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ECONOMIC COMMISSION FOR LATIN AMERICA  
Seventh session  
La Paz, Bolivia  
15 May 1957

COMMITTEE I  
(Trade)

SUMMARY RECORD OF THE SECOND MEETING

Held at La Paz on Tuesday, 21 May 1957, at 10.10 a.m.

CONTENTS:

Inter-Latin American trade: (b) Payments

PRESENT:

<u>Chairman:</u>	Mr. ARIOSTO GONZALEZ	Uruguay
<u>Rapporteur:</u>	Mr. BARRETO	Peru
<u>Members:</u>	Mr. KORENJAK	Argentina
	Mr. OCAMPO	Bolivia
	Mr. GARRIDO TORRES	Brazil
	Mr. MAX	Chile
	Mr. GAMBOA	Cuba
	Mr. GUAROA	Dominican Rep.
	Mr. SALGADO	Ecuador
	Mr. DUARTE	El Salvador
	Mr. VIAUD	France
	Mr. MELGAR LARRIEU	Guatemala
	Mr. MATUTE	Honduras
	Mr. VILLALOBOS	Mexico
	Mr. ZIJDERVELD	Netherlands
	Mr. CLEMENT	Panama
	Mr. HERMOGENES GONZALEZ	Paraguay
	Mr. WRIGHT	United Kingdom
	Mr. BARGER	United States of America
	Mr. CARLEVARO	Uruguay
	Mr. PINO )	
	Mr. HERNANDEZ)	Venezuela

/ALSO PRESENT

ALSO PRESENT:

Observers from  
Member States:

Mr. CHENDOV	Bulgaria
Mr. PARMA	Czechoslovakia
Mr. MANCINI	Italy
Mr. IVCZENIK	Hungary
Mr. IZAWA )	Japan
Mr. YOSHIMIZU)	
Mr. DIMITRIU	Rumania
Mr. ARAGONES	Spain
Mr. MANZHVLO	Union of Soviet Socialist Republics

Observer from a  
non-Member State:

Mr. ENGELS	Federal Republic of Germany
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Representatives of  
specialized agencies:

Mr. EZEKIEL	Food and Agri- culture Organiza- tion
Mr. del CANTO)	International Monetary Fund
Mr. KEESING )	

Observers from inter-governmental organizations:

Mr. BERMUDEZ	Inter-American Economic and Social Council
Mr. ROYER	General Agreement on Tariffs and Trade
Mr. WIAZEMSKY	Inter-Governmental Committee for European Migration

/Representatives of

Representatives of non-governmental organizations:

Category B and Register:

Mr. FRIEDLANDER      World Jewish Congress

Secretariat:

Mr. PREBISCH          Executive Secretary

Mr. SWENSON          Deputy Director, Economic  
Commission for Latin America

Mr. IVOVICH          Secretary of the Committee

/INTER-LATIN-AMERICAN

## INTER-LATIN-AMERICAN TRADE: (b) PAYMENTS

(i) Report of the first session of the Central Banks Working Group on a multilateral payments system

Mr. IVOVICH (Secretary of the Committee) described the terms of reference of the Central Banks Working Group set up pursuant to resolution 1 (I) adopted by the Commission's Trade Committee at its first session in November 1956. The main task of the Working Group had been to pave the way for converting the bilateral trade system prevailing in the Latin American region into a multilateral system. The Working Group had felt that the formation of the European common market would give added impetus to a similar process in Latin America but had emphasized the need for careful study of the problems involved so as to avoid the disappointment that might result from excessive haste. It had stressed the importance of a multilateral system and of the co-ordination of Government trade policies as a means of reducing balance of payments difficulties and expanding the volume of trade.

He reviewed resolution N° 1 adopted by the Working Group and drew particular attention to article 10 of the annexed Standard Payments Agreement, according to which the Parties were to take steps to ensure that the dollar account was quoted at the same rate as the free United States dollar for similar operations. That would certainly facilitate transfers. Another important aspect of trade was dealt with in article 3 (v). By facilitating the transfer of account currencies the Standard

/Agreement would

Agreement would overcome the convertibility difficulties faced by many Latin American countries and help to remove bilateral trade barriers.

The Working Group had also agreed on standard operational procedures and methods of collecting information on the state of accounts as a means of implementing the agreement adopted at Santiago. It had further decided that the exchange of information on accounts should begin on 1 July 1957. In that connexion it was noteworthy that the initiative with respect to the transfer of balances and exchanges of information on transfers would come from Central Banks.

