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ECONOMIC COMMISSION FOR LATIN AMERICA
Fifth Session
Rio de Janeiro, Brazil

COMMITTEE I (Current Economic Situation and Prospects)

SUMMARY RECORD OF THE THIRD MEETING

Held at Rio de Janeiro on Thursday,

16 April 1953 at 10 a.m.

CONTENTS:

Possibility of effecting multilateral compensation settlements between Latin-American countries through the facilities of the European Payments Union. (E/CN.12/299).

/PRESENT:

PRESENT:

<u>Chairman:</u> Mr. VENTURA	Argentina
<u>Rapporteur:</u> Mr. CASAS BRICEÑO	Venezuela
<u>Members:</u> Mr. CAMPS	Argentina
Mr. ALCAZAR	Bolivia
Mr. SANTOS	Brazil
Mr. RUIZ	Chile
Mr. CARDENAS	Ecuador
Mr. QUESADA	El Salvador
Mr. SMITH	United States of America
Mr. COTTIER	France
Mr. NORIEGA NORIEGA	Guatemala
Mr. HUDICOURT	Haiti
Mr. ZAMORA	Mexico
Mr. FLIN	Netherlands
Mr. GONZALES	Paraguay
Mr. BARRERO	Peru
Mr. GODFREY	United Kingdom of Great Britain and Northern Ireland
Mr. PASTORI	Uruguay

also Present:Representatives of specialized agencies:

Mr. DEL CANTO	International Monetary Fund (IMF)
Mr. LARSEN	International Bank for Reconstruction and Development (IBRD)
Mr. FORCHERT	United Nations Educational, Scientific and Cultural Organization (UNESCO)

Representative of an inter-governmental organization:

Mr. TAYLOR	Inter-American Economic and Social Council (IA-ECOSOC)
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Representative of a non-governmental organization:

Mr. KINGSTON	Inter-American Statistical Institute
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Secretariat:

Mr. PREBISCH	Executive Secretary
Mr. STENSON	Assistant Director
Mr. PEREZ GUERRERO	Technical Assistance Board
Mr. URQUIDI	Secretary of the Committee
Mr. MENDIVE	

POSSIBILITY OF EFFECTING MULTILATERAL
COMPENSATION SETTLEMENTS BETWEEN LATIN-
AMERICAN COUNTRIES THROUGH THE FACILITIES
OF THE EUROPEAN PAYMENTS UNION. (E/CN.12/299)

Mr. URQUIDI (Secretary of the Committee) pointed out that the ideas set forth in the background document (E/CN.12/299) were not necessarily those of the Secretariat of ECLA but represented only the particular consultant.

He gave a brief summary of the main features of the plan outlined in the document. Firstly, the multilateral compensation described therein would be only partial. Every Latin-American country would be able to effect compensation settlements with several European countries, but such compensation settlements would not be possible as between a particular European country and a member of Latin-American countries.

/Secondly, credit

Secondly, credit operations would continue to be governed by bilateral agreements.

Furthermore, the Latin-American countries would not be bound to lift customs barriers, to liberalize exchange control or to adopt other joint measures which were part of the EPU system. Lastly, compensation would not be automatic, but would be effected only at the request of the country concerned and on condition that it was acceptable to the European Payments Union, or, in other words, when its effect would be to level the balances of the European members of EPU.

In cases where such compensation would have the contrary effect of widening the differences in the balances with the European Payment Union, only two solutions were possible. Another country of Latin America might effect with the Union a per contra compensation of comparable value. That solution obviously presupposed some measure of co-ordination among the Latin-American countries. Where no such possibility existed, part of the payment would have to be made in gold.

An extreme case was conceivable where a Latin-American country was in a credit or debit position with all European countries. In that case, of course, no compensation would be possible, but that should not necessarily prevent the country in question from joining a system for multilateral compensation, since such situations were temporary and might change rapidly. Moreover, by agreeing to part-settlement through the European Payments Union instead of insisting on full payment in dollars,

/s/ Latin American

a Latin American creditor country could certainly expand its trade with Europe.

The ECLA Secretariat would welcome the views of delegations on the study, as well as those of the representative of the International Monetary Fund.

