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PRIME MINISTER

TIN

You saw these papers over the weekend.

The Chief Whip has not yet seen them, but will do so overnight.

My concern was that the reply looks too much like a whitewash of what nearly everyone would accept was a problem not handled as well as it might have been. DTI however do not accept that and Sir Brian Hayes went before the Select Committee to say so. It will be for Mr. Channon to defend that view to the House. On this basis I suggest that you do not object to the tenor of the proposed reply.

Otherwise I suggest that the second half of paragraph 14 should be deleted to remove the implication that wider considerations can for the future justify new commodity agreements.

Content?

Yes m.

DN

DAVID NORGROVE

2 June 1986

ECL/08

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File   ECL

bc: Prof. Griffiths

10 DOWNING STREET

From the Private Secretary   3 June 1986

Dear John,

SELECT COMMITTEE ON TRADE AND INDUSTRY: REPORT ON THE TIN CRISIS

The Prime Minister has seen your Secretary of State's letter of 30 May to the Lord Privy Seal to which was attached a draft response to the Select Committee on Trade and Industry's Second Report on the tin crisis.

The Prime Minister is content with the proposed reply, save that she would wish the second half of paragraph 14 to be deleted: this carries the implication that commodity agreements, even if not justified on their own merits, could be justified when set in a wider context.

I am copying this letter to Rachel Lomax (H.M. Treasury), Tony Galsworthy (Foreign and Commonwealth Office), John Turner (Department of Employment), Michael Saunders (Law Officers' Department), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food), Murdo Maclean (Chief Whip's Office), John Footman (Bank of England) and Michael Stark (Cabinet Office).

Yours,

David.

(David Norgrove)

John Mogg, Esq.,
Department of Trade and Industry.

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CCBG

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JU441
Secretary of State for Trade and Industry

3 June 1986

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

NBP7

Dear David,

SELECT COMMITTEE ON TRADE & INDUSTRY: REPORT ON THE TIN CRISIS

I attach for your information the final version of the Government response to the Select Committee on Trade & Industry's second report on the tin crisis, which was sent to the Committee this afternoon.

I am copying this letter and attachment to Robert Culshaw (FCO), Jill Rutter (Chief Secretary's Office), John Turner (Employment), Ivor Llewelyn (MAFF), Alison Smith (Lord Privy Seal's Office), Murdo McLean (Chief Whip's Office), John Footman (Bank of England), Henry Steel (Law Officers Department), and to Michael Stark (Cabinet Office).

Yours ever,

Michael

MICHAEL GILBERTSON
Private Secretary

SECOND REPORT FROM THE TRADE AND INDUSTRY COMMITTEE ON THE TIN CRISIS

INTRODUCTION

This Memorandum is submitted by the Secretary of State for Trade and Industry in response to the Committee's Report on the Tin Crisis (HC 305-I).

2 The Government welcome the Committee's decision to hold an Inquiry into this matter. As an international organisation, with membership comprising 22 sovereign states and with its Headquarters in the UK, the International Tin Council has failed to meet its financial obligations. This failure has damaged the interests of its creditors, the Cornish tin industry and the London Metal Exchange and has caused severe disruption to the international tin market, the effects of which inevitably will be felt for some years to come.

3 The Committee points out (HC 305-1, paragraph 75) that this commodity agreement had the effect of keeping prices artifically higher than they would otherwise have been in a free market. The Government fully appreciated this risk when it decided to join the Sixth International Tin Agreement in 1982, but considered that the benefits of joining outweighed the possible disadvantages. Once in membership, with very little support, the UK made a determined effort to reform the Agreement and to improve transparency and monitoring of the economic provisions of the Agreement. Had these strenuous and determined endeavours been successful, the eventual collapse might well have been predicted and prevented.

4 The Government agree entirely with the Committee that the reasons for the collapse of the Agreement must be examined to see what lessons should be drawn for the future. However, the Committee understates the vigorous efforts made by the Government after the suspension of trading. Indeed the Government took the lead in the efforts to reach international agreement to bring about an orderly resolution of the crisis and by determined diplomacy, got close to a negotiated agreement. Although accepting no legal liability, the Government agreed in the course of negotiations to contribute £50m over and above that proportion of ITC's debts which it might have expected to pay under the usual subscription arrangements. Had it been feasible to reach a settlement through the injection of this additional sum, quite apart from the general benefit of maintaining order in international financial dealings, the Cornish tin producers,

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the London Metal Exchange, and the creditors of the ITC would all have benefited. It was through no fault or negligence of the Government that this attempt to reach a negotiated agreement failed.