The Working Group had examined and approved the technical study prepared by the secretariat under the Trade Committee's resolution 1 (I) and had expressed the view that experience acquired in the next few months would afford valuable guidance in the analysis and preparation of specific recommendations. In the case of similar requests received in the past the secretariat had generally had available to it only balance of payments data, which did not reveal the real state of accounts. For that reason it had more recently used revenue and expenditure figures for countries with bilateral accounts; such figures, in conjunction with balance of payments data and swing credits figures, had indicated that multilateral clearing accounts were quite feasible. More time was required, however, before any definite decisions could be reached on the subject. The technical study was only in the initial stages of preparation

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and the secretariat, in co-operation with the specialized agencies, would continue its work on the subject.

Mr. KORENJAK (Argentina) said that the optimism aroused by the Montevideo meeting had been fully justified by the results achieved. The Standard Agreement, which had received general support, would facilitate the transferability of balances between the bilateral accounts. That transferability would be facilitated by the non-discriminatory pricing of export products and by exchange rates based on parity with the dollar. The question as a whole was given priority in the Working Group's resolution N° 1. Argentina was already proceeding in accordance with the principles of the resolution, the prices of its exports no longer depending on their destination; in other words its dollar exchange rates did not discriminate between sales to the United States or elsewhere. The same uniformity of exchange treatment was also true in the case of imports. That was a healthy development and one which stimulated competition.

The Standard Agreement did not stipulate how much reciprocal credit was to be extended in each case, since it would depend on the peculiarities of trade between individual countries. The Argentine-Brazilian Agreement, for example, placed no limit on the amount of credit, since seasonal fluctuations in the volume of trade would make it very difficult to fix a credit ceiling in terms of time.

The transfer of balances was another important aspect of the system envisaged. Two distinct types had been provided

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for. The first, which was voluntary, was to be effected within the limits of the swing credits. For example, a credit balance which one country was unable to use because the debtor could not offer the goods it required could be transferred to another bilateral account and used for purchases of commodities from the third country, which in turn might be in a better position to import from the debtor country, thus balancing the arrangement. The system was, in short, the first step towards multilateralism.

The second type of transfer was involuntary and applied to any amounts in excess of the limit of the swing credit stipulated in the agreement. Only when compensation of balances among bilateral accounts proved to be impossible would they be liquidated in the currency of another area. However, with increased facilities for the transferability of balances within the swing limit, it would be more difficult now to exceed credit limits if those were adequate.

Mr. PREBISCH (Executive Secretary), referring to article 12 of the standard agreement, asked the Argentine representative whether, within the machinery contemplated in the Standard Agreement, a creditor country would or would not be able to demand payment from the debtor country when the balance exceeded the limit of the relevant credit.

Mr. KORENJAK (Argentina) replied that the creditor country would be entitled to ask for payment or for the transfer of the balances in its favour to another country. The reason why

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the word "demand" had not been used in the article in question was simply that it was rather too strong. Nevertheless the debtor country would be obliged to comply with the wishes of the creditor country in such cases.

Continuing his statement, he explained that it had not been deemed advisable to provide for the automatic transfer of balances at that stage. The ideal would, of course, be to provide for the automatic transfer not only of excess amounts but also of any part of the balance itself. The standard agreement was only the first step in that direction, however, and the Latin American countries should proceed with caution. Balances could not be transferred automatically until it was known in advance whether they could be absorbed by any of the countries parties to the arrangement.

The Working Group had also made proposals for the type of payments to be included in the standard agreement. Payments directly connected with trade itself were naturally covered, but it was provided that other payments could be included voluntarily. One of the most important of those, which had never been included in the past, related to the cost of transformation of raw materials or products of either of the two parties to an agreement, or of a third country, which were sent to the other party for processing. Argentina had already incorporated that provision in its agreement with Chile.

Another important point was that the Central Banks of the countries parties to an agreement would seek to place account

/dollars on

dollars on a parity with the United States dollar. Argentina had a dual exchange system consisting of a free rate and an official bank rate. That system did not create difficulties in trade with the rest of the world, but in trade with neighbouring countries a maladjustment was produced because a much larger share of export transactions were carried out at the free rate than in the case of imports. That implied an exchange loss of about 600 million pesos annually, which had to be covered by the Government.

Another purpose of the standard agreement was to provide for the greater uniformity of banking methods and payments procedures, so that balances could be used in identical ways and with equal ease. If agreement dollars did not move with sufficient rapidity, then there was a risk that the value of balances would depreciate and impede adjustments and the flow of trade.

The transfer of balances would require that any given Central Bank should be kept informed of the state of the accounts of other Central Banks. Because a national Central Bank could not exercise the same impartiality in centralizing that data as could ECLA, the latter had been selected as the body best qualified to receive, compile and distribute such information. ECLA would not, however, be required to suggest how and when balances should be transferred.

