Our View: Repeating History? Tin's Lesson for Oil

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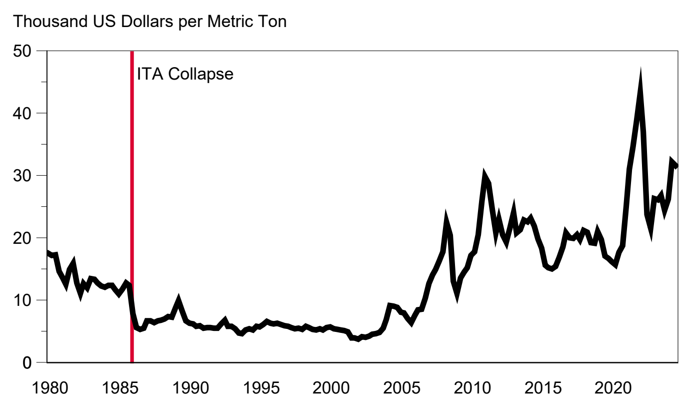
The history of tin production and prices offers a preview of the future oil market**. If we are correct, $35 per barrel could become the new normal for crude for several years.**

Tin producers were cosseted for decades through the International Tin Agreement (ITA) between them and consumers. The ITA was one of the commodity price stabilization programs that grew out of the 1944 Bretton Woods pact that established the International Monetary Fund and World Bank. The agreement included the creation of the International Tin Council to oversee the stabilization effort. Funds were provided to the Council to build buffer stocks that could be added to or sold off to stabilize prices.

The ITA failed spectacularly in 1985 when the ITC could not meet margin calls to cover its positions on the London Metal Exchange as tin prices plummeted by sixty percent.

The entrance of new low-cost tin producers prompted the price collapse. These producers refused to join the ITA and cooperate with the higher-cost producers that dominated the market for years.

Figure 1
World Tin Prices, Quarterly Data, 1980 to 2024



Source: London Metal Exchange.

The tin price collapse rocked the industry as old-line producers closed and the new low-cost firms expanded their market share, taking advantage of tin becoming an important input for the electronics that would help launch the Information Age.

The figure here and on our web page tracks the rise and fall of tin prices. As we noted, prices fell precipitously in 1985. They remained below previous highs until 2004. Since then, prices have risen above their previous peak, at one point doubling it, driven by increasing demand from firms producing computers and electronic devices like the Apple iPhone, which debuted in 2007.

These increases occurred despite an accompanying surge in tin production spurred by the entry of new producers that could operate with much lower costs. Traditional producers such as Bolivia, Malaysia, and Thailand exited the market. Those countries dominated the tin market after World War II. Their combined production accounted for sixty-seven percent of world output in 1970. At that time, they led the efforts to maintain price stability. Fifty-two years later, in 2022, these countries accounted for just seven percent of global output. They had exhausted their reserves, and their mines could not compete with the new, more efficient producers in other countries. As their mines were failing, two new producers entered: Burma (Myanmar) and China. In 1970, these nations accounted for around ten percent of global production. By 2022, they accounted for sixty percent. Their aggressive entry depressed prices for twenty years.

The global oil industry confronts a similar transformation. Iran and Venezuela once were key players in the global oil market. Their role has changed. Iran's share of world oil production fell from a high of ten percent to five percent from 1965 to 2022, while Venezuela's share dropped from eleven to one percent.

Meanwhile, new producers that do not participate in the oil industry's equivalent of the ITA, OPEC+, have emerged. These nations include Brazil, Canada, Guyana, and the United States. Their production rose from fourteen percent of global total oil output to thirty-one percent between 2007 and 2023. Efforts by private companies such as ExxonMobil, along with calls from the incoming Trump administration for US producers to boost oil output by three million barrels per day, could raise that share to thirty-five percent or more within four years.

The increase in output from non-OPEC+ producers driven by calls for greater production from President-elect Trump and Scott Bessent, his nominee for Secretary of Treasury, could cause an oil price decline similar to what tin experienced forty years ago.

One should anticipate crude oil prices falling to between $30 and $35 per barrel within a year absent production cuts by OPEC+'s three key members—Russia, Saudi Arabia, and the UAE—if oil follows the tin market analogy. This decline can only be prevented by those producers agreeing to reduce output by an additional one to two million barrels per day and maintaining the reductions for several years.

Put simply, oil has a tin problem.