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PRIME MINISTER

TIN

Negotiations between the International Tin Council and creditor banks and brokers, which continued late last Friday night, 21 February, resulted in the attached Memorandum of Understanding being prepared as a basis for settling the tin crisis.

2 The key feature of this Memorandum of Understanding is the financial contributions set out in paragraph 6, from which you will see that it is now proposed that the ITC member countries should subscribe £115m to Newco, with the UK Government providing £55m.

3 The UK delegates to the ITC were not involved in the detailed negotiations, but they had made it clear to all parties concerned that we would not go beyond a £50m contribution. When the ITC reconvened at 2.15 a.m. on Saturday morning, we protested strongly that we had not been consulted about the proposed increase in our contribution to £55m, and that we could not accept it.

4 However, all parties concerned with this long running dispute regard negotiations as having now been brought to an end, and that a solution will be found on the basis of the attached Memorandum of Understanding or not at all. Furthermore, the banks and brokers have stated clearly that they require acceptance of the provisions in the Memorandum

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of Understanding, together with firm commitments to provide the necessary finance, from all parties by Wednesday 5 March.

5 We need to decide whether we can accept this "final" package of proposals, and if so whether and by what means we should promote its acceptance by other member countries of the ITC.

6 In considering our position we need to bear in mind that several European Community countries have not yet indicated willingness to support the proposal by the ITC to subscribe £100m to Newco, agreed by the majority of ITC members on 7 February. We should I believe concentrate our efforts on trying to secure a firm commitment by all Community countries to providing the necessary finance to resolve the tin crisis. Even if we succeed with the European Community countries, however, we are far from confident that the Asean tin producing countries will be prepared to finance a rescue package by paying their share of an ITC contribution of £115m.

7 If we appear too ready to accept an increase in our contribution to £55m, we risk giving entirely the wrong signal to others, who may believe that by hanging back the UK could be persuaded to shoulder an even greater share of the burden of the ITC's debts.

8 Therefore I propose that in EEC meetings this week, beginning tomorrow, our delegates should take the line that we will only consider the proposition that the UK

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contribution should be increased to £55m, once we have been assured that all other Community countries are prepared to subscribe their share of £115m. We should accompany this message by a repeated warning at Ministerial level within the Community of the wider consequences of the Community countries being seen to be responsible for the failure of these proposals for resolving the tin crisis, as well as the failure to honour sovereign debt obligations.

9 It is less easy to decide how best to bring effective pressure to bear on the Asean tin producers. They have most to lose from a "crash landing" in the tin price. However, some have doubts about whether the Newco proposal will in practice maintain the tin price at a satisfactory level, despite the stated target average price of not less than £6000 per tonne. In addition, the Asean producers also tend to believe that the UK Government will bail out the LME and hence provide the tin producers with a free "soft landing".

10 I suggest that, rather than seeking to persuade the Asean producers directly of the benefits of this package, we should in discussion with them refer to the advantages we see to all parties from an orderly resolution to the tin crisis. We should also make it clear, both in public and private, that if the latest package of proposals fails there is no possibility of the UK Government rescuing either the Tin Council or the LME brokers.

11 It is far from certain that this package will be adopted by all the parties concerned. If it fails to attract the necessary level of acceptance then it is likely that, by Friday 7 March the bankers group will break up, and the LME

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creditor brokers will abandon their efforts to keep the LME tin contract suspended. A collapse of the market, probably with several LME brokers going into liquidation, is likely to follow within a few days.

12 In these circumstances, unless there are fresh developments which clearly suggest otherwise, I believe we should take no further action and allow matters to take their course.

CORNWALL

13 Whether or not a solution is found to the ITC debt problem, we will need to reach a view on whether to give assistance to those areas of Cornwall currently dependent on tin mining. Despite a great deal of publicity and political lobbying, we have not received detailed proposals for assistance from the companies concerned. The major tin mines in Cornwall are owned by RTZ, and we know that they are prepared to wait and see how the tin market settles down before taking any decisions. The only significant mine not owned by RTZ is Geevor. Nearly 40 per cent of the equity in this company has changed hands over the past two weeks, and we would normally expect new investors in a company of this kind to put up money for future developments, rather than offer generous Government assistance.

