

ECONOMIC
AND
SOCIAL COUNCIL

GENERAL
E/CN.12/AC.35/9/Rev.1
27 May 1957
ENGLISH
ORIGINAL: SPANISH

Economic Commission for Latin America
Seventh session
La Paz, Bolivia

TRADE

Report of Committee I

1. Committee I at the seventh session of the Economic Commission for Latin America was responsible for the study of matters connected with the Latin American countries' foreign trade and payments, with the constitution of a regional market and with the repercussions of the creation of the European common market on trade and investment in the Latin American countries.
2. Under the chairmanship of Mr. Ariosto González, the representative of Uruguay, and with Mr. Emilio Barreto, the representative of Peru, as Rapporteur, the Committee held five plenary meetings from 20 to 25 May 1957, which were attended by the representatives of Argentina, Bolivia, Brazil, Chile, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, France, Guatemala, Honduras, Mexico, Netherlands, Nicaragua, Panama, Paraguay, Peru, United Kingdom, United States of America, Uruguay and Venezuela, as well as by observers from Bulgaria, Czechoslovakia, the Federal Republic of Germany, Hungary, Italy, Japan, Romania, Spain, the Union of Soviet Socialist Republics, the United Nations Food and Agriculture Organization, the International Bank for Reconstruction and Development, the International Monetary Fund, the Inter-American Economic and Social Council, the General Agreement on Tariffs and Trade and the World Jewish Congress. A further five meetings were held by the Working Group appointed to make a special study of the draft resolutions submitted for its consideration, and originally composed of representatives of Argentina, Brazil, Chile, Mexico /and the

and the United States of America, who were afterwards joined by members of the delegations of Ecuador, France, Peru and the United Kingdom. The Working Group met under the chairmanship of Mr. José Garrido Torres (Brazil). In the course of its meetings, the Committee discussed inter-Latin American trade and the regional market, the payments system and the repercussions of the European common market project on Latin America's foreign trade. Eight resolutions were adopted by the Committee in connexion with these topics.

3. Payments system. The Committee considered the report submitted to the Trade Committee by the First Meeting of the Central Banks Working Group on a Multilateral Payments System, held at Montevideo from 29 April to 10 May 1957. The purpose of this Meeting was to prepare practical measures for the application of the principles established by the Latin American clearing-accounts countries in resolution 1(I) of the Trade Committee.

4. It was agreed that the documents prepared at the First Meeting of the Central Banks Working Group, which included an outline of the proceedings, a draft standard payments agreement and a standard banking procedure for the operation of the accounts, related to subjects of concern to those countries whose reciprocal trade was conducted through clearing accounts on a bilateral basis. These countries proposed to revise their agreements along lines which would permit of gradual progress towards multilateralism.

5. There was a consensus of opinion to the effect that the technical aspects of the subjects dealt with in the documents prepared at Montevideo should be clarified at the next session of the Trade Committee. This did not mean, as was pointed out by the delegations of countries which had participated in the Montevideo meeting, that the documents in question could not be taken into consideration forthwith in the revision of existing or in the negotiation of new payments agreements.

6. The delegations also unanimously agreed to recommend to the secretariat that, after prior consultation with the appropriate Central Banks or equivalent authorities, it should transmit each month to the International Monetary Fund the comparable data on balances in the inter-Latin American
/clearing accounts

clearing accounts referred to in resolution 2 of the First Meeting of the Central Banks Working Group. The Executive Secretary explained that the secretariat shared in the concern expressed by some delegations lest ECLA's efforts might be diverted from their proper channels if it were requested to undertake banking operations. He pointed out, however, that the function which ECLA was to fulfil was of a limited nature and would last only until a system of transfers was introduced which would justify the creation of a special agency. In no circumstances would the secretariat be empowered to suggest that clearing operations should be effected. ECLA would have pleasure in discharging the duties proposed if such a request were made, as well as in helping to devise any other arrangement, including the establishment of a special agency.

