REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

The Fifth International Tin Agreement-Issues And Possible Implications

The United States intends to join the Fifth International Tin Agreement subject to Congressional consultations and ratification. This report presents the

--background on previous Tin Agreements,

--relation between the U.S. tin stockpile and the Tin Agreement,

--possible favorable and unfavorable consequences.

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report discusses possible implications of the United States joining the Fifth International Tin Agreement which entered into force in July 1976. The United States was not a member of the first four commodity agreements on tin.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget; Secretaries of Commerce, State, and Treasury; and Administrator of General Services.

R. F. Keller

ACTING Comptroller General
of the United States

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ABBREVIATIONS

GAO General Accounting Office
GSA General Services Administration

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

THE FIFTH INTERNATIONAL TIN AGREEMENT -- ISSUES AND POSSIBLE IMPLICATIONS

D I G E S T

The United States intends, subject to congressional consultations and ratification, to join the fifth in a series of 5-year agreements which have been in force between tin producers and consumers since 1956. It has not been a member of the first four agreements, but the Administration believes membership will have no adverse consequences and participation will provide benefits.

In 1974 the United States consumed 27 percent (51,611 long tons) of the world's tin production, principally for tinplating and solder. Virtually all of this tin was imported. However, the United States is not totally dependent on imports because it maintains a stockpile which on June 30, 1975, amounted to 207,118 tons, a 4-year supply. Of that amount, 166,618 tons, worth about $1,224 million, were excess to strategic needs. The sale of most of this excess will require specific congressional approval.

U.S. stockpile sales, which increase the supply of tin on the market, have been a chronic irritant to producers. They would like to see future sales of excess U.S. tin conducted in a manner which avoids adverse impact on the price.

Malaysia, Bolivia, Indonesia, Australia, Nigeria, Thailand, and Zaire produce 75 percent of the world's tin. They and 22 tin-consuming countries were members of the Fourth Tin Agreement which expired June 30, 1976. The Fifth Agreement entered into force on July 1, 1976.

Objectives of the Agreements are to provide for adjustment between world-wide tin production and consumption and to prevent excessive price fluctuations. Preventing price fluctuations, especially price decreases, is important to producer members, all of whom except Australia are developing countries, who depend on tin exports as an important source of foreign exchange.

To achieve its objectives, the Agreement provides for a Tin Council, composed of representatives of all member countries, to administer the operation of the Agreement and to set ceiling and floor prices. The Council attempts to keep prices between the ceiling and floor by operating a buffer stock from which it sells to restrain price increases and for which it buys to restrain price decreases.

When the buffer stock is unable to prevent the price from falling through the floor price, the Council can institute export controls. These administratively limit the supply of tin on the market and, thereby, help support the price.

The primary differences between the Fifth and Fourth Tin Agreements are aimed at increasing the size of the buffer stock from 20,000 to 40,000 tons and funding this increase through voluntary consumer contributions.

An important new clause in the Fifth Agreement provides for reviewing the level of consumer contributions after 2-1/2 years. At that time, the Council may request the U.N. Secretary General to convene a conference to renegotiate the Agreement. Producers want the buffer stock enlarged so that it can better protect the floor price and avoid the need for export controls. (See p. 13)

Rather than trying to stabilize export earnings by stabilizing commodity prices, a primary goal of commodity agreements, the United States would prefer to help developing countries stabilize earnings by creating a new development security facility in the International Monetary Fund. The facility would make loans when lower than expected export earnings cause serious balance-of-payments problems. Administration officials believe this would be more effective in helping developing countries to sustain their development programs. However, the United States is willing to discuss arrangements for individual commodities case by case. (See p. 16)

Government officials and industry representatives have pointed out that joining the Tin Agreement might have the following favorable consequences.

--Benefit U.S. relations with developing countries.

--Help deter "producer only" commodity groupings.

--Gain support of other consuming countries for sales from the U.S. tin stockpile.

--Reduce pressure on the United States to join unworkable agreements.

--Enable the United States to favorably influence Council decisions on changes in price ranges and imposition and removal of export controls.

They have also pointed out joining the Agreement might have the following unfavorable consequences.

--Create the risk of political confrontations with producer countries because of differing strong beliefs about commodity issues.

--Set a precedent and lead to pressure from less developed countries for U.S. participation in agreements for other metals and minerals. (However, U.S. policy statements have explicitly stated that U.S. membership in the Fifth Agreement does not imply U.S. participation in other agreements.)

--Put the United States under political pressure to conform stockpile sales with Tin Council operations.

--Create strong pressure on the United States to contribute to the buffer stock.

Government officials said membership in the Agreement should not be expected to provide material economic benefits nor secure access to tin supplies.

Should unfavorable consequences materialize, the Government and tin consumers may experience costs in the form of (1) a contribution to the buffer stock, (2) the interest cost of carrying tin that would otherwise be sold from the U.S. stockpile, and (3) higher prices. (See pp. 15 and 16)

The Departments of Treasury and Commerce and the General Services Administration commented that the report, in general presents a balanced presentation of the facts and issues relating to U.S. membership in the Fifth Tin Agreement.

The State Department disagreed with many aspects of the report. Its principal concern seemed to be its belief that GAO did not conduct "an independent and impartial analysis of the Fifth International Tin Agreement and its implications." (See app. I.)

GAO believes that the facts and issues relating to U.S. membership in the Agreement are presented in a balanced and impartial manner and comments from the Departments of Treasury and Commerce and the General Services Administration support this belief.

CHAPTER 1

INTRODUCTION

At the Seventh Special Session of the U.N. General Assembly, held in September 1975, former Ambassador Moynihan announced that the United States, as one aspect of its approach to commodity arrangements, intends to sign the Fifth International Tin Agreement, subject to congressional consultations and ratification.

The first Tin Agreement entered into force in 1956 for 5 years and has been followed by three successive 5-year agreements. The current, Fifth Agreement entered into force on July 1, 1976.

The members of the Fourth Agreement include seven tin-producing countries (Australia, Bolivia, Indonesia, Malaysia, Federal Republic of Nigeria, Thailand, and Republic of Zaire) that accounted for about 75 percent of the world's tin production in 1974 and 22 tin-importing countries (principally France, the Federal Republic of Germany, Italy, Japan, the United Kingdom, Canada, and Russia) that accounted for about 60 percent of world consumption in 1974. The United States is the largest tin-consuming country and bought 27 percent of the world's production in 1974. However, it has never been a member of the Agreements nor has the People's Republic of China, the fourth largest tin exporter.

Objectives of the Fifth Agreement are to:

--Provide for adjustment between production and consumption and alleviate difficulties arising from surpluses or shortages.

--Prevent excessive export earnings fluctuations.

--Help to increase export earnings, especially for developing countries to provide them with resources for accelerated economic growth and social development while at the same time considering the consumer interests.

--Ensure conditions which will help to achieve a dynamic and rising rate of production at a remunerative return to producers, to secure an adequate supply at prices fair to consumers, and to provide long-term equilibrium between production and consumption.

