

Rogers, Christopher D.

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# A Scheme for Enforcing the Tin Ceiling Price

by Christopher D. Rogers, Dundee

The United Nations Tin Conference which met in Geneva under UNCTAD auspices between April 13 and May 15, 1970, was successful in negotiating a new International Tin Agreement. If it obtains the necessary number of ratifications then the Agreement will come into force on July 1, 1971. Although successful in its major aim of securing a new agreement the Conference must be considered as a disappointment. A few minor changes have been made to the existing agreement but the opportunity for a radical change in the Agreement has been missed. Essentially the Agreement remains the same as the earlier International Tin Agreements. There are only two modifications of any significance. The first is that greater flexibility in buffer stock operations is now provided for. The Buffer Stock Manager will be given a greater opportunity to buy and sell tin in the upper and lower sectors of the buffer stock price range. The second modification was a necessary one to take account of the proposals of the IMF to assist countries contributing to buffer stocks. The agreement has been designed to take account of the criteria established by the IMF.

This paper argues that the difficulties of the International Tin Agreements stem from the failure of the Agreements to enforce the maximum price for the commodity established in the Agreements, and continues to suggest one possible solution. It is this basic problem that has led to a number of major consumers (e.g. USA and West Germany) not participating in the arrangements. Without full consumer participation the Agreements will inevitably fail to meet their stated objectives.

## The Buffer Stock Manager

The International Tin Agreements work to control the price of tin through operations of a buffer stock. The Agreements establish certain price ranges within which the Buffer Stock Manager (BSM) has to operate. The current floor and ceiling prices are £1280 per long ton and £1630, respectively. The BSM is forced (where resources permit) to sell tin in an effort to maintain the ceiling price and to buy tin to support the floor. But this broad range is subdivided into three

smaller ranges. The lower range (£1280–1400) gives the BSM discretion to buy tin, the middle range (£1400–1515) prohibits the BSM from entering the market as either buyer or seller, whilst the higher range (£1515–1630) permits the BSM to enter the market as a seller only.

The discretion that is afforded to the BSM by these arrangements gives him substantial flexibility of operation. The scope for potential intervention in the market is considerable and this is often sufficient to prevent from having to actually engage in buying or selling. Clearly, however, the effectiveness of the Agreements based on such a system depends upon the ability of the BSM to keep the price of the metal within the buffer stock price ranges. The success or failure of the BSM's efforts will depend to a large extent on the resources on which he has to draw — that is, on the size of the buffer stock. It could be argued that there will always be some buffer stock that would be large enough to contain any price fluctuation, but the larger the buffer stock the more expensive the Agreement is to operate.

In the Agreements the producing countries are the sole contributors to the cost of such a stock. Since these countries are all less developed countries the contributions to this stock make considerable inroads into their slender resources. The IMF and IBRD have recently announced proposals that would assist in the financing of buffer stocks and the proposed Fourth International Tin Agreement contains modifications to take account of the criteria established by the IMF. Nonetheless, the size of the buffer stock remains at 20,000 tons.

## Maintenance of Prices

The floor price can always be maintained beyond the resources of the buffer stock by the imposition of export controls to restrict the supply of tin to the free market. The International Tin Council has had only one unhappy experience when it failed to maintain the floor price of the Agreement. This was in 1958 when the peculiar circumstances of falling world demand due to

a recession in industrial countries and substantial sales of tin by communist countries coincided to send the price of the metal below the floor. The International Tin Council invoked the support of consumer members to meet this crisis and the United Kingdom, Netherlands and Denmark restricted their imports of tin from Communist sources. This action coupled with severe export controls (of 40 p.c.) was sufficient to halt the fall in price and to restore the price to within the buffer stock range in less than a fortnight. It seems reasonable to assume that such peculiar circumstances will not recur and that in any case the International Tin Agreements now have sufficient flexibility of action to be able to support the floor in all foreseeable circumstances.

The problems relating to the ceiling price are rather more serious. The ceiling price of the First International Tin Agreement was only exceeded in the last few weeks of the Agreement, but during the Second Agreement the price broke through the ceiling on several occasions in spite of upward revisions of the buffer stock price ranges. When the Agreement entered into force in July 1961, the ceiling price was £880, but by October 1964 the actual price on the free market had reached the exceptional high of £1715 with the buffer stock inactive for most of the Agreement. Even during the Third Agreement the cash price of tin exceeded the ceiling price in 1970, if only for a few days.

This clearly reveals the major failing of the International Tin Agreements to be their inability to enforce the ceiling price with a relatively small buffer stock. It is from this that a number of difficulties for the International Tin Agreements stem. It is often argued by the consuming countries that the inability to enforce the ceiling is either a reason for not joining the scheme or a major cause of dissatisfaction with the scheme. It reinforces the view of the consumers that the Agree-

ments favour the producers and resemble the schemes operated by the producer cartel in the inter-war years.