The meeting of the Working Group at Montevideo was a step towards multilateralism, since completely new ways and means had been envisaged to facilitate voluntary clearing operations on the part of the Central Banks. It would now be the wish of the secretariat to study ways of reducing bilateral balances through the expansion of trade, so that a multilateral agreement could be established at higher trade levels. The situation of the Latin American republics differed widely from that of the European countries, which were endeavouring to restore their trade after the war. In the case of the latter it was a question of multiplying trade channels.

It was not the secretariat's intention, in submitting the report of the Working Group for consideration by the Committee, to initiate an exhaustive discussion of the subject, a task which was incumbent on the Trade Committee. Nevertheless, any opinions expressed might be very helpful in the preparation of the documents which would have to accompany the Working Group's report when it was presented to the Trade Committee.

7. Two delegations, one from a member country of the Commission and another attending as an observer, called attention to the interpretation which might be placed on article 12 of the draft standard agreement. This article related to the payment of balances by the debtor country when they exceeded the credit limit stipulated in the agreement concerned. The general tenor of the article would seem to indicate that the settlement
/of balances

of balances in excess of the stipulated credit was voluntary, and the text was therefore apparently at variance with the intentions of resolution 1(I) of the Trade Committee. In that case it would represent merely the maintenance of the previous system, instead of an improvement upon it, and the accumulation of unpaid balances might bring trade to a standstill instead of promoting its expansion. This would occur under any system which left settlement of the balance to the discretion of either the creditor or the debtor, and article 12, however interpreted, did leave the creditor free to exercise such discretion. It therefore appeared inconsistent with resolution 1(I).

The existing bilateral instruments usually provided that sums in excess of the stipulated credit had to be paid in convertible currency. It was true that for six years most countries had been in the habit of waiving this contractual right. For one reason or another it was felt preferable to wait until the balance was reduced by means of an expansion of the debtor country's exports or a contraction in its purchases. If it were officially recognized in the new treaties concluded on the lines of the draft standard agreement - with a view to the gradual adoption of multilateral practices - that the creditor country could not demand payment of the balance in excess of the credit in convertible foreign exchange, its position would be weakened from both the technical and the legal standpoint. In essence, the result would be a reaffirmation of bilateralism.

One delegation and one observer gave it as their opinion that the standard agreement ought to state in precise terms the creditor's right to claim automatic settlement of balances in excess of the swing credit.

8. The delegation of a country which had been represented by its Central Bank at the Montevideo meeting stated that the expression "may request" had been considered preferable to the term "shall demand" because the latter was too strong to be applicable between autonomous parties. In reality the creditor country had the right to make a definite claim, as could be established in any agreement if the parties so desired. Of course, balances in excess of the swing credits would be less likely to accumulate, provided that the credits stipulated were adequate, under the new system facilitating the transfer of balances to the accounts of third countries.

/Another delegation

Another delegation from a country whose Central Bank had also been represented at the Montevideo meeting supported the foregoing interpretation of article 12 of the draft standard agreement.

9. The delegation present as observer for the International Monetary Fund remarked that in its opinion an alternative formula to that established in article 12 of the draft standard agreement might be desirable, and offered to present through the secretariat, for incorporation in the present report, the following alternative text:

(a) Automatic transfers. While this agreement remains in force, the account may show a debit or a credit balance up to the sum of dollars.

"The Central Bank of the creditor country may at any time request from the Central Bank of the debtor country the total or partial transfer of the balance to another clearing account in operation with a third Latin American country, in accordance with the procedure approved as provided in article 9 paragraph (b), or may reach an agreement with the Central Bank of the debtor country for the payment of the balance in question.

"When the balance exceeds the specified amount the Central Bank of the creditor country may come to an agreement with the Central Bank of a third Latin American country for the total or partial transfer of the excess. If within a period of the excess is not cleared by the method referred to, the Central Bank of the debtor country shall pay the whole of the excess in free United States dollars or in foreign exchange acceptable to the Central Bank of the creditor country."