5 The Committee raise a number of matters in its report; these are dealt with in separate sections below.

CONSTRAINTS ON THE INQUIRY

6 The Government recognise that the Committee was faced with a number of constraints in conducting this inquiry. In deciding what information should be provided, Ministers and officials acted in accordance with international obligations, legal considerations and established conventions relating to the disclosure of official information to Parliamentary Select Committees within constraints acknowledged by the Committee. In the circumstances both Ministers and officials co-operated with the Committee's inquiry as fully as possible.

7 There were in particular three constraints under which officials gave evidence. Two of the constraints were special to the circumstances of this inquiry: the confidentiality of ITC proceedings and the possibility of legal actions concerning some of the events in question. The Committee recognise (HC 305-I, paragraph 9) that it would not be appropriate for Ministers or officials to comment on matters which are, or may become, subject to legal proceedings. In addition there is the normal constraint on all officials giving evidence to Select Committees that they do so on behalf of and under the instruction of their Ministers.

8 The instructions given by Ministers and followed by officials in the course of this inquiry were no different from the rules that are and have for a long time been generally applicable when civil servants give evidence to Select Committees. These rules are set out in the Memorandum of Guidance for Officials Appearing Before Select Committees, (GEN 80/38) which is available to the Committee. They make clear the categories of information which officials must not disclose to Committees. These include, in particular, advice that has been given to Ministers.

9 The purpose of such a rule is clear and well understood. It is necessary in order to preserve the basis of confidence between Ministers and their advisers. Such confidence is not only necessary for the effective working of Departments: it also underlies the basic principle that it is Ministers and not officials who are responsible to Parliament for the activities of their Departments.

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10 This principle is well established and was recognised in the First Report of the Select Committee on Procedure Session 1977/78 [HC 588-I] and in the Memorandum by the Clerk of the House to that Committee, which sets out at length the basis on which officials give evidence to Select Committees. The Government cannot therefore agree with the view of the Committee that these well established conventions should have been set aside.

11 The Committee asserts (HC 305-I, para 8) that it was "unnecessarily obstructive" of Ministers and officials to refuse to comment on certain ITC documents which had come into the Committee's possession. The Government cannot accept this view. The documents in question came to the Committee without the consent of the ITC. The rules governing the confidentiality of the ITC's proceedings make it clear that no one may disclose to third parties any ITC papers or proceedings without the consent of the Council. The same restriction applies to quoting from or referring to the contents of such documents or reports in oral or written evidence. In order to assist the Committee, officials twice requested the ITC to agree to release the information requested by the Committee. Those approaches were emphatically rejected. The Committee also stated that these documents came from US sources having been released under the Freedom of Information Act. Since the Committee reported, the US Government have denied that they authorised release of the ITC documents under the Freedom of Information Act or otherwise.

12 The Committee has called upon the Leader of the House "to provide time for the House to express its view on the refusal of the Secretary of State for Trade and Industry to provide full answers to our questions on the role of the Government in the tin crisis. We look to the House to support our legitimate demand." (HC 305-I, para 14). As has been explained above, both Ministers and officials co-operated with the Committee to the greatest extent possible within the constraints by which they were bound. The House will have an opportunity to express its views on this aspect in any debate which may take place on the Committee's report as a whole.

THE INTERNATIONAL TIN COUNCIL

13 The Government agree with the Committee that the ITC should have exercised greater control over the extent of the Buffer Stock Manager's forward dealings. It was for this reason that the Government tried, without success, to ensure that the Council's members had access to more information about the nature of the Buffer Stock Manager's transactions.

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14 The Government have noted the Committee's comments (HC 305-1 paragraphs 34-35 and 45) about the consequences which follow if a commodity agreement maintains artificially high prices. There are of course important lessons to be drawn from the failure of the Sixth International Tin Agreement in particular in relation to international commodity agreements with market intervention provisions.