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The International Tin Council, composed of representatives of all member countries, administers the Agreements and tries to achieve these objectives by maintaining price within a desired range through the Agreement's two economic instruments: a buffer stock (metal and cash contributed mostly by producer members) and, when necessary, export controls. The Fourth Agreement provided for accepting voluntary consumer contributions to the buffer stock, and France and the Netherlands made such contributions. Belgium, Canada, and the United Kingdom have agreed to contribute to the buffer stock under the Fifth Agreement. The Council uses the buffer stock to affect the price of tin by buying or selling tin on the London Metal Exchange and the Penang, Malaysia, market. The decision to buy or sell is determined by the relations between the market price of tin and the price ranges the Council has established. The Council, by buying tin, absorbs excess supply and may strengthen the price; by selling tin, it increases supply and may weaken upward price pressure.

Since July 1972, the price ranges have been denominated in Malaysian dollars per picul (133-1/3 pounds). Price ranges effective on May 7, 1976, and actions the buffer stock manager must take when the market price is in those ranges are shown below.

Price ranges	Malaysian dollars per picul	Equivalent U.S. dollars per pound (note a)	Buffer stock action
Ceiling	1,200	$3.55	must sell
Upper range	1,200 1,135-	3.55 3.35-	may buy or sell but must remain net seller
Middle range	1,135 1,065-	3.35 3.15-	no action
Lower range	1,065 1,000-	3.15 2.96-	may buy or sell but must remain net buyer
Floor	1,000	2.96	must buy

[a] Based on the exchange rate for July 1, 1976 on a 20-day basis: one Malaysian dollar equals 39-2/5 U.S. cents.

When the price of tin is in the lower range, the Council may, upon approval of a majority of producers and a majority of consumers, impose export controls on producers to reduce the available supply of tin, thereby helping to prevent the price from falling through the floor price.

EVALUATION OF TIN AGREEMENTS

The Tin Agreements are cited as having been reasonably successful in reducing price fluctuations. However, several recent studies question the effectiveness of the Agreements and their benefit to consumers.

An August 1975 report by the Treasury Department concluded that "the economic impact of previous tin agreements seems to have been minimal, both in its effect on the volatility of tin prices and on the long-run trend of tin prices."

Another recent report prepared for Treasury by university researchers makes three basic points.

> "(1) The Tin Agreement has only marginally reduced the instability of prices and producer incomes. Of far greater importance in this respect have been U.S. government stockpile transactions of tin <u>made outside of the Tin Agreement</u>. (See ch. 2.)
>
> "(2) The International Tin Agreement has endured while other agreements have failed, in part because it has lacked <u>effective</u> power to make the critical price decisions which otherwise would have intensified producer-consumer conflicts.
>
> "(3) If the International Tin Agreement had been designed from the beginning as an effective market stabilizer along the lines currently envisaged for other products, there is a good chance it would have fallen apart."

An October 1975 report on commodities prepared by the U.S. International Trade Commission for the Subcommittee on International Trade, Senate Committee on Finance, concluded that the Agreements:

--Have successfully protected the floor price with only one short exception during September 1958.

--Were unable to prevent the ceiling price from being exceeded during parts or all of the years 1961, 1963-66, 1973, and 1974. The ceiling prices were being exceeded even though the ceiling was raised from $1.10 in 1956 to its present $3.55 per pound. (The chart below traces the price of tin in pounds sterling per metric ton from 1956 to January 1976. It also shows the ceiling and floor prices through July 4, 1972, when the Council stopped stating its price ranges in pounds sterling and began stating them in Malaysian dollars. The new ranges cannot be comparably shown on this chart.)

--Have been more effective in protecting the floor than the ceiling because the Council can only protect the ceiling with the buffer stock. It can protect the floor with the buffer stock and export controls.

The report further stated that:

"Despite the difficulties in defending the ceiling price, the agreements have probably contributed to relative stability in tin prices--a goal sought by both producers and consumers. It is reasonable to assume, however, that in the absence of the agreements average prices would have been lower and that from a strict monetary standpoint producers have benefited more as a result of the agreement than consumers."

U.S. POSITION ON TIN AGREEMENT

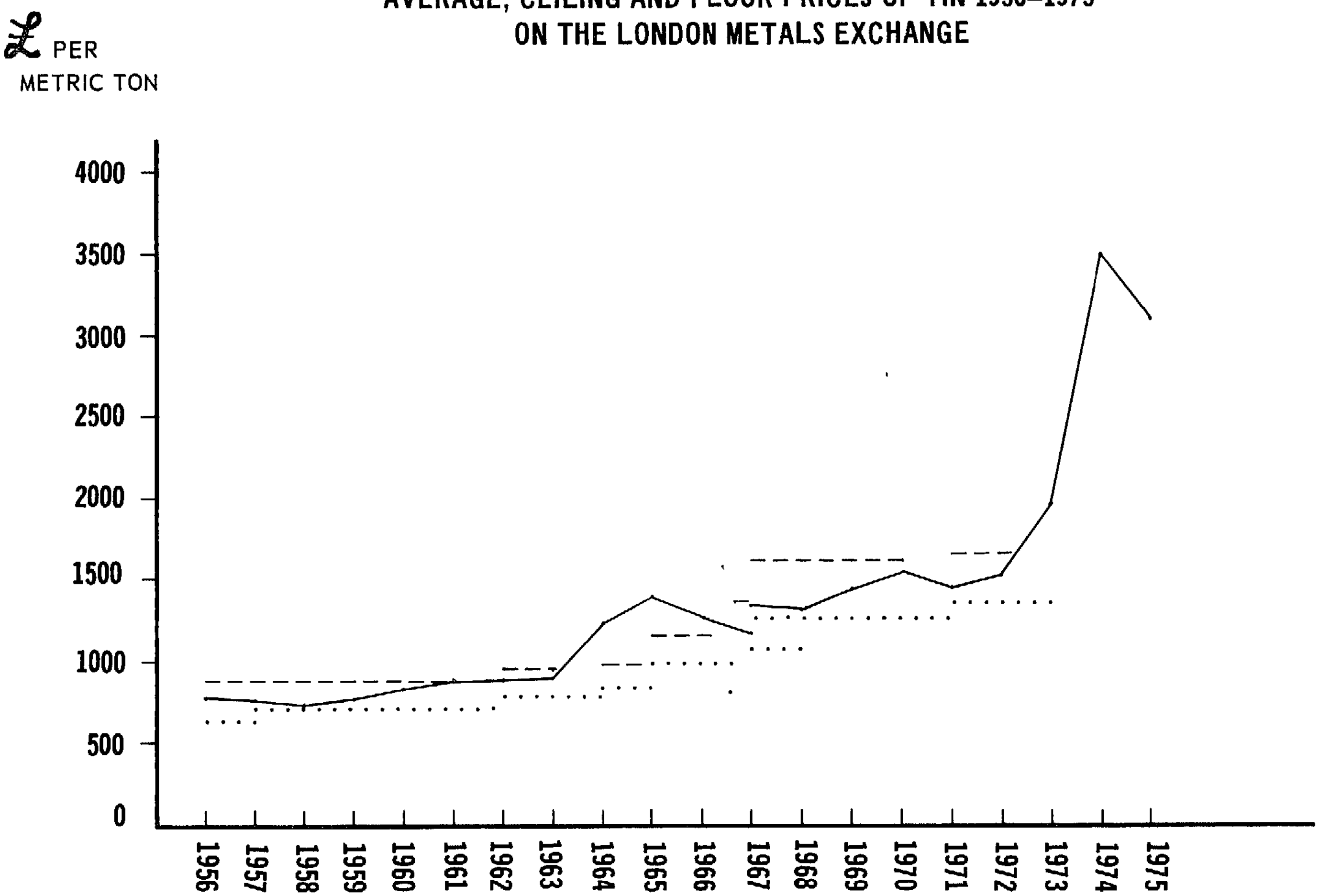
According to the Deputy Assistant Secretary of State for Economic and Business Affairs, the United States had not joined the Tin Agreements for several reasons, particularly because of:

"(a) traditional USG coolness toward commodity agreements as stabilization mechanisms, with a preference to rely instead on market forces;

"(b) A negative attitude toward US membership in the tin agreements by the US steel industry (the major tin consumer), which feels the tin agreements are too producer-oriented, offering few, if any, benefits to consumer participants;

"(c) The existence of the US strategic stockpile of tin (over 200,000 long tons, or an almost 4-year supply at current US consumption rates), which the US steel industry views as reinforcing its belief that there is no real need for the US to join a tin agreement."

AVERAGE, CEILING AND FLOOR PRICES OF TIN 1956–1975 ON THE LONDON METALS EXCHANGE



LEGEND:
- ——— AVERAGE PRICE
- — — — CEILING PRICE
- . . . . . FLOOR PRICE

SOURCES: "TIN PRICES 1956–1973", INTERNATIONAL TIN COUNCIL, APRIL 1974
INTERNATIONAL TIN COUNCIL MONTHLY STATISTICAL BULLETIN, MARCH 1976

GAO NOTES: 1967 HAS TWO SETS OF PRICES FOR PERIODS BEFORE AND AFTER THE NOV. 18, 1967, DEVALUATION
ON JULY 4, 1972, THE COUNCIL BEGAN STATING RANGES IN MALAYSIAN DOLLRS PER PICUL(133–1/3 POUNDS). PRICE RANGES IN THIS DENOMINATION CANNOT READILY BE COMPARED IN THIS CHART.

The Deputy Assistant Secretary pointed out that joining might, among other considerations, benefit U.S. relations with developing countries that depend heavily on tin for foreign exchange. Since it is generally agreed that there are no compelling economic advantages for the United States in joining the Agreement, the decision to join appears to be based on political grounds. A Treasury Department study of the Tin Agreement described it as "a political solution to a political problem."

The decision to join the Tin Agreement was announced in a speech at the United Nations on September 1, 1975. The speech described the program developed by the United States in response to concerns expressed by developing countries about various aspects of trade and economic development.

U.S. TIN CONSUMPTION

The United States imports most of its tin from Malaysia, Thailand, Bolivia, and China and depends almost completely on these imports for its primary, as opposed to secondary or recycled, tin.

4/ The U.S. Bureau of Mines reported that in 1974 about 45,479 long tons of primary tin were imported at a cost of about $326 million and that 51,611 long tons of primary tin and 13,131 long tons of secondary tin were consumed. Sales from the U.S. stockpile of tin largely accounted for the difference between primary tin imports and consumption.

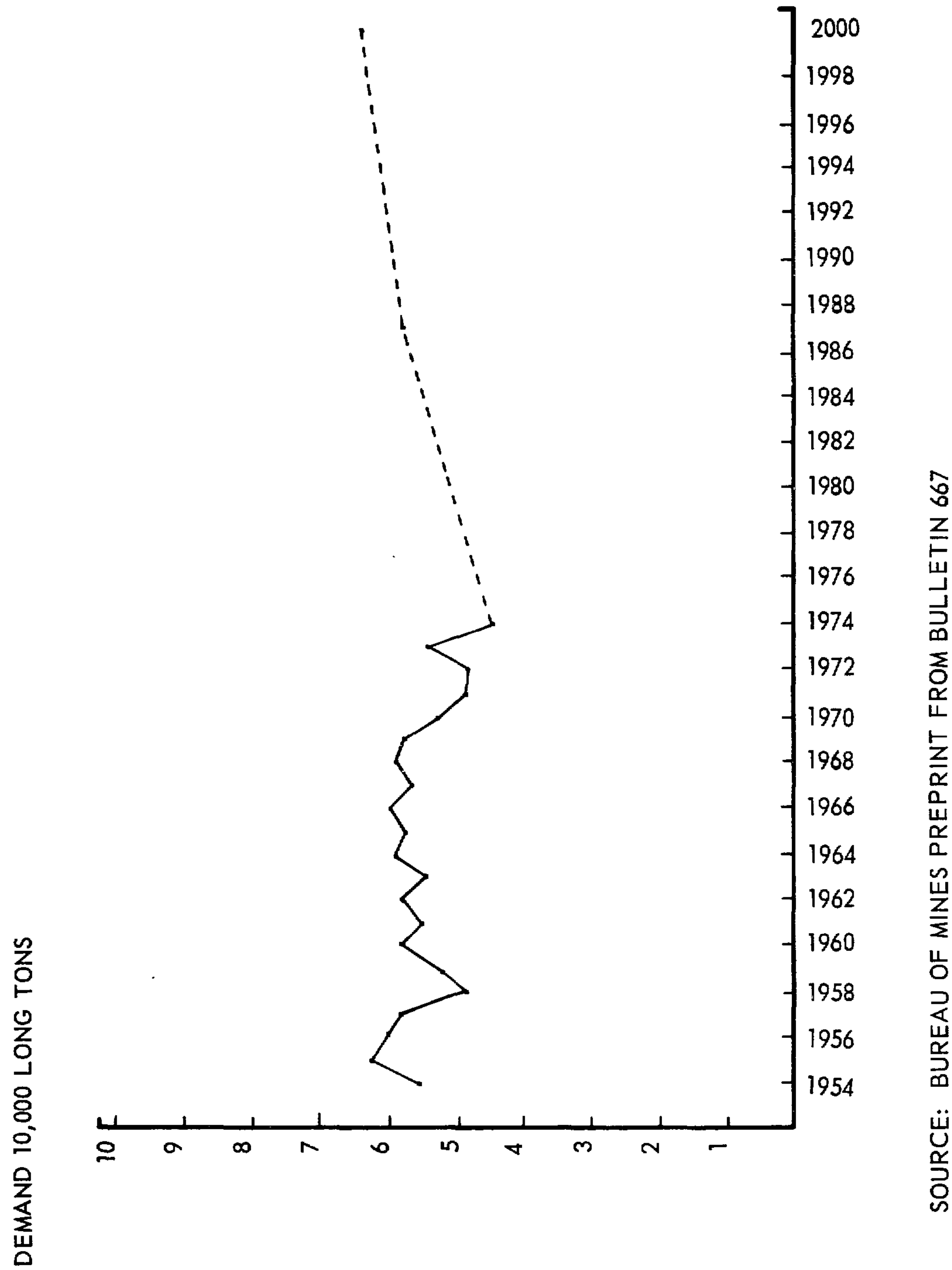
Tin is used for tinplate, solder, chemicals, bronze and brass, and many other lesser uses. It adds only a minimal cost to the end products in which it is used, e.g., cans and radios. The Bureau of Mines reported that in 1974 tinplate and solder accounted for about 34 percent and 24 percent, respectively, of the tin used.

