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ECONOMIC COMMISSION FOR LATIN AMERICA
Trade Committee
Second Session

SUMMARY RECORD OF THE TENTH MEETING

Held at Panama City, on Thursday, 14 May 1959, at 9.55 a.m.

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/PRESENT:

PRESENT:

Chairman:	Mr. GARRIDO TORRES	(Brazil)
Vice-Chairmen:	Mr. PARDO HEEREN Mr. CHAMORRO	Peru Paraguay
Rapporteur:	Mr. SALGADO	Ecuador
Members:	Mr. MUSICH	Argentina
	Mr. HAUS SOLIZ	Bolivia
	Mr. da SILVA	Brazil
	Mr. MARTY	Chile
	Mr. DIAZ	Colombia
	Mr. MORERA BATRES	Costa Rica
	Mr. VARGAS GOMEZ	Cuba
	Mr. GINEBRA	Dominican Republic
	Mr. SANCHEZ	El Salvador
	Mr. GEORGES-PICOT	France
	Mr. RODRIGUEZ GENIS	Guatemala
	Mr. ORDOÑEZ	Honduras
	Mr. GARCIA REYNOSO	Mexico
	Mr. FERRIER	Netherlands
	Mr. GUERRERO	Nicaragua
	Mr. GALILEO SOLIS	Panama
	Mr. BRAIN	United Kingdom of Great Britain and Northern Ireland

/Mr. RANDALL

Mr. RANDALL	United States of America
Mr. PONS	Uruguay
Mr. D'ASCOLI	Venezuela

ALSO PRESENT:

Observers from States Members of the United Nations not members of the Committee:

Count BORCHGRAVE D'ALTENA	Belgium
Mr. RICHARDSON	Canada
Mr. HOLLAI	Hungary
Mr. BARBOSI	Italy
Mr. NINOMIYA	Japan
Mr. JELEN	Poland
Mr. SANCHEZ BELLA	Spain
Mr. BAZIKIN	Union of Soviet Socialist Republics

Observer from a State not a Member of the United Nations, attending in a consultative capacity:

Mr. ENGELS	Federal Republic of Germany

Representatives of Specialized agencies:

Mr. KALKKINEN	Food and Agriculture Organization
Mr. PERRY	International Bank for Reconstruction and Development
Mr. del CANTO	International Monetary Fund
Mr. SCHROEDER	World Meteorological Organization
Mr. GALAGAN	International Atomic Energy Agency

/Representatives of

Representatives of inter-governmental organizations:

	Mr. de GERMAIN	European Coal and Steel Community
	Mr. FANIEL	European Economic Community
	Mr. ROYER	General Agreement on Tariffs and Trade
	Mrs. de KYBAL	Organization of American States

Secretariat:

	Mr. PREBISCH	Executive Secretary, Economic Commission ofr Latin America
	Mr. IVOVICH	Secretary of the Committee

/COMMON MARKET

COMMON MARKET; (b) STUDY OF ITS POSSIBLE STRUCTURE (E/CN.12/C.1/9)

The CHAIRMAN proposed that the Committee should make comments, for the information and guidance of the secretariat, on the basic principles of a Latin American common market as formulated by the Working Group at Mexico (E/CN.12/C.1/9, part two, section II.II.B.)

After a brief procedural discussion, it was so agreed.

Basic principle VI

Mr. SOLIS (Panama) asked whether the reduction provided for in principle VI would be over and above the percentage reduction required by the general rule. Could the Committee call upon a country to reduce very high duties even if the requisite average reduction had already been reached; and if so, could that country then raise certain duties in order to maintain its average at the permitted level?

Mr. PREBISCH (Executive Secretary, Economic Commission for Latin America) said that the principle had been laid down that customs duties, once reduced, could not be raised again, save in the event of overriding need for reasons connected with the balance-of-payments situation of the country in question. Principle VI was intended to permit the Committee to enter into fresh negotiations with any country in which certain very high duties persisted, with a view to the speedier attainment of the average.