15 Policy on International Commodity Agreements and associated matters has always been one of the main items of the business of the UNCTAD. It is the practice of members of the European Community to speak on these questions on the basis of a common position. In preparation for the UNCTAD Ministerial Conference in the summer of 1987, the Government have been considering the policy on commodity agreements and the other aspects of the UNCTAD Integrated Programme for Commodities.

16 The Government accept the Committee's recommendation that "as a matter of urgency the Government should look into all international trading organisations of which it is a member and make sure that their liabilities are clarified and publicly understood" [HC 305-1 para 52].

17 Indeed, even before the Select Committee reported, the Government had begun a study of their responsibilities to other international trading organisations and similar bodies. As a result, we are reasonably satisfied that none is likely to develop problems such as those which occurred with the ITC but they will be kept under close review. However, experience over tin has shown that it is not always easy to identify potential liabilities with precision in advance or to quantify the extent of the risk which may change over time if the role or operation of the organisation changes. The object must be to minimise these risks and to avoid incurring fresh ones whenever possible. We shall ensure that contingent liabilities in regard to such bodies are reviewed regularly (as well as being reported to Parliament in accordance with existing practices) and that full account is taken of changing circumstances.

18 We have noted the Committee's view that "if prosperous countries walk away from their collective debts because of a cloak of immunity there can be no reason for us to expect poorer nations to pay their debts". (HC 305-1, paragraph 46). The Government greatly regret the failure of the ITC to reach a settlement with its creditors and would be very concerned if their failure were to be taken as a precedent by any country.

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19 The Committee states that "the ITC is discredited and that if it continues at all it will do so only as a gatherer of statistics, although the need for this role is debatable". (HC305-1, paragraph 48). We agree that there is no prospect of the Council resuming its trading operations and, even were that option open, it is not one which the Government would wish to pursue.

THE GOVERNMENT'S ACTIONS

20 The Committee makes a number of criticisms of the Government's actions in relation to a warning given to the LME and to the conduct of the ITC.

21 In paragraphs 49 and 50 of their Report the Committee concluded that the LME Chairman was only given a warning of the possibility that the Buffer Stock Manager might not be able to fulfil his obligations, in such imprecise terms as to be worthless. In paragraph 50, the competence of the DTI official concerned is questioned.

22 Concern about the nature of the dealings by the Buffer Stock Manager and the exposure of the LME brokers was raised by the LME in discussions with the Bank of England as early as the autumn of 1982, only three months after the entry into force of the Agreement. This concern was reported to the DTI by the Bank.

23 The Bank, which was in close touch with Government Departments throughout, advised the LME (initially on an informal basis) that they should not count on the ITC member Governments standing behind the ITC if the Buffer Stock Manager were ever unable to meet his commitments. In February 1984, the Bank repeated the warning at a formal liaison meeting with representatives of the LME Committee. And throughout the whole of the period this general advice was given by the Bank in response to enquiries. Furthermore, DTI delegates to ITC meetings were accompanied by LME representatives from the beginning of the Agreement until the crisis of 24 October 1985; these representatives had substantially the same information as was available to the Council's delegates.

24 At his meeting with the LME in June 1985 the DTI official concerned was therefore repeating warnings already given by the Bank of England. These warnings were known to brokers, though not all had heeded them. It appears, however, that the LME Chairman did not pass this warning on. The Committee implies that the DTI official should have persuaded the LME Chairman that he was wrong, but does not suggest how this might have been done, or indeed why a

warning by the Chairman would have been more effective than those already given by the Bank (of which, the Committee may not have been aware). For these reasons the Government therefore regards the Committee's criticism of the DTI official concerned as unfounded.

25 The Committee states, in paragraph 51 of its report, that it was "..... unforgivable that such a warning was intended to be passed only to one category of persons exposed to risk in dealing with the BSM, and not to the other categories, namely, tin producers in the UK and banks lending to the ITC".

26 No warning was given to the ITC's bankers for two reasons. First the information available to the Department did not suggest that the banks were at risk. The banks had taken tin as security for their loans and the loans would have remained fully secured even if the price of tin had fallen by up to 20 per cent. Second, a formal warning to the banks would have precipitated a crisis and probably the collapse of the buffer stock operation. The information available to the Department did not justify the Government's taking a step with such potentially damaging consequences, for which it would have had to answer to all other members of the Agreement and to all interests affected by the price of tin.