However, tin-free steel, plastics, paper, and aluminum are being substituted for tin-plated cans. According to a Commerce official, improved plating techniques have resulted in 50 percent less tin per unit of production than was used 8 years ago.

Technological developments and substitution in the automotive, electronics, and canning industries are replacing solder-using components or decreasing the amount of tin in the solders used.

These changes in the use of tin have slowed the U.S. demand for tin imports, and future increases are also expected to be small. A 1975 Bureau of Mines report predicts that through the year 2000 U.S. demand for primary tin will grow at an average annual rate of only 0.6 percent.

The following chart shows the U.S. demand for primary tin from 1954 to 1974 and depicts projections through the year 2000.



According to the Bureau of Mines, world tin reserves and resources are more than adequate to meet world demand through the year 2000, with new reserves being exploited as dictated by price. Should prices be too low to develop new reserves, the availability of substitute materials should minimize the impact of any possible future long-term shortage.

CHAPTER 2

INTERACTION BETWEEN U.S. STOCKPILE DISPOSAL POLICY AND THE INTERNATIONAL TIN COUNCIL

As the studies in chapter 1 indicated, the U.S. strategic stockpile of tin reduced the instability of tin prices and was one reason the United States did not join previous Tin Agreements. Tin is one of the commodities in the Strategic and Critical Materials Stockpile maintained by the United States.

The United States maintains its strategic stockpile under authority of the Strategic and Critical Materials Act of 1946 (50 U.S.C. 98 et seq) "to decrease and prevent wherever possible a dangerous and costly dependence of the United States upon foreign nations for supplies of these materials in times of national emergency."

It is important to note that the Congress did not create the Strategic and Critical Materials Stockpile as an economic stockpile in which materials are bought and sold to affect price levels. The Federal Preparedness Agency of the General Services Administration (GSA) is responsible for determining, subject to general guidelines from the National Security Council, the amount of each commodity to be stockpiled. GSA is also responsible for purchasing, storing, and disposing of stockpiled materials.

By 1955 the United States had accumulated about 350,000 long tons of tin to meet strategic objectives. Since 1955, the general guidelines have been revised on several occasions. These revisions created large excesses of tin which the Strategic Materials Act required GSA to sell, and by 1973 the stockpile objective had been revised downward to 40,500 tons. From the time disposals started in 1962 until June 30, 1975, almost 143,000 tons of tin had been disposed of. Of the 207,118 tons remaining on June 30, 1975, 166,618 tons were in excess of strategic needs, but GSA had congressional authorization to sell only 6,492 tons of this. At June 30, 1975, GSA reported the market value of the excess tin to be about $1,224 million.

Section 3(e) of the Strategic Materials Act requires GSA to obtain congressional approval to dispose of excess stockpile commodities. The Congress has withheld further disposal authorization pending a reevaluation of the strategic assumptions governing stockpile objectives. Officials of the Federal Preparedness Agency told us that new stockpile levels would not be defined until the summer of 1976, and they could not predict what the new objective for tin would be. Section 3(e) of the act also requires GSA to dispose of the excesses with

> "due regard to the protection of the United States against avoidable loss on the sale or transfer of the material to be released and the protection of producers, processors, and consumers against avoidable disruption of their usual markets ***"

It appears that the legislative intent of this section was clearly to protect domestic producers, processors, and consumers. Tin producers are virtually all foreign. Over the years, the executive branch administratively extended the scope of section 3(e) to include protection of foreign producers. It also appears that the act does not preclude the U.S. Government from extending protection to foreign producers.

In its effort to give due regard to protecting foreign producers against avoidable market disruption, the State Department and the General Services Administration have consulted with tin producers and with the International Tin Council prior to initiating tin sales. As a result of these consultations, the United States has reduced and even suspended tin sales to benefit the producers. Tin-producing countries have been concerned about U.S. stockpile disposals because of the potential adverse effect such a large accumulation of tin could have on tin prices if it were sold off. The size of the stockpile has been and still is large in terms of yearly worldwide demand. For example, the current U.S. surplus would supply world demand for about 10 months.

Various GSA actions since 1962 indicate the degree to which GSA has cooperated with the Council. For example, in 1961 there was a recognized shortage of tin and the United States consulted with the Council on U.S. plans to sell excess tin from its stockpile. The Council wanted to establish a minimum price and to limit U.S. sales to its projection of the extent of the shortage. Although the United States accepted neither of these limits, it did reduce its planned sales during this period in response to Council requests. The U.S. International Trade Commission reported that from July to December 1962 the United States sold tin while the buffer stock was purchasing tin, indicating that, while cooperating with the Council, the United States was still maintaining some degree of independence.

In 1966, tin prices weakened. Representatives of the Council met with U.S. representatives from October 25 to 27, 1966, to persuade the United States to agree not to sell tin while the buffer stock was buying. As reported in a State Department press release dated October 28, 1966, the United States agreed "in principle to moderate its tin sales program if it should be inconsistent with the contingent operations authorized under the International Tin Agreement." In other words, the United States would moderate its tin sales while the Council was taking steps to support prices by reducing the available supply of tin. On July 1, 1968, GSA suspended commercial sales and did not resume them until 1973. State Department officials attributed this decision to the personal intervention of the President of Bolivia, a producer member of the Agreement.

Between the announcement of the agreement in principle and the end of sales in 1968, GSA continued to exercise some independence. The U.S. International Trade Commission reported that, during the 2 years before these sales ended, the United States was again selling tin while the buffer stock was buying.

GSA officials responsible for disposing of stockpile excesses told us that if GSA considered U.S. interests rather than foreign interests it would have sold a large amount of tin during 1968 to 1973, but it could not specify how much.

As a result of not selling during this 5-year period, the Government incurred the financing cost of holding tin it would otherwise have sold. Treasury estimated that this cost is currently about $4.8 million per 10,000 tons per year. Also, consumers probably paid higher prices for tin, and resources were transferred from consumers to producers. A GSA study shows that the stockpile was capable of lowering tin prices.

In 1973 tin prices began rising rapidly. GSA had congressional authorization to sell excess tin, and as a result of a Presidential decision, tin disposal was resumed. The U.S. disposal policy, established in 1973, is to maintain a continuing presence in the market. Consistent with this policy, GSA opposes any agreement with the Council to accept a minimum selling price which might again force it out of the market.

During the 1973-74 price boom, GSA sold about 43,000 tons and the buffer stock sold about 12,000 tons to moderate price increases. In 1975, when tin prices were depressed, GSA continued its presence in the market but at prices which resulted in sales of only 575 tons; in the first 6 months of 1976, GSA sold 2,914 tons. These sales occurred while export controls were in effect and while the buffer stock was buying tin during 1975.

