A Note on Resources of the Existing Buffer Stock Commodity Organisations

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The International Tin Agreement

Introduction

1. Finance for the International Tin Council has been provided by producers on a mandatory basis; there has been also limited voluntary producer contributions and since the Fourth Agreement voluntary consumer contributions. The principle of mandatory consumer contributions is now gaining wide acceptance notably in the context of the UNCTAD negotiations. Finance from international agencies has been generally limited.

2. Commercial credit has been used to a relatively minor degree though its extensive use in the latter part of the Fourth Agreement indicated the importance of this new direction in financing and provided the International Tin Council with considerable practical experience. Previously its use had been discouraged by high interest rates and the tendency to resort to export control. However, borrowing is likely to become increasingly important in the future operations of the Agreement.

Producer contributions

3. The buffer stock under successive agreements has depended mainly on compulsory contributions from producing countries made in tin metal or in cash, the cash equivalent being calculated at the floor price. The floor price for this purpose was that at entry into force of the agreement under the first four agreements and at the date on which the amount was called under the Fifth Agreement. Contributions are paid in convertible currency in proportion to export quotas, in turn related to recent production levels. In the Fourth Agreement producers provided £27 million.

4. In addition to mandatory contributions producers have on occasion provided voluntary contributions. In 1958 they provided £1.1 million in this way to a special fund at the disposal of the buffer stock manager. The Congo contributed £120,000, Malaysia £506,000 (in the form of a bank guarantee), Bolivia £276,000, Nigeria £72,000 and Thailand £99,000. These voluntary contributions were legally separate from the mandatory contributions.

5. A review of producer contributions over the five agreements is given in Table 1 followed by details relating to the Fourth Agreement. Indications of contributions in the current agreement are given in Table 4; these are based on percentages which were subject to amendment in the light of recent production data. They may be taken as illustrative of the position.

Consumer contributions

6. The Netherlands and France contributed a total of £1.9 million to the buffer stock in the Fourth Agreement. In the Fifth Agreement contributions equal in size to those of producers were invited from consumers. A number of undertakings were given. If all consumers contributed, the total buffer stock fund would amount to 40,000 tonnes.

Income from trade and investment

7. The International Tin Council has consistently shown a surplus on its trading operations. This rose sharply in the last year of the Fourth Agreement when heavy sales of tin and a substantial run-down of stock levels were achieved at favourable prices. Receipts from investment also provided a significant part of buffer stock finance. In the Fourth Agreement the excess of income over expenditure was reported as £34 million.

Commercial credit

8. Commercial credit was first obtained in 1968. Overdraft facilities of £6 million were negotiated with a commercial bank. A merchant bank provided drawing facilities of £0.5 million while a short term loan of £0.8 million was obtained from a metal dealing firm. These resources were adequate to purchase over 10,000 tons and a net profit of £40,000 was realised. However, interest rates were high and discouraged such operations.

9. The principle of commercial credit on the security of tin warrants was legalised from the Second Agreement and in 1966 the Council paid a commitment fee of £112,500 for the right to draw up to £10 million during the life of the agreement from a consortium of sterling banks in London. This was not drawn upon.

10. Lines of credit were arranged under the Fourth Agreement beginning with a sum of £5 million in December 1971; subsequently this was increased to £8 million (end 1972) and to £16 million (end 1974). At the end of 1975 further credit facilities of £20.5 million were negotiated bringing the total up to £36.5 million. From October 1975 to April 1976 this stand-by facility was used and after meeting interest and commitment fees a significant profit was made. This was the first time commercial credit had been used so extensively to support buffer operations.

