and Commonwealth Office), Henry Steel (Law Officers Department) and John Bartlett (Bank of England).

David Norgrove

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

CONFIDENTIAL

ECL

C4BG

Foreign and Commonwealth Office

London SW1A 2AH

20 February 1986

Dear Mike,

NBPM.

Tin

Thank you for sending me a copy of your letter of 18 February to David Norgrove about our reaction to the banks and brokers' suggestion that HMG should make an immediate £200m interest-free loan to get NEWCO started.

at Hap

The Secretary of State is out of the country and has not been consulted. We are confident however that he would not wish to propose that HMG should make such a loan to NEWCO. To act in this way would mean that HMG had effectively assumed the whole burden of the rescue operation. The task of further negotiation would be greatly complicated by such a move and the possibilities of recouping this sum would be, to say the least, doubtful.

I am copying this letter to Philip Wynn Owen (Treasury), Henry Steel (Law Officers Department), John Bartlett (Bank of England) and David Norgrove (No.10 Downing Street).

Yours ever

Robert Culshaw

(R N Culshaw)
Private Secretary

Michael Gilbertson Esq
PS/Secretary of State for
Trade and Industry

TRADE

Volume of Trade Pt2