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TRADE COMMITTEE
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INTER-LATIN AMERICAN PAYMENTS

(Preliminary draft)
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INTER-LATIN
INTER-LATIN AMERICAN PAYMENTS 1/

INTRODUCTION

1. The question of inter-Latin American payments is one of the main problems that has to be solved in order that fruitful economic collaboration may be established among the Latin American countries, thus supplementing natural and industrial production with a view to the gradual extension of national markets.

The characteristics of this problem and the different facets it presents in each of the countries of the area have already been studied in several United Nations publications.2/ The following are its most salient features:

(a) Inter-Latin American trade transactions are liquidated largely through bilateral accounts. The origin and raison d'être of these accounts are to be found in the shortage of convertible currency consequent upon the disequilibrium in balances of payments with the dollar area. This disequilibrium is acute and exists in nearly all the countries participating in intra-regional trade. It is the practice of those with the largest volume of clearing-account trade not to use for the purposes of such trade actual dollars which they need for payments outside the area. Hence, almost all the balances created by exports negotiated through such accounts are kept for purchases in the area itself. It is more than seven years since the countries that account for the bulk of inter-Latin American trade on account have made any cash payments among themselves in respect of balances exceeding the level of bilateral swing credits.

Generally speaking, the establishment of clearing accounts was regarded

1/ In the preparation of this document due account was taken of the information supplied by central banks and equivalent monetary authorities in reply to a questionnaire sent to them by the secretariat of the Economic Commission for Latin America (ECLA)

2/ Study of the prospects of inter-Latin American trade (Southern zone of the region) (E/CN.12/304/Rev.2), United Nations publication, Sales No.: 1953, II.G.4; Study of inter-Latin American trade (E/CN.12/369/Rev.1), United Nations publication, Sales No.: 1956.II.G.3; Payments and trade in Latin America: current problems (E/CN.12/0.1/3), reproduced in Inter-Latin American trade: current problems (E/CN.12/423), United Nations publication, Sales No.: 1957.II.G.5, pp.27-54.
as a means of safeguarding the relative level of intra-regional trade from possible declines brought about by the insufficiency of its convertible-currency holdings. Up to 1955, accounts also influenced the growth of certain trade sectors. But viewed as a whole, it is obvious that their advantages for trade as a whole have been continually offset by negative features. Indeed there has been a signal lack of co-ordination in matters such as the granting of most-favoured exchange treatment, swing credits, rules for the settlement of balances, re-exporting and the inclusion or exclusion of invisible transactions, etc. Moreover, as may still be noted in some trade sectors, parity was frequently not observed between units of account and the actual dollar for similar operations; this reduced the competitive power of Latin American exports in the area itself, since it was one of the causes of over-invoicing.

Non-observance of parity is also allied to one of the worst features of bilateral accounts: the repeated immobilization of balances. It often happens that a debtor country, in an attempt to prevent disequilibrium from reaching the point beyond which the deficit is payable on demand, tries to reduce the imbalance by cutting down its purchases from the creditor country. The latter, in its turn, is likely to lose interest in increasing its exports to a market where the credit accruing from its sales is finding no convenient or attractive outlet. Trade between each pair of countries therefore tends to level off at the total volume registered by the country with the smaller share. Under these conditions, the system of isolated accounts is adequate for facilitating the vast extension of the trade and economic ties between countries of the area, to which the complementarity of certain natural products and the growth of industry might give rise.

The problems inherent in trade on account have been considerably aggravated by the exchange reforms that have been introduced since the latter part of 1955 in the South American countries that are more actively engaged in intra-regional trade. It is common knowledge that one of the purposes of the reforms is the replacement of direct by indirect controls in the field of foreign trade. Except for commodities trade in which is still negotiated through agreements between officials, the result has been more freedom
for importers to choose their market of supply among certain monetary zones according to the preference of the user or the free play of trade quotations. What is more, in some countries the attempt to apply parity to exchange rates for imports contributed in some degree to the decline in demand for imports from the area.

The effect of the new conditions arising out of the reforms has been to render trade on account less attractive. In the past, the attainment of trade objectives by means of such accounts largely depended on the almost arbitrary measures consequent upon the direct control of foreign trade. When this system was curtailed or abolished, the maladjustment between bilateral account procedures and the foreign trade system founded on indirect controls, together with other factors — among them the purchase of United States agricultural surpluses became a fresh source of difficulty for intra-regional trade in the last two years. The combination of all these factors has had a highly detrimental effect on such trade. In the case of traditional commodities, such as fresh fruit and lumber, this disequilibrium has been one of the main causes of the numerous interruptions — lasting, at times, for months — in the flow of trade in certain sectors.

Paradoxically enough, although the aggravation of payments problems has added to the difficulties of trade relationships, various resolutions adopted by the Governments members of the Commission show that the area is becoming increasingly interested in finding a solution to certain import substitution, investment, productivity and other problems by means of agreements for the gradual establishment of economic complementarity based on the regional market project. Before such agreements can be signed and executed, the payments situation would obviously have to be normalized, apart from any action that might be taken to stimulate and diversify trade. An integration agreement would otherwise be rendered less effective, since the movements of goods in the area might be suddenly halted, thereby jeopardizing the smooth operation of the system by disturbing the fluidity of payments.

In the face of problems such as these, and since the total abolition of bilateral accounts is deemed to be unwise for the time being in view of the balance-of-payments disequilibrium in the dollar area, the countries holding such accounts have already taken steps to study ways and means of adapting them — and actually to adapt them — to the new conditions created.
by the exchange reforms, thus equipping them to serve as instruments of the policy of economic complementarity. These countries are aware that their task is fraught with great difficulty, and that it cannot be carried out unless a high degree of collaboration is developed and maintained among them. Moreover, they have pointed out in the Commission that the accounts should be reconstructed on bases which would not hamper the possible future participation of the countries in the area in a large-scale convertibility system.

(b) Very little trade is carried on in Latin America between the bilateral-account sector and the countries that deal with the rest of the area in convertible currency; in fact, it represents barely one tenth of total intra-regional trade. In spite of the fact that the natural production of certain countries in one sector is complementary with that of countries in another sector and that surpluses exist in some industrial branches, payments and other difficulties impede the smooth flow and expansion of trade.

2. The origin of the studies which have been undertaken in order to solve the above-mentioned payments problems is to be found in Trade Committee resolution 1(I), adopted on 28 November 1956, which recommends two lines of action in this respect:

(a) The establishment of an interim system between the bilateralism of inter-Latin American payments on account and multilateralism;

(b) The subsequent introduction of a multilateral payments system which would be open for accession to all the Latin American countries desirous of participating.

3. In order to study – with the technical co-operation of the ECLA secretariat and of other international bodies – the possibilities of gradually establishing such a system, and to suggest the measures best calculated to achieve this end, a Working Group was set up by resolution 1(I) composed of central banks 3/ or the appropriate monetary authorities in those Latin American countries that maintain reciprocal payments agreements.

4. With regard to the above-mentioned interim system, resolution 1(I) takes note of the fact that the Latin American countries whose reciprocal

3/ In this document, the term "central bank" includes the equivalent monetary authority which, in Brazil, is the Department of Currency and Credit (Superintendência de Moeda e Crédito).
trade is negotiated through payments accounts are disposed to take steps towards progressive multilateralism. To this end, these countries declare, in the same resolution, their intention of concurrently adopting certain criteria for their reciprocal relations, at such time as they consider appropriate, with a view to enabling balances to be transferred between their accounts.

Likewise, as regards the measures paving the way towards multilateralism, resolution 1 (I) takes note of the fact that the central banks of countries with clearing accounts are willing to exchange information periodically and opportune on the state of these accounts to facilitate the transfer of balances.

At its first session (Montevideo, 29 April-10 May 1957), the Central Banks Working Group laid down guiding principles for the exchange of information on the state of accounts. At the same time, in order to facilitate the implementation of resolution 1(I), a draft standard payments agreement was prepared and a model set of rules for inter-bank operations, both designed to facilitate the readjustment of current payments agreements at the time of renegotiation by the contracting parties. Reference will be made later to the practical results of this stage of the work carried out by the Central Banks Working Group at its first session.

5. Before this introduction is concluded, mention should also be made of some other aspects. The Working Group on the Latin American Regional Market, which the Trade Committee decided to set up at the same time as the Central Banks Working Group deals with some points of view on the payments problem in relation to the efficacy of a regional market in the report on its first session (Santiago, Chile, 1-11 February 1958). In the opinion of the Working Group, maximum reciprocity in trade among the participants in such market could not be achieved without a multilateral payments system which would eliminate exchange risks for the participants while doing nothing to prevent Latin America's eventual participation in a wider system of multilateralism. In this connexion, the Working Group also suggested in its


/report that
report that all such Latin American payments institutions should be invited to attend the second session of the Central Banks Working Group, so that more extensive formulas for multilateral compensation might be devised, adding that it considered the elimination of certain current restrictions on trade to be indispensable for paving the way towards the automatic transferability of balances in Latin America.

6. In their replies to the questionnaire addressed to them by the ECLA secretariat for the purpose of preparing the documentation for the second session of the Central Banks Working Group, some of the banks made suggestions similar to those of the Working Group on the Latin American Regional Market.
I. PRESENT SITUATION OF INTER-LATIN AMERICAN CLEARING-ACCOUNT TRADE

Except for Peru and Venezuela, the eight other South American countries — Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay and Uruguay — maintain bilateral accounts to some extent. The accounts now number thirteen and are chiefly concentrated in the southern zone of the area. They cover the following bilateral sectors: Argentina-Bolivia, Argentina-Brazil, Argentina-Chile, Argentina-Paraguay, Argentina-Paraguay, Argentina-Uruguay, Bolivia-Chile, Brazil-Bolivia, Brazil-Chile, Brazil-Uruguay, Colombia-Ecuador, Chile-Ecuador and Paraguay-Uruguay. Argentina thus participates in six accounts; Brazil and Chile in four; Bolivia, Ecuador and Uruguay in three; and Colombia in one only.

The foregoing list brings to light an interesting fact. Among the eight clearing-account countries, there are 15 bilateral sectors where no compensation takes place. Although these out number the sectors covered by accounts, at present, the proportion of trade between the eight countries that is not negotiated through accounts is of little importance, since it constitutes a mere 1.5 per cent of total trade.

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5/ The United Nations publications Study of the prospects of inter-Latin American trade (Southern zone of the region), op. cit. and Inter-Latin American trade: current problems, op. cit. contain an analysis of the characteristics and structure of inter-Latin American payments accounts.

6/ Codicil 11 C/R, signed on 29 March 1958 between the Governments of Bolivia and Brazil as a supplement to article VI of the Trade Agreement signed at the same time, maintains the present bilateral account in force solely for accounting purposes in respect of current operations at the time the Agreement was signed. New transactions will not be settled through accounts since, under the terms of article VI, they will be paid in either cruzeiros or bolivianos as the payer wishes.

7/ Argentina-Colombia, Bolivia-Colombia, Bolivia-Ecuador, Bolivia-Paraguay, Bolivia-Uruguay, Brazil-Colombia, Brazil-Ecuador, Brazil-Paraguay, Chile-Paraguay, Chile-Uruguay, Colombia-Chile, Colombia-Paraguay, Colombia-Uruguay, Ecuador-Paraguay and Ecuador-Uruguay.

8/ Estimated by the secretariat on the basis of real payments negotiated through clearing accounts in 1957 and of official foreign trade statistics.

1. Distribution
1. Distribution by countries

According to the statistics which it has been possible to compile on real payments negotiated through accounts for trade transactions from January 1955, four countries - Argentina, Brazil, Chile and Uruguay - were responsible for more than nine-tenths of total inter-Latin American clearing-account trade. Of these four, Argentina and Brazil had the largest shares. Table 1 depicts this situation clearly, as well as the significance for each country of the contraction in clearing-account trade over the last two years.

