0404

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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 90/53

3:00 p.m., April 4, 1990

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
	S. Gurumurthi, Temporary
	C. Enoch
	M. E. F. Jones, Temporary
	G. C. Noonan
Dai Q.	
T. C. Dawson	M. E. Hansen, Temporary
J. de Groote	J.-P. Schoder, Temporary
	L. Hubloue, Temporary
	J. M. Jones, Temporary
	S.-W. Kwon
	E. C. Demaestri, Temporary
L. Filardo	
	N. Kyriazidis
	A. M. Othman
	M. B. Chatah, Temporary
	I. H. Thorláksson
	S. Rouai, Temporary
	B. Goos
J. E. Ismael	
	L. I. Jácome, Temporary
	J.-F. Cirelli
	J.-L. Menda, Temporary
	J. K. Orleans-Lindsay, Temporary
	M. Al-Jasser
	Z. Iqbal, Temporary
G. A. Posthumus	G. P. J. Hogeweg
K. Yamazaki	K. Ichikawa, Temporary

L. Van Houtven, Secretary and Counsellor
M. J. Miller, Assistant

1. Compensatory and Contingency Financing Facility - Review . . . . Page 3
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Also Present
Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director; J. T. Boorman, Deputy Director; S. Eken, G. R. Kincaid, J. P. Pujol, B. C. Stuart. External Relations Department: D. M. Cheney. Fiscal Affairs Department: A. G. A. Faria. IMF Institute: O. B. Makalou. Legal Department: W. E. Holder, Deputy General Counsel; T. M. C. Asser, A. O. Liuksila. Research Department: B. B. Aghevli, R. C. Baban, M. N. Choudhry, N. M. Kaibni, M. S. Kumar, J. Martelino, E. C. Meldau-Womack, P. R. Menon, B. E. Rourke, P. Wickham. Treasurer's Department: S. I. Fawzi. Western Hemisphere Department: J. Fajgenbaum. Advisors to Executive Directors: M. Eran, K.-H. Kleine, B. S. Newman, D. Powell. Assistants to Executive Directors: G. Bindley-Taylor, C. Björklund, B. A. Christiansen, J. Gold, A. Hashim, A. Iljas, P. Kapetanovic, C. Y. Legg, R. Marino.

1. COMPENSATORY AND CONTINGENCY FINANCING FACILITY - REVIEW

The Executive Directors resumed from the previous meeting (EBM/90/52, 4/4/90) their consideration of a staff paper on a review of the decision on the compensatory and contingency financing facility (EBS/89/206, 10/30/89). They also had before them a statement by the staff on understandings related to the review of the decision reached at Informal Session 89/20, November 29, 1989 (see Annex to EBM/90/52, 4/4/90).

Mr. Posthumus said that he had accepted the staff proposal with respect to the compensatory element of the compensatory and contingency financing facility because the staff had stated in the paper that the phasing of purchases would be done only in exceptional cases. It should certainly not be the rule, as Mr. Enoch seemed to be suggesting. He had been confused that the staff representative from the Research Department had said that phasing was in fact used already under the compensatory element of the facility.

The staff representative from the Research Department replied that the conditionality which applied previously to the compensatory financing facility, as well as to the compensatory element of the compensatory and contingency financing facility, determined access to a given tranche. Once the conditionality was met, the entire amount of the corresponding tranche could be drawn, and there would be no question of phasing the purchases available under that tranche.

Mr. Al-Jasser said that he was not satisfied with the idea of conditionality attached to phasing under paragraphs 12(a) or 12(b) of the decision on compensatory financing. Since compensatory financing would be associated with an arrangement in the credit tranche, or with prior actions, upper credit tranche conditionality would already be met. It was thus not necessary to saddle compensatory financing with yet more conditionality in order to allow for the phasing the staff representative from the Research Department had described in the previous meeting (EBM/90/52, 4/4/90).

Mr. Posthumus commented that Mr. Enoch's proposal therefore would intend to add conditionality to the conditionality which was already attached to phasing under the compensatory element.

Mr. Jones said that Mr. Enoch's proposal had been intended to do away with the distinction between paragraphs 12(a) and 12(b) which had proven to be unworkable in practice. Access guidelines would be formulated on the assumption that access would be phased, with the possibility that the access guidelines might be done away with in exceptional cases. In effect, the argument would then be to prove from the positive perspective that the member should qualify for the exception, rather than to have to argue--as at present--from the negative perspective that access should be denied because the member was not following appropriate policies. The key would be to make an assessment on a case-by-case basis. The proposal did not intend to suggest that front-loaded disbursements would necessarily be allowed only in exceptional cases.

