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Prime Minister 2
The prospects for keeping open any of the RTZ mines, even on a reduced basis, look poor.
DRN 4/7

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PRIME MINISTER

TIN: CORNWALL

You may wish to know the position we have reached on the applications by RTZ and Geevor for assistance to continue their tin operations in Cornwall.

RTZ

2 RTZ were advised by my officials on 24 June that the Government would not provide the full support requested in the company's detailed application for assistance received on 6 May. This application sought grants of £26 million and Government guaranteed loans of £33 million to finance the development of the company's two mines in Cornwall, Wheal Jane and South Crøfty. An indicative offer of £11.5 million grant was made to RTZ to support the development of South Crofty mine, but the RTZ representatives flatly rejected this and suggested that if the full support which they had requested was not forthcoming, the only option might be to close down both RTZ mines in Cornwall, with the loss of about 900 jobs.

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3 RTZ have taken the position that the company will put no more of its own money at risk in its Cornish tin operation. RTZ have written off the assets of the Cornish tin mines, given all the workers redundancy notices which expire on 31 July, and have made provision for the redundancy and closure costs. The reasons for these moves are all too evident. The price of tin has remained below £4,000 per tonne for several months, compared with over £8,000 before the collapse of the ITC last October. RTZ are losing about £3,000 on every tonne of tin they produce, and their losses are currently £1 million a month. RTZ consider that both Wheal Jane and South Croft mines could operate profitably at a tin price of £6,000 a tonne, but in order to reach this position a great deal of capital investment is required, particularly at South Crofty.

4 As an alternative to complete closure of their mines, RTZ are now preparing alternative proposals to maintain some tin production, but at a reduced rate, and some further development of the mines, over the period to end 1988, as a way of keeping options open for expansion of tin production on a commercial basis if the tin price has risen sufficiently by then. RTZ have agreed to provide us with outline proposals by 4 July, and will discuss them with officials on 7 July. RTZ have indicated that these alternatives could (depending on the option) preserve

between 25 and 60 per cent of the 900 jobs at RTZ's mines. The costs at perhaps up to £20 million would be very much lower than that of the RTZ original application. A substantial proportion of the sum would need to be financed by loans rather than grants. It may be possible to negotiate with RTZ a package of assistance which would maintain some production jobs in Cornwall. I am not, however, confident that a cost effective package can be agreed.

5 There is therefore a real possibility that tin production in Cornwall will cease from 1 August, if we cannot negotiate an acceptable arrangement with RTZ. In any case it is clear that assistance to RTZ would be outside normal guidelines for assistance, and would require separate approval by Treasury and probably by Parliament and the EC Commission. It is also unlikely that I would be able to accommodate any exceptional support which was agreed with RTZ within my Department budget.

GEEVOR

6 The Geevor mine ceased production early in April and most of the workers were made redundant earlier this month following rejection of a £20 million proposal for grant aid for development of the mine. The £1 million package of assistance (Business Improvement Services) to help develop alternative employment in

the area, agreed in earlier correspondence with the Treasury, was implemented on 1 July.

7 Geevor has a new Chairman, Mr Nassar, a businessman with interests in Nigeria who bought an 18 per cent stake in the company in February. He has retained a small team at the mine and so far kept the pumps going. He believes that Geevor could produce tin economically if the price rises to £6,000 a tonne, but recognises that there is no commercial logic in mining tin at current low prices. He is seeking limited assistance towards the cost of maintaining the mine in a state which would enable it to reopen in a few years time, if the price of tin rises sufficiently to make it economic to do so.

8 More immediately Mr Nassar has asked the Government to provide half the £300,000 further finance needed to keep Geevor on care and maintenance while longer term options are investigated. Mr Nassar was told on 2 July that the DTI would not provide the £150,000 requested, because we could not see a viable project emerging. However, given the strength of his conviction that he could cut costs, we offered to pay for a consultant to study long term plans for Geevor over the next few weeks. Mr Nassar's reaction is awaited.

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9 I am copying this to Geoffrey Howe, John Biffen, John MacGregor, John Wakeham and Sir Robert Armstrong.

PC

PAUL CHANNON

3 July 1986

Department of Trade and Industry

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10 DOWNING STREET

From the Private Secretary

7 July, 1986.

Dear Mike,

TIN: CORNWALL

The Prime Minister was grateful for your Secretary of State's minute of 3 July on the latest position on Cornish tin.

I am sending copies of this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Lord Privy Seal, the Chief Secretary, the Chief Whip, and Sir Robert Armstrong.

Yours,

David.

(David Norgrove)

Michael Gilbertson, Esq.,
Department of Trade and Industry.

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Prime Minister ?
It seems likely that the Treasury will resist strongly the assistance to RTZ which Mr Channon proposed.
DRN
11/7.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London SW1

11 July 1986

Dear Paul,

TIN: CORNWALL

I have seen a copy of your minute of 3 July to the Prime Minister, reporting on negotiations with RTZ and Geevor on possible regional assistance packages to maintain some tin production in Cornwall. I have also seen her Private Secretary's acknowledgement.

While I appreciate the difficulties for the region that the loss of this production would create, I am very concerned at the possible expenditure implications of the developments outlined in your minute. As you make clear, it is unlikely that assistance to RTZ or Geevor would meet the normal criteria of viability. Moreover, the level of assistance required to maintain any significant production at the RTZ mine would involve payments well above normal cost per job limits.

You also say that you are unlikely to be able to accommodate the costs of the assistance package within your existing departmental budget. This is against a background of a substantial forecast overspend on regional assistance for 1986-87 and a bid for additions to the PES baseline for next year on which I have already written to you. The normal rules for considering assistance require:

(i) a very thorough and searching scrutiny, with which I should expect my officials to be closely involved, to ensure compliance with RSA/RDG criteria in respect of cost per job, viability etc. From the information in your minute there must be serious doubts about the viability of supporting an investment which can only produce tin profitably at a price some 50 per cent above the current market level;

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(ii) the costs of any package should be contained within your department's baseline; and

(iii) to the extent that there are wider arguments for exceeding cost per job guidelines, any grant should be subject to the conditions laid down in my letter to you of 24 October 1985 - ie a reduction in cash limited expenditure equivalent to the amount by which the proposed grant exceeds the maximum permitted under the guidelines. You will recall that this requirement was specifically endorsed by the Prime Minister (her Private Secretary's letter to yours of 28 October 1985.)

For the reasons given in your minute I cannot see that it is at all likely that a proposal to assist the Cornish tin mines would satisfy these conditions.

I am copying this letter to the Prime Minister, Geoffrey Howe, John Biffen, John Wakeham and to Sir Robert Armstrong.

Yours ever,

JM

JOHN MacGREGOR