

UNITED NATIONS

ECONOMIC
AND
SOCIAL COUNCIL



GENERAL
E/CN.12/C.1/WG.1/10/Rev.1
3 December 1958
ENGLISH
ORIGINAL: SPANISH

ECONOMIC COMMISSION FOR LATIN AMERICA
TRADE COMMITTEE
Central Banks Working Group
Second Session
Rio de Janeiro, 24 November - 3 December 1958

REPORT SUBMITTED TO THE TRADE COMMITTEE OF THE ECONOMIC
COMMISSION FOR LATIN AMERICA BY THE CENTRAL BANKS
WORKING GROUP ON A MULTILATERAL PAYMENTS SYSTEM

CONTENTS

| | <u>Paragraph</u> | <u>Page</u> |
|---|------------------|-------------|
| Introduction | 1 | 1 |
| Part I. SECOND SESSION OF THE CENTRAL BANKS WORKING GROUP | 2-96 | 2 |
| A. <u>Delegations present and organization of work</u> .. | 2-5 | 2 |
| Opening and closing meetings | 2 | 2 |
| Delegations present | 3 | 2 |
| Officers | 4 | 2 |
| B. <u>Agenda</u> | 6 | 3 |
| C. <u>Account of the proceedings</u> | 7-96 | 4 |
| General statements | 7-25 | 4 |
| Attendance by representatives of the Central Banks of the multilateral-account countries .. | 26 | 10 |
| Implementation of the Montevideo Standard Agreement | 27-38 | 10 |
| (a) Parity | 29-35 | 11 |
| (b) Limit in respect of bilateral credit .. | 36-38 | 12 |
| Compensation system for bilateral balances ... | 39-47 | 13 |
| (a) Unit of account | 40-41 | 14 |
| (b) Transactions covered by the system | 42-43 | 14 |
| (c) Structure of the system | 44-45 | 15 |
| (d) Agent | 46-47 | 15 |
| Liberalization | 48-56 | 16 |
| Transport problems | 57 | 18 |
| Co-operation between bilateral-account and multilateral-account countries | 58 | 18 |
| Common ground of multilateralism | 59-74 | 18 |
| Payments union | 75-80 | 23 |
| Contribution of observers | 81-86 | 26 |
| Final considerations | 87-96 | 28 |
| Part II. RESOLUTIONS ADOPTED BY THE WORKING GROUP | 97 | 31 |
| ANNEX: LIST OF REPRESENTATIVES | | 39 |

INTRODUCTION

1. This report covers the work of the second session of the Central Banks^{1/} Working Group held at Rio de Janeiro, Brazil, from 24 November to 3 December 1958. The first session was held at Montevideo, Uruguay, from 29 April to 10 May 1957. The Working Group was set up under resolution 1(I) of the Trade Committee of the Economic Commission for Latin America (ECLA). This resolution, adopted at the Trade Committee's first session (Santiago, Chile, 19-29 November, 1956), requested the Group to study the possibilities of gradually establishing a multilateral payments régime and to suggest appropriate measures to the Trade Committee.

^{1/} In this report, the term "Central Bank" should be taken to include other monetary authorities fulfilling the same functions.

Part I

SECOND SESSION OF THE CENTRAL BANKS WORKING GROUP

A. . Delegations present and organization of work

Opening and closing meetings

2. The second session of the Central Banks Working Group opened in Rio de Janeiro, Brazil, on 24 November 1958. At the opening meeting, Mr. Lucas Lopes, the Brazilian Minister of Finance addressed the Group and Mr. Rómulo Ferrero, representative of the Banco de Reserva del Peru spoke on behalf of the delegations present. At the closing meeting, held on 3 December 1958, speeches were delivered by Mr. José Garrido Torres, Chairman of the Group, José María Avilés Mosquera, representative of the Banco Central del Ecuador, Daniel J. Bello, representative of the Banco de Mexico and Raúl Prebisch, Executive Secretary of ECLA.

Delegations present

3. The session was attended by the representatives of the Central Banks of Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Dominican Republic, Ecuador, Guatemala, Haiti, Honduras, Mexico, Paraguay, Peru, Uruguay and Venezuela. Spain and the following bodies sent: International Monetary Fund, Bank of England, Banque de France, Federal Reserve System and Inter-American Trade and Production Council. A complete list of representatives may be found in the annex.

Officers

4. The Group elected Mr. José Garrido Torres (Superintendencia da Moeda e Crédito do Brasil - SUMOC) Chairman, Mr. Bernardo Figueredo (Banco Nacional de Cuba) and Daniel J. Bello (Banco de Mexico) first and second Vice-Chairmen respectively, and Mr. Eusebio Campos (Banco Central de la Argentina) Rapporteur. A sub-group was appointed to embody the Group's conclusions in a series of draft resolutions. It was composed of Central Banks representatives from Argentina, Brazil, Chile and Uruguay. The representative of the Banco de la República Oriental del Uruguay acted as Chairman.