Mr. Dawson said that his position was very close to that of Mr. Enoch and Mr. Jones. He wondered if the staff could describe the specific criteria that would be taken into account to recommend front-loading, or, for that matter, phased access.

Mr. Al-Jasser said that in that case, he wondered how the compensatory element could be seen to be any different from a regular Fund arrangement with full-fledged conditionality. It appeared that the Board might just as well begin a new facility along the lines of a compensatory stand-by arrangement. He would be concerned by such a metamorphosis of the compensatory element of the compensatory and contingency financing facility.

The Director of the Exchange and Trade Relations Department stated that there were differences of view among Executive Directors on the operation of the compensatory element. Some Directors believed that the presumption should be that the full 65 percent of quota would be disbursed; others, that that amount should only be disbursed in exceptional cases; and Mr. Enoch's proposal appeared to be that the presumption should be that 40 percent of quota would be disbursed immediately, with the disbursement of the next 25 percent of quota subject to Board judgment. The difference in those views was in what the Board's initial presumption should be.

Although it might be said that all upper credit tranche arrangements were similar, Directors knew that there were various nuances attached to them, with some being stronger than others, the Director commented. In those cases in which the underlying program was not as strong, and in which the member's previous track record had been such as to give the Board reason for concern about program implementation, there might be grounds for a more cautious disbursement of Fund resources. He did not believe that introducing such a qualification caused a metamorphosis in the nature of the facility; the 40 percent of quota would still be drawn almost as a matter of course, but with more consideration given to whether or not the additional 25 percent of quota should be available immediately, or in a phased fashion.

The staff representative from the Research Department, responding to a question from Mr. Chatah about the phasing of disbursements under the compensatory element of the facility, said that a country which initially had access to drawings of 40 percent of quota, and the presumption that it would gain access to an additional 25 percent of quota after the completion of a review at a future time, would nevertheless lose its subsequent access if it turned out that in the intervening period the export shortfall had fallen below 25 percent of quota. For example, commodity prices might turn around in the intervening period, implying that the country would not need the subsequent drawing. The calculation of shortfall would always be done on the basis of the latest available information and developments in the current period, rather than in the previous period.

Mr. Goos said that if it were assumed that export prices would experience a stronger than expected recovery in the following period, the calculated shortfall in the previous period might be even higher than before. In any case, a shortfall would still exist for the preceding period. The relevant question would then be whether or not there was a balance of payments need.

Mr. Al-Jasser commented that his understanding was that the 65 percent of quota would be made available as a norm, with 40 percent of quota--with the 25 percent to follow, depending on circumstances--only as the exception. The compensatory element existed in order to ensure that the adjustment program would not be derailed by external shocks. By the time the Board examined the case, the shock would have already occurred, and the intent of the compensatory financing facility was to help the member deal with the consequences of those shocks. Since both the shocks and the consequences could probably be readily assessed at the time of the Board's review, access to 65 percent of quota immediately should be considered to be the norm.

Mrs. Filardo said that the original wording of the decision on compensatory financing had intended to differentiate between those following good policies and those following bad ones. It appeared to her that Mr. Enoch's proposal was tantamount to an assumption that even those following good policies would need to have phased access. Conditionality would therefore be increased for those following good policies, as well as those following bad. She was therefore opposed to it.

Mr. Posthumus, responding to a question from the Secretary and Counsellor, stated that he had supported the staff's proposal, but he wished to warn that there should not be too many exceptions.

Mrs. Filardo observed that many compromises had been made in order to reach a consensus on the compensatory and contingency financing facility. If Directors began to change their positions on various issues, she was afraid that the whole discussion might have to be reopened.

Mr. Ismael said that he agreed with Mrs. Filardo, as he had helped in that compromise. If the distinction between those following good policies and those following bad were to be done away with, other elements of the compromise that had been necessary to create the facility would need to be reconsidered as well.

Mr. Jones said that Mr. Enoch's proposal would not do away with the distinction. For those following good policies, front-loaded disbursements would still be allowed. What the proposal attempted to get away from was the making of a judgment by the Board, in the Board meeting, that the policies were good or bad, which would tend to change the direction of the arguments.

Mr. Dawson said that he agreed with Mr. Jones. A key issue was the definition of a member's cooperation or noncooperation with the Fund. In fact, Mr. Enoch's proposal would tend to make the distinctions clearer, which was advisable, in his view.

Mr. Kyriazidis remarked that the language in the decision was clear enough. There were three cases. First, those members with good records of cooperation with the Fund, strong policies, and balance of payments problems attributable exceptionally and specifically to exogenous shocks would receive the greatest benefit of the doubt. Second, those members like the first but with inadequate policies, would receive a bit less of the benefit of the doubt. Third, those members with balance of payments problems, inadequate policies, and poor track records would need to have phased access. Phased access should be available to the Fund as an instrument for dealing with riskier cases.