The smaller shares in aggregate clearing-account trade are seen to correspond to Bolivia, Colombia, Ecuador and Paraguay, and their total in 1957 amounted to considerably less than one tenth of the sum of the respective payments. At this juncture, it would be useful, in regard to the countries enumerated and as well as the others with clearing accounts, to supplement the information supplied in table 1 by data on the ratio of each of these countries' clearing-account operations to its total foreign trade. In this connexion, it should be noted that, in 1957, this ratio\(2^\) was 13 per cent for Argentina, 5 for Bolivia, 9 for Brazil, 8 for Chile, 1 for Colombia, 6 for Ecuador, 39 for Paraguay and 13 for Uruguay.

According to these figures, the scale of Paraguay's inter-Latin American clearing-account trade was, in that respect, larger than that of any other country in the group. Most of its transactions of this kind were conducted bilaterally with Argentina. Argentina and Uruguay were next in order of magnitude, followed in decreasing order by Brazil, Chile, Ecuador, Bolivia and Colombia.

2. Decrease in the quantum of clearing-account trade

Inter-Latin American trade negotiated through bilateral accounts involves payments the value of which, in 1956 and 1957 - for all operations in both directions - amounted to almost 735 million dollars annually. This

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\(2^\) Estimates based on the official foreign trade statistics of the respective countries.
Table 1

INTER-LATIN AMERICAN CLEARING-ACCOUNT TRADE, 1955-57  
(Millions of dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>Income from exports</th>
<th>Expenditure on imports</th>
<th>Percent age b/</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1955</td>
<td>1956</td>
<td>1957a/</td>
</tr>
<tr>
<td>Argentina</td>
<td>196.5</td>
<td>141.6</td>
<td>150.1</td>
</tr>
<tr>
<td>Bolivia</td>
<td>2.8</td>
<td>5.9</td>
<td>4.6</td>
</tr>
<tr>
<td>Brazil</td>
<td>155.4</td>
<td>111.4</td>
<td>148.7</td>
</tr>
<tr>
<td>Chile</td>
<td>69.9</td>
<td>47.0</td>
<td>30.9</td>
</tr>
<tr>
<td>Colombia</td>
<td>1.0</td>
<td>0.4</td>
<td>3.1</td>
</tr>
<tr>
<td>Ecuador</td>
<td>8.8</td>
<td>6.0</td>
<td>8.2</td>
</tr>
<tr>
<td>Paraguay</td>
<td>20.7</td>
<td>14.8</td>
<td>12.0</td>
</tr>
<tr>
<td>Uruguay</td>
<td>28.7</td>
<td>37.9</td>
<td>10.1</td>
</tr>
<tr>
<td>Total</td>
<td>483.8</td>
<td>365.0</td>
<td>367.6</td>
</tr>
</tbody>
</table>

Sources: Central banks and equivalent monetary authorities.

a/ Brazil's trade with Bolivia and Uruguay has been estimated for December.

b/ This column shows the percentage share of each country in total payments - income plus expenditure - in 1957.

/in itself
in itself is a large amount, but in comparison with the statistics for previous financial years, the value of clearing-account operations has clearly declined in the last two years (see table 2).

Far from diminishing in the last two years, the total foreign trade of the clearing-account countries was somewhat larger in 1957 than in 1955. By contrast, the same countries' intra-regional trade through bilateral accounts dropped sharply in 1956 and 1957, since such transactions in the latter year were 233 million dollars less than in 1955 when they amounted to 968 million dollars.

In view of the contractions in clearing-account trade, which reduced it by approximately one-quarter of its total in past years, it is worth while to underline what appear to have been the principal causes. Speaking in general terms, one such factor, as pointed out in the introduction, undoubtedly was the loss of incentive for clearing-account trade caused by the exchange reforms introduced by different countries of the area in those years. These reforms tended to replace direct by indirect controls, thereby, in practice, giving importers more scope for choosing their market of supply. As a result, except for import items which were officially controlled some of the principal elements formerly available to the exchange authorities for directing operations into specific bilateral channels were taken out of their hands. Moreover, the incentives created were inadequate to offset by other means the depressive effect of the reforms on the clearing-account system. Apart from the general phenomenon described, the reforms also gave rise to other fairly important developments, such as those consequent upon the adoption of more realistic exchange rates and the application of these rates to specific articles which enabled exporters to fix their quotations without the over-pricing that follows an over-valuation of exchange rates. The export items particularly affected in this respect were wheat from Argentina, fats and chilled meat, whose share in clearing-account trade, although reduced mainly in volume, also suffered to a certain extent from the drop in unit prices. This decline has had a purely transitory effect on total trade value so far as a number of items are concerned, since in some sectors the readjusted exchange rate for exports has lagged behind the rise in costs and thus prolonged the inflationary process.

/Table 2
Table 2
SHARE OF INTER-LATIN AMERICAN CLEARING-ACCOUNT TRADE IN TOTAL FOREIGN TRADE OF CLEARING-ACCOUNT COUNTRIES a/ (Millions of dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total payments negotiated through inter-Latin American clearing accounts b/</th>
<th>Total trade of the eight countries with the rest of the world c/</th>
<th>Clearing-account trade as a percentage of total trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>968.0</td>
<td>7 787.5</td>
<td>12.4</td>
</tr>
<tr>
<td>1956</td>
<td>730.0</td>
<td>7 751.7</td>
<td>9.4</td>
</tr>
<tr>
<td>1957</td>
<td>735.3</td>
<td>7 853.6</td>
<td>9.4</td>
</tr>
</tbody>
</table>

Sources: Central banks and official foreign trade statistics.
a/ Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay and Uruguay.
b/ On the basis of real income and expenditure negotiated through accounts.
c/ Including f.o.b. export values and c.i.f. import values for the eight countries' trade with the rest of the world.

Apart from the above-mentioned factors, there are others — some connected with the exchange reforms — which have also been partly responsible for the deterioration of trade values. The most important will be briefly discussed in the following pages.

3. United States surpluses

This section deals with the agricultural surpluses purchased in the United States by some South American countries under the terms of section 402 of the Mutual Security Act. Apart from deliveries made under United States assistance programmes or as grants-in-aid or in exchange for strategic materials specified in title I of the Act, United States exports of wheat, wheat flour, lard, dairy products, tallow, maize, tobacco, seed and cotton to countries in the southern zone of Latin America amounted to /22.5 million
22.5 million dollars in 1955, 92 million in 1956 and 53 million in 1957 (see table 3). It should be noted that imports of United States surpluses occasionally made up for the inability of Argentina and Uruguay to export to the area sufficient quantities of certain commodities that normally originate from those two countries. 10/

The existence of the United States agricultural surpluses has had an obvious impact on outgoing and incoming clearing-account trade since the end of 1955. In fact, if the sales of Argentina's and Uruguay's traditional exports to other countries in the area were to be reduced, the former countries' imports would likewise decline.

In view of the resulting situation in certain sectors of inter-Latin American trade, the Governments of Argentina and Chile signed an agreement on 21 December 1957 (note 1 in the final act of the first session of the Joint Chilean-Argentine Commission on the Trade Agreement), under which Chile declared that it would buy most of its wheat and edible oil preferably from Argentina in 1958. On 29 July 1957, Argentina and Brazil concluded an agreement, to remain in force until October 1960, by virtue of which Brazil will buy one million tons of wheat annually in Argentina, provided that the

10/ Brazilian purchases of Argentina wheat, which were more than 102 million dollars in 1955, dropped to 58 million in 1956 and 54 million in 1957. Uruguay's purchases fell sharply in 1957, since their amount, which represented 29 million dollars in 1955, was 22.6 in 1956 and only 3.8 in 1957. The heavy cut in Uruguay's sales to Brazil was due, above all, to the reduction in availabilities. Before the sowing season, the price of a metric quintal was fixed at 13 Uruguayan pesos as compared with 14 pesos for the previous crop. As a result other crops were grown in the place of wheat. For instance, the total of 819,000 hectares sown to wheat in the preceding year dropped to 162,000, which were mainly used for barley, oats and linseed. Owing to bad weather, the 657,000 hectares of wheat gave a poor yield. Thus, the 1956/57 harvest was smaller than in the past four years, reaching only 550,000 tons, which represented a decline of 37 per cent below the previous year's level. The adverse influence of this situation on the balance of payments, and other considerations, led to the pricing of the metric quintal at 17 Uruguayan pesos for the 1957/58 crop, which was 50 centesimos more than the best price recorded for 1954/55.
Table 3

UNITED STATES: SHIPMENTS OF AGRICULTURAL SURPLUSES SOLD TO LATIN AMERICAN COUNTRIES AGAINST PAYMENT IN FOREIGN CURRENCY UNDER TITLE I OF PUBLIC LAW 480, 1955-57

(Estimated f.o.b. market values in millions of dollars; volumes in thousands of tons)

<table>
<thead>
<tr>
<th>Year and country of destination</th>
<th>Wheat a/</th>
<th>Cotton-seed oil or soya-bean oil</th>
<th>Cotton</th>
<th>Others b/</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Volume</td>
<td>Value</td>
<td>Volume</td>
<td>Value</td>
<td>Volume</td>
</tr>
<tr>
<td>1955</td>
<td>176.9</td>
<td>10.9</td>
<td>32.5</td>
<td>10.0</td>
<td>1.9</td>
</tr>
<tr>
<td>Argentina</td>
<td>-</td>
<td>-</td>
<td>19.4</td>
<td>5.7</td>
<td>-</td>
</tr>
<tr>
<td>Brasil</td>
<td>29.9</td>
<td>1.8</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Chile</td>
<td>36.6</td>
<td>2.2</td>
<td>7.2</td>
<td>2.4</td>
<td>-</td>
</tr>
<tr>
<td>Colombia</td>
<td>22.3</td>
<td>1.6</td>
<td>2.8</td>
<td>1.0</td>
<td>1.9</td>
</tr>
<tr>
<td>Perú</td>
<td>88.1</td>
<td>5.3</td>
<td>3.1</td>
<td>0.9</td>
<td>-</td>
</tr>
<tr>
<td>1956</td>
<td>735.4</td>
<td>44.9</td>
<td>99.6</td>
<td>33.9</td>
<td>13.1</td>
</tr>
<tr>
<td>Argentina</td>
<td>-</td>
<td>-</td>
<td>71.1</td>
<td>23.6</td>
<td>-</td>
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<tr>
<td>Brasil</td>
<td>519.0</td>
<td>31.6</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Chile</td>
<td>113.0</td>
<td>6.4</td>
<td>19.7</td>
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<td>5.0</td>
</tr>
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<td>Colombia</td>
<td>49.2</td>
<td>3.4</td>
<td>3.6</td>
<td>1.5</td>
<td>7.7</td>
</tr>
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<td>Ecuador</td>
<td>15.2</td>
<td>1.2</td>
<td>3.8</td>
<td>1.5</td>
<td>0.4</td>
</tr>
<tr>
<td>Paraguay</td>
<td>27.0</td>
<td>1.6</td>
<td>0.9</td>
<td>0.3</td>
<td>-</td>
</tr>
<tr>
<td>Peru</td>
<td>12.0</td>
<td>0.7</td>
<td>0.5</td>
<td>0.2</td>
<td>-</td>
</tr>
<tr>
<td>1957</td>
<td>609.8</td>
<td>37.8</td>
<td>22.8</td>
<td>8.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Brasil</td>
<td>408.1</td>
<td>24.7</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Chile</td>
<td>90.4</td>
<td>5.6</td>
<td>16.3</td>
<td>5.7</td>
<td>5.4</td>
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<td>Colombia</td>
<td>38.7</td>
<td>2.8</td>
<td>2.3</td>
<td>0.8</td>
<td>2.6</td>
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<tr>
<td>Ecuador</td>
<td>13.4</td>
<td>1.0</td>
<td>4.2</td>
<td>1.5</td>
<td>-</td>
</tr>
<tr>
<td>México</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Paraguay</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Perú</td>
<td>59.2</td>
<td>3.7</td>
<td>-</td>
<td>-</td>
<td>-</td>
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</tbody>
</table>

Source: United States Department of Agriculture, Foreign Agriculture Service, Foreign Trade Programs Division, Public Law 480, title I, Amounts programmed under agreements signed through December 31, 1957, and shipments January 1955 through December 1957 by country and by commodity.

a/ Including certain amounts of wheat flour expressed in terms of wheat.

b/ Lard, dairy produce, tallow, maize, tobacco and seed.
latter's crops are normal. In addition, the final act, adopted on 21 December 1957, of the first session of the Standing Joint Bolivian-Argentine Commission, included a recommendation to the effect that Bolivia's purchases of Argentine chilled meat should be increased.

