CLBG

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

6 March 1986

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

1. ~~FF~~

2. pa.

Dear David,

TIN

As I explained on the telephone earlier, the ITC today failed to agree on a contribution to the settlement plans put forward by the banks and brokers. The ITC accordingly issued the attached press communique this evening, recording the collapse of negotiations.

2 Mr Lion, Chairman of the LME came into see my Secretary of State this evening. He said that in the light of this afternoon's developments the LME faced two alternatives. First, they could reopen the market and allow the tin price to fall to a free market level. They would not do this until next week, since 48 hours notice had to be given before the market could be reopened. Second, they could organise a "ring out". This would involve a kind of burden sharing exercise among brokers. No tin would actually change hands, but the LME would set a settlement price lying someway between the pre-crisis price and what the price might be expected to fall to in the free market. Buyers, presently contracted to purchase tin at perhaps £8,900 per tonne would be released from this obligation in return for paying the seller of the tin the difference between the settlement price and the contract price. The sellers would be left holding the tin, which would now only be worth perhaps £4,000 per tonne on the free market, but they would have the cash compensation which the buyers had provided. Thus the burden of the price fall would be shared amongst the brokers. A "ring out" would have to take place tomorrow morning, without the market opening, since a prior announcement that a "ring out" would take place would undermine the LME's ability to set a settlement price.

JF4AZA

1786
1986
BOARD OF TRADE
BICENTENARY

999-1

CONFIDENTIAL

3 Mr Lion said that allowing the price to fall freely would mean that ten or eleven brokers would be unable to trade since they would become immediately insolvent. He said that there would be so many defaults that the whole LME would have to close, and that this would have a ripple effect into other commodity markets. He said that if the LME chose to have a "ring out", then the effect on the LME would be equally catastrophic. Mr Lion's colleagues, however, appear less pessimistic about the prospects for the LME in the aftermath of a "ring out".

4 Mr Lion said that since HMG had been prepared to offer £50m to the Newco package, we should be prepared to allow £50m in order to save the LME. The Secretary of State said that the £50m which the Government had offered was a contribution we were prepared to make to a settlement. It was a quite different matter to give this sum to the LME, and it was absolutely inconceivable that the Government would agree to this.

5 Mr Lion said that the Secretary of State's comments sounded the death knell for the LME.

.. 6 I attach a copy of the Statement for use in the event of the collapse of the negotiations, which has been revised in the light of comments from Departments. A PNQ has been put down for answer tomorrow morning on the tin crisis. If this is allowed, the Statement will be used in response to it. Failing that, we are arranging for the statement to be given by way of written answer to an arranged PQ, also tomorrow morning.

7 I am copying this letter to Robert Culshaw (FCO), Philip Wynn Owen (Treasury), Henry Steel (Law Officers' Department), and John Bartlett (Bank of England).

Yours ever,
Michael

MICHAEL GILBERTSON
Private Secretary

JF4AZA

17 19 86
BOARD OF TRADE BICENTENARY

999-49

THE INTERNATIONAL TIN COUNCIL

1 OXENDON STREET, LONDON, SW1Y 4EQ

Press communiqué
[For immediate release]

Statement by the ITC

On 24 October 1985 the resources of the buffer stock were exhausted and the ITC suspended its buffer stock operations. Since that time the Council has been examining with other involved parties, ways and means of bringing about an orderly resolution to the situation.

Although Member Governments admit no legal liability, the Council since 23 December 1985, has been giving serious consideration to a proposal which involved, in essence, financial contributions from all Member countries of the ITC, creditor brokers and creditor bankers and the formation of a new company. The new company was to take over the assets and liabilities of the buffer stocks of the Fifth and Sixth Tin Agreements, including the tin stocks and contracts to purchase tin, and dispose of the tin held in an orderly fashion. Negotiations, which were without commitment and without prejudice, were held between a small group from the Council and representatives of the creditor banks and brokers. These resulted in a Memorandum of Understanding for consideration by the Council as well as by the bankers and the brokers.

For its part the Council could not arrive at a consensus and, consequently, the Memorandum of Understanding could not be adopted. The representatives of the banks and brokers concerned have been advised of this accordingly.