GSA's opposition to a minimum price and its continued sales while the buffer stock is purchasing tin are at odds with the desires of producer members of the Council and indicate GSA's intention to maintain its independence. On March 25, 1975, during hearings on House Bill 4535 to authorize the sale of 100,000 tons of excess tin from the U.S. stockpile, a representative of the Malaysian Tin Bureau stated the Malaysian position, as follows.

> "Our first choice would be an assurance that there would be no release of tin when the price is at or below M$980 [Malaysian dollars] (now M$1065) per picul***This is the level below which the Buffer Stock Manager of the I.T.C. is presently authorized to buy tin to help stabilize the market.
>
> "Failing this, we would feel at home with an assurance that the GSA would only sell tin when its price was in that range of the Buffer Stock at which it might sell tin, currently M$1,040 (now M$1135) per picul or US$3.495 per pound.
>
> "Again failing that we would hope for assurances similar to those accorded in 1966 ***"

CHAPTER 3

POSSIBLE IMPLICATIONS OF JOINING TIN AGREEMENT

The primary differences between the Fifth Tin Agreement, which entered into force on July 1, 1976, and the Fourth Agreement are aimed at increasing the size of the buffer stock from 20,000 to 40,000 tons and funding this increase through voluntary consumer contributions.

U.S. officials involved in negotiating the Fourth Agreement pointed out that producers tried unsuccessfully to require consumers to contribute to the stock. U.S. negotiators for the Fifth Agreement reported that the question of consumer contributions caused the most intense differences between producers and consumers. Producer members wanted to raise the stock from 20,000 to 40,000 tons and make it compulsory for consumers to contribute the additional 20,000 tons.

A compromise was reached that consumers could voluntarily contribute up to 20,000 tons to the stock and the Council would review the level of those contributions after 2-1/2 years. If consumer contributions are not considered adequate at that time , the Council can request the U.N. Secretary General to convene a conference to renegotiate the Agreement.

Producers want the buffer stock enlarged so that it can better protect the floor price and avoid the need for export controls, which adversely affect employment, production, and investment. The Council imposed export controls on four occasions to protect the floor price when the buffer stock alone could not provide protection.

On March 11, 1976, the United States signed the Fifth Agreement, but because it considers the Agreement to be a treaty, Senate ratification of membership will be required.

The Deputy Assistant Secretary of State for Economic and Business Affairs stated in his testimony on April 14, 1976, before four Subcommittees of the House Committee on International Relations that the President decided to sign the Agreement because the executive branch concluded that "***membership in the International Tin Agreement would have no adverse consequences for the U.S. and our participation will provide benefits, *** through its membership in the Tin Council the U.S. will be able to influence the Council's policies affecting the long-term supply of tin and***our foreign relations will benefit from our support of one of the oldest and most successful producer-consumer organizations."

He said these conclusions were developed during an interagency review of the Fifth Agreement made by the executive branch during the summer of 1975.

Government officials and industry representatives have pointed out that joining the Tin Agreement might have the following consequences.

Favorable

Less developed country raw material producers may take it as a sign of U.S. willingness to cooperate in resolving raw material and resource problems currently being debated.

May help to deter raw material producer efforts to form agreements among producers only.

U.S. relations with some producers may be enhanced because the Tin Agreement is of major economic importance to some of them.

Less developed country trading partners and allies of the United States may take it as a signal of U.S. willingness to help resolve world commodity problems.

May make it easier for the United States to dispose of excess stockpiled tin. Bilateral discussions with producer countries about stockpile disposals might be replaced by consultations within the Council, where the United States might have the support of other consumer countries.

May reduce pressure on the United States to join unworkable commodity agreements.

May enable the United States to favorably influence Council decisions on changes in price ranges and imposition and removal of export controls.

Unfavorable

May set a precedent for the United States to join agreements for other metals and minerals.

May cause problems if U.S. positions in the Council are in opposition to producers, such as against higher prices. If the United States does vote for higher prices, consumers might complain that the Government is contributing to inflation.

May increase pressure on the United States to contribute to buffer stock. U.S. position is that it does not intend to make such a contribution.

May increase pressure on the United States to conduct stockpile disposals in harmony with operations of buffer stock, making it more difficult for United States to dispose of stockpiled tin. United States does not believe the Tin Agreement legally requires that it harmonize stockpile disposal policy with buffer stock policy.

Government officials have commented that joining the Agreement will not provide the United States with any compelling economic benefits nor with secure access to tin supplies during shortages. Commodity agreements cannot insure supply access because they have no teeth to force producers to allocate supplies according to the terms of the agreements. Multilateral trade negotiations, rather than joining the Agreement, would in one official's opinion be a more effective way to ensure access to tin supplies.

Should unfavorable consequences of joining the Agreement materialize, the Government and tin purchasers may experience some costs. For example:

--If the United States makes a contribution based on its voting strength--and it is generally agreed that this would be a likely basis for determining the size of a contribution--the value of the contribution would be more than $33 million in tin or in cash and tin. However, the buffer stock has consistently earned a profit on member contributions.

--If joining the Agreement causes increased harmonization between U.S. stockpile disposal policy and Council operations and the United States sells less tin than it otherwise would, the U.S. Government and consumers might incur avoidable costs. For example, a Treasury Department study shows that the United States would incur a carrying cost of $4.8 million a year for every 10,000 tons it does not sell. In addition, a GSA study shows that sales from the stockpile are capable of lowering the price of tin for consumers.

The United States believes that joining commodity agreements is only one available option for helping developing countries to stabilize their export earnings. In general, it would prefer to stabilize the export earnings of developing countries through such facilities as the International Monetary Fund's Compensatory Financing Facility. At the Seventh Special Session of the U.N. General Assembly in September 1975, the United States proposed the creation of a Development Security Facility which encompassed a significant enlargement of the Compensatory Financing Facility and incorporated a compensatory financing element in the newly created International Monetary Fund Trust Fund. The Compensatory Financing Facility was enlarged in 1976, and discussions on a compensatory financing element in the IMF Trust Fund are continuing. The facility would make loans to sustain development programs that might be jeopardized by fluctuating overall earnings.

The Administration would prefer to use the development security fund because price stabilization, the primary objective of commodity agreements, is not considered to be a generally promising approach. Secretary Kissinger's September 1975 speech at the United Nations pointed out that "for many commodities it would be difficult to achieve [price stabilization] without severe restrictions on production or exports, extremely expensive buffer stocks, or price levels which could stimulate substitutes and thereby work to the long range disadvantage of producers." However, the United States is willing to discuss arrangements for individual commodities case by case.

CHAPTER 4

SCOPE OF REVIEW

We examined records and documents relating to the Agreement and to U.S. participation in it and interviewed officials in Washington, D.C., of agencies involved in negotiating the Agreement and evaluating U.S. participation. These agencies included the Departments of Commerce, Interior, Treasury, and State and the General Services Administration. We also met with an official of the National Commission on Supplies and Shortages.