4. Double exchange market in Argentina

It is common knowledge that the exchange system set up in Argentina in October 1955 to extend the principle of parity with convertible currencies to clearing-account trade covered transactions negotiated through the official market only, at the rate of 18 pesos to the dollar. Hence, when account dollars earned by Argentine exports negotiated through the free market, at a rate varying between 30 and 40 pesos approximately, had to be converted into local currency, exporters were given the lowest official rate, which tended virtually to confine Argentine exports to southern-zone countries to articles to which the official-market rate applied.

This situation - which, among its other repercussions, led to the over-invoicing of exports - was gradually remedied by a number of bilateral agreements which provided for the observance of parity on similar principles to those later incorporated in the Montevideo Standard Agreement. By virtue of such agreements, the balances derived from exports to Argentina of articles included in the official market could be used to purchase goods classified in the free market. The agreements referred to were those signed successively by Argentina with Paraguay (9 October 1956), Brazil (16 November 1956), Bolivia (11 December 1956), Uruguay (19 December 1956) and Chile (18 May 1957).

11/ In public statements, the Argentine Secretary of Trade "hailed the gesture made by the United States in cancelling its negotiations with Paraguay for the sale of 18,000 tons of wheat and 16,000 of wheat flour requested by that country, as an important step towards carrying out the objectives underlying the joint statement made a few days earlier by Argentina and the United States with a view to solving the difficulties confronting Argentina's exportable surpluses of grain owing to the sale of United States agricultural surpluses in the former's traditional markets" (La Nación, Buenos Aires, 24 July 1958).

12/ In mid-August 1958, the free market rate was approximately 44 pesos to the dollar.

As purchases of foreign exchange in the free market exceeded sales, the observance of parity meant that in 1957 the Argentine Treasury acquired a little over 1,000 million pesos, of which 678 million came from Brazil and 188, 69, 47 and 20 million from Paraguay, Uruguay, Chile and Bolivia respectively.

5. Contraband

The disparity between quotations on the free and official markets appears to have been a powerful incentive to the smuggling from Argentina to the neighbouring countries of goods usually exported through normal trade channels. In fact, contraband brought in twice as much in pesos as the exporter usually received for transactions through the official market. Most of the illicit trade carried on between Argentina and its neighbours in both directions is in cattle-on-the hoof.

6. Under- and over-invoicing

This phenomenon has also been the indirect cause of restrictions in intra-regional clearing-account trade. In fact, so far as the double Argentine exchange market is concerned, the wide gap between the free and official exchange rates has encouraged the malpractice of reaping illicit profits by the invoicing of Argentine exports through the official market at less than their real price, the difference being made up through the free market.\footnote{\textit{14/}} On the other hand, values in invoices for imports have frequently been exaggerated so that foreign exchange might be remitted abroad at the rate of 18 pesos to the dollar, for more than the goods' real value, and a profit made from the gap between the official and free exchange rates. Apart from the harm which this malpractice wreaks in the official exchange market by lowering the amount of foreign exchange earned by exports and raising the corresponding payments on imports, it also increases the disbursement of local currency to maintain parity.

The action taken to counterbalance these manoeuvres has led to prolix administrative intervention. Owing to the complex nature of the question,\footnote{\textit{14/} Because of this practice, the system of automatic import licences for the sale of certain goods to neighbouring countries had to be suspended.}
it is difficult to prevent such intervention from impeding trade and intensifying its instability. Apart from action to check the nature of the goods exported and imported, which may even include an examination of the ledgers of the firms concerned, the system of surrender values has been increasingly employed since it seems to have been rather successful in controlling under- and over-invoicing. With regard to imports, this system has been modified so as to conform to fluctuations in international prices. Since, for various reasons, similar methodical adjustments could not be made in the case of exports, the system appears to have been less effective in controlling values in that sector.

7. Minimum agios for exchange auctions in Brazil

Ever since the system of foreign exchange auctions was established in Brazil in October 1953, units of account have proved incapable of reaching parity with actual dollars, although they start at the same minimum price. In fact, inter-Latin American account dollars have been acquired by Brazilian importers at lower prices - sometimes 50 per cent less - than those of convertible currency for the same operations. This is attributable to the natural inconvertibility of units of account as well as to other factors influencing foreign exchange demand.

The gap between quotations for convertible currency and those for units of account has encouraged triangular operations and consequent re-exportation outside the competence of the Brazilian exchange authority, to the detriment both of the terms of trade and of convertible currency earnings. These switch operations have prejudiced the position of Brazilian exports in convertible currency areas. Accordingly, the system of "minimum variable agios" was adopted in February 1957, which levelled up quotations for units of account with those for convertible currency for similar operations.\(^\text{15}\) In spite of the fact that units of account still enjoy a rebate varying between 10 and 20 per cent in relation to the actual dollar, this is apparently not enough to attract the interest of Brazilian importers, since surpluses have been registered in the auctions and a decline has taken place in Brazilian imports from the area.\(^\text{16}\)

\(^{15}\)See Foreign trade systems in selected countries (E/CN.12/C.1/WG.1/8/Add.2).

\(^{16}\)Statistics show that imports of traditional commodities, such as wheat, fruit, fertilizers and some other items, have recently tended to predominate, which, in accordance with the respective regulations, are paid for outside auctions and enjoy preferential exchange rates.
II. THE TRANSITION FROM ISOLATED BILATERAL ACCOUNTS TO MULTILATERALISM

A. Progress made in the preparations for the gradual implementation of Trade Committee resolution 1 (I)

Since 1955 the situation of the bilateral accounts has been so critical that the countries concerned are finding themselves in a sense compelled to choose between two alternatives. Either these accounts will have to be discontinued, and the trade in question conducted on the basis of convertible currencies, or they will have to be converted into useful instruments for promoting more extensive trade relations and co-operation among the Latin American economies, for which purpose they would have to be remodelled or co-ordinated.

The clearing-account countries have discarded the first of these alternatives, as was plainly apparent in the Trade Committee. Their convertible currency holdings are too small for the accounts system to be shelved altogether. On the other hand, the Governments of the countries concerned agreed, in the above-mentioned resolution 1 (I), to put into effect an interim system leading towards multilateralism, and consisting in:

(a) The organization of a system for compiling and distributing information on the state of the accounts, in order to facilitate the voluntary transfer of balances; and

(b) The remodelling of the accounts in accordance with specific principles which, if concurrently applied, would enable an intra-regional system - partly voluntary and partly automatic - to be set up for the transfer of balances.

As a final objective, the resolution envisages the setting-up of a multilateral payments system proper, and recommends that the Central Banks Working Group should study the possibilities for its gradual establishment. The Working Group is also requested to suggest the measures best calculated to achieve that end.

1. Compilation and exchange of information

One sine qua non for the transition from isolated bilateral accounts to multilateralism, whatever its pattern and scope, is the systematic /compilation of
compilation of comparable data on the state of the bilateral accounts. Hence the attention devoted to this point in resolution 1 (I).

One of the various purposes of compiling such statistics and their subsequent periodic transmission to the Central Banks is to establish the real monthly balance on homogeneous bases, as a means of facilitating multilateral transfers during the first phase of the interim period. Another purpose is to assemble certain data on the possible future evolution of the balance, which will assist the import control authorities in reaching their decisions. Furthermore, the background material required for the study of subsequent steps towards multilateralism will thus be provided.

In the light of these criteria, the Central Banks Working Group decided, at its first session, that the compilation of data should be effected in two phases. During the first, provisionally initiated in July 1957, data relating to real monthly balances and total monthly payments negotiated through each account are being compiled and distributed by the secretariat of the Commission, which is temporarily acting as a co-ordinating body. In the second phase, the Central Banks, applying standard accounting procedures (the bases for which were also approved at the same session), to compute receipts and expenditure, it to furnish the relevant figures, so classified as to indicate separately the aggregate value of the visible and invisible operations grouped under each of the following series of headings:

(a) Debit entries (seller country's receipts)
   F.o.b. value of exports;
   Freight and port dues received from abroad;
   Commissions and other foreign trade outlays;
   Investment of foreign capital in country furnishing information;
   Repatriation of capital;
   External payments for financial services
   Insurance and re-insurance premiums;
   Consular fees;
   Other transactions.

17/ Resolution 2, 7 May 1957, Report submitted to the ECLA Trade Committee by the Central Banks Working Group on a multilateral payments system (E/CN.12/C.1/WG.1/5), reproduced in document E/CN.12/484, pp. 50-54.
(b) Credit entries (buyer country's expenditure)

C.i.f. value of imports (or c. and f. value, depending on system in use in importer country);
Freight and port dues payable abroad;
Commissions and other foreign trade outlays;
Investment abroad;
Capital outlays;
External payments for financial services;
Insurance and re-insurance premiums;
Consular fees;
Other transactions.

The provisional basic principles, according to which it was agreed that the compilation and distribution of data should be initiated through the secretariat, have been regularly applied since July 1957. The introduction of certain useful improvements in the information compiled, which it was hoped could be put into practice as from early 1958, has not yet proved possible, owing to the inevitable delays which the establishment of the standard registration procedure by the various Central Banks has involved.

Although the statistics that are being compiled and distributed represent a valuable contribution to the ends pursued in resolution 1 (I), attention must be drawn to the existence of two shortcomings. In the first place, within total trade movements, visible and invisible transactions are not classified under appropriate heads. Resolution 2, adopted at the first session of the Central Banks Working Group, was intended to remedy this deficiency. The other shortcoming is more serious. As a rule, transactions negotiated through the accounts are entered in the books without specification of the goods or services involved. It is therefore difficult to ascertain just which are the factors - particular goods or invisible operations - that influence or are capable of influencing a country's debit or credit position at a given moment, since, although the trade balance figures are theoretically of some use for this purpose, in practice there is usually a time-lag before they are available, and they are often at variance with the values entered in the books for clearing-account trade in merchandise.

It may be added that two Central Banks in Latin America are already compiling the statistics referred to. If they could be established for the accounts as a whole, the operation of the projected system for the
transfer of balances would be substantially facilitated.\textsuperscript{18}

2. \underline{Circumstantial transfer of balances from one account to another}

It has already been mentioned that one of the objectives pursued in the first phase of the interim system is that of facilitating a completely new operation: the transfer of bilateral balances from one account to another, in order to relieve or prevent the bottlenecks which the freezing of such balances is apt to create in bilateral trade.