Mr. Chatah said that in cases of compensatory financing requests in which an underlying arrangement was in place, there would be two flows of financing from the Fund. Compensatory financing had always been thought of as something that should be obtained immediately, for obvious reasons; that was its rationale. Another flow from the underlying stand-by arrangement or extended arrangement would also exist, and the Board had considerable leeway in deciding the phasing of disbursements under that arrangement. Although there was no direct link between the two, obviously there were relationships between them. If the concern was the front-loading of disbursement under the compensatory element, the phasing of the underlying arrangement, in which the Board could have some leeway, could be altered to take those concerns into account. However, the compensatory element should not be tampered with.

Mr. Posthumus said that he supported the staff's proposal, and that he understood that the U.K.'s proposal was somewhat different. He wondered whether there was adequate support for either proposal.

The Acting Chairman said that there appeared to be slightly fewer Directors in favor of retaining the existing decision on the compensatory element of the facility than in favor of modifying it in some way. In the latter category, some Directors were prepared to support the staff proposal, whereas others would go beyond it. He did not see a consensus in the direction of Mr. Enoch's proposal.

In light of the compromises that had been made in establishing the existing compensatory and contingency financing facility, more than narrow majorities would be required to effect changes, the Acting Chairman added. He hoped that the Board could agree on a suitable operational definition for the application of the decision on compensatory financing, however, so that the drawn-out discussion that had transpired in one notable case could be avoided in the future.

Mr. Enoch, responding to a question from the Acting Chairman, said that although his preference would be for a formulation of the decision on compensatory financing along the lines he had already proposed, he would be prepared to support the staff proposal.

Mr. Dawson said that he also could support the staff proposal in that regard.

The Acting Chairman commented that it would thus appear that very slightly more than half of the Board's voting power would be in favor of the staff proposal.

Mr. Schoder commented that it had not been his understanding that the staff's proposal would alter significantly the decision on compensatory financing. The introduction into paragraph 12(a) of the decision of a supplementary category of members would, in effect, be very precisely circumscribed, so that the differentiation between those members following good policies and those following bad would not be done away with. He agreed with Mr. Posthumus that phasing should be introduced only in very exceptional cases. With that understanding, he could support the staff's proposal.

The Director of the Exchange and Trade Relations Department stated that the definition of "in exceptional circumstances" would be when Directors concluded that they were not satisfied that the Fund's resources would be adequately safeguarded. Such a conclusion might be forthcoming, more particularly, when Directors considered the program to be on the weak side, and when the member's performance under previous Fund-supported programs had not been such as to give them the necessary confidence. Of course, that would not be an exclusive definition, as the Board would have to use its judgment in individual cases.

Mr. Ismael said that, if there were a consensus behind it, he could support the staff's proposal with respect to the phasing of disbursements, based on the Director's clarification, but he could not go beyond that.

Mrs. Filardo asked whether, in light of the fact that a consensus in that direction was on the verge of being achieved, Mr. Goos might be able to see his way to supporting the elimination of the 35 percent sublimit on the coverage of interest rate contingencies if she were to support the staff's proposal on paragraphs 12(a) and 12(b) in the decision on the compensatory element of the compensatory and contingency financing facility.

Mr. Goos said that the staff's proposal to which Mrs. Filardo had referred would not represent a fundamental change in the nature of the decision, whereas an elimination of the 35 percent sublimit on the coverage of interest rate contingencies would. He did not see that there was a connection.

The Director of the Exchange and Trade Relations Department stated that the staff did not believe that it had made a significant change in the decision. The staff had attempted to keep in mind the factors behind the delicate compromise in favor of the compensatory and contingency financing facility, and had thought that what it was recommending with respect to the wording of the compensatory financing decision would only put into words and make clearer what had already been the case from the operational perspective.

Mrs. Filardo said that she believed that the change the staff was recommending was in fact a fundamental one.

Mr. Goos said that to his understanding it had always been assumed that for those members following bad policies, phasing would be necessary, and for those following good policies, it would not be. That fundamental fact would not be changed.

Mr. Cirelli said that the difference between the previous wording of the decision and the staff's proposal was that in the former, there was no specific provision for phasing, whereas in the latter, there would be some phasing in exceptional circumstances. He agreed that if the intention were to introduce phasing in every case a fundamental change would be effected.

Mr. Kwon said that his position was like that of Mr. Posthumus. He could accept the staff's proposal, provided that the original objective of the compensatory financing facility was preserved, and that any phasing should be exceptional.