Basic principle VIII

Mr. da SILVA (Brazil) felt that the provision formulated in the first paragraph of principle VII was to extreme. Countries with a positive balance-of-payments disequilibrium should not be penalized; their favourable situation was, after all, an asset to the community as a whole.

/Basic principle

Basic principle X

Mr. MARTY (Chile) said that principle X was a very important one. However, it would be difficult to implement, and measures should be taken to facilitate the process of co-ordination, in particular through the adoption of a uniform customs nomenclature. To that end his delegation had prepared a draft resolution, (Conference Room Paper No. 1) calling upon the ECLA secretariat to prepare suitable bases and procedures for the adoption of a standard nomenclature.

The CHAIRMAN said he took it that members would wish to have time to study the draft resolution before taking action on it.

Basic principle XII

Mr. RANDALL (United States) reminded the Committee of the comments made by his delegation at the previous meeting in connexion with the question of a payments regime, and asked that they should be taken into account in the drafting of the report.

Mr. da SILVA (Brazil) said he had some comments to make on the basic principles as a whole. They were offered as a supplement to the future agreement setting up the Latin American common market. But they could be looked at in a different light. Given the ultimate objective of a regional common market - and his delegation could assure the Committee of its absolute agreement with that objective - it was clearly desirable to seek the most practical and effective means of attaining it. The method the Committee had been asked to approve was that of laying down, through an agreement, a fixed and rigid set of rules for the establishment and

/operation of

operation of the market. In all good faith, however, his delegation had some doubts whether that was the best means for attaining the end sought. The present economic conditions and problems of the Latin American countries were so complex and varied that if they were all to be taken into account in the drafting of the agreement there would be likely to be more exceptions than rules. Moreover, rules formulated at so early a stage, might prove to be a positive hindrance to the formation of the common market. Some countries would undoubtedly find it difficult to accede to them at the outset. Instead of an agreement of the kind suggested, the Brazilian delegation advocated the adoption of a code of principles - those set forth in the document - which would govern the policies of Latin American countries in their trade relations with each other and with third countries. Those principles would serve as a basis for sub-regional and sectoral agreements. His delegation firmly believed that such agreements, far from hampering progress towards the common market, might well be the most effective means of making it a reality, and might lead gradually on to the adoption of instruments of wider scope. Moreover, there should be no difficulty in securing the accession of all Latin American countries to a charter of principles from the very outset.

He therefore commended that alternative method to the consideration of the Committee. Should it be approved, he would urge that not a Committee but a governing body should be appointed, with powers sufficient to enable it to ensure compliance with the standards laid down.

The Brazilian delegation made those remarks simply by way of comment and not as a definitive statement of its position.

Mr. PREBISCH (Executive Secretary, Economic Commission for Latin America) asked whether, in the conditions outlined by the Brazilian representative, the application of the most-favoured-nation clause would be confined to participants in a sub-regional agreement or would be extended to all countries in the region.

Mr. da SILVA (Brazil) said that what he had in mind was the reconciliation of the commitments of parties to sub-regional agreements in such a way as to ensure the unconditional extension of the most-favoured-nation clause, a process which would serve the realization of the common market.

Mr. GARCIA REYNOSO (Mexico) said that unlike the Brazilian representative he believed that the earliest possible establishment of the common market would be in the best interests of the Latin American countries, and would help them to solve their economic problems and hasten their economic development. The course of the debate so far had shown that there was general concurrence in that view. In addition, there was broad agreement on the principles which should govern the establishment of the common market. His delegation had therefore joined with that of Cuba in drafting a resolution (Conference Room Paper No. 2) outlining the steps to be taken to make the idea of a common market a reality at the earliest possible moment. He wished to place that draft before the Committee.