(b) Voluntary transfers. First and second paragraphs unchanged. The third paragraph would read as follows:

"When the balance exceeds the specified amount and if within a period of the excess is not cleared by the methods referred to, the Central Bank of the creditor country may request its total or partial payment in free United States dollars. Should it fail to obtain satisfaction in one way or the other, the Central Bank of the creditor country may then refuse to accept additional balances in its favour."^{1/}

^{1/} In both cases, the last sentence of article 15 would seem to be superfluous.

10. In accordance with a suggestion put forward in the Committee, the valuable co-operation rendered by the delegation of the International Monetary Fund, both at the plenary meetings and in Committee I and its Working Group in the discussion of the various draft resolutions, is placed on record in the present report.

11. The delegation of a country which conducts its trade on multilateral lines and does not participate in inter-Latin American clearing accounts stated that, although its national monetary system was based on free convertibility and multilateralism, it viewed with sympathy and was prepared to support the efforts of those countries which still maintained bilateral agreements to stabilize payments and promote the development of multilateral trade.

12. Paragraph 3 of the resolution on payments (E/CN.12/AC.35/1) recorded a new departure in the co-ordination of the trade policies of the Latin American countries. According to this paragraph, the Latin American clearing-accounts countries were prepared to study the possibility of revising, during the second session of the Central Banks Working Group and immediately thereafter, the agreements in force for each pair of contracting parties in Latin America.

13. A further suggestion was put forward by the same countries as had formulated that embodied in paragraph 3 of the resolution on payments. They proposed that countries members of the Commission but not participating in the inter-Latin American clearing-accounts system should be invited to take the opportunity afforded by the simultaneous revision of existing payments agreements to conduct discussions or negotiations, as each country deemed best, aimed at the improvement and expansion of trade.

Several points of view were expressed in connexion with this suggestion. One of the delegations sponsoring it said that there might be advantages in initiating the practice of simultaneous revision of inter-Latin American agreements at regular intervals.

14. One observer declared that care should be taken in the application of such a method, should it be adopted under one of the resolutions of ECLA's

/seventh session,

seventh session, to avoid reference to resolutions mainly relating to bilateral agreements. Although they were designed - like resolution 1(I) of the Trade Committee, and that on the draft standard agreement adopted at the First Meeting of the Central Banks Group - to promote the gradual extension of multilateral practices, an invitation to revise or negotiate agreements issued to countries independent of the bilateral-accounts system would have to be couched in terms consistent with the ever-increasing application of the multilateral practices in question.

15. Some delegations declared that in their opinion there was no point in embodying in a resolution such an invitation to countries outside the inter-Latin American clearing-accounts system. There was nothing to prevent those countries from sending representatives, at the appropriate time, to the meeting-place agreed upon for the revision of the agreements between the clearing-accounts countries and there conducting discussions or negotiations, as they deemed best, with respect to the improvement and expansion of trade relations. Neither did they see any objection to the Governments' informing the secretariat in due course, if they so desired, of their intention to participate in the meeting.

16. The delegation of Uruguay, which was one of those sponsoring the resolution on payments, suggested in connexion with paragraph 3 of the resolution in question that note might be taken in the report of the seventh session of the fact that its Government had held consultations, at an appropriate moment, with the chancelleries of the Latin American clearing-accounts countries, on the desirability of simultaneously revising the payments agreements in force, in order to bring them into line, in so far as was compatible with the characteristics of each trade channel, with the Montevideo draft standard agreement. Such a simultaneous revision could of course be carried out by each pair of countries. Special circumstances had prevented consultation with one of the countries concerned; but so far no negative reply had been received to Uruguay's enquiries addressed to other Governments. On the contrary, five of the six Latin American clearing-accounts countries had already replied in the affirmative. A note to that effect might therefore advantageously be
/included in

included in the report of the seventh session, since the attitude adopted by the Governments concerned showed that views were beginning to prevail in the region which would be conducive to the co-ordination of Latin American trade and payments policies. The delegations unanimously agreed that this statement by Uruguay should be recorded in the report.

In relation to these payments problems the Committee adopted a draft resolution which appears in the relevant part of the report.

17. The delegation attending as observer for Spain recalled that in the report of the first session of the Trade Committee note had been taken of Spain's desire to participate in agreements relating to the establishment of the multilateral payments system - a desire which it still entertained.