During the interval that has elapsed since the first session of the Central Banks Working Group, something has been done, even though only on a modest scale, towards breaking down the rigid bilateralism characteristic of the accounts. At the time of writing,\textsuperscript{19} three triangular transfers to a total value of a little over 3 million dollars had in fact been effected (see table 4).

The first two of these meant that Uruguay was able to cover part of its overdraft with Argentina — which was in excess of the swing credit — with a balance deriving from its credit position vis-à-vis Brazil on the appropriate dates. The third transfer was of a different nature. It enabled Chile to sell to Uruguay a 3 500-ton consignment of its recently-developed production of newsprint against payment in the form of a transfer from Brazil's account with Uruguay to its account with Chile.\textsuperscript{20}

\textsuperscript{18} In connexion with the compilation and exchange of information on clearing accounts, some Central Banks have called attention to the desirability of identifying in addition, the goods covered by the payments registered.

\textsuperscript{19} September 1958.

\textsuperscript{20} As regards the possibility of carrying out operations of this kind, it is interesting to note that according to the final act of the first session of the Chilean-Argentine Commission on the Agreement (21 December 1957), agreement was reached in principle on the transfer of part of Chile's credit balance with Argentina to cover purchases of wool tops from Uruguay to meet Chile's 1958 requirements.
Table 4

VOLUNTARY TRANSFERS OF BALANCES AMONG INTER-LATIN AMERICAN BILATERAL ACCOUNTS,
JULY 1957 – SEPTEMBER 1958
(Millions of dollars)

<table>
<thead>
<tr>
<th>Date</th>
<th>Parties</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1957</td>
<td>Argentina</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Brazil</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Uruguay</td>
<td>1.50</td>
</tr>
<tr>
<td>October 1957</td>
<td>Argentina</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Brazil</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Uruguay</td>
<td>1.00</td>
</tr>
<tr>
<td>May 1958</td>
<td>Brazil</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Uruguay</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Chile</td>
<td>0.55</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>3.05</td>
</tr>
</tbody>
</table>

Source: Central Banks of Argentina, Brazil, Chile and Uruguay.

Although the transfers effected so far have been only three in number and moderate in value, they have served to demonstrate the possibilities for co-operation between Central Banks as recommended by the Working Group. As regards the system for the compilation and distribution of information, it may be noted that in some respects the lines laid down for its operation are not altogether conducive to full utilization of the data assembled. It is entirely incumbent upon the central bank or banks concerned to take the initiative in relation to transfers. To this end, the Banks approach the corresponding institutions in the other interested countries – each transaction requires the co-operation of at least three – and their agreement is necessary before the transfer can be finally put through. The secretariat /of the
of the Commission has no authority to transmit inquiries or collect the additional data without which it is often impossible for the bank or banks involved to reach a decision. It has become evident in practice that the want of any regular channel of communication between central banks for such purposes detracts from the efficiency with which the system can be utilized. This statement is corroborated by the following incident. Not long ago one of the central banks informed the secretariat that, in its opinion, the negative replies of another central bank to inquiries as to the possibility of effecting specific triangular transfers were determined by considerations that could have been satisfactorily dispensed with, had some machinery existed for the simultaneous consultation and exchange of additional information among the three bodies whose joint decision was entailed. 21/

3. Utilization of balances deriving from extra-regional trade

As regards voluntary transfers, attention may be drawn to two questions which have already been informally discussed by the Central Banks on various occasions. One is the possibility of obtaining foreign exchange from the Paris and Hague Clubs against inter-Latin American units of account. The other may be couched in the following terms: in order to facilitate the

21/ On 1 July 1957, the Economic Commission for Europe, pursuant to a recommendation of its Trade Committee, instituted a procedure to facilitate multilateral compensation of balances among bilateral account accounts, with the aim of expanding trade relations between the Western and Eastern European countries. The Governments concerned submit a quarterly report to the Commission on the balances they offer for compensation purposes and the currencies in which they are interested. On this basis, a consultant engaged on an ad hoc basis by the Commission acts as the agent responsible for proposing possible compensation circuits. The consent of the Governments concerned is required in every case.

From July 1957 to July 1958, 24 compensation circuits came into existence under the system. Eighty-five bilateral trade arrangements and an aggregate value of 37 million dollars were involved, as many as 19 countries taking part in these transactions (Bulgaria, Czechoslovakia, Denmark, Finland, France, German Democratic Republic, Greece, Hungary, Israel, Netherlands, Norway, Poland, Romania, Soviet Union, Spain, Sweden, Switzerland, Uruguay and Yugoslavia).

Balances deriving from bilateral accounts in force between Latin American and European countries have recently been incorporated into inter-European circuits.
formation of a specific intra-regional circuit for the voluntary transfer of balances among three or more countries, would it be desirable for the balance deriving from trade on account between any one of these countries and others outside Latin America to be taken into consideration, subject to the agreement of the parties, and provided that it were essential for purposes of the multilateral transfer concerned?

(a) Possibility of obtaining foreign exchange from the Paris and Hague Clubs

Broadly speaking, the possibility of utilizing extra-regional balances in inter-Latin American trade, or vice-versa, can be regarded only as an element conducive to the flow and expansion of trade. What would be the practical possibilities of utilizing European limited-convertibility currencies in Latin America? In the first place, it should be recalled that Brazil and Argentina have concluded multilateral agreements for their trade with countries in Western Europe, as follows: Brazil, since 1955, with The Hague Club countries (Austria, Belgium, Federal Republic of Germany, France, Italy, Netherlands and United Kingdom), and Argentina, since 1956, with the Paris Club (the above-mentioned countries with the addition of Denmark, Finland, Norway, Sweden and Switzerland).

Under the terms of the agreements founding the two Clubs, and with certain reservations, an understanding exists to the effect that all foreign exchange deriving from exports from Argentina and Brazil to Europe will be utilized for payments within the European area concerned. This does not preclude the use of Club currencies (for example, transferable pounds sterling or limited-convertibility marks) for inter-Latin American payments. In such cases, the country receiving them from Argentina or Brazil would have to earmark them for imports from Europe, and would be under the obligation to refrain from converting them into actual dollars by arbitrage on currency markets.

As the accession of new members has broadened the range of transferability of The Hague and Paris Club currencies, and also because the balance-of-payments problems in Brazil and Argentina have worsened,

22/ Italy has been a member of The Hague Club since 1956.
these countries are finding their availabilities of the currencies in question increasingly inadequate to cover their import requirements from Europe. Furthermore, both have commitments with the European members of the Clubs deriving from financial obligations and trade debts. In the case of Argentina particularly, the agreement relating to the consolidation of debts absorbs a considerable proportion of the current resources accruing from exports to the Paris Club countries.

For the moment, therefore, except in special situations, the possibilities for the utilization of Paris and Hague Club currencies in Latin America are slight.

(b) Circumstantial transfers with countries outside Latin America

With reference to the circumstantial transfers provided for in resolution 1 (I) as a first transitional step towards a multilateral payments system, it may be asked whether there are resources of a different origin that can be turned to account in the formation of multilateral transfer circuits in Latin America. The answer is apparently in the affirmative, in view of the possibilities offered by balances deriving from the bilateral payments agreements in force between Latin American countries and others in Eastern Europe, as well as with Spain and Israel. Credit balances in favour of Latin American countries are often entered in these accounts. In specific cases, such balances might contribute to the formation of transfer circuits, after prior consultation under the provisions of the voluntary system provided for in resolution 1 (I). In this connexion, Central Banks in Latin America have suggested that the current system of monthly information on the state of the inter-Latin American bilateral accounts be amplified by the addition of data on balances in the accounts maintained with countries outside the region.

B. Preparations for the establishment of a system of multilateral compensation for bilateral balances

The interim system to bridge the gap before payments become fully multilateral is intended to establish the partly automatic and partly voluntary transfer of balances from one account to another. In order to put it into operation, existing accounts would have to be modified on the basis of the concurrent /principles recommended
principles recommended in resolution 1 (I).  \[24\]

Establishment of the system outlined in resolution 1 (I) would have to be gradual, in view of the variety of exchange régimes in force and the individual problems to be solved in various trade sectors. In this connexion, three aspects should be considered: (a) the observance of parity; (b) the fixing of limits to belateral credits; and (c) the special situations prevailing in certain sectors.

1. Observance of parity

(a) Objectives

This principle was adopted on the basis of several criteria, all linked to two main purposes: to eliminate the various drawbacks to trade caused by the lack of parity between units of account; and to enable the multilateral transfer of bilateral balances to take place, since the efficacy of any multilateral payments system would be seriously undermined by disparities in the purchasing power of the participating countries' respective units of accounts.

On the basis of these general considerations, the principle of parity for units of accounts would be adopted for the following purposes:

24 Apart from those relating to the transfer of balances, these principles are:

\[\text{"(a) Equal quotations for units of account and convertible currencies on the exchange markets concerned, for the same operations;}\]

\[\text{"(b) Trade at prices not higher than those prevailing on the whole market. If no bases for comparison are available, quotations shall not exceed prices paid by any third country under the same conditions;}\]

\[\text{"(c) Payment through the agreement-accounts of the following items, \textit{inter alia}:}\]

\[\text{(i) the value of traded commodities;}\]

\[\text{(ii) freight charges relating to direct traffic;}\]

\[\text{(iii) insurance and re-insurance;}\]

\[\text{(iv) other expenditures accessory to trade;}\]

\[\text{(v) other items agreed upon by the contracting parties;}\]

\[\text{"(d) Reciprocal credits adequate for the satisfactory development of trade, due allowance being made for seasonal fluctuations".}\]

\[/(i) To\]
(i) To obviate the tendency to quote exports at higher prices than those prevailing on the world market, when this is the result of the conversion by the exporter country of its foreign exchange earnings into local currency at a lower rate of exchange than that for an equivalent operation effected in convertible currency;

(ii) To prevent the relative decline, in the exchange markets of the area, of quotations for units of account for imports from giving rise to further illicit triangular operations. Their marked downward trend frequently led to the purchase in the area, at prices much lower than those of world market quotations, of goods which, instead of being used for domestic consumption in the purchasing country, were re-exported to countries outside the area in competition with the exports of the country of origin.

In the import sector, the observance of parity has a second objective. To explain this, it must be remembered that, if importers can obtain units of account cheaper than convertible currency, this might, in certain circumstances, prompt them to buy from the area thereby promoting the expansion of intra-regional trade; if, however, there is a wide gap between quotations for units of account and convertible currency - as there has been in certain sectors - suppliers may be encouraged to overprice so heavily that, although it would still be advantageous for buyers to purchase in the area, the terms of trade would, in the last issue, be distorted.

(iii) To exclude from trade competition the effects of an exchange differential on merchandise prices, when applied by a country to a specific commodity, service or market as an exclusive benefit not applicable to other countries in the area.

(b) Present situation

To judge from the data gathered for the preparation of this document, appreciable progress has apparently been made in the practical application of the parity principle.

(i) Advances have been made in the establishment of international prices (see item (a) (i) above) for a large proportion of trade in wheat, fats, wool, carcass meat, hides, cotton and other traditional commodities.

25/ This has also happened, or may happen, with bilateral units of account between countries in the area and others outside. /In all
In all these cases, quotations were commonly fixed above international levels when the transactions were negotiated through clearing accounts.

The progress registered is mainly attributable to two causes: a change in the exchange rates as a result of the reforms in the foreign trade control systems described previously, and the adoption by central banks of domestic monetary measures — usually by means of bilateral agreements to maintain parity — designed to maintain quotations for units of account at par with those for convertible currency.