Mr. VARGAS GOMEZ (Cuba), speaking as the co-sponsor of the two-Power draft resolution, said that the Cuban and Mexican delegations had chosen

/the first

the first of the two alternatives propounded by the Brazilian representative - that of converting the Working Group's recommendations into a draft treaty for the common market, and not merely into a body of principles to govern trade relations among smaller groups of Latin American countries. The Committee's discussion had thrown enough light on the subject to justify such a course. Further study would be needed, however, in order to define clearly the obligations which States would assume on acceding to the treaty.

Mr. MUSICH (Argentina) expressed his Government's appreciation of Working Group's recommendations. Particularly sound were those concerning the juridical form of the proposed agreement (E/CN.12/C.1/9, page 43, paragraph 2), the classification of products (ibid., page 44, paragraph 5), and the differential treatment of Latin American countries (ibid., page 45, paragraph 7). The latter two provisions would require modification in accordance with the progress made towards the liberalization of trade. While it was generally desired that all Latin American countries should join the common market from the outset, the structure and basic principles of the scheme would have to be adapted to practical realities.

The secretariat and the Trade Committee, in their further efforts to prepare for the common market, would have to lay great stress on the main objective: the expansion of trade among the Latin American countries. However, his delegation was anxious that the common market should not divert existing trade with other regions to countries within the region. On the contrary it should aim at increasing the flow of such trade, as a

/decisive factor

decisive factor in the economic development of Latin America, and the rules governing progress towards the common market must be framed with that aim in view.

The actions taken by the Latin American countries as members of the common market should be accompanied by action to overcome their internal economic difficulties. The priority accorded by the Western world to international co-operation was in no way incompatible with the efforts of the peoples to solve their own problems; the healthier the internal economies of the member countries, the more fruitful cooperation between them would be.

The Argentine delegation had no doubt that the Working Group's recommendations would assist the region in advancing towards the establishment of a common market, and that given renewed efforts, what now seemed to be insuperable national problems would be solved. The differences of view manifested in the Committee provided the best evidence that a realistic approach was being taken to the problem.

PAYMENTS: ESTABLISHMENT OF A SYSTEM FOR THE MULTILATERAL COMPENSATION OF BILATERAL BALANCES, AS A FIRST STEP TOWARDS THE MULTILATERALISM OF PAYMENTS INHERENT IN THE COMMON MARKET (E/CN.12/C.1/10).

Mr. IVOVICH (Secretary of the Committee) said that the secretariat, in conjunction with the Central Banks Working Group, had continued preparing work with a view to the change from a bilateral to a multilateral payments system in accordance with the resolution adopted by the Trade Committee in November 1956. At its first session, at Montevideo in May 1957, the Working Group had prepared a Standard Agreement designed to

/establish greater

establish greater uniformity in the provisions of bilateral payments agreements between Latin American countries, and most of the countries which had such agreements had soon ajusted them to conform to the standard. The purpose had been to offset the absence of convertibility by facilitating the multilateral compensation of bilateral balances. Resolution 4 annexed to the report of the Working Group's second session (E/CN.12/C.1/10) contained a draft protocol for the establishment of a Latin American system having that end in view.

Mr. del CANTO (International Monetary Fund) made a statement. 1/

After an exchange of views with Mr. del CANTO (International Monetary Fund), Mr. PREBISCH (Executive Secretary) said that he saw no justification for the statement that the operation of a multilateral payments union necessitated the conclusion of bilateral agreements. The very point of such a union based as it was on the concept of multilateral compensation between each country and the group of countries was to do away with bilateralism, to replace the harmful bilateral system under which individual equilibrium between each pair of countries was required.

Hence the establishment of a multilateral payments union would not imply any additional emphasis on either exchange control or bilateralism; on the contrary, it would definitely help to eliminate them. The accounts that were kept within such a payments union had no bilateral significance whatever in themselves, and even less when they referred to the position of each country in relation to the other participants as a group. Indeed, under the European Monetary Agreement which had been

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1/ The full text of this statement had been circulated as Trade Committee Information Document No. 140.