Mr. Al-Jasser said that his fear was that the new formulation would tend to make phasing the norm, not the exception. If a member were following very bad policies, he did not believe that the staff should come to the Board for approval of an arrangement in any case, so the issue would not arise.

The Acting Chairman said that it appeared that Mr. Enoch's proposal was no longer on the table.

Mr. Goos commented that that being accepted, Mr. Al-Jasser should take comfort from the fact that the staff had stated explicitly that phasing would be the exception, not the rule. Mr. Enoch's proposal had suggested the exact opposite, but it had clearly been discarded. Moreover, the distinction in the treatment of members following good policies and those following bad ones would be maintained.

The Acting Chairman remarked that Mr. Al-Jasser and Mr. Goos appeared to be approaching the problem from almost the same direction. The staff would not recommend Board approval of a Fund-supported program without the appropriate assurances. The staff's proposal would introduce the possibility of exercising some flexibility, recognizing the fact that all cases were not clear cut.

The staff representative from the Research Department, responding to a question from Mr. Al-Jasser, said that at present, a member with a program in the upper credit tranche would have immediate access to 65 percent of quota. The staff's proposal was that, in exceptional cases, the immediate access would be limited to 40 percent of quota even if the member had a program in the upper credit tranches. Exceptional cases would include those in which the balance of payments problem was closely related to policy deficiencies, but there were questions as to whether the authorities were in a position to implement the policies agreed under the upper credit tranche program. Under those circumstances, it might be inappropriate to provide outright access to 65 percent of quota, when access under the accompanying program might be relatively small and back-loaded. In such cases, it might be difficult to get around the problem of excessive front-loading of Fund resources by modifying the phasing of purchases under the accompanying program.

Mr. Chatah said that he wondered why it would be better to phase disbursements under the compensatory element, rather than to allow full immediate access to 65 percent of quota under that facility and then provide for a very small initial disbursement--if anything--under the underlying arrangement.

The Director of the Exchange and Trade Relations Department stated that, as an example, a country might take at least its first credit tranche as a drawing--25 percent of quota. With a drawing under the compensatory facility of 65 percent, the total access would already be 90 percent of quota, before any significant conditionality or monitoring had been introduced.

The Acting Chairman commented that the only alternative in that case would be not to go ahead with the program at all until more time had passed and the Board was more confident that the uncertainties would be reduced. There would then be no disbursements. The flexibility the staff's proposal introduced would allow the Board to approve a program with some phasing, rather than no program at all, which it might otherwise very well decide to be appropriate.

Mr. Chatah said that the heart of the problem was whether or not phasing would truly be exceptional. He wondered what percentage of the programs that had been approved under that facility in the previous year might be judged to have warranted exceptional treatment.

The Director of the Exchange and Trade Relations Department replied that the number would be very small; in fact, he could only think of one particular case in the recent past in which that judgment would have been made. In that case, adjustment was being phased in only very gradually, and indeed it had been open to a great deal of interpretation as to whether or not the adjustment was proceeding smoothly.

Mr. Goos said that he could see no reason why the changes to the wording of the decision the staff had recommended should be turned down on behalf of a small handful of members which would be judged exceptional, in that they were following inappropriate policies or were pursuing adjustment only very weakly. The facility had not been designed to deal only with exceptional cases, and it was inappropriate to focus the Board's entire attention there, accordingly.

Mr. Chatah said that his chair had already sacrificed a part of the spirit of the original compensatory financing facility in order to arrive at a consensus on the compensatory and contingency financing facility. The change the staff wanted to introduce would move farther away--even though only slightly--from the spirit of the original facility. Also, under the proposed formulation the full disbursement would not be made if by the time of the review the shortfall had disappeared. That also would not be in keeping with the original spirit of the facility--namely, to deal as quickly as possible with the consequences of export shortfalls arising in a specific period.

The Acting Chairman observed that it was clear that Directors would need to give more thought to the issues related to the compensatory and contingency financing facility. The staff would have to formulate a decision for the Board's consideration that would implement those items on which agreement had been reached. He suggested that the Board return to the issues once they had had more time to reflect on them, and once the staff had taken stock of Directors' comments in a further paper.

The Acting Chairman then made the following summing up:

> Directors confirmed their broad support for the rationale underlying the compensatory and contingency financing facility. Most Directors favored the essential features of the facility, although some would have preferred more fundamental changes. Proposed revisions to the decision on the compensatory and contingency financing facility will be provided to the Board in light of the discussion. The facility will be reviewed again before the end of 1991.
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> Mrs. Filardo and other Directors focused on the question of contingency mechanisms in the context of Fund arrangements. The review of conditionality later in the year will provide an opportunity to look at the experience with contingency mechanisms that

have been built into Fund arrangements, and the lessons that can be drawn from them. In the light of that discussion, the Board can then decide on whether it wants to consider developing general guidelines, and perhaps take those issues up in the context of the next review of the compensatory and contingency financing facility or the next review of conditionality.