The Council will continue to give consideration to the current situation and to work for whatever the Council can do in the present circumstances.

Issued by: Date: 6 March 1986

The International Tin Council,
Haymarket House,
1 Oxendon Street,
London, SW1Y 4EQ.

TIN CRISIS - BREAKDOWN OF NEGOTIATIONS

REVISED DRAFT STATEMENT

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 commitments exceeding £800 million, that the 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 responsibilty from the outset, a solution might have been found. Most EC Member States 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 new 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 UK Government is not prepared alone to take over the responsibility for the ITC's debts.

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

BACKGROUND

6 Most ITC member countries have refused to acknowledge any 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, 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.

999-80

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 Thursday 6 March, the final 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 6 March deadline has led to the breakdown of negotiations.

6 March 1986

Q. Why did the UK join the Sixth International Tin Agreement in the first place?

A. The UK had been a member of all the previous International Tin Agreements. While we had some reservations about joining the Sixth International Tin Agreement, we decided that, on balance, our interests in maintaining a stable international market in tin would be better served by remaining members of the International Tin Council. We were also influenced by the fact that the majority of the other members of the European Community were in favour of joining the Sixth Agreement. Failure to join might have had adverse effects on the Cornish tin mining industry and on our relations with tin producing countries. And if we had ceased to be members of the International Tin Council, the headquarters of the Council, under the terms of its Treaty, would have moved from London. At the time, we would have considered such a move to have been a disadvantage.

Q. Why has the ITC not been run in a proper fashion?

A. It was clear from the outset that there were shortcomings in the Sixth International Tin Agreement. First, the target price range set for tin was too high. Second the Buffer Stock Manager had insufficient resources to maintain the floor price, given the prevailing excess of tin production over consumption. Third, a considerable proportion of tin consumers and tin producers failed to join the Agreement, thereby weakening its effectiveness. Furthermore, during the period that the Agreement was in force, a further factor came into play, namely the effects of exchange rate movements on the Buffer Stock Manager's operations. The floor price for tin is set in Malaysian currency, which is linked to the US$, while most of the ITC's operations were conducted in sterling.

At various times during the course of the current Agreement, attempts were made to correct some of these factors, for example to reduce the floor price of tin, and to increase the financial resources available to the Council. Only minor improvements resulted, and the Buffer Stock Manager kept a number of important details of his operations hidden from the representatives of the ITC's member countries. This secrecy meant that the activities of the Buffer Stock Manager were not monitored or controlled in a satisfactory manner.

Q. What did the UK do to try to make sure the ITC was properly run?

A. In the early stages of the agreement the UK attempted to obtain more information about the nature and scale of the Buffer Stock Manager's operations, and to secure greater control over those operations. Unforbunately we were unable to obtain the general support of other members of the Agreement, particularly the producer members, to improve control and transparency of the ITC's operations. The UK, as a relatively small contributor to the financing of the Agreement - about 4% of the total - meant that our influence was in any case very limited.

BREAKDOWN OF THE ITC NEGOTIATIONS: QUESTION AND ANSWER BRIEF

Q **What has happened?**

A Considerable progress was made in the protracted negotiations between the International Tin Council and its bank and broker creditors and a Memorandum of Understanding was drawn up. In order for a solution to be reached it was necessary for all member countries to agree to the package. It was not possible to secure the agreement of all countries.

Q **Why have the talks failed?**

A A substantial number of ITC member countries agreed in principle to contribute to a settlement of the Council's debts based on the TINCO proposals put forward by Mr Peter Graham of Standard Charter Bank and Mr Ralph Kestenbaum of Gerald Metals on Friday 21 February 1986. Unfortunately, by Thursday 6 March, the deadline set by the creditors for agreeing the TINCO package, a number of member countries had not agreed to provide the necessary finance. This failure by the ITC to meet the deadline has led to the breakdown of negotiations.

Q **Which countries refused to pay?**

A I must refer you to the International Tin Council for details of the position of individual countries.

999-80

Q Did the UK notify its acceptance of the TINCO package?