14 Urgent further work is in hand in my Department on the problems of Cornwall and I will report separately on this.

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15 I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Solicitor General and the Governor of the Bank of England.

PC

PAUL CHANNON
February 1986

Department of Trade and Industry

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ANNEX A.

MEMORANDUM OF UNDERSTANDING

PARTIES:

A. International Tin Council (the I.T.C.) acting in accordance with its constitutional requirements.

B. Creditor Banks:

Algemene Bank Nederland N.V.
Arbuthnot Latham Bank Limited
Australia and New Zealand Banking Group
Bangkok Bank Ltd.
Bank Bumiputra Malaysia
Hambros Bank Ltd.
Kleinwort, Benson Limited
Malayan Banking Berhad, London
The Bank of Nova Scotia
Standard Chartered Bank
Central Trustee Savings Bank Ltd.
The Bank of Tokyo Ltd.

It is a condition precedent to this Memorandum of Understanding that Arab Banking Corporation and Banque Indosuez will cease further legal actions against the I.T.C.

C. Creditor Brokers: (subject to Paragraph 7)

Amalgamated Metal Trading Ltd.
Amalgamated Metals Corporation
Berisford Metals Corporation
Boustead Davis (Metal Brokers) Ltd.
Gerald Metals Limited
Gill and Duffus Limited
Henry Bath & Son Limited
Holco Trading Company Limited
Lazmet Limited
Maclaine Watson & Company Limited
Metalgesellschaft Limited
Metalgesellschaft A.G., Frankfurt
Metdist Limited
Mocatta Commercial Limited
J.H. Rayner (Mincing Lane) Ltd.
Rudolff Wolff & Co. Limited

Manilal London
Manilal Penang
Transworld Metals Limited
Shearson Lehman
MMC Metals (in liquidation)
Datuk Keramat Smelting Bhd.
Malaysia Smelting Corporation Bhd.

D. The Government of the United Kingdom of Great Britain and Northern Ireland.

Desirous of reaching a solution to the crisis caused by the financial problems of the I.T.C., the above noted parties have reached the following understanding on the basis of the certainty that a disorderly tin market will result if finance by way of contributions or bridging finance is not in place by 5th March, 1986. Therefore an acceptance in principle of this Memorandum of Understanding should be received by 28th February, 1986 if at all possible.

1. The I.T.C. and its members do not in any way waive their respective immunities by this Memorandum of Understanding.

2. The members of the I.T.C. do not accept liability for the debts of the I.T.C. beyond the payments they have already made as their contributions to the buffer stocks of the Fifth and Sixth Agreements. Nevertheless, the I.T.C. will make a monetary contribution as specified below.

3. The Creditor Banks and Creditor Brokers reserve their position on the immunities of the members and the I.T.C., and while noting the views expressed in the first sentence of paragraph 2, do not acquiesce in those views.

4. Upon receipt of the contribution of the I.T.C. as specified below, the creditors, as specified in this Memorandum of Understanding, covenant not to enter into any action in law against the I.T.C. or its members in respect of the affairs of the I.T.C. as conducted prior to 5th March, 1986. Furthermore, those arbitrations already instituted by Creditor Brokers against the I.T.C. will be withdrawn.

5. The Creditor Banks and Creditor Brokers, as specified above, will establish TINCO LTD. under the national laws of the United Kingdom. An agreement will be reached under which the Creditor Banks, Creditor Brokers, the Government of the U.K., and the I.T.C. will contribute funds to TINCO LTD. via the channels appropriate to them. The contribution by the I.T.C., as well as the additional contribution by the U.K., will be by way of junior interest free subordinated loans to TINCO LTD. The bulk of equity contributions by the Creditor Banks and Creditor Brokers will be by way of senior interest free subordinated loans.