Moreover, the observance of parity is not reflected equally in quotations for all items of trade, since the prices of certain commodities in the area — cattle-on-the-hoof, some kinds of lumber and specific varieties of fresh fruit, among others — have not only been affected by the application of the official exchange rate to the respective transactions, but also by several local factors (as, for example, the matching of commodities). In addition, it is difficult to compare the prices of some characteristic trade items — such as cattle-on-the-hoof — with international prices.

(ii) With regard to the observance of parity in the price of units of account for imports (see item (a) (ii) above), recent developments seem to indicate a trend away from illicit triangular operations caused by the sizeable price differences between units of account. In fact, satisfactory results have been obtained in this respect in various countries where such operations have been virtually suppressed.

It should also be pointed out that, for one reason or another, there still exist in the area systems or procedures by virtue of which the real exchange rates applied to imports and exports paid for in units of account are different from those applied to similar operations in actual dollars. This situation is sometimes brought about by utopian measures to stop smuggling, but, on other occasions, by practices which produce the same effect, owing to circumstances connected with the free play of the market that are beyond the control of the competent authorities. In some sectors, the abolition of lower exchange rates for imports from the area — lower, that is, in prices based on convertible currency — might have immediate and adverse effects on intra-regional trade, since the c.i.f. price of the goods in question would be sent up. For these and other reasons, the relevant authorities are
authorities are keeping a close watch on the gradual advance that is being made towards the observance of parity.

It should be noted that - as some monetary authorities made clear in their replies to recent inquiries by the secretariat - since parity is a sine qua non for the establishment of any multilateral system, it should be adopted in such a way as to ensure that the present levels of trade in certain sectors would not be lowered. The abolition of preferential exchange rates would therefore have to be concomitant with the provision of other incentives. These new incentives, which would be maintained as long as possible - due account being taken of the contractual situation with third parties - should be replaced in the course of time by customs duties which are the most effective measures for the purpose in view.

(iii) As to the inequalities in the exchange treatment accorded to the same goods or services by different countries in the area (see item (a) (iii) above), it was found that few examples remained by the time the present paper was drafted, and that these remnants are also on the point of disappearing.

(iv) The possibility of equalizing the real price of units of accounts in Argentina for imports of certain items, such as lumber, from different countries in the area would depend on the establishment of equal surrender values.

(v) The equalization in Brazil of the real prices of inter-Latin American units of account for imports from the area - if considered feasible by the respective authorities - would result in a system similar to that of The Hague Club. The foreign exchange required to import from European countries participating in The Hague Club would be simultaneously auctioned in Brazil which would equalize its price for importers.

2. Ceiling for bilateral credits

One of the recommendations in resolution 1 (I) is that swing credits adequate for the satisfactory development of trade should be established, due allowance being made for seasonal fluctuations. This principle is related to another in the same resolution: the automatic transfer of balances in excess of the stipulated swing credits, and the voluntary transfer of such balances when they are within the limit of swing credits.

/It is
It is common knowledge that credit is unlimited in some bilateral sectors. The respective authorities did not favour the fixing of a credit ceiling, since they feared it might tend to restrict trade transactions, especially when the shortage of convertible currency became severe. The resulting phenomenon is a very familiar one. In order to avoid disbursing actual dollars when the credit limit has been exceeded, the debtor country reduces its purchases, if it fails to lower its deficit sufficiently, by increasing its exports.

In view of such considerations, some countries have thought it preferable to grant unlimited bilateral credit, while simultaneously providing for ways and means of obliging the debtor country to keep its commitments within a certain limit. Up to that limit, no interest would have to be paid, but it would be charged as soon as the credit limit was exceeded.

With regard to unlimited credits, the question arises whether, only in the case of circumstantial transfers and subject to the agreement of the parties concerned, as laid down in article 12 of the Standard Agreement, the ceiling for swing credits might be taken to be that sum which is exempt from interest, or any other sum determined for this purpose. It seems clear that such transfers would require a prior decision of this or some similar kind.

If a system were set up for the multilateral transfer of balances between accounts — such as that studied later in this document — the situation would be quite different since no ceiling would have to be fixed for bilateral credits. Furthermore, the absence of such a ceiling in some agreements might promote the formation of circuit transfers through which countries parties to limited-credit agreements could prevent trade from being disrupted owing to the exhaustion of such credit.

3. **Special situations in certain sectors**

With regard to the possible adaptation of payments agreements to the principles set forth in Trade Committee resolution 1 (I), reference should be made to the two new payments agreements signed by Brazil with Paraguay and Bolivia respectively.
Both agreements are based on the desire to solve problems of border trade in outlying zones far from population centres, where geographical conditions make it difficult to supervise foreign trade.

(a) Brazil-Paraguay

A clearing account was maintained between these two countries years ago. Both during its existence and afterwards, the trade balances have generally shown a deficit for Paraguay; nevertheless, the bilateral payments situation is usually fairly even in practice, apparently owing to the sale in Brazil of contraband cattle-on-the-hoof from Paraguay. The new payments provisions form part of a series of agreements concluded between Brazil and Paraguay on 27 October 1956 which entered into effect at the beginning of 1958. These instruments are the General Trade and Investment Treaty (Tratado Geral de Comercio e de Investimentos), the Border Trade Agreement (Convénio de Comércio Fronteiriço) and an additional protocol on customs treatment in which both parties specify certain duties for certain goods and undertake not to alter them if changes are made in the tariff.²⁶/

The payments regulations are included in the agreement on border trade which is valid for two years and thereafter renewable annually by tacit acceptance. The relevant clause states:

"3. Payments between the two countries arising out of their reciprocal trade, to which the present agreement refers, shall be made in cruzeiros and in the forms freely agreed upon by the parties concerned in the transaction. Imports shall be exempt from charges, surcharges and other monetary or exchange levies, and exports, in their turn, shall be authorized without premiums or subsidies. The operations in cruzeiros provided for herein shall be authorized by the free exchange market in the Republic of Paraguay and shall be without exchange cover in Brazil."

Article 9 of the agreement further states that the Banco do Brasil and the Banco Central of Paraguay shall exchange information with a view to facilitating trade and maintaining its equilibrium. Article 11 lays down rules concerning the intervals at which licences shall be granted for the entry into either country of certain items whose volume of trade is specified

²⁶/ The first two instruments - which Brazil ratified by Legislative Decree No 27 on 30 August 1957 - were promulgated by Decree 42918 on 30 December 1957 and published in the Diario Oficial of 8 January 1958.
in schedules appended to the agreement; one item is 50,000 head of Paraguayan cattle, which are to be allowed to enter Brazil duty-free. By this means, it is hoped to divert the movement of cattle, which has hitherto been largely clandestine, into legal channels.

Within the over-all flexibility required of a method one of whose aims is to combat smuggling, no provision seems to have been made for any official supervision of the currency chosen by the transacting parties. This would seem to mean that balances are settled daily in convertible currency chosen by the persons undertaking the particular operation. In this respect, and to judge from the terms of the agreement, there is some hope that the system of licences will serve to reduce marked disequilibria.

The agreement covers payments for transactions involving the goods enumerated in the appended schedules only. Other payments would have to be made according to the normal exchange system in force in the two contracting States.

(b) Brazil-Bolivia

Brazil and Bolivia signed several agreements, at La Paz on 29 March 1958, which covered, inter alia, the following:

Economic and technical co-operation, including the supply of capital goods against payment in instalments;

Intra-regional trade. This agreement is designed to give special facilities — through the elimination or simplification of export and import negotiations and the abolition of customs duties on specified articles — to trade between districts in the departments of Beni, Pando and Santa Cruz on the Bolivian side, and the States of Mato Grosso and Amazonas and the territories of Acre and Macedonia on the Brazilian side;

Border trade, with a view to regulating small-scale private trading in the border area; and

A trade agreement, valid for three years and automatically renewable yearly thereafter. Article VI of this agreement states that: "Payments between the two countries, arising from their mutual trade to which the present agreement refers, shall be made in cruzeiros and/or Bolivian pesos. Upon prior authorization, operations in other currencies shall also be permitted in accordance with the general principles governing the exchange and foreign trade systems in force in each country". A codicil states that the current clearing account is to be closed but that it is to be left open until the accounts for current operations have been settled.

/In contrast
In contrast to the new payments agreement between Brazil and Paraguay, which does not cover any transactions in goods other than those specifically referred to border trade items in the respective schedules, the agreement between Brazil and Bolivia apparently included all operations between the two countries with the exception of petroleum transactions.

Both agreements contain similar provisions on the settlement of balances, since such settlement is tacitly a matter falling within the purview of convertible currency.

It may be asked whether the agreement between Brazil and Bolivia could be adapted to the principles laid down in Trade Committee resolution 1 (I).

It should be remembered, first and foremost, that the transactions now covered by the new agreement represent only a small proportion of total inter-Latin American clearing-account trade. The loss in the quantum of such trade which the agreement would entail would therefore be small. If it is thought desirable that as many countries as possible should participate in a payments system for the area, such as that proposed in resolution 1 (I), in order to widen the margin of debit and credit balances to be compensated, the matter would have to be organized more thoroughly. Among the clearing-account countries, Bolivia has been one of those with a persistent trend on the debit side. If an increase in petroleum exports enables it to become a future creditor in some Latin American trade transactions, this might have a favourable effect on the margin of compensability for intra-regional trade as a whole.

Apart from the phase in question, there is another to be considered. The implementation of any project for the liberalization of intra-regional trade and the gradual establishment of a Latin American regional market might be impeded if the system for settling trade transactions among member countries were not set up on the basis of concordant principles.

Without prejudice to such general considerations, it must be realized that it would be difficult to reconcile the special procedure envisaged for solving problems peculiar to border trade with the regulations on parity and others laid down in Trade Committee resolution 1 (I). If such a combination is judged to be necessary in the case of Brazilian-Bolivian trade, it would be useful to determine whether goods needed to cover national /supply requirements
supply requirements as a whole and not just the requirements of frontier zones could be separated from the border system and incorporated in another system that would be in keeping with the principles of the above-mentioned resolution. It would therefore not be misguided to assume that Bolivian petroleum exports might play an important part, since they could help to channel a substantial flow of Brazilian goods into Bolivia's domestic markets. This trade movement might lead to a corresponding adjustment in the payments régime and thus pave the way for the latter's possible adaptation to the principles of resolution 1 (I). So far as the other aspects of the problem are concerned, the solution - like the solution to other Latin American trade problems - will have to form part of the action taken to promote the incorporation of other than traditional items into intra-regional trade.

4. The Standard Payments Agreement

The establishment of an interim system for the multilateral compensation of bilateral balances, to pave the way for a multilateral payments régime, will be possible in so far as payments agreements are brought into line with the principles laid down in Trade Committee resolution 1 (I).

In order to facilitate negotiations for the remodelling of the agreements in force, the Central Banks Working Group adopted at its first session a draft standard agreement worded to conform to the principles of resolution 1 (I). Standard banking procedures for the operation of the accounts were also approved at the same session.

The practical value of the Standard Agreement is evidenced by the fact that it has already been applied - although in some cases with certain textual variants - for the liquidation of credit balances by the following five pairs of countries: Argentina-Brazil, Argentina-Chile, Argentina-Uruguay, Brazil-Chile and Chile-Ecuador.

Thus the regulations embodied in the Standard Agreement cover approximately 80 per cent of inter-Latin American trade on account. As the result of further talks, the Standard Agreement may also be adopted in four more sectors, i.e., Argentina-Mexico, Argentina-Peru, Brazil-Uruguay and Chile-Mexico.

/(a) Simultaneous
(c) Simultanee renegotiation

At its first session, the Central Banks Working Group suggested to the Trade Committee that the Governments concerned should be invited to fix as short as possible a time-limit for the remodelling of existing payments agreements on the lines of the Standard Agreement.