11. In general the Council paid interest on advances at 3/4 of one per cent above LIBOR and the security offered was tin pledged by the Council to the bank "having a value of not less than 125 per cent of the principal amount of the loan, either warehoused in the name of the bank or represented by warrants or bills of lading...". If, at any time, the value of the tin pledged fell below 125 per cent of the principal amount of the loan, the Council might be required to pledge additional tin to make good the deficiency; if, at any time, the value of the tin pledged exceeded 125 per cent, tin pledged in excess was to be released to the Council. A similar facility for drawings of up to £3 million was granted by a merchant bank. The collateral available for such loans was more than adequate. For example, in June 1975 the tonnage of tin held in stock by the Council was 11,800 tonnes. At the floor price in force at the time the amount of tin necessary to cover 125 per cent of £16 million would have been just over 7,000 tonnes, or nearly 60 per cent of the stock held.

12. The interest rate paid by the International Tin Council, for loans provided under the stand-by facility extended by London banks, was around 7 per cent in addition to a commitment fee on the undisbursed amount of the loan. In view of the liquidity needs of buffer stock operations this fee may become important since the amounts committed, but undisbursed, may on average be much larger than the amounts disbursed. This fee, expressed in terms of an equivalent interest rate on withdrawals, was one-eighth of 1 per cent. Over long periods the Council made little use of the facility. Allowing for this the fee would bring about an interest burden of about 1.1 per cent in addition to the 7 per cent nominal interest rate.

International agencies

IMF buffer stock facility

13. Since the IMF buffer stock financing facility was set up in 1969 five members purchased a total of SDR 30 million (Table 3). The IMF met the demand for resources under this facility and its compensatory financing facility without recourse to borrowing. Buffer stock drawings diminished after the early 1970s. Drawings are at present significant only for Bolivia whereas previously they were important also for Malaysia, Indonesia, Thailand and Nigeria. When used to their maximum in 1972 they accounted for nearly three quarters of producer contributions.

14. The IMF does not provide loans directly to an international buffer stock. It lends to countries which contribute to a buffer stock. The amount lent by the IMF is governed by the country's quota and the rules for drawings. A further limitation is that such drawings are treated as ordinary short term lending subject to repayment after three to five years.

The World Bank

15. The possibility of direct financing of tin buffer stocks by international agencies had been under investigation for some years. In the early 1960s, informal talks took place with the World Bank, though such a possibility then lay outside the charter of the Bank; the matter was left subject to review. In May 1975 a Working Party was appointed to consider IMF and IBRD proposals, but no satisfactory arrangements could be arrived at.

16. It seemed that the major difficulty encountered was that of guarantees for the proposed loan: some countries, though members of the International Tin Agreement, could not be considered by the World Bank as guarantors because they were IDA recipient countries; others, as developed countries, were not entitled to borrow from the Bank. Therefore,in the case of a direct loan to the Tin Council, the loan would be considered as divided conceptually into portions attributable to a restricted list of eligible countries which would be expected to share proportionately in the necessary guarantees of the loan. The terms suggested were a 15-year maturity, including a five-year grace period, and, at the time (May 1975), an interest rate of $8\frac{1}{2}$ per cent per annum on funds disbursed and outstanding together with a commitment charge of 3/4 of one per cent per annum on amounts not disbursed. The loan agreement would have provided for renewal or termination at the end of each International Tin Agreement but the amortization was fixed at 15 years even though the Tin Council might have surplus liquidity in times of high demand for tin.

Statistics

Table 1 - Buffer stock positions (producer contributions) 1956-81

	Initial position		Final position	
	thousand tonnes	£ million	thousand tonnes	£ million
1st Agreement	27	17	28	20
2nd Agreement	20	15	20	19
3rd Agreement	20	20	20	28
4th Agreement	20	27	(16)	(60)
5th Agreement	20	(72)		

Table 2 - Fourth agreement: producer contributions

	thousand tonnes	£ million
1971-72		
Initial contribution	7.5	10.1
Subsequent contribution	5.0	6.8
Balance June 1972	12.5	16.9
1972-73		
Subsequent contribution	5.0	6.8
Balance June 1973	17.5	23.6
1973-74		
Refund	7.5	10.1
Balance June 1974	10.0	13.5
1974-75		
Subsequent contribution	10.0	13.5
Balance June 1975	20.0	27.0
1975-76		
Balance June 1976	20.0	27.0