With respect to the contingency element, existing provisions would remain unchanged with respect to access, the need for an appropriate mix of adjustment and financing, symmetry, and the activation procedures, including, in exceptional circumstances, advance approval for disbursements of contingency financing under the facility without a further Board review of the associated arrangement. It was understood that the sublimit of 35 percent of quota on the financing of interest rate contingencies should be retained, at least for the present, but that the issue would be discussed again when the staff had formulated a draft decision on the revised facility.

With respect to the proposed modifications in the contingency element, Directors supported the staff proposal to limit coverage to those key exogenous external components of the current account that are highly volatile, can be easily identified, and the movements of which are clearly beyond the control of the authorities. Fund charges would continue to be covered by contingency mechanisms, although several Directors expressed their reservations on that score.

While the proposed change would avoid a detailed ex ante prespecification of a large number of variables, due consideration would be given to the effects on the current account of changes in excluded exogenous variables which were widely recognized to have been influenced substantially by developments in world markets. If unforeseen movements of those excluded variables offset the effects of movements in exogenous variables included in the calculation of the net sum of deviations, the need for contingency financing would be assessed by the Board. In making that assessment, it was agreed that the benefit of the doubt would favor activation of the mechanism. Access to additional Fund resources under the contingency element of the facility would in all cases be limited to the amount by which the actual balance of payments outturn differs from the program target.

A range of views were expressed concerning the use of 10 percent for the size of the threshold. In light of those views, and as indicated in the staff proposal, some flexibility around that target could be expected; in some cases, it would be smaller, in others, a bit larger, depending on the circumstances of individual members. It would be expected that programs would absorb the effects of shocks up to the threshold, and that the financing proportion would be applied only to that part of the net sum of deviations that exceeded the threshold. Under that approach, the separate deductible of 4 percent of quota would be eliminated.

Parallel contingency financing from other creditors would continue to be pursued vigorously, although Fund contingency mechanisms could be approved without such financing being in place. It would be understood that the Fund contingency mechanism would not be activated unless the program continued to be fully financed, however.

Members would be able to request a contingency mechanism from the Fund either at the time of approval of the associated arrangement, or at the time of the Board review of annual programs under multiyear arrangements. As a transitional provision, members with existing multiyear arrangements would also be able to request a contingency mechanism at the time of the Board review of annual programs, under the terms of the revised decision.

The Executive Board discussed the possibility of augmenting semiannual disbursements under the enhanced structural adjustment facility in the event of unfavorable deviations from a prespecified baseline projection, through a rephasing of the amount available within the three-year period of the enhanced structural adjustment arrangement. Some Directors supported that possibility, while others had reservations. In any case, the subject will not be taken up until the time of the review of the enhanced structural adjustment facility.

With respect to the compensatory element of the compensatory and contingency financing facility, there was support for the proposal that the term "Fund arrangement" in paragraphs (12) and (36) of the decision be taken to mean a stand-by arrangement, or an extended arrangement, or a structural adjustment or enhanced structural adjustment arrangement supporting a program that meets the criteria for the use of Fund resources in the upper credit tranches.

On the question of access to compensatory financing, it was agreed that the staff would put forward its proposal with more detailed background on how it would be implemented. At the time of the discussion of the draft decision, Directors could approach the issue afresh, and hopefully come to a view on an interpretation that would help avoid difficult discussions in individual cases. The staff would prepare a draft decision on that basis.

Directors agreed to extend the provisions of the decision relating to the compensatory financing of fluctuations in the cost of cereal imports for a period of four years.

2. BUFFER STOCK FINANCING FACILITY - INTERNATIONAL NATURAL RUBBER AGREEMENT, 1987

The Executive Directors considered a staff paper on the possible financing by the Fund of natural rubber buffer stocks established under the 1987 International Natural Rubber Agreement (INRA) (SM/90/40, 2/14/90).

The staff representative from the Research Department stated that Sri Lanka had applied for membership in the Agreement, which would make it the fifth exporting member, in addition to Indonesia, Malaysia, Nigeria, and Thailand. In January and March 1990, the buffer stock manager of the International Natural Rubber Organization had conducted market support operations by purchasing small quantities of rubber, using for that purpose a total of SDR 20 million in initial contributions that were made by members when the Agreement entered into force in April 1989. In the previous week, the buffer stock manager had called up additional contributions of approximately SDR 36 million in anticipation of further support operations, and those amounts were due within 60 days. Both contributions would be sufficient to enable the buffer stock manager to purchase about 88,000 tons of natural rubber, which compared with a total capacity of the buffer stock of 550,000 tons.