Subsequently, in its resolution 115 (VII), the Economic Commission for Latin America took note of "the fact that the Latin American clearing-accounts countries are prepared to study the possibility of undertaking, during the second session of the Central Banks Working Group and immediately thereafter, a study of the agreements in force for each pair of contracting parties in Latin America".

In view of the substantial progress achieved in the application of the Standard Agreement, this study of payments agreements in force, if it is carried out after the close of the second session, will perhaps be confined to sectors in which the said Standard Agreement has not yet been implemented. In addition, the second session, besides serving its specific purposes, might well provide an occasion for contacts that would be of positive value as regards the conclusion of payments agreements or the remodelling of those already in force.

(b) Article 12 of the Standard Agreement

The trade and monetary authorities in some countries have advocated discussion of the provisions of article 12 of the Standard Agreement at the second session of the Central Banks Working Group, as it might be useful to consider whether some amendment of this article is desirable, or at any rate to give the Central Banks an opportunity of voicing their opinions on the matter. The following points of view might perhaps be taken into account in due course by the authorities made responsible for operating the system for the multilateral compensation of bilateral balances:

(i) The transfers referred to in article 12 may be considered with reference to two situations, namely: (1) the present state of affairs, in which no multilateral system for transfers of balances among accounts exists, but only the possibility of effecting such transfers when appropriate circumstances arise, and subject to prior agreement among the parties; and (2) the position in the future, if such a system, to be discussed later in this document, is established.
As fewer possibilities for circumstantial transfers might present themselves if the relevant provisions in current payments agreements were not identical, it would be desirable to adhere to those of the Standard Agreement, or work out a new and universally acceptable text.

Is article 12 of the Standard Agreement adequate for the proposed objectives? In the first place, it does reflect the intention, clearly expressed by the countries accounting for the bulk of trade on account, to arrange that balances, in so far as they exceed the bilateral credit ceiling, be transferable to other accounts. Nevertheless, to facilitate the operation of the projected system for the multilateral transfer of balances, transfers from one account to another might perhaps be desirable whatever the position registered, that is, even if the corresponding bilateral balance were below the ceiling for swing credit.

At the seventh session of the Commission, the International Monetary Fund observers presented a text which provided for the possibility - subject to prior agreement between the two parties - of effecting transfers between accounts at any time and without reference to the level of swing credit.

It should be noted in this context that the payments agreements concluded by Argentina and Brazil at the end of August 1958 envisage the possibility of effecting transfers, if agreement is duly reached between the parties, whatever the balance in the bilateral account.

(ii) Two possible solutions would present themselves with respect to article 12 of the Standard Agreement, should the system for multilateral compensation of bilateral balances be established. One would be to replace the text of the relevant part of the payments agreement in force by a new version in accordance with the regulations adopted under the system. The other alternative would consist in including, in the instrument setting up the multilateral compensation system, a specific waiver of those provisions of the bilateral agreements which were incompatible with the terms of the instrument in question.

(iii) Another point in article 12 on which conflicting opinions might be reconciled at the second session of the Central Banks Working Group, is that relating to the settlement in convertible currency of such part of the balances as exceeds the bilateral credit and is not cleared by means of transfers to
transfers to third accounts or by procedures agreed upon between the two parties. The agreement signed by Argentina and Brazil at the end of August 1953 does not provide for payments in convertible currency, and implicitly leaves the settlement of any disequilibrium to compensations through time. On the other hand, both the text of article 12 of the Standard Agreement and that presented at the seventh session of the Committee by the International Monetary Fund observers, as well as that of the agreement signed at the beginning of September 1958 by Brazil and Chile, provide for payment of the balances, in given circumstances, in freely convertible United States dollars.

But for the operation of a multilateral transfer system the method adopted for the settlement of balances is not of vital importance, since the system can work whatever the procedure agreed upon bilaterally for the final settlement of such balances as may prove non-compensable. Furthermore, it is an established fact that the system operates without in any way modifying existing bilateral relations, except in so far as they come actually in conflict with its regulations.

The following table compares the four texts referred to (that of article 12 of the standard agreement, that presented by the International Monetary Fund observers and those agreed upon between Brazil and Argentina on the one hand and Brazil and Chile on the other).

C. Payments problems affecting Latin American countries between which no clearing accounts are in force

For years the South American countries' intra-regional trade in convertible currencies has been passing through a difficult phase of development, characterized by frequent interruptions and downward movements. As most of these countries have witnessed the gradual reduction of their stocks of actual dollars and pounds sterling, their intra-regional purchases against these currencies have tended to be confined to those items - petroleum, certain metals, sugar and at times long-fibre cotton - similar purchases of which cannot be effected against units of account either within or outside the region. In order to cover the whole or part of the value of
Agreement between Brazil and Chile

Promoting the International Monetary Fund

According to the seventh session of the Board of Governors, the contracting parties shall grant each other until six million dollars.

The account balance is such that the balance exceeds the specified amount, or the sum of all the balances in the account exceeds the specified amount. The creditor country may at any time request from the debtor country the total or partial transfer of the balance, as provided in the following paragraphs, in accordance with the procedures approved by the parties.

1. Transfer to another country, either in part or in whole, as provided in paragraph 2.
2. Transfer to another country, either in part or in whole, as provided in paragraph 2.
3. Payment in other currencies, as provided in paragraph 2.

Subject to prior agreement with the creditor country, the debtor country shall settle its total or partial payment in United States dollars, provided that the creditor country has approved the request to accept additional balances in its favor.
such commodities by means of an increase in their own exports, purchaser countries have for years been making efforts to negotiate matching operations. Agreements to this effect have been concluded and carried out on various occasions, and have usually been of a purely circumstantial nature, in no case marking the beginning of a relatively regular flow of trade. The greatest obstacle to the continuity of matching operations is the freezing of bilateral balances, generally to the detriment of the country contributing the more essential commodity. The creditor country has often been unable to put the balance to opportune use for its projected purchases of merchandise, as its importer firms - for such reasons as price, quality, trade practices, unfavourable customs treatment, etc. - have preferred to buy on their usual markets.

1. Payments on account and the expansion of national markets

Payments difficulties among Latin American countries between which no clearing accounts are in force may have unfavourable repercussions on the possibilities of expanding national markets by reciprocity agreements and thus achieving forms of integration which, as time goes by, may lead to the establishment of the regional market. Undoubtedly, no problems would arise in this connexion within the integration area if none but convertible currencies were used for the liquidation of transactions relating to the goods and services covered in the integration system. But if any of the parties were unable to comply with this condition, as would presumably be the case, would the system work without a common internal payments régime?

The reply to this question will determine whether it would or would not be necessary for countries interested in acceding to agreements for the expansion of markets, and later to a possible regional market, to subscribe not only to the corresponding regulations for customs exemptions and the liberalization of trade, but also to a specific payments system. Any integration agreement must guarantee both the freedom of the pertinent trade movements among its members and the timely execution of the resulting financial transfers. Thus its regular operation, as can easily be imagined, /would be
would be adversely affected if, for want of convertible currency availabilities with which to open credits, any of the members interrupted its imports from another's territory. To avoid this and other difficulties deriving from lack of uniformity in methods of payment, various devices can be conceived - including that of revocable credit deposits or others of a similar nature - which would ensure that payments in actual dollars for current transactions in the agreement area were utilized only for purchases within it. Clearly, however, the operation of the entire system would be greatly facilitated if it embodied a common payments régime. While no forecast need be hazarded as to whether participation in an agreement for the broadening of markets would or would not entail membership of the corresponding payments system, it seems obvious that any form of progress towards the standardization of payments systems in the area concerned, on a basis of parity and transferability, is an important factor in the gradual creation of the conditions necessary for the attainment of such ends.

2. More clearing accounts?

Hence, apart from the depressive influence exerted on intra-regional trade by the splitting-up of the Latin American countries into two payments areas - that of the dollar and that of units of account -, this division may create difficulties with respect to economic integration or complementarity. The following question has been raised in expert circles. The growing shortage of actual dollars has a close bearing on the current difficulty of promoting trade between the two areas mentioned. If the use of dollars to impart flexibility to their reciprocal payments, to remove existing obstacles and to create minimum essential conditions for the expansion of markets should prove impossible, would it or would it not be advisable, without intensifying bilateralism and as a realistic step towards a multilateral payments system, to increase the number of sectors covered by accounts established in accordance with the principles of parity and transferability laid down in Trade Committee resolution 1 (I)? In order to reply to this question, attention must be called to certain trends which seem to be emerging in the clearing-accounts countries.

/As has
As has already been stated in the introduction to this paper, those Latin American countries whose share in trade on account is largest do not, generally speaking, earn dollars thereby with which payments in other currency areas can be covered. The considerations determining their accession to agreements designed to co-ordinate the accounts and gradually transform them into a multilateral system would include the difficulty of obtaining sufficient convertible currency holdings. It is therefore felt to be desirable that, if countries in the dollar sector of Latin America ultimately decide to join the accounts system, they should do so on terms compatible with this situation, as otherwise the compensability system might be undermined and end in failure. However, this line of thought does not seem to advocate that balances in new accounts between countries in the two areas should be settled entirely in kind in the very near future, since the existing bilateral disequilibria are very great, especially when the trade concerned involves petroleum, metals and sugar (see table 5). If the total value of these goods is nowadays defrayed with convertible currencies, it must be assumed that their incorporation into the accounts system would be easier if it were effected by gradual stages. Although such proportion as was not covered by the accounts would inevitably have to be paid for in convertible foreign exchange, buyer countries' disbursements under this head would be relatively smaller than at present if the multilateral compensation of bilateral balances were successfully established.

For the countries at present conducting their intra-regional trade on a dollar basis, the prospect of steadily participating in trade on account also raises various questions. As regards payments, the chief problem is the risk that bilateral balances deriving from goods which could have been sold against actual dollars on the world market may be frozen and whose value may subsequently depreciate. Useful lessons can be learnt from past experiences in this connexion. From another angle, the nature of the contracts signed with foreign investors in specific branches of the extractive industries creates certain complications with respect to the marketing of the royalties accorded to the exporter country, and, if sales were made on account, would necessitate sometimes burdensome
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<th>Bolivia</th>
<th>Brazil</th>
<th>Chile</th>
<th>Colombia</th>
<th>Ecuador</th>
<th>Paraguay</th>
<th>Uruguay</th>
<th>Total 8 countries</th>
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<th>Venezuela</th>
<th>Cuba</th>
<th>Mexico</th>
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<td>150.1</td>
<td>15.8/</td>
<td>0.8a/</td>
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<td>0.2a/</td>
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<td>1.2a/</td>
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<td>0.1a/</td>
<td>-</td>
<td>1.4a/</td>
<td>6.8a</td>
<td>x</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>x</td>
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<td>0.2a/</td>
<td>0.1a/</td>
<td>0.2a/</td>
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<td>0.5a/</td>
<td>0.4a/</td>
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<td>3.3</td>
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</table>

| Peru             | 6.5a/     | 4.6a/   | 2.5a/  | 26.3a/ | 1.1a/    | 4.8a/   | -        | 3.3a/   | 49.1             | x    | 0.7a/      | -    | 0.3a/     | 50.1               |
| Venezuela        | 70.0a/    | -       | 87.0a/ | 0.2a/  | 0.7a/    | -       | -        | 5.6a/   | 171.5            | 1.0a/| x          | 10.0a/| -        | 182.5              |
| Cuba             | -         | -       | 0.1a/  | 4.4a/  | 0.3a/    | 0.1a/   | -        | 2.0a/   | 7.5              | 0.2a/| 2.0a/      | x    | 2.0a/     | 11.7               |
| Mexico           | 0.7a/     | -       | 1.0a/  | 0.9a/  | -        | -       | -        | 0.2a/   | 2.8              | 0.6a/| 3.9a/      | 3.8a/| x        | 11.3               |
| Total 12 countries| 228.8     | 9.7     | 211.3  | 72.0   | 11.1     | 9.5     | 13.8     | 48.8    | 605.0            | 23.2 | 15.3       | 17.2 | 3.6       | 664.2              |

