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Secretary of State for Trade and Industry

PS/

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4 March 1986

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

Dear David,

Future?
Buffer stocks?
Metal exchange open?
Tin traded on other exchanges?

TIN

At the Prime Minister's meeting on 26 February to discuss tin, we were asked to prepare a line to take covering the possibility that the current negotiations on the rescue package would fail.

... I attach a draft line to take. It could easily be adapted to be used as a Parliamentary statement if necessary. You will see that it does not rule out entirely the possibility of a last minute package being put together. We believe this is a very unlikely possibility, but we should be prepared to support it if others do.

The deadline set by the banks and brokers for completion of negotiations with the ITC is Wednesday, 5 March. We have been told that the bankers group will meet on the morning of Thursday, 6 March and that they are expected to disband, bringing to an end the current negotiations, if agreement with the ITC is not by then achieved or very close to achievement. My Secretary of State would be grateful for any comments as soon as possible.

The Select Committee on Trade and Industry today questioned Mr Morrison, Mr Clark and officials about the crisis. The Committee have expressed dissatisfaction with the information they were given on the Government's handling of the crisis and have asked for more information in time for a further hearing on 12 March.

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I am sending copies of this letter to Robert Culshaw (Foreign and Commonwealth Office) Philip Wynn Owen (HM Treasury), Alison Smith, (Lord Privy Seal's Office, Murdo Maclean (Chief Whip's Office) Henry Steel (Law Officers' Department), John Bartlett (Governor of the Bank of England's Office), and Michael Stark (Cabinet Office).

Yours ever,

Michael

MICHAEL GILBERTSON
Private Secretary

Encl

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TIN CRISIS - BREAKDOWN OF NEGOTIATIONS

LINE TO TAKE

The Government regrets that the protracted negotiations between the International Tin Council and its bank and broker creditors have now broken down, without reaching agreement to resolve the tin crisis.

2 We have constantly made it clear, following suspension by the ITC of its operations in the tin market on 24 October last with gross liabilities exceeding £800 million, that the Commitments UK was prepared to accept its share of the liabilities of the ITC, and we called on all other members to do likewise.

3 It is especially unfortunate that the breakdown of negotiations has come at a time when substantial progress had been made towards resolving the tin crisis in an orderly fashion. Had the ITC member countries collectively shown a greater sense of urgency and responsibility from the outset, a solution might have been found. Most EC Member States ~~set a very bad example,~~ contributed to this by blocking any formal negotiations by the ITC until late in January.

4 At this late stage it seems unlikely that a settlement can now be reached in order to secure a return to orderly trading in tin. If a substantial number of other ITC countries are prepared to make a final effort to resolve the crisis, the Government would of course be willing to join such discussions. But it must be clear, as it has been throughout the earlier discussions and negotiations, that the

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alone

UK Government is not prepared to take over the reponsibility for the ITC's debts.

5 Failure to reach a settlement will mean that the question of the legal liabilities of the ITC and its members will be a matter for the courts. Whatever the outcome of court proceedings, the Government ~~regards it as~~ deplorable as ~~that~~ the failure of the 22 Member Governments of the ITC ~~failed first~~ to exercise sufficient control over the ITC's operations and ~~second, were not prepared~~ their refusal to take responsibility for the debts which were incurred by the ITC on behalf of 22 Sovereign Governments. The UK Government is examining other international agreements of which it is a member in order to make sure the ITC example will not be repeated. We will not be prepared to join in future any international agreement which does not permit proper and effective control by the members over the operations of the organisation set up to implement that agreement and provide clear rules on members liabilities.

What did the UK do?

So why did we join this one?

background.

BACKGROUND

6 Most ITC member countries have refused to acknowledge any legal responsibility for the ITC's debts to creditor banks and brokers. Early proposals put forward by the banks for refinancing the whole of the ITC's debts were rejected, and in informal discussions between the ITC and bank and brokers representatives it was suggested that, if a solution was to be reached, it should be through "burden sharing" between the ITC and its creditors. As a result of these informal discussions, on 23 December a package of proposals was put to the ITC and its member Governments. This package, prepared by Mr Peter Graham of Standard Chartered Bank and Mr Ralph Kestenbaum of brokers Gerald Metals,

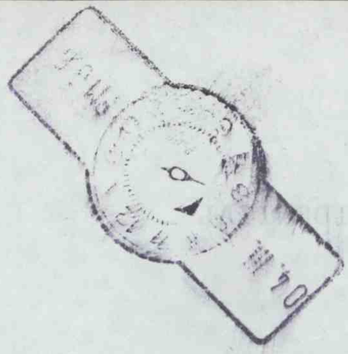
The failure to resolve the tin crisis is not in accordance with good faith and integrity in international financial dealings.

provided for the establishment of a new company which would discharge all the liabilities of the ITC. The proposal envisaged that the ITC member countries would subscribe £200m to this new company, the banks and brokers £70m, with the UK Government guaranteeing £50m of bank loans to the new company.