27 The Government were also in touch with representatives of the Cornish tin industry during the period in question: there was, for example, a meeting between DTI officials and the Cornish Chamber of Mines on 23 May 1984, at which a number of issues relating to the future of the ITC were discussed. However it was not thought appropriate in June 1985 to give any formal warning to the Cornish tin producers about the future of the ITC's buffer stock operation. First, to have done so could, as in the case of the banks, have precipitated a crisis: the information available to the Department did not justify a step with such potentially damaging consequences. Second, there was no action open to the Cornish tin producers which could have averted or minimised any potential difficulties arising from the buffer stock operation. The Department has been told by RTZ that the company had fully recognised that the tin price was being supported at unrealistic levels by the Buffer Stock Manager, and that any warning from the Department to them would have made no difference to the actions they had taken.

28 The Government therefore rejects any criticism of its not having issued a warning to the banks lending to the ITC or to tin producers in the UK.

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29 In paragraph 55 of the report, the Committee criticises the failure of the UK representative at ITC meetings to block "ever increasing credit lines with the banks". This criticism may be based on a misunderstanding. The limits on the BSM's borrowings are set in Article 21 of the 6th International Tin Agreement at the equivalent of 20,000 tonnes of tin at the price then prevailing. The Council authorised lines of credit from a number of banks, which enabled the BSM to operate within this limit, early in the life of the 6th ITA. From July 1983 until October 1985, decisions were taken to add a small number of bankers to the authorised list. The banks had offered facilities of up to £25m in total. The addition of these banks to the approved list did not however increase the total permitted borrowing of the Buffer Stock Manager, which remained at the 20,000 tonnes equivalent referred to above.

30 In paragraphs 53 and 54 of its report, the Committee refers to the secrecy surrounding the dealings of the BSM and expresses concern at the fact that despite repeated requests DTI officials were unable to obtain detailed information from the ITC. The Government accepts that it was wrong that ITC members were unable to obtain sufficient information to understand the nature of the Buffer Stock Manager's operations and to exercise effective control over them. In particular, delegates were never told about the Buffer Stock Manager's unpriced forward sales transactions. The problem lay not in any failings on the part of UK delegates in their efforts to obtain the information, but in the structure of the 6th ITA and the confidentiality rules adopted by the ITC. They provided no mechanism by which Government representatives could insist on securing the relevant information. There is no reason to suppose that had the matter been taken up by UK Ministers as the Committee suggests, this would have changed the situation.

31 The Committee says in paragraph 56 that a situation in which an international organisation was able to refuse material information to its member governments should never have been allowed to come about. The Government agree. There was no reason to suppose, however, when we first joined the Agreement, that information would be refused in this way. The Government are taking steps to apply the lessons of the ITC's collapse and to ensure that no such situation can recur.

CORNWALL

32 The Committee describe in its Report the difficulties facing the Cornish tin industry as a result of the fall in the price of tin following the collapse of the ITC's price support operations. The Government are fully aware of the

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importance of tin to employment in Cornwall. In October 1985, some 1,500 people were employed in tin producing operations and a further 500 jobs were directly dependent on the industry. The effect of closures and redundancies would be particularly felt in the Penzance and St Ives and the Redruth and Camborne TTWAs where unemployment is currently about 21 per cent.

33 Although there are no longer dealings on the LME in tin, it is understood that there has been substantial trading in recent weeks at below £4,000 a tonne. At such low price levels, which are the result of overcapacity and the large tin stocks left in the market by the default of the ITC, very few tin producers in the world can operate economically. It may well take several years for the tin stocks to clear and for the price to rise to a level at which tin production capacity necessary to meet future world demand can be operated profitably.

34 In such circumstances the Government have accepted that decisions need to be taken about the future of the Cornish tin industry before the long term price of tin is known (HC 305-I, paragraph 68).

35 On 7 April, Geevor mine ceased production with the majority of the workforce being laid off. Geevor was kept on a care and maintenance basis while the Government considered the company's application for assistance. On 30 April the Government announced that it was providing a £40,000 grant to keep the Geevor mine on a care and maintenance basis for a further period of two weeks, matching a similar offer by Cornwall County Council. The purpose of the Government grant was to enable the Geevor management to develop its earlier proposals with a view to improving the prospects for eventual viability.