On account of the relative similarity between the clearing-accounts trade conducted with Spain by some of the Latin American countries and the corresponding intra-regional mechanism, Spain felt that reciprocal advantages would attach to a form of co-operation that would include it - once the specific studies required had been carried out by the secretariat - in the system proposed. Spain was specifically interested in being admitted as soon as possible to the system for the exchange of data on balances in the inter-Latin-American clearing accounts, which was to be brought into operation on 1 July 1957 in accordance with the bases established at the First Meeting of the Central Banks Group.

There was a consensus of opinion to the effect that the declaration made by the observer for Spain should be placed on record in the report of the seventh session and that the secretariat should be requested to give it due consideration.

18. Latin American regional market. In the course of the discussion on this topic, the secretariat had the opportunity of recalling, in the first place, certain points of view expressed at the first session of the Trade Committee in connexion with the creation of a regional market in Latin America and with the two resolutions on that subject adopted at the meeting in question. In one the secretariat had been requested to make an inventory of existing industries in Latin America, and in the other it had been asked to appoint a group of experts to study the necessary procedures for the creation of a regional market.

/In summing

In summing up the work carried out in relation to the regional market, the secretariat also pointed out that to begin with special attention had been devoted to the problem of payments between the Latin American countries that conducted their reciprocal trade on the basis of clearing accounts, since its solution constituted an essential requisite for the building-up of the regional market. Considerable progress in that direction had already been made, as would be seen when the relevant item on the agenda was discussed. Furthermore, the secretariat had completed or was carrying out studies of specific manufacturing activities - such as the pulp and paper, iron and steel, and motor vehicle industries - in certain countries, which would provide valuable background data on the possibilities of their inclusion in a regional market, in addition to the information obtainable from the studies under way in Argentina and Peru. The secretariat was making the necessary arrangements for the first meeting of the Group of Experts to be held in the second half of 1957.

The representative of the Inter-American Economic and Social Council stated that the topic of the regional market would undoubtedly be discussed at the Inter-American Conference of Ministers of Economy which was to be held at Buenos Aires in August, since the agenda included items relating to the expansion of inter-Latin American trade. Consequently, his organization was particularly interested in the regional market studies carried out and projected by the ECLA secretariat, as well as in closely following the discussions on that topic at the seventh session, in order both to transmit to IA-ECOSOC the views expressed by the delegations and to ensure the continuance of effective collaboration between the two secretariats.

In regard to this statement by the representative of IA-ECOSOC, one delegation seconded the view that the co-ordination and integration of the work of IA-ECOSOC and ECLA in this field was a matter of urgency. It was desirable that the ECLA secretariat, with a view to achieving such co-ordination and avoiding possible dissipation and duplication of effort, should prepare a comprehensive report on the regional market studies completed, in course of preparation or projected and that this report should be distributed to the Governments members and to the secretariat of IA-ECOSOC, before the Economic Conference at Buenos Aires.

The Committee embodied this proposal in a draft resolution, which was adopted.

With respect to the Latin American regional market, it was patent that the Committee was unanimously prepared to endorse the attitude adopted by the Trade Committee at its first session, in recognizing that it was both necessary and desirable for such a market to be established and that the problem to be solved was one of procedure. Several delegations pointed out that certain recent events, in particular the creation of the European Common Market, made the completion of studies and other work conducive to the formation of the Latin American regional market a still more pressing need. In this connexion, the Committee adopted a draft resolution in which, besides expressing its satisfaction at the success of those aspects of the Trade Committee's first session that related to the regional market, it recommended to the secretariat the desirability of expediting the implementation, within the shortest possible time, of resolutions 2(I) and 3(I) of the Committee concerned, with a view to the taking of a more decisive step towards their underlying objective. In the same draft resolution the secretariat was also recommended to conduct research and compile all data that might serve as a basis for the work of the group of experts mentioned in resolution 3(I) of the Trade Committee, at the earliest opportunity, so that the availability of such background information might facilitate the task of the group. To this end the secretariat was empowered to request, should it deem this necessary, the collaboration of other competent international agencies. The secretariat was also to ask the group of experts to bear in mind, in planning the structure of the regional market, the specific situation of those Latin American countries which were landlocked or whose economic structure was dependent on a single branch of production or lacked diversification, as well as to consider the desirability of facilitating the formation of enterprises with capital supplied jointly from two or more countries and to study the problems facing the development of a regional market, in which study consideration would be given to each and every Latin American country, with due regard to its situation and possibilities.