Mr. Ismael made the following statement:

I am in broad agreement with the staff's evaluation and recommendations. I can therefore support the proposed decision, except for paragraph 4(b), which I feel should be amended.

I welcome the proposal for Fund financing of eligible members' contributions to the buffer stock of the 1987 INRA. Natural rubber is important to my constituency, and to three of its members in particular--namely, Malaysia, Indonesia, and Thailand--in which natural rubber makes an important contribution to GDP, export earnings, employment, and income. On a global basis, those three countries together account for 75 percent of world production and 90 percent of world exports of natural rubber.

The producing countries will like to see stability in natural rubber prices for two main reasons. First, it will provide a considerable degree of stability to the foreign exchange earnings from natural rubber for the producing country, and no less important, to the income of the rubber growers, the majority of whom are smallholders; and second, it will provide the incentive for new planting, as well as replanting, especially by the more efficient plantation sector. With the development of increasingly higher yielding clones of natural rubber and improved technology, any new investment in natural rubber planting will increase productivity and output over the longer term to meet the growing demand for the commodity.

For the consuming countries, the buffer stock ensures the continuous availability of supply, while the stable prices make stock inventory management much easier.

Chart I of the staff paper clearly demonstrates the vulnerability of natural rubber prices to developments in economic activity in industrial countries. I note that much sharper fluctuations in the prices for natural rubber accompanied the fluctuations in industrial production. In this regard, a buffer stock scheme, whereby supplies are withheld when demand is low and released when demand is high, will certainly help to moderate such sharp fluctuations in the price for natural rubber.

I note with satisfaction the staff's assessment that the 1979 INRA has been successful to a large extent in stabilizing natural rubber prices within the agreed price range. Although the deep recession of 1981-82 and the slowdown of 1984-85 resulted in some fall in prices for natural rubber, a sharper price slide has been avoided due to purchases of natural rubber by the buffer stock manager. While the floor price was defended successfully, the ceiling price was breached during 1988 despite sales of natural rubber by the buffer stock manager. However, as pointed out by the staff, this was due mainly to unavoidable logistical and technical factors, which delayed the supplies released from the buffer stock in reaching their destination.

Regarding the proposed decision, I propose an amendment to paragraph 4(b), in an effort to bring it more in line with Article 40(3) of the 1987 INRA. According to Article 40(3), when a member does not wish to participate in the new agreement, it will be entitled to the payment of its share in the Buffer Stock Account. Therefore, I propose that the second and third lines of the draft decision be amended as follows:

"...will be expected to repurchase at an earlier date than would otherwise be required, when the members receive payment of their respective shares in the Buffer Stock Account."

Mr. Kwon stated that he could accept the staff's recommendation, and could endorse the proposed terms under which financing from the Fund's buffer stock financing facility should be available for buffer stocks under the 1987 INRA. His chair had serious difficulties of principle with the buffer stock financing facility and the Fund's role in financing such activities, but he recognized that the present discussion was not the time to canvass those more fundamental issues. He had no argument with the staff's judgment that the 1987 Agreement met the Fund's established criteria.

Mr. Enoch stated that he, too, could endorse the proposed decision, including the amendment that Mr. Ismael had suggested. The staff paper demonstrated that the Agreement fulfilled the requirement for financing under the buffer stock financing facility. The new Agreement was indeed an improvement over the previous one, in that commercial borrowings were not allowed--the lessons of the last International Tin Agreement had been well learned. He would be interested to know whether improvements had also been made in storage procedures. The breach of the ceiling price during the previous agreement had shown that in any form of market intervention, timing might be as important as quantity.

While the United Kingdom was a signatory to the Agreement and he supported the proposed decision, he would nevertheless like to express the preference of his authorities for a freely functioning market, with support for members facing fluctuating export prices to be provided, as necessary, through the compensatory and contingency financing facility, Mr. Enoch concluded. That would ensure that Fund disbursements would be attended by appropriate conditionality, as was currently the case, in practice, with respect to all other commodities.

Mrs. Hansen stated that she agreed with the staff's analysis that the terms of the 1987 INRA met the criteria for Fund assistance under the buffer stock financing facility. In fact, the new provisions for adjusting the price stabilization band more quickly and more automatically when market conditions changed made that a stronger Agreement than the previous one, which the Fund had supported.