There were three types of information that it would handle. The first would consist of monthly statements of

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debit or credit balances in accounts; such information would be distributed within the first five days of each month. The second type of information would indicate the import and export credits opened by various countries and would be distributed within the first fifteen days of each month. The third type of information referred to the position of import permits and the like and would be made available within two months. The last two types of information would reveal trade trends and indicate whether any transfers of balances might be convenient.

He re-emphasized that the procedure envisaged represented only the first stage towards greater multilateralism, but it was a real step forward. In fact, some transfer proposals were already being studied.

Mr. GARRIDO TORRES (Brazil) was gratified to note the fruitful work accomplished by the Trade Committee in connexion with the payments problem. He would not enter into a discussion of the problem since it had already been dealt with exhaustively at the First Meeting of the Trade Committee and later at the Meeting of the Central Banks Working Group. In addition, the matter had been further clarified by the Secretary of the Committee and the Argentine representative. His delegation supported the Peruvian proposal to the effect that the substance of the report should not be discussed because it had to be considered by the Trade Committee before its approval. He regretted that document E/CN.12/C.1/4, dealing with the payments problem and containing specific recommendations on the policy adopted which were reflected in the work recently completed, had not been included among the documents prepared by the Central Banks Working Group. He also regretted that no mention had been made, in the progress report prepared by the secretariat on the work of the Trade Committee, of that document which also dealt with the creation of the regional market. To sum up, in regard to the item under discussion, Brazil supported the Santiago report and resolution 1(I) contained therein, took note of the report of the Central Banks Working Group and supported the draft resolution submitted by other delegations concerning a second meeting of the Working Group, including the possibility of re-examining the payments agreements, taking into account the standard agreement, provided that the Governments which maintained such accounts consented to do so. For that purpose, the necessary consultations could be held through the secretariat.

/Mr. WRIGHT

Mr. WRIGHT (United Kingdom) said that since the meeting of the Trade Committee, in Santiago, remarkable advances had been made in the work on a multilateral payments system. The United Kingdom was keenly interested in multilateral arrangements both between Latin American countries and between those countries and countries outside the area, and felt that both types should progress together.

After describing the main provisions of Trade Committee resolution 1(I) on payments arrangements, he referred to the draft standard payments agreement prepared by the Working Group at Montevideo. The clarification made by the Argentine delegation had been helpful, but the United Kingdom delegation still had serious misgivings about article 12 of that draft agreement. The wording of that article made the payment of balance in excess of credits voluntary rather than obligatory; it was thus at variance with resolution 1(I) of the Trade Committee. The adoption of a standard payments agreement in this form would represent not an advance over the bilateral system but a perpetuation of it; and the accumulation of unliquidated balances which it would allow might lead to a paralysis rather than an expansion of trade.

Mr. BARGER (United States) said he agreed that an ideal system of trade would be one carried on in freely convertible currencies. He realized, however, that some conservation of foreign exchange might be necessary, and agreed that some liberalization of trade might be effected by using a method of clearing accounts. He referred to the problem of the depreciation of debtor currencies in bilateral accounts. In the absence of that mechanism of adjustment, under the new standard agreement, the need to maintain competitive prices in bilateral transactions would be imperative.

Bilateral agreements sometimes required the extension of credit from one country to the other, which might prove to have an inflationary effect in the creditor country; his delegation felt, therefore, that the Montevideo Working Group had acted wisely in agreeing that swing credits should be moderate. It would represent a distinct advance if it could be agreed among the interested countries that excesses over those credits should be automatically liquidated. He expressed the concern of his delegation over the request that information on bilateral /accounts should

accounts should be centralized by ECLA; he did not feel that it would be appropriate for ECLA to accept any role in the operation of the system. The co-ordination of information should be handled either by the countries themselves through one of their lending institutions or by the International Monetary Fund.

Mr. CARLEVARO (Uruguay) said that the steps taken at the Montevideo conference had demonstrated the constructive approach of the countries participating in it and should be supported by all agencies seeking to encourage multilateralism. It was important to move gradually in such matters, which had serious social as well as economic implications.

One of ECLA's most specific obligations under its statute was to support and assist all measures contributing to the economic development of Latin America; his delegation therefore considered that it would be fully within ECLA's competence to act as a clearing-house for information, as proposed in the Central Banks Working Group's report.

Mr. VIAUD (France) said that the work accomplished at Montevideo represented a first step towards the goals fixed by the Trade Committee, and was to be welcomed accordingly.

However, his delegation was disturbed by the absence of provision for a centralizing body to handle payment operations. European experience had shown that in so technical a field that function could not be fulfilled by a body like ECLA, but only

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by a banking organ. ECLA should take advantage of its current session to recommend that the countries concerned should study the possibility of establishing such an organ.

His delegation also felt that it might be advisable to recommend that the Central Banks Working Group should study the possibility of providing for automatic payments within the limits of the swing credits.