Mr. COTTIER (France) briefly described the principles underlying the European Payments Union. That body had three functions to effect multilateral compensation, to provide the machinery for payments and to lay down common rules governing the trade and financial policy of member countries. With reference to multilateral compensation, he said the system applied not only to most Western European countries but to their world-wide currency areas, including the sterling area, so that in effect it applied to more than half of world trade. The machinery for the monthly settlement of credit and debit positions in gold involved granting every member country a specific quota; the quota had been fixed by reference to each country's foreign trade. Within each quota there were successive "slices" of which the debtor had to settle in gold fractions varying from 0 to 70 per cent, up to a ceiling beyond which payments would normally have to be made entirely in gold or dollars. He pointed out that EPU had been launched with an initial dollar endowment granted by the United States.

The members were bound by very precise obligations concerning the credit which they were to extend to the Union

/s/ for the

or the eventual dollar settlements, according to their position. Such heavy obligations could only be warranted where common rules governed trade and financial policy. The EPU could not be dissociated from the efforts made by the Organization for European Economic Co-operation to liberalize international trade and to promote the economic development of Europe.

The Secretariat's study (E/CN.12/299) dealt only with the first function, multilateral compensation, so that it was wrong to speak of any prospective participation of the Latin-American countries in EPU. However, such compensation might affect not only the creditor or debtor position of European countries in relation to the Union, but the Union's own resources.

Following a preliminary survey submitted to OEEC, by Professor Triffin the Executive Committee of that organization had sent the central banks of European countries a Questionnaire on Compensation in Latin-American Currencies for the purpose of appraising the possibility of compensation between the currencies of two EPU countries and those of one or more Latin-American countries. Since October 1952 the European central banks had been sending the agent in Bâle a monthly statement of the compensation they might be in a position to accept in the matter of settlements with Latin-American countries.

It was clear from that historical account that the system of multilateral settlements within Europe had been

/built up

built up gradually and step by step. In that connexion it might be asked whether the various solutions proposed by Professor Triffin should be regarded as mutually exclusive or as successive stages. It was equally obvious that to be effective, any constructive action must be based on sound documentation. Before any multilateral compensation was contemplated the movements of the balances concerned had to be carefully calculated. Actually, as regards the relations between Latin America and Europe, those balances were accurately known only where payment agreements existed and those balances were still being kept secret. The question was therefore, whether the central banks would be prepared to disclose the movements in accounts. In the other cases, where only trade statistics were available, it might be asked whether such approximate figures could be used as a basis for action. The help of the International Monetary Fund would be extremely valuable in studying the various problems involved.

France would follow with sympathetic interest any action likely to facilitate world trade.

Mr. SANTOS (Brazil) pointed out that the balance of payments of individual Latin-American countries with European countries varied considerably, with the result that what was possible for some was impossible for others.

The tables given on pages 32 and 33 of the report showed that those European countries which were in a credit position
/with the

with the EPU were also creditors of the Latin-American countries and that those which were in a debit position with EPU were also debtors to Latin-American countries. Hence it was clear that the balances available in the currencies of EPU countries showed a deficit in relation to Latin America as a whole. Automatic compensation would therefore be difficult, for it would lead to a change in the position of the European countries which were debtors of the EPU. That fact would not necessarily prevent a partial solution of the problem, and therefore further research was required.

Owing to its present unfavourable balance of payments position it would be difficult for Brazil to participate in the multilateral system proposed. However, measures taken by the Brazilian Government gave rise to hopes of a speedy change in the position, and Brazil's possible participation in the system at some future time was not excluded.

Accordingly his delegation had joined with that of Peru in preparing a draft resolution inviting the Executive Secretary to undertake the surveys necessary for ascertaining the payments position of each Latin-American country and of Latin America as a whole for the purpose of deciding whether their membership in EPU would be possible. It further requested the Executive Secretary to do whatever was needed in contemplation of their possible participation, without prejudice to the International Monetary Fund's aim - the promotion of general convertibility.

/Mr. GODFREY

Mr. GODFREY (United Kingdom) expressed keen interest in the statement made by the representative of France. The problem of payments between Latin America and Europe was of primary importance, but the establishment of a Latin-American Payments Union on the lines of EPU seem premature. Besides, the question was one which only concerned the Latin-American countries themselves.

He would therefore confine himself to a brief examination of the possibility of directly associating the countries of Latin America with EPU. Mr. Triffin's proposals merely contemplated the use of the multilateral compensation facilities offered by EPU on the part of the Latin-American countries. Despite its indisputable value, his survey should therefore be regarded only as a first step; far more extensive research would be necessary before a viable system could be worked out. Generally speaking, Mr. Triffin's proposals were not technically impracticable, but some elucidation was needed. Paragraph 14 (8), for example, took no account of the fact that residual balances could change hands several times, nor was there any indication of the procedure to be adopted in the case of the residual balances referred to in paragraphs 19 to 22. Many difficulties would certainly arise in such cases.