19. Possible repercussions of the constitution of the European Common Market on the Latin American economy. With reference to the Treaty on the European Community, signed at Rome in March, and providing, inter alia, for the creation of a common market among the six signatories - Belgium, the Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands -, for the creation of a Special Fund for Economic Development and for the more complete incorporation of associated overseas territories, lengthy statements were made by delegations from countries members of the European Community, by the representative of GATT and by the delegations of the Latin American countries which were apprehensive about the possible repercussions of such a common market on exports of certain of Latin America's primary commodities, as well as on European investment in the region.

The representative of GATT stated that the six signatories had presented the text of the Treaty establishing the European Economic Community to his organization shortly after it had been signed, and that steps had immediately been taken to put into effect the procedure established under the General Agreement for such cases.

The Contracting Parties of GATT would meet in October 1957 to consider whether the Treaty was compatible with the six countries' commitments under GATT, and how far it was consistent with the general principle that the aim of a customs union was to facilitate trade between the members of the union and not to hamper trade with other countries. Among the points that would have to be discussed, the most important were the level of the common tariff, the restrictions applied by the Community, the duration of the period of transition and the system of preferences. As far as the duties fixed by GATT were concerned, they could not be increased in consequence of the adoption of the common tariff without prior negotiations between the countries concerned; should such negotiations prove unsuccessful, the countries whose interests had suffered would be entitled to withdraw equivalent concessions. GATT's procedures offered specific guarantees to third countries. Moreover, under the regulations of GATT, all those Latin American countries which were not parties to the General Agreement had the right to send observers to the meeting in question and to take full part in the discussions. Lastly, the responsibilities of GATT would not end when it had adopted the decisions reached at the forthcoming session;

/it would

it would probably arrange regular meetings during the transition period with the six members of the Community and with its agencies, so as to ensure that the Treaty was applied in conformity with the decision adopted by GATT and with the principles on which article XXIV of the General Agreement was based.

Again, two delegations from countries members of the Commission and at the same time parties to the European Common Market Treaty, as well as one observer, expressed the point of view that the Latin American countries should not feel apprehensive on account of the European common market project. The common foreign trade policy adopted would be pursued within the framework of the United Nations and would aim at co-operation with the other regions of the world. Consideration would be given to the tariffs affecting certain Latin American products, as well as to the domestic consumption of the six European countries, in so far as it might affect trade and tariffs agreements. Similarly, the investments that the countries concerned had engaged to effect in Africa mainly consisted of official long-term capital.

The delegations of some of the Latin American countries, while expressing their sympathy with the endeavours of the six signatories of the common market Treaty, nevertheless felt some anxiety as to the possible repercussions of such a market on their economy. They emphasized that their concern arose from the inclusion of overseas territories as associates in the common market, which might mean that the investments placed in Latin America by the six countries in question would be diverted towards the associated territories. Furthermore, the increased development of production in such territories, together with the preferential treatment they might possibly be accorded, might lead to the superseding of Latin American export commodities in the European common market by those of the territories concerned, since their competitive position would be affected.

The Committee, after considering with interest the substantial contribution to the topic under discussion represented by the preliminary report which the secretariat had prepared in that connexion, agreed that ECLA should continue to observe closely the economic integration of Europe and other areas and should keep the member Governments supplied with the

/relevant information.

relevant information. It was also decided that the secretariat should carry out studies on world market prospects for Latin American primary commodities, taking into consideration in particular the consequences that might arise from the European common market, from the possible establishment of a free-trade zone in Europe, and from other similar projects. Finally, it was further agreed that such studies should be conducted along broad lines so as to cover all possible effects, and should be co-ordinated with the work of other regional commissions, GATT and other agencies of the United Nations. A draft resolution to this effect was presented and adopted.