6. The parties will contribute (via the channels appropriate to them) as per the following schedule:

<u>CONTRIBUTIONS:</u>

	£115 million	by the I.T.C.
	£ 55 million	by the U.K.
	£ 75 million	by the Creditor Brokers and other brokers
	£ 25 million	by the Creditor Banks
TOTAL	£270 million	

INTEREST BEARING LOANS:

£175 million	Standard Chartered Bank loan (at LIBOR plus 3/8% p.a.)
£260 million approximately	Old Banks (at LIBOR plus 1/8% p.a.)
£ 25 million	Other commercial sources (at LIBOR plus 3/8% p.a.)
TOTAL £460 million approximately	

7. The assets and liabilities of the I.T.C. Buffer Stock, as they pertain to the Creditor Banks and Creditor Brokers specified above and who have made their appropriate contributions and loans to TINCO LTD., will be transferred to TINCO LTD. The mechanics of transfer will involve:-

   (a) novation of contracts for the purchase and sale of metal from the ITC to TINCO LTD. although these may be subject to renegotiation;

   (b) The making of secured new loans by the Creditor Banks to TINCO LTD. to enable it to purchase tin from the I.T.C., which will repay all outstanding liabilities to Creditor Banks (including principal, interest and costs) with the proceeds of such sale.

   Additionally, the unencumbered assets of the I.T.C. Buffer Stock will also be transferred to TINCO LTD. except that the I.T.C. will reserve sufficient of the unencumbered tin to pay sundry creditors the details of which will be specified prior to the coming into force of TINCO LTD. and which approximate £500,000.

8. The Board of Directors of TINCO LTD. will consist of up to seven persons:

   One Director appointed by the Government of the U.K.
   Two Directors appointed by the Creditor Brokers
   Two Directors appointed by the Creditor Banks (of which one shall be the Chairman)
   Two Directorships will be available to members of the I.T.C., other than the Government of the U.K., who will sit on the Board on their own account and not as representatives of the I.T.C. (with statements being made to this effect).

9. The staff of TINCO LTD. will normally consist of one manager, one assistant manager (who will also act as bookkeeper), one clerk (who will handle shipping/invoicing/traffic) and one secretary.

10. The office of TINCO LTD. will be situated within the facilities of Standard Chartered Bank, London. It will require telephones and access to telex.

11. The bank account of TINCO LTD. is to be with a first class commercial bank nominated by the Bank of England. All warehouse warrants and LME warrants are to be lodged with Standard Chartered Bank who will act on behalf of any other holders of collateral.

12. Disposal policy.

<u>Objectives of the disposal policy</u>

The objectives of the disposal policy will be to dispose of all the tin stocks TINCO LTD. holds after it has taken up its contractual obligations to purchase, over a three-year period at an average price of at least £6,000 per tonne.

<u>Strategies for disposal</u>

(a) TINCO LTD. will at all times be sellers.

(b) TINCO LTD. will never be a buyer or a borrower or a lender of tin. It is authorised to sell tin for immediate delivery; it is also authorised to sell forward tin provided that the price shall be higher than the spot price and shall take into consideration the carrying costs.

(c) In order to meet the objectives of the disposal policy TINCO LTD. shall sell a minimum of 2 per cent of the original stocks during each month for its lifetime. Additional sales shall be made provided the price is above the minimum price (a minimum price is to be fixed quarterly bearing in mind the objectives of the policy, by a majority vote of the Board of Directors and can only be changed during the quarter by a new vote of the majority of the Board of Directors).

(d) The Board of Directors may by a majority vote modify the strategies for disposal set out in (c) above, in order to achieve a balance between the objectives of the disposal policy should circumstances require it. For this purpose the Chairman or any other two directors can call a meeting of the Board of Directors at any time during the quarter. The Chairman must, however, call a meeting of the Board of Directors no less than once per quarter.