Existing payments difficulties between Europe and Latin-American countries arose partly from the fact that the latter observed a strict bilateral system of payments both among themselves and with other countries. The possibility of
/effecting compensation

effecting compensation through the channel of EPU might involve the danger that those countries would conclude further bilateral agreements or at least continue those already in force. He felt, on the contrary, that the time was ripe for extending the whole system of international trade and payments.

Another solution which should be considered was a greater use of sterling in trade with Europe and with all the countries of Asia save China. Though the report touched on that solution in paragraph 8, it seemed to suggest that the entry of Latin-American countries into the Sterling area of transferable accounts was necessarily involved. That was not the case. All that was needed was that the commercial bank of the importing or exporting country should apply to the Bank of England for permission to finance the transaction in Sterling, provided that the currency controls of both countries agreed. As yet Latin-American countries had not taken advantage of such facilities, but had preferred to continue their bilateral arrangements.

Compensation would not necessarily become more frequent through becoming automatic. The economies of the countries of Latin America were still very similar. Therefore it often happened either that all were creditors or all were debtors of member countries of EPU. The ECLA Secretariat should in co-operation with the Secretariat of OEEC, study the level and structure of trade between the two regions, in order that

/its report

its report might include all information relevant to the development of EPU.

Mr. SMITH (United States of America) noted the almost unanimous opinion of the Committee that the possibility of effecting multilateral compensation settlements between Latin-american and European countries through the European Payments Union should be studied more thoroughly and that no decision could be taken until full data relating to the balance of payments of the Latin-american countries were available. The ECLA report brought out the fact that any improvement in trade between Latin-american countries and Europe depended on a number of circumstances. The United States had always supported measures for restoring full currency convertibility and for removing every obstacle to international trade. Every survey of the question could certainly help to accomplish that purpose.

Before commenting, the United States delegation would study in detail the draft resolution jointly submitted by the delegations of Brazil and Peru.

Mr. CARDENAS (Ecuador) said that, interesting as the ECLA report was, it was not an exhaustive study of the problem. Further study was needed before final conclusions could be formulated.

Though Ecuador was in the dollar area and 80 per cent of its national income was in the form of hard currencies, its Government was in favour of multilateral compensation

/settlements between

settlements between Latin-American and European countries. Ecuador had already concluded three payment agreements with European countries and so had benefited by some of the EPU facilities. Before the Second World War trade between several of the Latin-American countries, including Ecuador, and Europe had been far more extensive than it now was. Increased trade between Ecuador and Europe was essential for the improvement of its commercial position. Ecuador had to expand its trade with Europe to improve its terms of trade and was also anxious to step up its trade with Latin-American countries, for in that way triangular settlements with European and Latin-American countries became possible.

Accordingly, Ecuador had a particular interest in ECLA's study. However, the study was incomplete. Before a decision was reached, the Executive Secretary of ECLA should consult with representatives of the International Monetary Fund, OEEC and EPU for the purpose of studying the trade balance and balance of payments of every Latin-American country with other Latin-American countries and with member countries of EPU. They should also study the policy of Latin-American countries in regard to currency, international trade and customs duties as well as the extent to which a system of multilateral compensation could liberalize trade and foster the economic development of Latin America. ECLA should also ask the governments of its member States for the information needed for the proposed studies and should authorize its

/Executive Secretary

Executive Secretary to recruit the experts without whom such studies could not be carried on.

His delegation would submit a formal draft resolution along those lines.

Mr. BARRETO (Peru) said that his delegation had joined with that of Brazil in submitting a draft resolution requesting the Executive Secretary to continue its preliminary study concerning the possibility of effecting multilateral compensation settlements between Latin-American and European countries. The study was admittedly incomplete and, before any decision was reached all aspects of the problem should be considered. The draft resolution jointly submitted by Brazil and Peru was in no way incompatible with that introduced by Ecuador.

Mr. RUIZ (Chile) said that the question of a multilateral compensation system between Latin-American and European countries was bound up with that of multilateral compensation between the countries of Latin America. Chile was interested in both questions; it had already concluded bilateral agreements with some Latin-American and some European countries.

He expressed support for the Ecuadorian draft resolution.

