PRIME MINISTER

TIN

This meeting tomorrow afternoon has been arranged to consider Mr Channon's minute to you of today. It seems important to have one immediately to ensure that the position proposed is not another piece of salami tactics, and also to start to consider how a rescue package will be presented, if it is finally agreed.

As you know, the ITC negotiating team has proposed that the UK should provide £55m., on top of its share of the £115m which ITC member countries would put up as a group.

You agreed at the last meeting on tin that the DTI could offer to convert into cash the £50m. loan guarantee which had earlier been offered. £50m. was clearly understood to be the limit of the UK contribution, and it was accepted that member countries would be expected to put up £120m. alongside it.

The proposal that we should contribute £55m. therefore goes outside the existing negotiating remit.

Now that we have got this far, it may seem hard to cavil at the extra £5m., particularly since the Government were at the last meeting prepared to countenance the Bank of England putting up £10m. from its own (i.e. public sector) finances.

But there is substantial risk in the line the DTI propose to take. In paragraph 8 the line they suggest implies that the UK would go to £55m. once we had been assured that all other Community countries were prepared to subscribe their share of £115m. In practice however the negotiations on this seem likely to continue until the very last minute, that is until the middle of next week, and, on past form, beyond. If we are not to be pushed little step by little step there is a case for adopting a tougher line, sticking to the position that

£50m. is our limit. We would give way only at the last moment, when we were sure that everyone else would sign up when we did so.

Mr Channon may well say that we shall have to concede £55m. in order to secure agreement amongst the EEC countries and that they are the group which really matter. But, as his minute says, it is by no means clear that the producer countries will put up their share of the £115m. and they are likely to look to the UK to make up any shortfall. If we have already conceded the £55m. we risk being forced still further.

You will also want to discuss any lobbying the UK should undertake both with the consumer and the producer countries.

The other main area for discussion is the presentation of an agreement if one is finally reached. You might like to commission further work on this. But a point for discussion at the meeting, about which I have warned the Solicitor General's Office, is whether after an agreement the Government would be able to cite the legal advice it had been given. The presentational problems would be greatly eased if it could, but it is possible that this may be ruled out because some banks may not subscribe to the agreement, or for other reasons.

I suggest you invite the Secretary of State for Trade and Industry to introduce the discussion and then take the questions as follows:-

i) Is the Goverment prepared in principle to offer £55m.?;

ii) What negotiating line should be given to UK representatives, and how should the tactics of the discussions be handled?;

iii) What lobbying should the UK undertake (see paragraphs 8 and 10 of Mr Channon's minute)?;

iv) Preliminary discussion of the presentation of a rescue package, and what could be said about the legal advice the Government had received.

Julie Bowers

pp David Norgrove

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