Table 3 - Fourth agreement: total contributions and IMF buffer stock drawings

	1972	1973	1974	1975	1976
	£ million				
Producer contributions[1]					
Australia	-	1	1	1	1
Bolivia	3	4	2	5	5
Indonesia	2	3	2	3	3
Malaysia	8	11	6	12	12
Nigeria	1	1	1	1	1
Thailand	2	3	2	4	4
Zaire	1	1	-	1	1
Total	17	24	14	27	27
IMF buffer stock drawings[2]	12	9	3	3	-
Drawings as a percentage of producer contributions	71	37	21	11	-
Consumer contributions[1]					
France	1	1	1	1	1
Netherlands	1	1	1	1	1
Total all contributions	19	26	16	29	29

[1] Twelve months ending June of year shown.

[2] End year shown.

Table 4 - Fifth agreement: producer contributions

	Percentages	Value in[1] £ m.
Australia	4.37	3.1
Bolivia	18.06	13.0
Indonesia	13.71	9.9
Malaysia	43.60	31.4
Nigeria	4.17	3.0
Thailand	12.55	9.0
Zaire	3.54	2.6
Total	100.00	72.0

[1] Based on initial floor price.

Table 5 - Buffer stock finance 1956-76

	First agreement	Second agreement	Third agreement	Fourth agreement
	£ million			
Contributions	16.0	14.6	20.0	28.9
End positions	20.3	19.3	27.6	63.2
Surplus:				
from interest	1.4	4.7	4.8	4.8
from trade	3.0	0.1	2.9	29.5
Total	4.4	4.8	7.6	34.3

Table 6- Fourth agreement: income and expenditure

	1972	1973	1974	1975	1976
	£ million				
Income					
Sales	3.3	19.1	30.5	14.6	122.3
Interest receipts etc.	0.3	0.6	2.4	2.7	-0.9
Total	3.6	19.7	32.9	17.3	121.4
Expenditure					
Purchases plus stock changes	3.3	17.1	24.1	14.3	99.4
Operating costs etc.	0.1	0.5	0.2	0.4	1.3
Total	3.4	17.6	24.3	14.7	100.7
Earnings	0.2	2.1	8.6	2.6	20.7

The International Cocoa Agreement

Introduction

17. The 1972 International Cocoa Agreement (ICCA) effective since 30 June 1973, provided for the establishment of a maximum buffer stock of 250,000 tonnes of beans or about one-sixth of the world crop. This provision has been renewed in the 1975 ICCA which entered into force on 1st October 1976. The proposed buffer stock could not, however, be established because market prices have remained well above the floor of the Agreements price ranges.

18. The 1972 ICCA also provided for the establishment of a Buffer Stock Fund, to be raised from a levy of one US cent per lb on all cocoa (including cocoa products) first exported or imported by a member The levy has so far been maintained unchanged under the new Agreement although the International Cocoa Council has the authority to effect a reduction in the levy or to suspend it altogether. Since the levy has to be paid on first cocoa exports from members and on first cocoa imports by members (i.e. from non-members) the direct burden of the levy has fallen almost wholly on producers (Table 7).

Administrative arrangements

19. Operations of the buffer stock fund are in the hands of a buffer stock manager who is appointed by the International Cocoa Council and who acts in accordance with the rules established by the Council. The Finance Committee of the Council approves the types of investment in which buffer stock assets are held.

20. The Fund acts through agents in member countries. The agents issue cocoa export stamps, covering a range of denominations from 50 kg to 500 tonnes, which are used to validate ICCO certificates. This procedure ensures that agents obtain payments of levy contributions or an irrevocable guarantee for payment thereof within three months from the date of supply of the stamps. In countries where the certifying agency happens to be a government agency or organization, such a guarantee is not required. Because of the deferred payments by certifying agencies, some delays occur in the transfer of levy to the Fund authorities in London but on the whole the system has proved effective.

