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INFORMATION

April 10, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Buffer Stock Financing Facility - Outstanding Purchases in
Relation to Buffer Stock Contributions Under the Fifth
International Tin Agreement

Attached for the information of the Executive Directors is a paper on a decision taken on March 20, 1984 by the International Tin Council of the Fifth International Tin Agreement.

If Executive Directors have technical or factual questions relating to this paper, they should contact Mr. Kaibni (ext. (5)7721) or Mr. Chu (ext. (5)7727).

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Buffer Stock Financing Facility--Outstanding Purchases in Relation to
Buffer Stock Contributions Under the Fifth International Tin Agreement

Prepared by the Research Department

(In consultation with other departments)

Approved by Wm. C. Hood

April 9, 1984

This note is being circulated to inform the Executive Board of a decision taken on March 20, 1984 by the International Tin Council of the Fifth International Tin Agreement (ITA). The Council has decided to postpone the distribution of metal to contributing members beyond the originally expected date of June 30, 1984. This means that early repurchases by three members with outstanding purchases under the buffer stock financing facility are no longer expected at that time.

The Fifth ITA, which came into force on July 1, 1976, expired at the end of June 1982 and was followed immediately by the Sixth ITA. The Fund found the terms of the Fifth ITA (in 1976) and the Sixth ITA (in 1982) to be consistent with criteria established under the buffer stock financing facility (BSFF) for Fund financing of members' contributions to the buffer stocks of the agreements. ^{1/} At the end of the life of the Fifth ITA, the Council required members to make compulsory contributions to the buffer stock, and in connection with their contributions, three Fund members made purchases under the buffer stock financing facility. The Council of the Fifth ITA authorized members that so wished to meet their contributions to the Sixth ITA by transfer of their assets from the Fifth ITA. In the event, some of the contributions to the Sixth ITA were met by way of transfers, and it was expected that the remaining amount of tin held under the authority of the Fifth ITA would be liquidated within two years after expiry of the Agreement (i.e., by end-June 1984). As discussed below, however, the liquidation, which would trigger repurchase expectations, is no longer expected to take place by that date.

1. Purchases under the buffer stock financing facility

Purchases under the BSFF in connection with compulsory contributions to the Fifth ITA were made by Malaysia (SDR 58.5 million) and Bolivia (SDR 24.47 million) in June 1982, and Thailand (SDR 17.0 million) in October 1982. Upon entry into force of the Sixth ITA on July 1, 1982, Malaysia

^{1/} In relation to the Fifth ITA, under Decision No. 5127-(76/91), adopted June 23, 1976; and in relation to the Sixth ITA, under Decision No. 7247-(82/147), adopted November 12, 1982.

transferred part of its assets in the Fifth ITA to meet its contribution of SDR 45.2 million to the buffer stock of the Sixth ITA. 1/ As a consequence, Malaysia became subject to an expectation of repurchase equal to that amount, although it was also eligible to make a new BSFF purchase in respect of its contribution to the Sixth ITA. The repurchase, and the subsequent purchase, were effected in March 1983. The balance of the purchase in respect of Malaysia's contribution to the Fifth International Tin Agreement, namely SDR 13.3 million, is still outstanding. In total, therefore, some SDR 55 million of BSFF purchases (the SDR 13.3 million by Malaysia and the purchases by Bolivia and Thailand) related to contributions to the buffer stock under the Fifth ITA remain outstanding.

Under Executive Board Decision No. 5127-(76/91), adopted June 23, 1976, any transfer of metal from the buffer stock to a member is treated as a distribution in currency. 2/ A member that receives a distribution of currency is expected to repurchase an equivalent amount (Decision No. 5703-(78/39), adopted March 22, 1978, as amended by Decision No. 6862-(81/81), adopted May 13, 1981). 3/

2. Decision of the Tin Council

Following a decision adopted in March 1984 by the Council of the Fifth ITA, it is no longer expected that a distribution will be made before the end of June 1984 to any of the three members with outstanding BSFF purchases in connection with their buffer stock contribution under that Agreement.

1/ Operations under the Sixth ITA were reviewed in SM/83/234 (3/14/83). Outstanding purchases under the BSFF related to the Sixth ITA are SDR 94.71 million, comprising purchases by Indonesia (SDR 27.7 million), Malaysia (SDR 45.2 million), and Thailand (SDR 21.81 million).

2/ Decision No. 5127-(76/91), paragraph 3 states:

The Fund decides that any contribution made in the form of tin metal under Article 21 of the Agreement shall be regarded as equivalent to a contribution in cash, valued at the floor price prevailing when the contribution is called up. Any transfer of metal from the buffer stock to a member will be treated as a distribution in currency, valued at the floor price prevailing when the transfer is made.

3/ Decision No. 5703-(78/39), paragraph 1(b), as amended, states:

A member that has outstanding purchases under the decision on The Problem of Stabilization of Prices of Primary Products (Decision No. 2772-(69/47), as amended) will be expected to make a repurchase at an earlier date than would be required under (a) above when, and to the extent that, the international buffer stock for the financing of which the purchase was made makes distributions in currency to the member.

Paragraph (b) of Article 25 of the Fifth ITA provides that:

Unless the Council substitutes other arrangements for those contained in this article, the [Buffer Stock] Manager shall, in connection with the liquidation of the buffer stock, take the steps set out [inter alia] in paragraph (i) of this article.

Paragraph (i), subsection (i) provides that:

The tin metal so allocated to each contributing country may be transferred in such installments and over such period as the Council may deem appropriate, but in any case not exceeding twenty-four months [i.e., before June 30, 1984].

On March 20, 1984, the Council of the Fifth ITA substituted other arrangements for those referred to in paragraph (i)(i) of Article 25 and passed the following resolution:

That the Council in accordance with Article 25(b) decides that tin metal allocated to each contributing country which remains in the buffer stock of the Fifth International Tin Agreement will not be transferred to the respective countries before June 30, 1984, but will be held until such time as the Council considers appropriate.

This decision was taken because of the continued weakness of the international tin market; stocks held under the authority of the Fifth ITA amount to 23,707 tons of tin metal, which account for a substantial share (14 percent) of annual world consumption. Prevailing weak market conditions over the past two years have required the Buffer Stock Manager of the ITC to be a net buyer of tin, and the volume of tin in the buffer stock of the Sixth ITA rose from an initial 27,766 tons on July 1, 1982 to 33,723 tons at end-September 1983 (the latest date for which buffer stock data are available). The monthly average market indicator price of the Sixth ITA, which was at or close to the floor price of the intervention range (\$M29.15 per kg.) between July 1982 and January 1983 rose to over \$M31.00 per kg. in April-May 1983 in anticipation of a recovery of international demand. However, the market weakened again in subsequent months and the average indicator price receded to the floor price in January-February 1984.

As a consequence of the decision of the Tin Council referred to above, it is not expected that Malaysia, Bolivia, and Thailand will receive any distribution from their assets in the Fifth ITA before June 30, 1984. Any subsequent distribution will trigger the expectation of early repurchase, to the extent that purchases are outstanding. Repurchases in quarterly installments will, of course, be required within three to five years from the date of purchase. The staff will keep Executive Directors informed of any future decisions of the Council affecting the distribution of tin to members with outstanding BSFF purchases in connection with the Fifth ITA.