Mr. CAMPS (Argentina) said that the compensation system envisaged in Mr. Triffin's report was likely to encourage the expansion of trade between Latin-American and European countries. There was, however, a specific aspect of the question

~~which should not~~

which should not be overlooked. Although trade within Latin America accounted for only about 10 per cent of the region's foreign trade, the possibility of studying the establishment of a Latin-American Payments Union should not be discarded. Several Latin-American countries had already concluded bilateral agreements either among themselves or with European countries. In his report, Mr. Triffin offered a possible solution of the problem of multilateral compensation between Latin-American and European countries, namely, the gold and dollar contribution which Latin-American countries might make to EPU. Technically, that solution might be logical, but, for Latin-American countries, it was impracticable. The ideal solution would be the creation of a system involving both a European and a Latin-American Payments Union.

The draft resolutions submitted by Brazil and Peru on the one hand and by Ecuador on the other should be amalgamated, since they were complementary, not irreconcilable, into a single text which would include the views of the Argentine delegation concerning the study about the possible setting up of a Latin-American Payments Union.

Mr. DEL CANTO (International Monetary Fund) said the Fund welcomed every attempt on the part of member States to free their foreign trade and payments system from the fetters of bilateralism. The Fund could not but be interested in any proposal aiming at partial convertibility of the currencies held by it. The views of the representatives of Latin America not in regular contact with the Fund would be of interest.

/The Fund

The Fund had taken an active part in studying the possibility of multilateral compensation settlements between Latin-American and European countries. ECLA had approved a resolution on the question at its very first session. On the basis of that resolution, the Fund had put forward, at ECLA's second session, a fairly detailed study of the system of trade and payments obtaining among Latin-American countries. It was clear from that study that both trade and payments were on a small scale.

The proposals before the Committee were calculated to lead to multilateral compensation settlements between Latin-American and European countries through the European Payments Union. Those proposals had not yet been considered by the Board of Governors of the Fund, which alone could take policy decisions. However, according to Mr. Triffin himself, the suggested scheme could not in any way lead to neglect of the main object of the Fund - the reestablishment of a system of multilateral compensation among all its member countries and complete convertibility of their currencies.

Mr. Triffin's proposed scheme was only a step in that direction and its implementation depended partly on how many Latin-American countries would be able to convert the European currencies of which they had a surplus into the European currencies which they lacked. The volume of such compensation settlements would also be an important consideration. To sum up, the scheme put forward by

Mr. Triffin

Mr. Triffin could not contribute to the aim of the Fund unless it were possible to expand the compensation settlements and trade of Latin-American countries with European countries without loss to their dollar earnings.

Further study of the balance of payments between Latin-American countries and their balance of payments with member countries of EPU would be useful for the purpose of discovering the volume of the compensation settlements contemplated.

The prospect of being able to transfer earnings in inconvertible currencies could exercise a stimulating influence on the trade between Latin America and between Latin-American and European countries, provided that the Latin-American countries possessed an exportable surplus of raw materials and that the terms of trade with Europe were more favourable than those with hard currency countries. In any event, the Fund had not yet reached any definite conclusions on the suggested scheme; when it did so, it would take account of the views expressed within the Committee.

Mr. PASTORI (Uruguay) said he had carefully studied Mr. Triffin's report. The problem of multilateral compensation between Latin-American and European countries was very complex. The ideal solution would certainly be full convertibility of the currencies of all countries - the ultimate aim of the International Monetary Fund. One

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thing was clear in regard to Mr. Triffin's proposed solution - international trade could not be developed until some stability in their economy and in demand had been reached. Uruguay supported the establishment of a Latin-American Payments Union through which Latin-American countries could be brought within the framework of the European Payments Union. Probably, however, a union of that kind could only be established gradually and after thorough study.

Mr. ALCAZAR (Bolivia) said that the central banks of Latin America should be consulted in connexion with any further studies.

Mr. ZAMORA (Mexico) formally proposed the establishment of a drafting committee to prepare an amalgamated text incorporating the draft resolutions submitted by Brazil and Peru on the one hand and by Ecuador on the other.

After a discussion in which the representatives of the Argentine, Brazil, Mexico, Peru, the United Kingdom, the United States and Uruguay took part, the Committee decided to set up a drafting committee composed of the representatives of the Argentine, Brazil, Chile, Ecuador, France, Peru, the United Kingdom and Uruguay for the purpose of producing a single draft resolution for submission to the plenary.

The meeting rose at 12:55 p.m.