/in effect

in effect since January 1959, accounts were kept, with monthly settlements within a framework of multilateralism and convertibility.

Since its establishment in June 1950, the European Payments Union had encouraged the gradual development of convertibility between the European countries, and had been the chief instrument in the process that had culminated in the institution of the system of convertibility with the rest of the world which had come into effect in recent months. He felt that although at one time the International Monetary Fund had not approved of the establishment of the European Payments Union, that attitude had not been based on any idea that the Union would perpetuate bilateralism but had been symply and solely due to the regional rather than universal nature of the Union.

In recent times the currencies of various Latin American countries had become freely convertible. That was a very favourable development, but in order to bring it about it had been necessary to subject imports to restrictions of unprecedented severity. Some countries with extensibly convertible currencies were quite unable to do away with these restrictions, for in so doing they would be running the serious risk of causing a dangerous deterioration in their international payments position.

A payments union within the region would do much to help towards the liberalization of trade, which was absolutely essential. Through the union the countries of Latin America would have broad credits available to them which would enable them to lift the severe restrictions on imports at present in effect without fearing that that would lead to an enormous drain on the convertible currencies which were so essential for obtaining from outside the region the goods they urgently needed for their economic development.

/The credits

The credits available under the payments union would allow debtor countries a reasonable period of time during which the liberalization of imports effected by the other countries parties to the agreement would enable each of them to increase their imports within the region and provide a strong stimulus to Latin American trade.

With reference to the exchange of views with the Executive Secretary, Mr. del CANTO (International Monetary Fund) clarified his previous comments. The channelling of income and payments into the payments union would require the establishment of exchange controls, although those would not be applied in any restrictive sense. In fact, both recording of income and of cash payments would have to be effected through the account held by Central Banks; that was not done at the present time in convertible-currency countries in which, for instance, importers were free to make payments in the way and in the currency that they chose, and exporters that did not wish to surrender the foreign exchange earned by their export operations were not obliged to do so.

With respect to the final objective, namely that the creditor countries should grant credits and liberalize their imports - presumably by lowering customs duties since, with the removal of exchange controls, there would be no restriction on imports - the machinery contemplated was inadvisable and constituted a departure from the current trend in Europe and in the International Monetary Fund. A system of automatic credits would be to the detriment of creditor countries whose favourable position might be the result of their domestic policy and, on the other hand, would provide incentives to the debtor countries, whose unfavourable position might be attributable to lack of determination in applying a stabilization policy. Moreover, it was incorrect to consider the position of each country within the area and not vis-à-vis the world as a whole, since a country might be in a strong credit position within its own region and have a debit balance with the world as a whole.

Both drawbacks - the setting-up of control machinery and the hazards of automatic credits - had been overcome by the European Monetary Agreement which provided for the possibility of a statistical register of income and payments - still to be opened - and a system of negotiable

/credits. Such

credits. Such was the experience of the Fund, an agency which used the assets of creditor member countries to give help, on certain terms, to debtor countries. With respect to credits, he saw no reason for returning to payments agreements in order to induce countries to extend reciprocal credits. The best proof of that was, for example, the fact that the Banco de México was willing to grant credits to certain Central Banks in South America, but not to sign bilateral payments agreements.

With regard to the position of the Fund *vis-à-vis* the European Payments Union, historical circumstances had changed, as he had already pointed out in his intervention. Even if the Union were justifiable in Europe that did not mean that a similar mechanism was applicable or justifiable in Latin America. After European currencies became externally convertible, and that of Argentina fully convertible, at the end of 1958, there were only two countries left in Latin America whose currencies were not convertible. He stressed the total nature of Argentine convertibility, pointing out that it had called for great sacrifices on the part of the Argentine people and was a source of risk for institutions such as the Fund which were giving financial backing to the operation.

The meeting rose at 12.20 p.m.