Mr. DEL CANTO (International Monetary Fund) said that the organization he represented had an open mind on the subject under discussion, and was greatly interested in the views of the Latin American countries, especially those whose representatives had participated in the Montevideo conference. The conclusions of the Working Group deserved very careful study, and his organization offered its co-operation to that end.

Mr. KEESING (International Monetary Fund) said that the report of the Central Banks Working Group incorporated several new proposals which appeared valuable and suggested no difficulties, among them the plan for an exchange of information and the ideas embodied in articles 3 and 10 of the draft standard payments agreement. However, the wording of article 12 was unclear, and might give rise to differences of interpretation. The legal position of the parties to the agreement might have economic implications. The uncertainty concerned the extent to which the payments referred to in the article were optional or automatic and the relative position of creditor /and debtor

and debtor countries. He proposed to submit two alternative texts of the article to the secretariat, each embodying different interpretations, in ambiguous terms.

Mr. KORENJAK (Argentina), replying to the remarks made by the representatives of France, the United Kingdom and the International Monetary Fund, said that the Working Group had agreed that the co-ordinating body for the exchange of information should be a banking organ. However, the establishment of such an organ would be a hasty step at present and should await greater progress towards transferability. To allow ECLA to collect and distribute information would involve no delegation of executive functions to ECLA, since the right to decide on transfers was reserved to the central banks themselves; nor would it involve much extra expenditure by ECLA, while at the same time such data would be very useful in helping ECLA to carry out its future studies. Moreover, the initiation of such a system of collection and distribution of information before the establishment of a banking organization was entirely in accordance with European precedent.

It seemed that the wording of article 12 had aroused some doubts. Although there was no difficulty of interpretation regarding transfers of balances within swing credit limits, it was understood that payment of balances beyond those limits was obligatory when the creditor so requested. The real problem concerned the accumulation of excess balances for other than seasonal reasons, but that eventuality was less likely to occur under the new system. If it did occur and no other

/country was

country was in a position to accept the debtor's balances then those could be paid in the currency of other areas. He felt that the concern felt by the Fund was more theoretical than real and more justified by the old than the new system. Furthermore, the agreement only set a standard; Governments signing specific agreements could employ stricter terminology if they desired.

The CHAIRMAN, speaking as the representative of Uruguay, said that his delegation was in agreement with the clarification given by the Argentine representative.

Mr. ARAGONES (Spain) said that his country was a party to ten bilateral agreements. He thought that the Trade Committee should study the possibility of allowing countries such as his own to participate in a system like the one under discussion. If that were done, ECLA could aid the development of a much broader flow of trade within a system which could be called the "ECLA Club". He requested the committee to take that possibility into account.

Mr. CARLEVARO (Uruguay) read out a draft resolution, relating to the report of the Central Banks Working Group and co-sponsored by Argentina, Bolivia, Brazil, Chile, Ecuador and Paraguay.

After a procedural discussion in which the representatives of Argentina, Brazil, Chile, Peru, Uruguay and the United States took part, the CHAIRMAN suggested that the report of the Central Banks Working Group and the draft resolution should be referred

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to the Working Group on regional markets, which would be expanded to include the representatives of Ecuador, Peru and the United Kingdom. The representatives of the International Monetary Fund would also be invited to attend as advisors.

It was decided.

Mr. PREBISCH (Executive Secretary) said that the secretariat shared the concern expressed by the French and United States representatives concerning the possible diversion of ECLA's efforts should it be requested to engage in banking operations. He stressed, however, that only a limited and temporary role had been contemplated for ECLA until a system of transfers was developed which would justify the establishment of a special agency. In no circumstances would the secretariat suggest that compensation operations should be carried out. ECLA would be pleased to assume the role suggested if requested to do so, or to seek any other arrangement, including the establishment of a special agency.

The meeting of the Working Group in Montevideo was a step forward towards multilateralism through the provision of instruments which had not been employed previously to facilitate voluntary compensatory operations by Central Banks. The secretariat would now like to study ways in which bilateral balances would be reduced through an expansion in trade, so that a multilateral arrangement could be established at a much higher level of trade. The situation of Latin American countries was very different from that of European countries which were

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endeavouring to restore trade after the war; in the case of the former, it was a question of bringing about an expanded flow of trade which had not existed hitherto.

In submitting the Working Group's report to the Committee, the secretariat had not intended to open an exhaustive debate on the subject; that was the task of the Trade Committee, the competent body. However, the views expressed in the Committee would be of great help in compiling the document that would accompany the Working Group's report when it was submitted to the Trade Committee.

He suggested that representatives of the International Monetary Fund and other agencies who had comments to make should submit them directly to ECLA's secretariat.

The meeting rose at 1 p.m.