She saw little likelihood that any of the parties to the Agreement would actually need to draw upon the buffer stock facility, Mrs. Hansen went on. Fortunately, the countries which had a major share in the international rubber trade, and might conceivably draw significant amounts under the facility, were currently in relatively strong balance of payments positions. While it was true that some parties to the Agreement had weaker external positions, some of those countries had Fund-supported programs in place, or would be likely to, if a balance of payments crisis were to arise. In any event, as smaller players in the rubber trade, their contributions to the rubber stock, and drawings on the buffer stock facility, would be quite small, even minimal. Under those circumstances, and with no other qualifying commodity agreements in sight, one might ask whether it was still worthwhile for the Fund to administer a separate facility for the purpose of financing members' contributions to international buffer stocks.

She recognized, however, that countries' current economic situations could change over the life of the new Agreement, and that recourse to the buffer stock facility could be useful for some members, Mrs. Hansen concluded. On that basis, she could support the proposed decision.

The staff representative from the Legal Department stated that Mr. Ismael's proposed modification of the draft decision was small in substance. It opened up the possibility of a member of the 1979 INRA who did not wish to participate in the 1987 Agreement to be repaid its contribution to the Buffer Stock Account under the predecessor Agreement. The staff could go along with Mr. Ismael's amendment.

Mr. Dai stated that he agreed with the staff's evaluation of the past experiences of the 1979 INRA and its conclusion on the suitability of the 1987 INRA for Fund financing under the buffer stock financing facility. Accordingly, he could support the decision proposed by the staff, as amended by Mr. Ismael.

Mr. Hubloue stated that he supported the proposal for Fund financing of contributions to the buffer stock of the new INRA. Apart from the question raised by Mr. Enoch on the procedures for managing the stocks, he had only one minor additional observation. The staff had summarized the considerations which were expected to limit members' reliance on the Fund for financing their contributions to the buffer stock, and in that connection it was noted that only members with balance of payments need would qualify for Fund support under the decision. He was not fully convinced that that was really consistent with the general principles and guidelines of the buffer stock financing facility, but if that would be the case, it might be useful to add an explicit reference to that fact in the text of the proposed decision.

The staff representative from the Research Department stated that balance of payments need was a general requirement for any purchase from the Fund under any facility. The guidelines for the buffer stock financing facility--established in 1969--in fact referred to that requirement. It was to be assumed that any drawings in connection with international natural rubber buffer stocks would be made in accordance with the Fund's general guidelines, and the guidelines for the buffer stock financing facility. In that respect, specific reference to those guidelines in the text of the Fund's decision authorizing use of Fund resources in connection with the natural rubber buffer stocks was not really necessary.

Mr. Goos stated that he was not a friend of arrangements for price stabilization and risk allocation, nor did he like the idea of approval of Fund financing without parallel policy adjustment, but his concerns with respect to the 1987 INRA were considerably alleviated by the satisfactory experience under the previous Agreement, as Mr. Ismael had noted, and by the more flexible review mechanism for the price stabilization range and the improved financing arrangements. Moreover, it was reassuring to note that the Fund's liquidity was unlikely to be affected significantly, which, as Mrs. Hansen had observed, raised the issue of whether it was reasonable for the Fund to stand ready to provide drawings for the Agreement under those circumstances. Everything considered, however, and in light of the fact that the requirements for access to the buffer stock financing facility would be met, he could support the proposed decision.

M . Ichikawa stated that he agreed with the thrust of the staff's analysis, and welcomed the fact that the 1987 Agreement incorporated two distinct features: provisions for a more prompt and automatic price adjustment, and the requirement of a cash contribution. He supported the proposed decision, and had no difficulty in going along with Mr. Ismael's amendment to it.

Mr. Menda stated that like previous speakers, he supported the proposed decision, including Mr. Ismael's modification of it. The staff had provided useful information on the satisfactory functioning of the 1979 INRA and on the use of Fund resources under the buffer stock financing facility since 1979. The new INRA appeared to be consistent with the criteria for use of the buffer stock financing facility, and it was basically an extension of the previous Agreement. The two modifications, namely, to the mechanism of price revisions and the exclusion of commercial borrowing to finance the contingency buffer stock, represented a strengthening of the Agreement, and were welcome.

Mr. Iqbal stated that he found the terms and conditions of the 1987 INRA compatible with the criteria for Fund assistance under the buffer stock financing facility. Its objectives and instruments were consistent with the stability of natural rubber prices, without imposing discriminatory trade restrictions or long-term restrictions on the supply of natural rubber. The Agreement provided for a more prompt revision of prices than the previous Agreement. It was also noteworthy that financing of both the normal and the contingency buffer stocks would be from members' own resources, rather than from commercial borrowings, which would strengthen the arrangement.