36 On 23 May, Geevor submitted a revised application to the Government. This provided for the cessation of tin mining for a period of 5 years, a reduction in numbers employed initially to 200, and the development of underground mining and offshore dredging operations, to come into full production in the early 1990's, when the price of tin is expected to increase with projected expansion of employment to 480.

37 The Government have most reluctantly concluded that the revised Geevor application cannot be given the assistance requested. It would have amounted to over £40,000 for each of the jobs expected to be provided in 1992 and much more than this in the intervening years. Nor are the Government convinced that there is a sufficiently realistic prospect that the new Geevor tin operations would have been fully

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commercially viable once they came into production, even with this assistance.

38 The Government recognise that the further contraction or closure of the Geevor mine would increase the already high level of unemployment in the Penzance and St Ives TTWA. In addition to existing measures of assistance, the Government have, therefore, decided to make available in the Penzance and St Ives TTWA a slightly amended version of the Business Improvement Service package of schemes of assistance to small businesses which is currently operated by my Department. This would help the local economy diversify into activities other than tin mining and tourism. The Department of Trade and Industry is in discussion with the EC Commission who, we hope, will approve the proposal within the next few weeks. We shall make available £1m for this purpose.

39 On 28 April the RTZ subsidiary, Carnon Consolidated Ltd, announced that consultations would begin which may result in the closure of the company's tin operations at Wheal Jane, South Crofty and Wheal Pendarves, with the consequence that the 1,000 people employed would be redundant as from 1 August 1986. On 6 May, RTZ submitted an application to the Government for financial assistance to enable its tin operations to continue.

40 The Government are considering urgently the application for assistance from RTZ and from smaller tin producers in Cornwall. The Government will particularly take into account the employment implications and the level of financial assistance necessary in each case but, as in the case of Geevor, will need to be satisfied that tin operations in Cornwall would be viable.

41 While no decisions have yet been taken on any individual application for assistance other than from Geevor, the Government recognise that the tin crisis was in part caused by an excess of world production capacity over world tin demand. In order for the tin stocks overhanging the market to be cleared, and for the tin price to rise to economic levels, it is necessary for world output of tin to be reduced for a period. Unless this happens, low prices for tin are likely to persist, delaying perhaps for a very long time the return of commercially viable tin production in Cornwall.

42 The Government will, therefore, take their decision on the basis that support will be given only to those projects which show robust prospects for commercial viability. The Government do not accept the Committee's recommendation (in paragraph 72) that short term price support subsidies should

be given to Cornish tin producers to maintain them in operation.

43 However, the Government cannot agree that if tin mines close, they can never be reopened and the tin resources in Cornwall will be lost. While it is true that mining works or equipment may be lost or damaged when a mine is flooded, the tin ore could be worked in the future when it became economic to do so as it has happened in the past. Known Cornish tin reserves are still very substantial and can be worked commercially when tin prices rise sufficiently to make the operations viable.

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BANK OF ENGLAND
LONDON EC2R 8AH

THE DEPUTY GOVERNOR

3 June 1986

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
London
SW1H OET

NBPM.

Dear Mr Channon

SELECT COMMITTEE ON TRADE AND INDUSTRY: REPORT ON THE TIN CRISIS

WILL REQUEST IF REQUIRED

Thank you for sending the Governor a copy of your letter of 30 May to the Lord Privy Seal with the draft of your response to the Select Committee on Trade and Industry about the tin crisis. I am replying in the Governor's absence abroad.

I am grateful for the consultation which has taken place with the Bank over the preparation of the draft response, with which we are essentially content. There are however two small changes which I would like to see.

First, I would like an insertion at the beginning of paragraph 23, so that it would start "The Bank, in line with its understanding of the views of government departments, advised the LME ....."

Second, the third sentence of paragraph 24 directly attributes thoughts to the Chairman of the LME; unless the words have been cleared with him, this may be hazardous. The sentence which follows ("It is understandable .....") goes still further in rationalising his thoughts. I would prefer both sentences to be deleted. They should perhaps be replaced with "It appears, however, that the LME chairman did not pass this warning on.".

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

Yours sincerely

George Blunden

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