SRWAHE

CONFIDENTIAL

PRIME MINISTER

TIN

The extent of RTZ's demands, and the conditions they want to impose, show the riskiness of attempting to underwrite continued tin production in Cornwall. I have asked DTI to be sure that Mr. Channon is briefed to answer questions about the possibility of keeping open only one of the RTZ mines.

Lord Young has begun to prepare an employment package in case the tin mines close. He accepts that the cost would have to be met from within his existing resources. Arguably, the Chief Secretary could be pressed to provide extra money, recognising that he was prepared to provide £50 million to rescue the Tin Agreement. However, I would with regret not recommend this. The presentational benefit of providing new money would inevitably be nullified when people compared the figure of £50 million with the amount of the new money, which would necessarily be less than £10 million (given that RTZ are "only" asking for a grant of £15 million).

DUTY CLERK

pp (DAVID NORGROVE)
25 July 1986

CONFIDENTIAL

P 02201

PRIME MINISTER

Cornwall: Assistance for Tin Mines

Flag A - E(A)(86) 43

CONCLUSIONS

1. You will wish the Sub-Committee to reach conclusions on whether or not to offer RTZ grant assistance of up to £15 million, together with HMG loan guarantees of a mimumum of £5 million, and a maximum of £10 million, to develop RTZ's tin mines in Cornwall.

BACKGROUND

2. In June RTZ 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 Crofty. DTI officials made clear to RTZ on 24 June that the Govenrment would not provide the full support requested. RTZ issued to all workers redundancy notices due to expire on 31 July but have announced a delay in the closure of the mines until 18 August to allow for the completion of discussions with the Government. They have also considered alternative proposals to maintain some tin production, but at a reduced rate. The result is a project - which would cost £31.2 m by 1990 - whereby RTZ's Wheal Jane mine would continue in operation; South Crofty would, however, cease commercial production but would be developed so as to resume full production in 1991. An application for £20 million for the Geevor mine, where geological conditions are more difficult, has been rejected, and practically all the 400 people employed there have been made redundant.

Proposals

3. Mr Channon proposes that the Government provide from the Reserve:

Out of his budget?

a. grant assistance of £15 million (£5 million in 1987/88 and £10 million in 1988/89) towards the RTZ project under Section 8 of the Industrial Development Act (the terms of this Section are sufficiently wide for what Mr Channon has in mind);
b. loan guarantees of a minimum of £5 million and a maximum of £10 million (depending on the accuracy of RTZ's forecast of tin prices).

4. Mr Channon's arguments are as follows:

a. Employment
The project will, if successful, safeguard 860 jobs in a travel to work area (Redruth- Camborne) where, if the RTZ mines were to close, male unemployment would reach 33 per cent. (However, employment over the next four years will be some 400 lower than its level of 1020 at the end of May 1986).

b. Economic Viability of project
RTZ are putting up £7 million of their own money initially; DTI think RTZ will be able to achieve the proposed cost reductions, and so double the productivity of these mines by 1991. On RTZ's highly speculative tin price forecasts, the project has a net present value (npv) of £3.1 million when discounted at 10 per cent.

c. Political Considerations
Tin has a high political profile in Cornwall, and closure will be highly contentious against the background of the collapse of the International Tin Council (ITC). Mr Channon thinks the Government will look mean if assistance is not provided, given the previous offer to contribute the larger sum of £50 million towards resolving the problems of the ITC.

d. Public Expenditure Costs

The expected Exchequer costs of closure would be almost the same in total as the grant payments to RTZ envisaged, a point to which the Select Committee on Trade and Industry have drawn attention. (However, if the price of tin fails to rise in accordance with RTC's forecasts, and the project has to be abandoned in 1988 or 1989, the Government would presumably bear those costs in addition to the assistance which would have been provided in the meanwhile.)

5. The Chief Secretary's counter arguments are:

a. The level of assistance proposed is well above normal cost per job limits and does not fulfil the normal Section 8 criteria;

b. The viability of the project is extremely uncertain. RTZ believe Wheal Jane and South Crofty can operate profitably if the tin price is £6,000 a tonne; at the moment it is £4,000 a tonne (as against over £8,000 a tonne before the collapse of the ITC last October). The viability of the project is very sensitive to the tin price. If the price of tin falls 10 per cent short of the RTZ projection, the result is an npv deficit of £17.5 million.

c. The extent of the commitment required from HMG. RTZ want the Government to underwrite the whole of the financial risk, beyond their initial £7 million between August 1986 and the end of 1988. The project is for review towards the end of 1988; if it is unsuccessful, the contribution of the DTI and RTZ put at £25 million £13.6 million respectively; and the Government would then have to increase at that stage the Exchequer costs of closure.

6. The Secretary of State for Employment - who supports Mr Channon's proposals - wrote to the Chief Secretary, Treasury on 23 July (not copied to all E(A) members) putting forward a

6. The Secretary of State for Employment - who supports Mr Channon's proposals - wrote to the Chief Secretary, Treasury on 23 July (not copied to all E(A) members) putting forward a special employment package in the event of Mr Channon not prevailing. Lord Young accepts that the cost of these measures would have to be met from within the existing resources of the Department of Employment. But he wants an exemption from the rules for the Enterprise Allowance Scheme (EAS) to enable up to 130 miners currently in employment to be eligible for the scheme some 8 weeks after being made redundant. In addition, Lord Young asks that RTZ should provide small loans to new business to cushion the effect of any redundancies. - Flag B.

7. This issue is in a number of ways comparable with the proposal to accelerate the Ministry of Defence's frigate orders. It is clear that the DTI cannot meet the costs without offsetting reductions in their programme with a comparable, if not greater, adverse impact on employment elsewhere. The same holds true if financing from the Reserve has the effect of crowding out some other element of expenditure in another Department's programme for which, in principle, room could otherwise have been found. In that case the decision must turn on whether it is more important to maintain a particular type of employment in West Cornwall than to give a comparable measure of assistance spread over other parts of the country.

Fall Back Position

8. If the Committee decide that the case for the scheme proposed by Mr Channon is not acceptable; the obvious fall back would be to invite the Employment Secretary to develop bis package within existing resources with Mr Channon and the other Ministers concerned so that it can be announced at the same time as the rejection of the RTZ proposals.

HANDLING

9. You will wish to invite the Secretary of State for Trade and Industry to present his proposals and the Chief Secretary, Treasury to respond. The Secretary of State for Employment may wish to comment on the employment implications. The Minister of State, Foreign and Commonwealth Office may have views on EC aspects. The Chancellor of the Duchy of Lancaster and the Chief Whip may wish to comment on the political aspects.

JBU

J B UNWIN

25 July 1986
Cabinet Office