Buffer Stock Fund

21. Contributions to the Buffer Stock Fund, which depend on exportable production of producing members and import demand by consuming members, at the expiry of the 1972 ICCA (on 30th September 1976) totalled US$82.6 i.e. about US$27½ million a year. With the accrual of further contributions from the levy and net interest earned the resources of the Buffer Stock Fund at the end of 1976-77 (30th September) are expected to reach US$122 million, which will be available for purchases, if any, during the 1977-78 season. At the current minimum price of 39 US cents per lb, stipulated in the 1975 ICCA, these funds would be sufficient to purchase over 142,000 tonnes of beans. Recent studies have indicated that stock purchases of 50,000 tonnes might prove sufficient to hold prices even in the context of a favourable production outlook and a pessimistic consumption forecast. Such a small size of buffer stock is considered sufficient in the near future because in the event of a price decline from levels almost three times the intervention limit a substantial restocking by manufacturers would be expected. For the long-term however it should be noted that the UNCTAD Secretariat's estimate of maximum stocking requirements of a cocoa buffer-stock is over 300,000 tonnes.

Available resources

22. Assuming that the International Cocoa Council revises the ICCA price range upwards and a stock of 50,000 tonnes is purchased in the 1977-78 season at say 78 US cents per lb or double the existing floor level of 39 US cents, it would require an expenditure of US$86 million from the Fund. This will leave a balance of US$ 36 million from the US$ 122 million accumulated up to 30th September 1977. Allowing for contributions (from the levy) of US $27.6 million in 1977-78 and an interest income of US$ 9.3 million, liquid resources of the Buffer Stock Fund at the end of 1977-78 season would total US$ 73 million, which would be in addition to the buffer stock of 50,000 tonnes of beans. If members of the International Cocoa Council so decide, these surplus funds could, subject to appropriate liquidity and withdrawal guarantees, be made available to the proposed Common Fund.

Statistics

Table 7 - Buffer stock contributions

	1973-74	1974-75	1975-76	1976-77 [2]
	million $			
Brazil	5.0	5.5	5.0	2.5
Ghana	7.7	8.6	8.7	5.5
Ivory Coast	4.3	5.2	5.1	4.5
Nigeria	4.7	5.8	4.8	2.7
United Republic of Cameroon	2.4	2.5	2.0	1.5
Consumer countries [1]	1.1	1.1	1.0	0.6
Others	0.6	0.7	0.8	0.5
Total	25.8	29.4	27.4	17.8
Percentage supplied by producer countries	96	96	96	97

1 Australia, Austria, Belgium/Luxembourg, Canada, Finland, France, German Federal Republic, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom.

2 Up to end of June 1977.

Table 8 - Analysis of buffer stock contributions and interest received (June 1977)

Contributions and interest		
		million $
Contributions		
Quota year	1973-74	25.8
	1974-75	29.4
	1975-76	27.4
	1976-77	17.8
Net interest to date	(1973-77)	8.9
Total		109.2

1 Up to June 1977.

Table 9 - Investment account (June 1977)

Buffer stock investment with banks		
		million $
Total short term	(1 - 3 months)	40.5
Total medium term	(3 - 6 months)	49.5
Total long term	(6 - 12 months)	16.9
Total		106.9

Table 10 - Possible purchases from buffer stock fund resources

	1973-74	1974-75	1975-76	1976-77
Capital available (million $)	27	56	89	122
Minimum prices (c. per lb)	23	29.5	29.5	39
Possible purchases (000 tonnes)	53	86	137	142
- As percentage of maximum buffer stock provided in the agreements viz.250,000 tonnes.	21	35	55	57