While he had no hesitation in supporting the suitability of the Agreement for Fund financing, like other Directors, he wondered whether a substantial use of the buffer stock financing facility for that purpose could be anticipated in the foreseeable future, Mr. Iqbal concluded. Three of the four natural rubber exporting members--Indonesia, Malaysia, and Thailand, which accounted for about 90 percent of world output--had at present comfortable balance of payments positions. The fourth signatory--Nigeria--while having a balance of payments need, accounted for less than one percent of total production. Perhaps if Sri Lanka, which accounted for almost 4 percent of world output, were to participate, an early and measurable use of the buffer stock financing facility could be expected. However, in view of the high volatility of natural rubber prices, ready access to the buffer stock financing facility should continue to help stabilize the natural rubber market.

Mr. Hogeweg and Mr. Jones said that they supported the proposed decision, along with the amendment to it proposed by Mr. Ismael.

Mr. Othman stated that it was clear from the staff paper that there was no basic difference between the 1979 INRA, the eligibility for use of the buffer stock financing facility of which the Executive Board had approved, and the 1987 Agreement. On the contrary, it seemed that the two important modifications which had been introduced represented, as the staff had indicated, a strengthening of both the Agree-ment's market intervention mechanism and its financing arrangements. Furthermore, the staff pointed out that the new Agreement provided a reasonable assurance that it would help to stabilize the price of natural rubber, an aim consistent with the Fund's criteria for the stabilization of prices of primary commodities. The 1987 Agreement could therefore be seen to satisfy the terms of the Fund's decision on the buffer stock financing facility. He could thus support the proposed decision, as amended by Mr. Ismael.

Mr. Kyriazidis and Mr. Gurumurthi said that they could support the proposed decision, as amended by Mr. Ismael.

The staff representative from the Research Department stated that, as Mr. Enoch had noted, the buffer stock manager had encountered storage problems in moving the natural rubber stocks held in Europe back to the markets in the Far East. In order to address that problem, the International Natural Rubber Organization had established a committee which had been charged with doing an in-depth study of the operations of the 1979 Agreement, specifically, with the experience of the storage problem in mind. Although there was no timetable for that study, it might be completed before the end of 1990, and was therefore likely to precede any sales from the buffer stock.

The Executive Directors took the following decision:

1. The Fund, having considered the text of the International Natural Rubber Agreement as established by the United Nations Conference on Natural Rubber on March 10, 1987 (hereinafter called "1987 International Natural Rubber Agreement"), finds that the international natural rubber buffer stock established under the terms of that Agreement is consistent with the principles referred to in Executive Board Decision No. 2772-(69/47), adopted June 25, 1969, as amended.

2. In view of paragraph 1 above, the Fund will be prepared to meet, subject to the provisions of Executive Board Decision No. 2772-(69/47), as amended, a member's request for a purchase in connection with the financing by the member of its direct compulsory contribution toward covering the acquisition costs of the buffer stock established under the 1987 International Natural

Rubber Agreement, if its request is received in the Fund not later than six months after the date of the contribution.

3. A member that has outstanding purchases under this decision,

(a) shall make repurchases in respect of these purchases in accordance with paragraph 1 of Decision No. 5703-(78/39), adopted March 22, 1978, as amended, and

(b) will be expected to repurchase at an earlier date than would otherwise be required, when, upon termination of the 1987 International Natural Rubber Agreement without replacement by a new agreement providing for a buffer stock in natural rubber, transfers in liquidation are made to the member. Any transfer of natural rubber from the buffer stock to the member will be treated as a distribution in currency, valued at the lowest current price for each type or grade so transferred during the 30 market days preceding the termination of the Agreement.

4. If the 1987 International Natural Rubber Agreement is to be replaced by a new agreement providing for a buffer stock in natural rubber,

(a) a transfer of all or part of a member's share under the 1987 International Natural Rubber Agreement to the buffer stock account of the new agreement will not be treated as a distribution in currency for the purpose of repurchase, if within 180 days after the termination of the 1987 International Natural Rubber Agreement the Fund finds the terms of the new agreement to be consistent with the principles referred to in Executive Board Decision No. 2772-(69/47), as amended, and

(b) members that do not participate in the new agreement will be expected to repurchase at an earlier date than would otherwise be required when the members receive payment of their respective shares in the buffer stock account.

5. The staff will keep the Executive Board informed on the operation of the buffer stock and other developments in connection with the 1987 International Natural Rubber Agreement by reports that will be made at least once a year, and the Fund may make such review of this decision as is appropriate in the light of these reports.

Decision No. 9403-(90/53), adopted
April 4, 1990

APPROVED: February 4, 1991

LEO VAN HOUTVEN
Secretary