Source: Central Banks and monetary authorities.

a/ No clearing account in operation. F.o.b. export values obtained from exporter countries' official foreign trade statistics.

b/ C.i.f. value (30 per cent being discounted for freight) of imports in Argentina.

c/ C.i.f. value (30 per cent being discounted for freight) of imports in Brazil. Annual figure estimated on the basis of January-September.
arbitrage between the actual dollar and the units of account.\footnote{27} It is true that from the dynamic standpoint the problem assumes a different form. If the system for the multilateral compensation of bilateral balances could be put into operation concurrently with effective measures of co-operation at the trade policy level, the first step would have been taken towards the gradual solution of the problem of the freezing and depreciation of the balances in question. As will be seen later, compensation between accounts can work on the basis of regulations under which specific bilateral balances may be excluded. It is therefore possible for a country to accede to the system and at the same time safeguard itself as regards the utilization of given balances. Again, just as in the clearing-accounts countries, in the dollar sector of the region too surpluses are gradually being formed in particular lines of industrial production or installed capacity exists for production and export on the basis of special orders. It is worth considering whether such intra-regional exports would or would not be facilitated if they could be negotiated on a clearing-account basis instead of against convertible currencies, since the latter are in such short supply. Yet another aspect remains to be discussed. Those Latin American countries whose intra-regional exports of specific agricultural commodities at present bring in convertible foreign exchange earnings are noting the emergence of certain symptoms which might in the future, if intensified, severely restrict the access of their commodities to traditional buyer markets within the region. An example of these symptoms is the tendency shown by importers of such items as sugar and cotton to divert their purchases towards countries exporting these goods on the basis of payment on account.

This encourages the creation of steady exportable surpluses in countries that used to participate only sporadically, or not at all, in intra-regional trade in the commodities concerned. From this point of view,

\footnote{27} This situation arises when the foreign companies producing the items concerned surrender to the Government the dollars corresponding to their contractual commitments - production costs, taxes, share of profits, etc. - at an exchange rate lower, in terms of local currency, than that in force for export and import operations.

/ the maintenance
the maintenance of the region's degree of specialization in specific agricultural commodities, and the safeguarding of certain countries' present position as exporters, are clearly linked to the common solutions that can be found for the problem of payments between the clearing-accounts countries and the other countries in Latin America.

An indication of a new policy in trade relations between countries in each of these two groups can be found in the minutes signed on 29 June 1958 at Buenos Aires by representatives of the Governments of Argentina and Mexico. The text of this document contains the following statement:

"Special consideration was also given to everything relating to the transferability of balances with other Latin American countries, in conformity with the principles supported by the Economic Commission for Latin America, and the conclusion was reached that such transferability could feasibly be put into effect through the conclusion of an agreement on the lines of the Standard Agreement prepared by the representatives of the Central Banks at Montevideo."

Furthermore, in August 1958, talks were begun between Argentina and Peru with a view to the re-establishment of the payments agreement formerly existing between these two countries.

/D. Working
D. Working bases for the multilateral compensation of bilateral balances

The adoption of the Standard Agreement by most of the countries engaged in trade on account within the region would pave the way for the preparation and adoption of the international agreement designed to bring into operation the multilateral compensation of accounts provided for in Trade Committee resolution 1 (I), as an initial step towards the payments union. It would be highly desirable that specific measures should be adopted at the same time to launch a gradual programme of liberalization in order to increase and diversify trade.

1. Nature of compensation

A multilateral compensation agreement is an instrument subscribed to by not less than four Governments - or their Central Banks - for the purpose of effecting transfers from one bilateral account to another.

It follows from this definition that the sole purpose and effect of a compensation agreement is to impart a certain element of multilateralism to the balances held on agreement accounts (which could otherwise be used only for payments to and by the countries parties to the bilateral agreement) without in any way changing the bilateral nature of such accounts or the agreed conditions attaching to them.

28/ The present situation in most of the South American countries appears similar in certain respects to that of the European countries in August 1947 when the latter were seeking to multilateralize their payments. It is worth while to recall their experience during the subsequent decade under different conditions. Firstly, between the end of 1947 and the middle of 1950, they drew up and applied a series of annual agreements to permit multilateral transfers of balances to be made between the various inter-European bilateral accounts. The first agreement was signed in Paris on 18 November 1947. Founding members were Belgium (also representing Luxembourg), France, Italy, Netherlands and the British and American Zones of Germany. Later, Austria, Denmark, Greece, Norway, Portugal, Sweden, United Kingdom and the French Zone of Germany also joined. This agreement remained in force until 16 October 1948. It was then replaced by the so-called European Payments and Compensation Agreement which was based on an external factor of great importance: the disequilibria which could be foreseen in each bilateral account were to be covered by the value of goods sent by the United States under the European Recovery Programme. In 1950, the system instituted in 1948 was replaced by the European Payments Union, a subsidiary body of the Organisation for European Economic Co-operation (OEEC).

/Such an
Such an agreement can only operate between countries whose payments are channelled in whole or in part through bilateral agreement accounts. It does not affect the balances held by commercial banks or private firms nor does it apply to transactions of any sort which are not recorded in the bilateral accounts. It must also be stressed that, under such an agreement, which is designed to pave the way for more advanced types of multilateralism, the system of accounts is left completely intact. Their regulations will not have to be changed, although it is presumed that they will be those of the Standard Agreement. Nor does it involve any change in the exchange control practices of the participating countries or interference with arrangements for bilateral swing credits.

Finally, an agreement of this kind does not entail any gold or dollar payments between members other than those provided for in the bilateral agreements. Hence, its operation does not call for any special fund in hard currencies.

The system applied as a result of the agreement, if it is to be effective, will undoubtedly require the appointment of an agent responsible to Governments, central banks or organizations acting on their behalf.

2. Transfer circuits

The operations carried out under the agreement would consist of "first-category" and "second-category" compensations. To enable the agent to work out and establish the circuits, the central banks would report to him at the end of each accounting period the balances in the bilateral accounts. Compensation would be made by the central banks themselves, in accordance with the directions of the agent acting under the instructions contained in the agreement or those given to him by Governments or central banks through the management committee set up for the purpose of supervising the system. These operations would consist of transfers from one bilateral account to another. They would be effected all on the same date, fixed shortly after the closure of the accounting period in question, whether it be monthly, bi-monthly, quarterly, etc.

Generally speaking, first-category compensations, which reduce the balances of the circuit and thus benefit all participants, may be said to
be automatic. Second-category compensations are different in scope since credits or debits from external sources will accrue to a given country. Naturally, in each case, the prior consent of members will be necessary.

3. First-category compensations

First-category compensations consist of transfers in a circuit of at least three countries in which each country is a debtor or creditor of the next one in line. For example, information received by the agent might indicate the following relationships:

```
A  owes 10 to  B
  
D  owes 10 to  C
  
   B  owes 5 to
   
```

In this case, a first-category circuit may be established reducing each balance to 5, the amount of the smallest of them. Thus, with total transfers of 20 and without any country's net aggregate position being affected, A reduces its debt to B by 5 against a corresponding reduction of its claim on D, etc.

Such first-category compensations may - depending on the commitments of the member countries - either be compulsory for all or compulsory for some countries and voluntary for others or entirely voluntary for all. The difference is that compulsory compensations are transfers which countries bind themselves in advance to accept without prior consultation, whereas voluntary compensations can only be arranged when the countries concerned have agreed to accept them.

Where first-category compensations are compulsory, countries may have the right, in certain defined circumstances and on notification to the /agent, to
agent, to exclude certain balances or parts of them from the compensation operations, always provided that the rules of the agreement are observed. This right derives from the fact that the balances reported to the agent at the end of each accounting period are the balances existing on a certain date, irrespective of how they have arisen or what calls there may be on them in the immediate future. Without such a right, it might well happen that an automatic first-category compensation circuit could result in the transfer of a balance urgently needed to meet a specific liability or, for instance, a seasonal swing.

There is one important limitation. Countries which at a given date are either creditors or debtors of all other countries in the agreement would be automatically excluded from any first-category compensation circuit, whether compulsory or voluntary.

4. Possible rules

If first-category compensations are compulsory, it will be necessary to draw up rules allowing each country, when informing the agent of its balances, to exclude certain of them, fully or partially, from the compensation mechanism during the period in question. Otherwise, the agent might include in a given circuit a balance needed to meet special and urgent obligations. Obviously, if the right of exclusion is conceived too liberally, the compulsory nature of first-category compensations will in fact be nullified. In this respect, it may be worth while to recall the provisions on this point adopted in the inter-European agreement which preceded the present payments union. The causes for excluding balances under this agreement were as follows:

(a) Working balances, which are usually included in one or more of the following categories:

(i) Normal balances of central banks (working capital fund), i.e., funds sufficient to cover pending payment orders and to maintain normal banking operations;

(ii) Balances maintained to cover anticipated sales of foreign exchange;

(iii) Balances maintained to back banking credits with fixed terms expiring in the near future;

(b) Balances
(b) Balances derived from capital transactions undertaken specifically to cover certain expenditures;

(c) Other balances, which, under special provisions of payments agreements in force when the system was established, must be excluded as accruing from exports effected for specific purposes.

It is also worth while to recall certain similar rules included in inter-European compensation agreements. These may be summed up as follows:

(a) Each contracting party requesting the exclusion of a balance in its name shall inform the agent of the reasons for the request, giving a reasonable amount of detail;

(b) If the agent is unable to reach a decision on the basis of the information received, he shall request further data;

(c) If he is still not satisfied, he shall submit a report on the matter to the organization and shall send a copy to the contracting party requesting the exclusion.

5. Second-category compensations

Second-category compensations also involve a circuit of at least three countries. But, in this case, one country must be a creditor of both the countries next to it in the circuit, and another must be a debtor of both countries. Hence, the effect of such compensations is necessarily to increase one or more of the balances in the bilateral relationships in the circuit. For example:
A is a debtor of both B and C; C is a creditor of both A and B. Therefore, a first-category compensation which reduces all balances in the circuit cannot be effected. On the other hand, a second-category compensation, which may be defined as a transfer made by one country to another utilizing the currency of a third, may be both possible and desirable.

Thus, in the example given, if A's credit margin with B is 10, there is an immediate danger of A's trade with B being interrupted. If, at the same time, A's credit limit with C is 25, it might be possible — if all the parties agreed — to reduce A's debt to B by increasing A's debt to C. Assuming such a transfer, say of 3, is agreed to, then the position before and after would be:

A: before owes B 10 and owes C 8;
   after owes B 7 and owes C 11;
B: before is owed 10 by A and owes C 5;
   after is owed 7 by A and owes C 2;
C: before is owed 5 by B and is owed 8 by A;
   after is owed 2 by B and is owed 11 by A.

(a) The importance of second-category compensations arises from the fact that there is, in theory, no limit to the possible circuits which can be developed (since they are not subject to the arithmetical and positional limitations imposed by the very nature of first-category circuits) or to the transfers to which they may give rise. Thus, for instance, they can include countries which are wholly creditor or wholly debtor and therefore cannot figure in ordinary first-category circuits.

On the other hand, since second-category compensations involve increasing at least one debtor balance in the circuit, they must clearly be voluntary.