(e) No sales may take place if the majority in value of the Creditor Banks object whilst their outstanding loans are significant.

13. Sales can be made to consumers, merchants, members of the London Metal Exchange and of the Kuala Lumpur Tin Market. A list of buyers must be maintained by the manager, and in

order to be placed on the list, the name must first be approved by the Board of Directors who shall ascertain credit standing.

14. All sales should be based upon payment on delivery. Disbursements of cash receipts of TINCO LTD. will be made monthly.

15. The Members of the I.T.C. will use their best endeavours to maintain production and exports at such levels as to contribute to the fulfilment of the objectives of the disposal policy. In undertaking their efforts in this respect, the Members of the I.T.C. shall have regard to the effectiveness of the approaches to be made to the appropriate authorities in non-I.T.C. Producing Countries in an effort to obtain their co-operation in the achievement of the objectives of TINCO LTD.

16. Arrangements satisfactory to the parties to obviate antitrust risk will be devised.

17. To cover the interest of all parties in the re-opening of the tin market at an early date there is a need for bridging finance to allow time for the I.T.C. to make its contribution via the channels appropriate to its members.
ANNEX B ——> A separate document in respect of bridging finance is available.

18. None of the provisions of this Memorandum constitutes a legally binding commitment of any party.

19. All parties as listed under paragraphs A,B,C and D will signify their acceptance in principle of this Memorandum of Understanding to one of the under-named if at all possible by the 28th February, 1986. Unless all parties have signified agreement by 5th March, 1986 and all contributions or bridging finance are in place by that date, then this Memorandum shall be void ab initio.

	Telex	Telephone
P.A. Graham	London 885951	01-280 7500
R. Kestenbaum	London 884377	01-481 0681
P. Lai	Intertin London 918939	01-930 0451

ANNEX B.

BRIDGING FINANCE IN RESPECT OF THE INTERNATIONAL TIN COUNCIL'S CONTRIBUTION TO TINCO LTD.

Standard Chartered Bank is prepared to provide bridging finance in an amount of up to an aggregate amount of £115 million in respect of individual I.T.C. member government contributions as follows:-

Country	Maximum amount £
Australia	
Indonesia	
Malaysia	
Nigeria	
Thailand	
Zaire	
Canada	
European Economic Community	
Belgium/Luxembourg	
Denmark	
France	
Federal Republic of Germany	
Greece	
Republic of Ireland	
Italy	
Netherlands	
United Kingdom	
Finland	
India	
Japan	
Norway	
Sweden	
Switzerland	
TOTAL	

Bridging finance would be granted for a period of up to six months and would only be made available on the basis of acceptable telex messages from the Ministers of Finance or other responsible Ministers of the I.T.C. Governments concerned, confirming how much finance is required, that the funds are to be paid to the account of TINCO LTD., stating the required bridging period. These telex messages should be sent through London diplomatic missions.

Interest on the bridging loans would be payable by the member Government concerned at the London Interbank Offered Rate as determined by Standard Chartered Bank for the relevant amount and bridging period concerned, and will be payable by the relevant member Government on the last day of the bridging period.

Standard Chartered Bank reserves the right not to provide bridging finance to any country which is in default of any loan obligations.

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FROM: CHIEF SECRETARY
DATE: **25 February 1986**

PRIME MINISTER

TIN

The Secretary of State for Trade and Industry has sent the Chancellor a copy of his minute of 25 February, reporting the latest state of the negotiations. WITH DN

2 As the Chancellor and I have repeatedly made clear £50 million was our final offer, and we should stand firm on that. The putative move to £55 million was made without the UK's agreement, and DTI officials very rightly protested about it at the time. Even at £50 million, we would be providing about one-third of the equity required for the establishment of "Tinco". There is no way in which we can be blamed if the negotiations collapse.

I am sending copies of this minute to the Chancellor of the Exchequer, to the Foreign Secretary, the Solicitor General and the Governor of the Bank of England.

JM

JOHN MacGREGOR

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