7 This package provided a constructive framework for negotiations with the ITC, which formally got under way late in January, three months after the crisis began. These negotiations covered not only the financial contributions to the new company, but also the detailed legal framework within which it should operate, and the policy to be followed in disposing of the tin stocks which would be acquired by the company: disposal over a period of about three years was envisaged.

8 During the negotiations the banks and brokers agreed to increase the amount of their contributions to the new company to £100m, and the UK Government agreed to subscribe £50m in cash to the new company rather than guarantee a £50m loan. This left the ITC members being asked to contribute £115m to £120m to the new company to discharge all their liabilities.

9 A substantial number of ITC member countries indicated that they were prepared to agree to contribute their share of the £115m required provided all other countries did likewise. However, by Wednesday, 5 March, the deadline set by banks and brokers for agreeing the package of proposals, a number of ITC members had not agreed to provide the necessary finance and, in addition, agreement had not been possible on a number of other features of the rescue package. This failure by the ITC to meet the 5 March deadline has led to the breakdown of negotiations.



MG

CBG.

10 DOWNING STREET

From the Private Secretary

5 March 1986

Dear Mike,

TIN

The Prime Minister has seen your letter to me of 4 March and its attachment.

The Prime Minister has the following points on the line to take.

In paragraph 2, the word "commitments" has in the past been used rather than "liabilities" in this context. Is there a reason for the change?

In paragraph 3, the phrase "a very bad example" is weak and the sentence might be reworded:-

"... States contributed to this by blocking ..."

In the last sentence of paragraph 4 add the word "alone" after "prepared".

The Prime Minister thinks it would be better to delete paragraph 5. The first sentence seems to invite legal actions. The second and third sentences raise the question what the UK's role was in going along with the deplorable failure of the 21 other Member Governments to exercise sufficient control over the ITC's operations. The final sentence raises the question why the UK was prepared to join an international agreement which was constructed so badly.

Paragraph 5 could be replaced by a sentence along the lines:-

> "The Government deplores the failure of other Governments to agree to meet their share of the commmitments of the ITC. This failure undermines good faith and integrity in international financial dealings."

In paragraph 6, delete the word "legal".

The Prime Minister thinks it would be important for the

Government to have good answers available to the questions she raised in relation to paragraph 5 of the line to take, namely, how the UK came to participate in an agreement which was constructed in such a defective way, and how the UK came to go along with the irresponsible behaviour of the ITC? The Prime Minister is aware that some work has already been done on the actions which will be taken by the banks and brokers and others once the negotiations have broken down. She would be grateful for information about the likely timetable now for reopening the London Metal Exchange, and about the future of the stocks of tin now held in the buffer stock.

I am copying this letter to Robert Culshaw (Foreign and Commonwealth Office), Philip Wynn Owen (HM Treasury), Alison Smith (Lord Privy Seal's office), Murdo Maclean (Chief Whip's Office), Henry Steel (Law Officers' Department), John Bartlett (Governor of the Bank of England's Office), and Michael Stark (Cabinet Office).

Yours ever

Tim Flesher

pp. David Norgrove

Michael Gilbertson Esq
Department of Trade and Industry.

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CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Michael Gilbertson Esq
Private Secretary to the Secretary of State
for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1

NBPM

5 March 1986

Dear Michael

TIN

Thank you for sending me a copy of your letter of 4 March to David Norgrove together with the draft statement.

In general, the Chief Secretary is content with what is proposed. But he has asked me to pass on four particular points. First, in order to leave the door open to a negotiated settlement (which may allow compromises helpful to public expenditure) he thinks the first sentence of paragraph 5 might be rephrased as follows:

"Failure to reach a settlement will mean that unresolved disputes will have to be determined by the courts."

Second, since the likely cause of possible breakdown is not finally known, you may need to include a more robust reference to the negative part played by the producers. The Chief Secretary feels that since they were the main - perhaps the sole - beneficiaries of the Tin Agreement, and on a substantial scale over some years, any failure on their part to rally round at this point would be particularly blameworthy.