Although the Treasury Department was very cooperative in providing helpful information, we were denied access to material which several agency officials considered to be the most important. We requested this material, consisting of interagency evaluations sponsored by the National Security Council and the Economic Policy Board and Treasury and State agreed to give us summaries of it. Treasury officials told us that the summaries were prepared but that the White House decided not to make them available to us because they were presidential decision documents. They said that the Department had unsuccessfully appealed this decision to the White House. We appreciate the assistance of the Treasury Department in this matter.

In anticipation of being unable to provide the Congress with a formal written report prior to its deliberations on the Agreement, we informally briefed the staff members of the Senate Foreign Relations and Senate Finance Committees and Subcommittee on International Trade and Commerce, House Committee on International Relations, on the preliminary results of our report.

EVALUATION OF AGENCY COMMENTS

Comments from the General Services Administration and the Departments of Treasury, Commerce, and State are quoted below followed, where appropriate, by our evaluations. The full text of their comments are at the end of the appendix.

General Services Administration

"Generally, we find that the report presents a fair and balanced view of the pros and cons relative to the declared intention of the United States to become a member of the Fifth International Tin Agreement."

Department of the Treasury

"We have reviewed the draft report and have found it to be basically sound."

Treasury also made detailed suggestions to improve the meaning or clarity of specific parts of the report. We agreed with nearly all of Treasury's comments and revised the report appropriately.

Department of Commerce

"We find the report on the whole to contain a concise and balanced presentation of the facts and issues involving U.S. participation in the Agreement."

Department of State

"While the report ostensibly presents the views of the appropriate federal agencies and others, it does so in a rather selective fashion. These statements are taken at face value with little attempt at independent analysis. The effect is to produce a negative conclusion about U.S. participation in the Fifth International Tin Agreement. For example, the "evaluation of the Tin Agreements" in Chapter 1 is not an evaluation by the GAO, but a series of quotes from reports by others. This section clearly lacks balance."

GAO note: Page number references may not correspond to the pages of this report.

We believe that, in presenting the favorable and unfavorable views of those Federal agencies responsible for evaluating U.S. accession to the Tin Agreement, the report provides a reasonable and balanced presentation. As for the specific example cited by State--the "evaluation of the Tin Agreements"--the tone of the section reflects the conclusions of the reports to which we had access. We were denied access to the interagency studies which several agency officials described as the most important evaluations of commodity agreements.

> "In Chapter 2 the report conveys the mistaken impression that the General Services Administration (GSA) has actively coordinated its sales policy with the International Tin Council."

Chapter 2 shows that since the United States began disposing of tin in 1962, it has (1) consulted with the Tin Council and with producers concerning its disposal plans and (2) reduced its disposals to lessen any adverse effects such disposals might have on producers. For example, after representatives of the Council "consulted" U.S. representatives in 1966, the United States agreed "in principle to moderate its tin sales program if it should be inconsistent with the contingent operations authorized under the International Tin Agreement." After "consultations" between the United States and Bolivian Governments in 1968, the United States stopped all tin sales and sales did not begin again until 1973. GSA officials told us that, had the United States considered only its own interests during this period, it would have sold a substantial amount of tin.

> "While the U.S. has been willing in the process of consultations with producers (both foreign and domestic) to moderate rates of disposal of surplus commodities, including tin, we never have agreed to surrender the decision over disposal rates to producers."

The report does not say that the United States has ever agreed to surrender the decision over disposal rates to producers. It points out several instances where the United States, while not a member of the Agreement, has refused to take actions requested by the Council and producers. The report also cites the U.S. belief that membership in the Tin Agreement does not legally require the United States to harmonize its stockpile disposal policy with buffer stock policy. Notwithstanding it should be recognized that membership in the Council carries an obligation to abide by the spirit of the Agreement.

> "The report also asserts, mistakenly, that the market disruption provisions of Section 3(e) of the Strategic Materials Act was intended to protect only domestic producers. It has been longstanding U.S. policy, endorsed by the Congress, to conduct surplus disposal operations in a manner which avoids undue disruption to markets, whether the producers are principally foreign or domestic."

The legislative history of the Strategic and Critical Materials Act of 1946 reveals that the intent of the law was to protect domestic as opposed to foreign economic interests. However, as we stated in the report, the Act does not preclude an Administrative determination to extend such protection to include foreign interests when such action is found to be consistent with U.S. foreign policy objectives.

> "Nor have the authors of the report demonstrated that by consulting with foreign tin producers and the Tin Council has the GSA failed to protect the 'U.S. against avoidable loss'. A more balanced analytical approach to the subject by the authors is quite likely to have shown that the GSA sales policy has, in fact, both protected the U.S. against avoidable loss and protected the producers, processors, and consumers against avoidable disruption of their usual markets, as required by the law."

As pointed out in the report, the United States stopped selling tin in 1968 in response to requests from producers and did not reenter the market until 1973. The evidence presented shows that:

--During this period GSA had tin to sell.

--If GSA were considering only U.S. interests it would have sold a substantial, although unspecified, amount of tin.

--GSA tin sales can reduce the carrying costs of stockpiling tin incurred by the Government and the price paid by consumers.

"The draft report also enumerates possible unfavorable consequences of U.S. membership in the International Tin Agreement, e.g., on page 16, but without providing analysis that would indicate the probability of occurrence. Inter alia, the report notes that U.S. membership:

"--May set a precedent for the U.S. joining agreements for other metals and minerals. However, the report might have noted that after 20 years the ITA remains the only agreement for a metal or mineral.

"--May cause problems for the U.S. because of positions taken in the ITC. It should be noted here that the U.S. belongs to a wide range of international organizations, in which we take positions based on our national interests. There is no reason to assume we will do otherwise in the ITC."

We have not provided an analysis indicating the probability of occurrence for either the favorable or unfavorable consequences. Rather, we have raised the issues voiced by responsible Government officials and industry representatives. The two unfavorable consequences that State refers to in its comments were cited in a memorandum in which the Acting Assistant Secretary of State for Economic and Business Affairs discussed the pros and cons of joining the Fifth Tin Agreement.

"Finally, the report on page 17 concludes that the United States Government and the purchasers may experience some costs '***if some unfavorable consequences of joining the Agreement should materialize'. The examples given are:

"--A U.S. contribution to the buffer stock

"--Increased harmonization between U.S. stockpile policy and Tin Council operations which would cause the U.S. to sell less tin that it would otherwise.

"In citing these points and 'possible costs' the authors have ignored official U.S. statements that the U.S. did not intend to contribute to the buffer stock of the International Tin Agreement and that U.S. policy on stockpile disposal remains unchanged, i.e., that we would consult as we always have but would retain the right of decision over disposal rates."

On page 15 the report clearly states the U.S. position that it does not intend to make a contribution to the buffer stock. The report also notes the U.S. belief that the Tin Agreement does not legally require that it harmonize stockpile disposal policy with buffer stock policy.