20. Four resolutions were also adopted on other topics, as follows:

(a) That the secretariat, after prior consultation with the secretariat of the Inter-American Economic and Social Council, should continue the studies on the problems of inter-Latin American transport, especially inadequately served trade routes;

(b) That a further session of the Trade Committee should be convened during the course of 1958;

(c) That member States should be recommended to grant the greatest possible facilities for the expansion of the international trade of landlocked countries of the region; and

(d) that the secretariat should continue and intensify its studies on inter-Latin American commodity trade, principally with a view to suggesting measures whereby the structural disequilibria in the balance-of-payments situation of some Latin American countries might be remedied, and to expanding trade both within and outside the region at increasingly high levels, as a result of which it would be possible to expedite the transition towards greater liberalization of trade and a multilateral payments system. At the same time, note was to be taken of resolution 4(I) of the Trade Committee. In connexion with this last resolution, the delegations of the United Kingdom and of the United States of America took the same position as at the first session of the Trade Committee, and abstained from voting.

21. With respect to maritime traffic, the discussions revealed a similarity of views on the point that through the Trade Committee an attempt should be made to remove the obstacles to inter-Latin American trade created by

/certain unfavourable

certain unfavourable features characterizing maritime transport. It was recalled that in compliance with resolution 101(VI), adopted at the sixth session, the secretariat had analysed the problems concerned, and that the findings of its survey were contained in chapter V of the document entitled Study of Inter-Latin American trade (E/CN.12/369/Rev.1).

In carrying out the study, the secretariat had in due course held consultations with IA-ECOSOC, in order to avoid dealing with topics that the latter had under consideration, such as those relating to specific maritime traffic problems affecting Latin America's foreign trade in general, to port efficiency and to the training of personnel.

In this connexion, the representative of IA-ECOSOC stated that, although there were obviously certain points of contact between the subjects dealt with in the studies of ECLA and of IA-ECOSOC, the two organizations approached them from intrinsically different angles. Through the timely consultations held by both secretariats at a level of co-operation which should be maintained, their respective work was being performed on a basis of satisfactory co-ordination. Duplication of effort and expenditure had thus been completely avoided.

It should be made clear that the discussions were carried on at a high technical level and were pervaded by a laudable spirit of co-operation, thanks to which the work of the Committee gave rise to positive decisions of supreme value for the countries represented on the Economic Commission for Latin America, as the foregoing considerations will have shown.

At the last meeting of the Trade Committee the delegation of Chile made the following statement, of which it was unanimously decided to take note in the report: "At this seventh session unanimous recognition has been accorded to the importance of the work carried out by the Central Banks Working Group at Montevideo, which clearly constituted the first practical step towards achievements of vital importance for the economic development and the standard of living of the peoples of Latin America.

"As regards the Montevideo meeting, it would be the merest justice to place on record in the report of the seventh session our gratitude to the Government of Uruguay and the Banco de la República of that country for their invaluable assistance, both moral and material, in the conduct of the Montevideo conference.

/ "The Central

"The Central Banks Group was there afforded every kind of incentive to the more efficient performance of its task. It was possible for the whole fortnight's session, at which delegations, observers and secretariat personnel amounted in all to over 70 people, to be held virtually without cost to ECLA, which sent to Montevideo only one of its senior officials. I therefore have the honour to propose that in our report we render a well-deserved tribute to the Government of Uruguay and the Banco de la República of this sister nation".

The delegations present unanimously supported the foregoing proposal.

Finally, it should be mentioned that, at its last meeting, the Committee also unanimously decided to place on record a vote of thanks to its Chairman, Mr. Ariosto González, representative of Uruguay, and to the Chairman of the Working Group, Mr. José Garrido Torres, representative of Brazil, for the efficiency with which they had discharged their responsibilities, as well as to the ECLA secretariat for its work in connexion with the session of the Central Banks Working Group.