A Conditionally. The UK said that it was prepared to meet its share of the ITC's contribution and that it was willing to contribute an additional £50m, provided the ITC's contribution was £120m, or alternatively our £50m would stand if the banks and brokers were content with an ITC contribution of £115m.

Q Was the UK inflexible and did this cause the talks to collapse?

A No. The negotiations have broken down becuase certain ITC member countries either indicated that they could not agree, or failed to notify their agreement, to contribute to the TINCO package within the deadline set by the creditors. We believe that, if all ITC member countries had agreed, a settlement would have proved possible even though the UK's offer of £50m over and above our share of the ITC contribution was the maximum we were prepared to contribute.

Q What will happen next?

A It is difficult to be certain. The authorities of the LME will, no doubt, consider ending the suspension of their tin contract . When that happens, the ITC's debts will crystallise and the Council's creditors will consider what steps to take in relaton to those debts.

999-80

Q When will the LME open the tin makret?

A That is a matter for the authorities of the Exchange.

Q What will the price of tin be?

A It is not for the Government to speculate. However, there is cleary a likelihood that the price will be significantly lower than it would have been had agreement on the TINCO package been reached, to ensure orderly disposal of the tin stocks.

Q What will be the impact on the LME/other commodities market/ City?

A Although the implications of the breakdown in negotiations are serious, we cannot be certain now what the consequences of the ITC's failure to meet its obligations will be. The size of those obligations cannot be calculated precisely until the tin market reopens and the debts crystallise.

Q What are you going to do about Cornwall?

A It is too early to say. Cornish mining companies will be better able to assess their commercial prospects once a market price for tin has been re-established. The Department is willing to consider making grants towards investment projects aimed

999-80

at making the mines competitive in the new market situation. However, no decisions will be taken until a realistic assessment of viability can be made.

Q **Will the Government defend any claims against them by the ITC's creditors.**

A That is a hypothetical question.

Q **(Any other questions on legal points)**

A No further comment. No actions have been taken. Unwilling to answer hypothetical questions.

Q **The Government was prepared to put in £50m plus its share of the ITC's contribution. Will this money be available to the LME?**

A No. [See first para. next question.]

Q **Why were HMG prepared to give £50m to bail out the LME but nothing for Geevor?**

A The Government offer, to contribute £50m towards the finance of the proposed company which would have taken over the obligations of the International Tin Council was not directed at bailing out the LME but was intended to help secure a return to orderly

999-80

trading in tin which will benefit the Cornish tin mining companies as well as the LME.

We are not ruling out financial help for Geevor. We are not at present in a position to make a proper assessment of the assistance that may be justified. Whereas in the case of the problems arising from the default of the ITC, the position has already been clearly established and the financial requirements identified.

Q **Will the Government bail out the LME?**

A No. We deplore the position in which members of the LME have been placed as a result of the refusal of some ITC member countries to accept a solution based on the TINCO package but we have no intention of taking on the entire burden of settlement; that is something which should properly be shared by all 22 ITC member countries.

Q **Is it not just a question of money? Why does HMG not just bridge the gap to bring about a settlement? You were willing to pay £50m to rescue the LME.**

A The Government's offer to contribute £50m in addition to its share of the ITC contribution towards a settlement was not directed at bailing out the LME. It was intended to help secure a return to orderly trading in tin which would have been in the interests of all concerned, including the Cornish

999-80

tin industry and the LME. We do not, however, consider that it would be reasonable to expect HMG to bear an even larger share of the burden?

Q **What is the Government's attitude to commodity agreements?**

A In general, we have been willing to participate in commodity agreements with price stabilisation mechanisms, provided that they are cost effective and beneficial to both producers and consumers alike. We are currently reviewing our approach to commodities policy, including the membership of commodity agreements. The lessons of the tin crisis are being taken into account in this review.

Further information for use if required

There are only three other international commodity agreements, besides tin, with market intervention provisions. They cover Rubber, Cocoa (which looks unlikely to be renewed) and Coffee. The UK is a member of all these agreements, but none of these three permit the kind of forward trading or unregulated borrowing which have caused trouble in the Sixth International Tin Agreement.