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
WASHINGTON, DC 20405

July 23, 1976

Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, DC 20548

Dear Mr. Staats:

We were pleased to have the opportunity to review your draft report to the Congress entitled "The Fifth International Tin Agreement--Issues and Possible Implications" transmitted by your letter of July 2, 1976.

Generally, we find that the report presents a fair and balanced view of the pros and cons relative to the declared intention of the United States to become a member of the Fifth International Tin Agreement.

In describing the price ranges under the Agreement (page 3), the increase made effective as of March 12, 1976, is shown. It should be noted that a further increase was made effective by the International Tin Council as of May 7, 1976, with the following ranges:

Ceiling Ranges	Malaysian Dollars Per Picul	Equivalent U.S. Dollars Per Pound
Ceiling	1,200	3.53
Upper Range	1,135 to 1,200	3.34 to 3.53
Middle Range	1,065 to 1,135	3.14 to 3.34
Lower Range	1,000 to 1,065	2.94 to 3.14
Floor	1,000	2.94

The General Services Administration representative of the United States delegation which attended the opening sessions of the International Tin Council in London for the Fifth International Tin Agreement has just returned and reports that the concluding matter discussed at the Council sessions was a proposal presented unanimously by the producer group for a future increase in the price ranges of the Agreement to floor of 1,150 Malaysian dollars and a ceiling of 1,400 Malaysian dollars. This represents an increase of approximately

15 percent from present ranges. With unanimous consumer group opposition, the proposal was tabled but is expected to be reopened at the next quarterly Council session in October. As expected also, a great deal of debate was addressed to the absence of consumer contributions to the International Tin Agreement, particularly by the United States and to the requirements that the United States consult with the International Tin Council concerning any proposed disposal from the stockpile.

Sincerely,

Jack Eckerd
Administrator

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

JUL 26 1976

Dear Mr. Fasick:

In response to your letter of July 2, 1976 to Secretary Simon, we are enclosing our comments on the General Accounting Office's draft report entitled "The Fifth International Tin Agreement -- Issues and Possible Implications."

We have reviewed the draft report and have found it to be basically sound. I am enclosing some detailed comments to improve the meaning or clarity of specific parts of the report.

We believe that the report does not fully explain GAO's access to many records and documents furnished by various agencies relating to the Administration's consideration of the Fifth International Tin Agreement. In addition, we believe the report is misleading by implying arbitrary denial of access to certain materials prepared by the Economic Policy Board and the National Security Council. The Administration explained clearly the reasons for denying access to those materials.

I hope our comments will be useful.

Sincerely,

Gerald L. Parsky

Mr. J. K. Fasick
Director, International Division
United States General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Enclosure

Comments on GAO Report
"The Fifth International Tin Agreement --
Issues and Possible Implications"

-- p. ii, bottom: Add the following sentences to the end of the last paragraph: There is no mechanism corresponding to export controls which the Council can employ when the market price exceeds the ceiling. Export controls terminate whenever price exceeds the ceiling and the buffer stock holds less than 10,000 metric tons of tin.

-- p. iii, second paragraph: Add the following sentence to the last paragraph: Participation will provide the U.S. the opportunity to influence the Council's decisions affecting price, supply and buffer stock operations.

-- p.iii. We suggest replacing the third paragraph with the following:

Rather than trying to stabilize export earnings through stabilization of commodity prices, the United States would prefer helping developing countries to stabilize earnings through the creation of a new development security facility in the International Monetary Fund. The facility would make loans when export earnings shortfalls caused serious balance of payments problems. This type of assistance would be much more effective in aiding developing countries to sustain their development programs. The United States is willing to discuss arrangements for individual commodities on a case-by-case basis (see p. 18).

-- p. iv, "Favorable" section: We suggest deleting the third item in this section because it is not necessary for the U.S. to belong to the Agreement for other consumer countries to support sales from the U.S. strategic stockpile of tin, especially under certain market conditions. Therefore, it is unlikely that U.S. participation in the Agreement would increase consumer support for U.S. stockpile sales.

-- p. iv, "Unfavorable" section: We suggest changing the first item in this section to read as follows: There is a risk of political confrontation between the U.S. and producer countries because of differing strong beliefs about commodity issues.

-- p. iv, "Unfavorable" section: We suggest adding the following parenthetical statement to the end of the present second item: (However, U.S. policy statements have explicitly stated that U.S. membership in the Fifth ITA does not imply U.S. participation in other agreements.)

-- p. 1, third paragraph: Change it to read as follows: The members of the Fourth Agreement include seven tin-producing countries (Australia, Bolivia, Indonesia, Malaysia, Federal Republic of Nigeria, Thailand and Republic of Zaire) that accounted for 75 percent of the world's tin production in 1974 and 22 tin-importing countries (principally France, the Federal Republic of Germany, Italy, Japan, the United Kingdom, Canada and Russia) that accounted for about 60 percent of world consumption in 1974.

-- p. 2, first paragraph: Amend the first sentence to read: The International Tin Council, composed of representatives of all member countries, administers the Agreements and tries to achieve these objectives by maintaining price within a desired range through the agreement's two economic instruments: a buffer stock (metal and cash contributed mostly by the producer members) and, when necessary, export controls.

-- p. 2, first paragraph: Delete the following sentence: Tin is also traded in New York and sold by the U.S. General Services Administration (GSA).

-- p. 2, first paragraph, last sentence: amend to read: By buying tin, the Council absorbs excess supply and <u>may</u> strengthen the price; by selling tin, it increases supply and <u>may</u> weaken upward price pressure.

-- p. 2, last paragraph, second sentence: amend to read: Price ranges effective in May 1976, and actions the buffer stock manager must take when the market price is in those ranges are shown below. (Note: The price range has been changed in recent months and the exchange rate has changed.)

-- p. 3, table showing ITA buffer stock's operating range: change to show the most recently established range:

Price Ranges	Malaysian dollars per picul	Equivalent U.S. dollars per pound (note a)	Buffer stock action
Ceiling	1,200	3.55	must sell
Upper Range	1,200- 1,135	3.55- 3.35	may buy or sell but must remain net seller
Middle Range	1,135- 1,065	3.35- 3.15	no action
Lower Range	1,065- 1,000	3.15- 2.96	may buy or sell but must remain net buyer
Floor	1,000	2.96	must buy

[a] Based on the exchange rate for July 1, 1976 on a 20-day basis: \$M1=39.40 U.S. cents.

-- p.3, first paragraph: Amend the sentence to read as follows: When the price of tin is in the lower range, the Council may, upon approval of a majority of producers and a majority of consumers, impose export controls on producers to reduce the available supply of tin, thereby helping to prevent the price from falling through the floor price.

-- p. 10, final paragraph: Change the first sentence to read as follows: In its effort to give due regard to protecting foreign producers against avoidable market disruption, the State Department and the General Services Administration have consulted with tin producers and with the International Tin Council prior to initiating tin sales.

-- p. 12, top: Amend the first full sentence on this page to read as follows: In other words, the United States would moderate its tin sales while the Council was taking steps to support prices, which had been falling since 1964, by reducing the available supply of tin.