Third, the Chief Secretary thinks that the UK might make more of its own role by adding at the end of paragraph 2:

"Since then we have worked consistently and constructively in trying to lead the negotiations towards a successful outcome."

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TRADE : Tin : Part 2.

Finally, the Chief Secretary feels paragraph 5 may go a little too far in referring to the lack of control in the past. The fact is that the UK was a member and a party to its decisions (even if it opposed them). His preference would be to delete the reference to the ITC's failure "to exercise sufficient control" in paragraph 5.

I am copying this letter to David Norgrove (No. 10), Len Appleyard (FCO), Henry Steel (Law Officers' Department), John Bartlett (Bank of England) and Michael Stark (Cabinet Office).

Yours sincerely

Richard Broadbent

RICHARD BROADBENT
Private Secretary

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Foreign and Commonwealth Office

London SW1A 2AH

6 March 1986

Dear David,

Tin

The Foreign Secretary is broadly content with the draft statement enclosed with Michael Gilbertson's letter to you of 4 March setting out a line to take in the event that current negotiations fail. He is however concerned about three passages in the text. The first comes at the end of paragraph 3, where EC member states are singled out for criticism. The Foreign Secretary entirely agrees that most Community members have played an unhelpful, if not positively obstructive part. He nevertheless considers it important to refrain from public criticism of friendly nations, whose cooperation we shall continue to need on tin - if court actions are brought against us - as well as in many other areas. We therefore suggest that this sentence should be replaced by a more veiled reference to those whom we hold responsible, such as the following:

> "We were particularly disappointed that a number of countries to whom we looked for support in solving the problem refused to agree to negotiations by the ITC until late in January. This delay undoubtedly contributed to the failure to reach agreement."

Sir Geoffrey would have no objection to spokesmen identifying particular culprits in off-the-record briefing. He would also recommend that in any message the Prime Minister may decide to send her opposite numbers, we should make no secret of our opinion that some of them are greatly to blame for the failure of negotiations. We are preparing a draft message of this kind, which we will submit as soon as possible.

The Foreign Secretary's second concern relates to paragraph 5. In order to avoid confusion, the reference to "22 Member Governments" should be preceded by the word "other" to establish that HMG is not included. Twenty three Governments are members of the ITC. The last phrase of the second sentence of paragraph 5 however implies that the ITC was acting as Agent for Governments, who would therefore be legally responsible for its actions. To safeguard our position should creditors take us to court, we recommend that "... by the ITC on behalf of 22 Sovereign Governments" should be replaced by "... by the ITC, of which they are members".

/Sir Geoffrey's

Sir Geoffrey's final concern relates to the sentence about legal responsibilities in paragraph 6. As presently formulated, this carries the implication that the UK, unlike other ITC members, has acknowledged legal responsibility. This could be very damaging to the UK's defence case in any court actions that may be brought by banks and brokers. In order to protect our position the sentence might be redrafted as follows:

> "Many ITC member countries have refused to acknowledge any responsibility for the ITC's debt to creditor banks and brokers."

I am sending copies of this letter to Michael Gilbertson (DTI), Philip Wyn Owen (HM Treasury), Alison Smith (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office), Henry Steel (Law Officers' Department), John Barlett (Governor of the Bank of England's Office), and Michael Stark (Cabinet Office).

Yours ever,

Robert Culshaw

(R N Culshaw)
Private Secretary

David Norgrove Esq
10 Downing Street

Trade; Tin Part 2

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CUBG

BANK OF ENGLAND
Threadneedle Street
London
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6 March 1986

Michael Gilbertson Esq
Private Secretary to the
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
London
SW1H OET

NBPM

Dear Michael

TIN

In your letter of ~~4~~ 1 March you asked for comments on the draft statement against the possible breakdown of the tin negotiations.

We suggest that in the fourth line of paragraph 4 the word "final" should be replaced by "new". It would be wrong to give any impression that there is a prospect that the existing plan could be resurrected if its negotiations break down this week. The text may need to be reconsidered in light of the cause of the break down.

I am sending copies of this letter to the recipients of yours.

Yours sincerely

John Bartlett

John Bartlett
Private Secretary
to the Governor

TRADE

Tin Council Pt2.

10 DOWNING STREET

File

DRN,

See your letter to DTI 5.3.86 (cat-flap). We have been chasing a reply but they have advised today that they do not feel it warrants one. Agree?

Yes

G.L
21/3