CC/BU

PRIME MINISTER 25 February 1986

TIN

The Memorandum of Understanding is a last ditch attempt by banks, brokers and other ITC members to force HMG to pay more. It needs to be treated with scepticism for a number of reasons.

First, it is outrageous that we should be 'bounced' into increasing our contribution from £50-£55m - and a very bad negotiating precedent.

Second, a number of EEC countries, especially France, have not yet finally agreed to subscribe to £100m let alone £115m.

Third, there are far more doubts over the contributions from Asean producing countries - and their numbers are big - Malaysian £22-£24m, Indonesia £16-£18m and Thailand £15m.

Fourth, in paragraph 15 of the Memorandum of Understanding (page 5) the producing members of the ITC will not agree to production and export quotas to keep up the price of tin over the three year expected life of TINCO.

The conclusion of all of this is that if we agree to this Memorandum of Understanding we could end up paying an uncertain bill for participation in a very dubious venture. More than that, low cost producers could flood the market with newly produced tin - which would make it impossible for the price to remain high as is assumed in the proposals.

It is also important to notice two omissions in Paul Channon's minute:-

a. it is nowhere suggested that the Bank of England now think it desirable to rescue LME;

b. you are not asked to write any further letters to Heads of State.

Recommendation

1. Stick to your word and a limit of £50m rescue money from HMG.

2. Alternatively if we are sure the Aseans will not sign up, agree to £55m for 48 hours and grab some of the glory!

BG.

BRIAN GRIFFITHS