-- p. 13, first paragraph: Change the second sentence in this paragraph to make it clearer: In 1975, when tin prices were depressed, GSA continued its presence in the market but at prices which resulted in sales of only 575 tons for the year; in the first 6 months of 1976, GSA sold 2,914 tons.

-- p. 17-18: We suggest rewriting the last paragraph to read as follows: The United States believes that joining commodity agreements is only one available option for helping developing countries stabilize their export earnings. In general, it would prefer to stabilize the export earnings of developing countries through facilities such as the IMF's Compensatory Financing Facility (CFF). At the Seventh Special Session of the UN General Assembly in September 1975 the U.S. proposed the creation of a Development Security Facility which encompassed a significant enlargement of the CFF as well as incorporated a compensatory financing element in the newly created IMF Trust Fund. The CFF was enlarged in 1976, and discussions on a compensatory financing element in the IMF Trust Fund are continuing.

-- p. 18, first paragraph: Amend the first sentence to read as follows: The Administration prefers the use of compensatory financing facilities to stabilize export earnings of LDCs rather than trying to stabilize their earnings by stabilizing the prices of their commodity exports.

-- p. 19, second paragraph: We feel that this paragraph should elaborate on the circumstances under which access was denied and should specify which documents were denied. As it stands, the paragraph makes the denial seem arbitrary. The report should cite the reasons given for the denial. In addition, the report should describe the channels through which GAO tried to gain access and should explain the compromise solution to which it refers.

UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Administration
Washington, D.C. 20230

AUG 23 1976

Mr. Henry Eschwege
Director, Community and Economic
Development Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

This is in reply to your letter of July 2, 1976, requesting comments on the draft report entitled "The Fifth International Tin Agreement - Issues and Possible Implications."

We have reviewed the enclosed comments of the Assistant Secretary for Policy and believe they are responsive to the matters discussed in the report.

Sincerely,

Joseph E. Kasputys

Joseph E. Kasputys
Assistant Secretary
for Administration

Enclosure

UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Policy
Washington, D.C. 20230

August 12, 1976

Mr. Henry Eschwege
Director, Community and Economic
Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

I refer to your letter of July 2 to the Acting Assistant Secretary for Domestic and International Business, requesting this Department's comments on your draft report to the Congress entitled "The Fifth International Tin Agreement - Issues and Possible Implications."

We find the report on the whole to contain a concise and balanced presentation of the facts and issues involving U.S. participation in the Agreement. We would like to point out two recent developments which you may wish to incorporate in the report:

1. Canada has announced its intention to contribute to the buffer stock of the Fifth Agreement as a consumer member, in addition to France, the Netherlands, Belgium, and the United Kingdom.

2. The price range under the Fourth Agreement was changed by the International Tin Council effective May 7, 1976, as follows:

Price Ranges	Malaysian Dollars per Picul
Ceiling	1,200
Upper range	1,136 - 1,200
Middle range	1,065 - 1,135
Lower range	1,000 - 1,064
Floor	1,000

These prices currently are in effect under the Fifth Agreement.

Finally, you may also wish to note that in response to the United States proposal for a new development security facility at the Seventh Special Session of the U.N. General Assembly, the IMF has considerably liberalized its compensatory financing facility.

We appreciate this opportunity to comment on your report.

Sincerely,

Richard G. Darman
Assistant Secretary for Policy

DEPARTMENT OF STATE

Washington, D.C. 20520

July 21, 1976

Mr. J. K. Fasick
Director
International Division
U.S. General Accounting
Washington, D. C. 20548

Dear Mr. Fasick:

I am replying to your letter of July 2, 1976, which forwarded copies of the draft report: "The Fifth International Tin Agreement--Issues and Possible Implications."

The enclosed comments were prepared by the Deputy Assistant Secretary for Economic and Business Affairs.

We appreciate having had the opportunity to review and comment on the draft report. If I may be of further assistance, I trust you will let me know.

Sincerely,

D. L. Williamson

Daniel L. Williamson
Deputy Assistant Secretary
for Budget and Finance

Enclosure: As stated

GAO DRAFT REPORT: "THE FIFTH INTERNATIONAL TIN AGREEMENT-ISSUES AND POSSIBLE IMPLICATIONS"

The Department of State appreciates the opportunity to review and comment on the draft GAO report on the implications of U.S. membership in the Fifth International Tin Agreement.

While the report ostensibly presents the views of the appropriate federal agencies and others, it does so in a rather selective fashion. These statements are taken at face value with little attempt at independent analysis. The effect is to produce a negative conclusion about U.S. participation in the Fifth International Tin Agreement. For example, the "evaluation of the Tin Agreements" in Chapter 1 is not an evaluation by the GAO, but a series of quotes from reports by others. This section clearly lacks balance.

In Chapter 2 the report conveys the mistaken impression that the General Services Administration (GSA) has actively coordinated its sales policy with the International Tin Council. The report also asserts, mistakenly, that the market disruption provisions of Section 3 (e) of the Strategic Materials Act was intended to protect only domestic producers. It has been longstanding U.S. policy, endorsed by the Congress, to conduct surplus disposal operations in a manner which avoids undue disruption to markets, whether the producers are principally foreign or domestic. While the U.S. has been willing in the process of consultations with producers (both foreign and domestic) to moderate rates of disposal of surplus commodities, including tin, we never have agreed to surrender the decision over disposal rates to producers.

Nor have the authors of the report demonstrated that by consulting with foreign tin producers and the Tin Council has the GSA failed to protect the "U.S. against avoidable loss". A more balanced analytical approach to the subject by the authors is quite likely to have shown that the GSA sales policy has, in fact, both protected the U.S. against avoidable loss and protected the producers, processors, and consumers against avoidable disruption of their usual markets, as required by the law.

The draft report also enumerates possible unfavorable consequences of U.S. membership in the International Tin Agreement, e.g., on page 16, but without providing analysis that would indicate the probability of occurrence. *Inter alia*, the report notes that U.S. membership:

-- May set a precedent for the U.S. joining agreements for other metals and minerals. However, the report might have noted that after 20 years the ITA remains the only agreement for a metal or mineral.

-- May cause problems for the U.S. because of positions taken in the ITC. It should be noted here that the U.S. belongs to a wide range of international organizations, in which we take positions based on our national interests. There is no reason to assume we will do otherwise in the ITC.

Finally, the report on page 17 concludes that the United States Government and the purchasers may experience some costs "...if some unfavorable consequences of joining the Agreement should materialize". The examples given are:

-- A U.S. contribution to the buffer stock

-- Increased harmonization between U.S. stockpile policy and Tin Council operations which would cause the U.S. to sell less tin than it would otherwise.

In citing these points and "possible costs" the authors have ignored official U.S. statements that the U.S. did not intend to contribute to the buffer stock of the International Tin Agreement and that U.S. policy on stockpile disposal remains unchanged, i.e., that we would consult as we always have but would retain the right of decision over disposal rates.

The Department of State regrets that by its failure to conduct an independent and impartial analysis of the Fifth International Tin Agreement and its implications the draft GAO report is far less useful than otherwise might have been the case.

Julius L. Katz
Deputy Assistant Secretary for
Economic and Business Affairs

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