(b) In considering the organization of a second-category circuit, it may prove possible to utilize indiscriminately balances from more than one country of the region. How will the choice be made? The decision would be based on the criteria previously laid down for such cases in the rules governing the system. Moreover, except in special situations, these criteria should logically give preference to the balance or balances which,
when used within the circuit, will do most to recover the margin of bilateral credit which has been exhausted, or is about to be exhausted. The country or countries, which have reached this margin or are closest to doing so, would thus be benefited.

(c) Who would propose second-category compensations?

In Western Europe the agent was responsible for proposing them and submitting them for the consideration of the central banks. For this purpose, account was taken of the fact that the agent, besides being familiar with all the figures, remained in close and continuous touch with the central banks. Hence, in the interest of speedy action, it is preferable that he should be allowed to take this initiative on the understanding that, if his original proposition is not accepted he may suggest an alternative. If the agent is given these powers, it should also be specified that, in his periodic reports to members or to the committee, he should submit a complete account of his activities in this field and of the results obtained. Members will thus be able subsequently to lay down general rules for similar cases in the future.

(d) The usefulness of the system will depend largely on the degree of automaticity imparted to first-category circuits and on the scope given to the agent for proposing second-category compensations. It will also depend, to a certain extent, on the frequency with which transfers are made - for example, every month or every two or three months - and on the length of the period fixed for the calculation and completion of transfers immediately after each accounting period.

In each case, it would seem desirable that all transfers should take place on the "value date" and that this should be as close as possible to the end of each accounting period.

6. Unit of account and operations covered in the system

Fortunately, South America is not faced with the problem of converting currencies used to effect payments between pairs of countries to any common unit of account. In this respect, certain difficulties had to be overcome in the inter-European payments agreements. In Latin America, payments are negotiated in dollars of account which, in countries parties to the Standard Agreement, maintain parity with the actual dollar for equal operations.
As regards the unit of account, the inter-governmental agreement instituting the system will perhaps have to specify whether the currency to be used will be simply the United States dollar or whether a special unit of account with a declared gold value equal to that of the dollar is to be established. The European Payments Union, as already pointed out, preferred the second alternative in order to safeguard the unit of account from any fluctuation which might occur in the gold parity of the actual dollar.29/

There seem to be no major difficulties in determining the operations in respect of which compensation is possible. Payments negotiated through these accounts would be automatically included in the system whether they cover visible or invisible transactions. Trade which is not entered in accounts - for example border traffic and payments in respect of certain invisible transactions - would in fact be excluded from the system.

7. Organs of the system

(a) Essential character

The system described is essentially a dynamic instrument designed to solve, wholly or partially, on a multilateral basis the problem of the freezing of balances which often arises in bilateral payments. The way for the payments union will thus be prepared. The system can acquire this dynamic character only if participants visualize it as such when it is established and if they decide to apply progressively the liberalization measures essential for intensifying reciprocal trade.

(b) The agent and the machinery or committee designed to ensure governmental supervision

The operation of the agreement would require two organs, namely:

The agent, the technical and administrative organ, acting on behalf of member countries, who would have specific executive

29/ If at any time the system of regular compensation of account balances is converted into a payments union, the actual time when the union is formed might be the most appropriate for adopting a special unit of account which would remain at par with the gold value of the United States dollar.
powers and would be responsible for the operations necessary to
effect compensations;

A steering committee, with supervisory powers, authorized to take
certain decisions, made up of representatives of all or some of
the participants.

The functions of the agent, which mainly concern the operational phase,
are inherent in the working of the system. On the other hand, those of the
committee are broader in scope since, besides generally supervising the
running of the system, it may have certain additional duties. For example,
when within a first-category circuit more than one balance may be used
indiscriminately, the committee may have the power to decide, after hearing
the agent's views, which of the balances should be considered and which not.

The committee might likewise be given the responsibility of seeking
practical solutions to the problems arising in certain bilateral sectors
from the operation of the system among central banks which was agreed upon
in Montevideo by this Working Group at its first session.

By virtue of the powers granted to it by Governments, the committee
might also encourage action designed to ensure that persistent and marked
disequilibria are offset by additional movements of goods, and that coun-
tries with very large deficits due to circumstances prevailing at a given
moment should obtain additional credits so far as this is possible. The
committee might also be given such other duties as:

(i) Consideration of applications for admission to membership;
(ii) Establishment of criteria for classifying traded commodities
    according to the various differential exchange systems;
(iii) Taking cognizance of the consultations held by members when they
     propose to modify the administrative or exchange regulations
     applying to liberalized articles;
(iv) Evaluation, for the purposes of reciprocity, of the effect of the
different liberalization measures (administrative, quantitative,
exchange and financial), which each country has adopted or is about
to adopt, on the c.i.f. price of the imports concerned;
(v) Co-ordination of technical procedures for the suppression of
smuggling and of the under- or over-invoicing of imports and
exports;

/(vi) Promotion
(vi) Promotion of measures designed to simplify and stabilize - so far as inter-Latin American trade is concerned - systems of controlling the foreign trade of member countries.

According to the views expressed in replies to the questionnaire sent to the central banks by the secretariat of the Commission, apart from discharging such functions as these, the committee might become well qualified - through the knowledge and experience it would acquire - to carry out studies and other preparatory work for the subsequent formation of the payments union.

(c) Election of the agent

In this connexion it is worth while to recall the system established in Europe in July 1957 for the purpose of facilitating the multilateral compensation of balances in respect of bilateral accounts outside the European Payments Union, i.e., mainly the accounts maintained among themselves by the countries of Eastern and Western Europe. In practice, the duties of agent were given to the secretariat of the Economic Commission for Europe which, in its turn, engaged as a consultant - not as an official - an agent who carries out his duties with the help of secretariat members.

Another possibility would be to appoint as agent the central bank of one of the member countries. One point to be noted is that, if this course is followed, the bank chosen would in practice be acting as agent for its own compensations.

8. Operation

To ensure the smooth functioning of the system, the central banks of each member country, at the end of each accounting period - which would last, for example, one, two or three months -, would report to the agent the balance in each of the bilateral accounts. Once in possession of this information, the agent would make the necessary calculations to effect compensation in first-category circuits, first deducting the balances which members wished to exclude. The agent would consult the committee regarding the choice of balances to be included in the circuit when more than one might be used in it indiscriminately. However, the agent would have the power to decide for himself under certain conditions.30

30/ When there are only associate members, prior consultation would always be necessary.
later establish the circuit and would inform the central banks responsible for keeping the master accounts of the amounts to be credited or charged to them.

In the case of second-category or voluntary compensations, the agent would plan the possible circuits and, in accordance with the regulations,

(a) would submit them to the committee for its consideration, if the countries concerned gave it the power to decide in such cases; or

(b) would consult the central banks directly.

It should be stressed that in their last phase all these operations must be carried out at the same time. Indeed, as already pointed out, the transfers resulting from a circuit must be effected the same day. Once the decision has been taken, the agent will establish the circuit or circuits and will send the relevant communications to the central banks in order to enter the appropriate movements in the accounts. 31/

9. Other aspects

(a) One or two categories of membership?

In a system of compensation such as the one outlined, one or two types of membership may be stipulated, according to what is decided by the member countries when negotiating the agreement.

In the first case, all members would have the same status, whatever the number of their accounts incorporated in the system. In the second, there could be full and associate members. For instance, full members would be those which maintain accounts with all or nearly all of the other participants. At the same time, in accordance with the rules of the agreement, they would accept the automatic completion of first-category circuits, without prejudice to the right to exclude certain balances in specific circumstances. Associate members would be those countries, which, because of their small number of accounts or for other reasons, would only participate in voluntary compensation circuits, provided that such participation did not displace any full member from the circuit.

31/ In Europe, when the system preceding the payments union was in force, circuits were completed on the fifteenth working day after the end of the respective accounting period.

/A similar
A similar type of voluntary compensation might be used in order to include from time to time in second-category circuits countries outside the region which maintain bilateral accounts with at least two of the member countries.

(b) **Countries outside the region**

From the strictly technical point of view, there seems to be no reason why non-Latin American countries should not join the system at the outset or at a later stage. Indeed, the more the participants, the greater the possibilities of compensation, provided that adherents from outside the region, if such there be, trade with some or all of the Latin American members on the basis of bilateral accounts and are prepared to accept the obligations of membership.

(c) **Countries holding a single account**

Would countries holding a single account be able to join the system? Considering the specific aim of the system, they would be unable to participate in transfers, as for that purpose they would have to hold at least two accounts. Nevertheless, in deciding upon the type of membership which might be offered to single-account countries, it should be remembered that the system is designed to further the cause of Latin American co-operation and to simplify and harmonize step by step exchange systems as they affect trade within the region. In addition, the system seeks to pave the way for the final establishment of a payments union in which the greatest possible number of countries should be represented.

(d) **Participation of countries which do not now take part in account trade**

The system of compensation already described applies by definition to bilateral accounts. Hence, countries which do not hold such accounts would be unable to take part in it. The system encourages multilateral operations aimed at using in a third country the purchasing power generated by exports effected on the basis of a bilateral account, thus wholly or partially avoiding the freezing of the account in question. In certain cases, therefore, consideration might be given to the desirability of opening accounts with countries which so far have traded with the region only in convertible currencies.

/(e) **Duration of**
(e) **Duration of the agreement**

How long should the agreement establishing the compensation system remain in force?

In principle, it would seem advantageous to make provision for a reasonably long period to allow members ample opportunity for developing their trade with the possibility of transferring balances.

Members might, for example, begin by agreeing to a period not longer than two years. A procedure would then have to be devised to enable the system to continue in force automatically or to cease to exist if a sufficient number of countries wished, at a given moment, after a reasonable trial period, to progress towards multilateralism by establishing the payments union.

10. **Evaluation of the results**

The efficacy of a compensation agreement - measured in terms of the multilateral transfers effected under it will largely depend on the extent to which the first-category circuits are automatic and the willingness of members to accept voluntary second-category compensations which increase credit or debit balances. The volume of compensations will also depend on the extent to which the various members are in a position of relative equilibrium with all the rest of the participants, i.e., the extent to which each country is a creditor in certain bilateral sectors and a debtor in others, instead of being only a creditor or debtor in all sectors. Finally, the total quantity of transfers will depend on the number of participating countries, the volume of trade between them and their readiness to limit their right of excluding balances from the compensation mechanism.

In any case, if the system is established, the number of compensation possibilities will probably be limited. Even under optimum conditions, the transfers deriving from the system will not easily reach a very high relative level. As an illustration, it is worth recalling the results of the similar agreement between the countries of Western Europe. During the thirty months it remained in force, the total of credit and debit balances reported to the agent amounted to slightly more than 5 000 million dollars. Of this total - after deducting the amounts voluntarily excluded by members - about 305 million
305 million was compensated throughout the entire period (168 million in first-category automatic circuits and 137 million in second-category voluntary circuits). In spite of the smallness of this figure in relation to the total account movement, the system rendered a definite service. Indeed, as an instrument of trade policy, the compensation of balances prevented certain bilateral relationships from being broken off because one of the participants was overdrawn to the contractual limit. The system should be viewed from this angle and not only in the light of the absolute total compensated.  

Perhaps the most important effect of the system is that it prepares the way for solutions which cannot be applied without previous experience of international co-operation in the field of payments. From this point of view, the establishment of the system in Latin America would doubtless be very valuable not only in itself but also as an interim stage in the transition to more advanced forms of multilateralism. Indeed, it is almost inconceivable that institutions like the European Payments Union could have evolved so usefully without the experience obtained from preliminary forms of co-operation designed to pave the way for more ambitious enterprises.

32/ In the case of Europe, United States aid - from the 1948 agreement onwards - helped to confine the results of the system to intra-European payments.