The consumers have also used this argument to explain their persistent refusal to help finance the buffer stock. They are not willing to give their financial support to arrangements which can only deal with a situation of excess supply and can offer them no protection against high prices in a time of shortage. Thus, there is an urgent need for some means of enforcing the ceiling price if the International Tin Agreements are to continue as a model for international co-operation. This proposal does not pretend to any new thinking and draws extensively on the experience of other commodities. The novelty of the proposal lies only in the way in which the mechanism is assembled to apply specifically to tin.

#### Guideline: Current Production Structure

The central feature of the proposal is that since it is difficult, if not impossible, to control the ceiling prices of tin through the regulation of supply and demand (unlike the floor price where the operations of the buffer stock are reinforced by the imposition of export control) the price must be imposed upon the current production structure. This could be achieved quite simply by refusing to allow the member producing countries to export their tin at more than the ceiling price. The producers would receive less than they could on the free market but this would be no unique experience since the producers of both lead and copper have operated schemes which followed a similar practice.

The consuming countries who were members of the Agreement would be given a quota which would depend upon their past consumption and could be adjusted periodically to take account of changes in consumption. These quotas would



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be very similar to the production quotas of the current Agreement. In a situation of a tin shortage the total output of the producing countries would then be transferred at the ceiling price to the consuming countries in proportion to their consumption quotas<sup>1</sup>. This requires two further mechanisms: a means of ensuring that all the available output of the producers is available for shipment at the ceiling price, and a means of allocating the tin between competing users within the consuming country.

The first of these seems to be the lesser problem. Clearly, in a scheme like that envisaged there will be a considerable incentive to smuggle the tin. But the arrangements to enforce the existing export quotas must be designed to overcome this problem as there is also a similar temptation at such times. Thus, the arrangements for enforcing the export quotas in the producing countries at a time of output restriction should be sufficient to collect the tin in a time of high prices. The arrangements will, of course, vary, as they do now, depending upon the circumstances of the separate producing countries. In the consumer countries the exact form the arrangements take could again be left to particular governments to meet the peculiar needs of the different countries but there seem to be two broad schemes which could be followed. The first would be to set up an internal market to allocate the supplies which would be separate from the external market. In circumstances of a shortage of metal under which the scheme will be operating it is reasonable to assume that the price on the internal market will be higher than the ceiling price on the international market.

The second system of allocation would be a system of quantity rationing similar to the system that would be pertaining on the international market. This would be appropriate where most of the tin was consumed by large and easily identifiable firms. Where consumption is more fragmented it would be easier to resort to a price system of allocation. But the choice of method would be left to the individual importing government.

### Introduction of an Adjustment Mechanism

In order to retain the producers' investment incentives which result from a high price it could be agreed to introduce an adjustment mechanism for raising the ceiling price on an automatic

scale. The kind of mechanism envisaged is one whereby, say, if the producers have been selling tin at the ceiling price for a continuous period of three months then the ceiling price automatically rises by a fixed amount. After a further period of three months under the same conditions the price would rise again.

The proposal as described so far represents a transfer of resources from the producing countries to the consuming countries so that if it is to be implemented then some concessions need to be made to the producers. The most obvious adjustment would be for the whole of the buffer stock price range to be raised after three months of sales at the ceiling, and not just the ceiling prices as hitherto suggested. The difficulty with this proposal is that this would presumably also necessitate the downward revision of the price ranges when export control has been in force for a given period of time (though this need not be three months). Thus, the balance of advantage may still reside with consumers.

### A More Attractive Scheme

A more effective suggestion would be to harness the new idea of consumption quotas to the granting of minimum import guarantees when the price is at the floor. This would involve the consumer countries taking supplies of tin off the market over and above what they would normally require for commercial purposes. As such they would be acting in the same way as buffer stock purchases to reinforce the floor. If consumers did build up such stocks, however, then there would have to be some control over how they would be run down in the period in which the price recovers from the floor. It may be simpler, therefore, to ask for contributions from consumers to the buffer stock when it is working to support the floor. The size of these contributions would be related to the consumption quotas.

This scheme as described seems to overcome most of the traditional objections to the operation of the International Tin Agreements. It provides a simple means of guaranteeing the ceiling price of the Agreement to the consumer members while at the same time adding to the safeguards to preserve the floor. It retains considerable flexibility for the member countries as to the exact method they choose to implement the proposals, indeed there can be a divergence of approach. In so doing it should help to make the scheme more attractive to consumer countries who should now be more interested in participation. The result should be both a better international commodity agreement and a better example of international economic co-operation.

<sup>1</sup> In this connection it is interesting to note that Article I (f) of the Third International Tin Agreement gives as an objective of the Agreement: "In the event of a serious shortage of supplies of tin occurring or being expected to occur, to take steps to secure an increase in the production of tin and a fair distribution of tin metal at equitable prices."