5. The ECLA secretariat was represented by Mr. Raúl Prebisch, Executive Secretary; Mr. Estéban Iovovich, Chief of the Trade Section (Secretary of the Group) and Julio Valdés. The following acted as consultants: Patrick Waters, Director of the European Payments Division of the Organisation for European Economic Cooperation; Guillermo Pegurier, Director of the Balance-of-Payments Department of SUMOC, Brazil; and Alain Debiez, ECLA economist.

B. Agenda

6. The Group adopted the following agenda (E/CN.12/C.1/WG.1/6/Rev.1):

I

1. Opening addresses
2. Election of officers
3. Adoption of the agenda
4. Consideration of the possibilities of establishing a multilateral compensation system in respect of bilateral balances
 - (a) Progress registered in implementing the standard agreement
 - (i) Application by stages of the principle of parity in selected sectors
 - (ii) Limit in respect of bilateral credits
 - (iii) Transfer and liquidation of balances
 - (iv) Other aspects
 - (b) Bases for the operation of a multilateral compensation system in respect of bilateral balances
 - (i) Automatic compensation circuits to reduce balances
 - (ii) Voluntary circuits for transferring balances
 - (iii) Unit of account
 - (iv) Transactions covered under the system
 - (v) Agent and committee
 - (vi) Compilation of information
 - (vii) Other aspects
 - (c) Interdependence between the multilateral compensation system in respect of bilateral balances and the liberalization of trade
 - (d) Payment problems between Latin American countries not holding clearing accounts

/(i) Participation,

(i) Participation, in the multilateral compensation system in respect of bilateral balances, of countries not at present holding accounts.

(e) Possible participation in the same system of countries outside the area

5. Adoption of the report of the session
6. Place of the next session

Documents

Payments in inter-Latin American trade (E/CN.1/WG.1/8)
Summary of the above-mentioned document (E/CN.12/C.1/WG.1/7)
Multilateral compensation in a payments union (E/CN.12/C.1/WG.1/8/Add.1)
Foreign trade systems in selected countries (E/CN.12/C.1/WG.1/8/Add.2)
Liberalization (E/CN.12/C1/WG.1/8/Add.3)
Study of inter-Latin American trade (E/CN.12/369/Rev.1)
Inter-Latin American trade: current problems (E/CN.12/423)
Report on the first session of the Central Banks Working Group (E/CN.12/484)

II

PRELIMINARY INFORMAL DISCUSSION OF THE OBJECTIVES AND POSSIBLE CHARACTERISTICS OF A PAYMENTS UNION

Documents

Main objectives and possible characteristics of a Latin American payments union (E/CN.12/C.1/WG.1/9)

C. Account of the proceedings

General statements

7. Given their origin and character, the statements made at the start of the session were undoubtedly significant in that they outlined practical plans for gradually transforming the payments relations between the Latin American countries into a multilateral system conducive to the aim of broadening national markets and building up progressively the regional market.

/8. Mr. Lucas

8. Mr. Lucas Lopes, Brazilian Minister of Finance, pointed out that the study of the problem of inter-Latin American payments and the possible establishment of a compensation system would represent a step in the direction of economic complementarity. However, any multilateral payments system should be based on the preferential tariff and the liberalization of trade within the area. The measures designed to achieve those aims should be applied gradually and simultaneously.^{2/}

9. Mr. Rómulo Ferrero, representative of the Banco Nacional de Reserva del Perú, said that it was the common desire of the Latin American countries to strengthen their economic ties. It could be achieved by increased trade, which depended in turn on the simplification and liberalization of commercial exchanges and payments. Under a system of freer trade advantage could be taken of specialization on a regional level. For that purpose, markets would be required with an absorption capacity exceeding purely national limits. But the attainment of the desired ends - increased trade, multilateralism and hence, in due course, general convertibility - presupposed a reasonable degree of internal stability and rates of exchange which were not permanently unrelated to the domestic value of the currency.^{3/}

10. Mr. Jcsé Garrido Torres, Executive Director of SUMOC,^{4/} in taking the Chair, pointed out that a multilateral payments union should be gradually evolved as an initial stage in the formation of the Latin American regional market. Those Latin American countries belonging to the multilateral payments area should be encouraged to join the new system.

^{2/} The full text of the statement may be found in Information Document N° 2 (Portuguese only).

^{3/} See Information Document N° 3 (Spanish only).

^{4/} See Information Document N° 4 (Portuguese only) for the complete text.

11. The second task, which was more important and would take longer, consisted in the establishment of the regional market proper. It should be carried out carefully in the light of the experience gained in other parts of the world but with due regard for the different conditions prevailing in Latin America. Even within the region itself there were differences from country to country. A start might be made with the creation of common markets confined to neighbouring countries with similar problems. Vertical integration (in the field of basic industries, for example) would have to be tackled side by side with horizontal integration. Thus the partial groupings just mentioned might eventually be brought together.

12. Progress towards the common market should be based on six principles. Three of them were political: equal opportunity should be given to all countries, membership should be voluntary, and no country should be excluded. The other three were economic: productivity, competition, and natural specialization in specific cases.

13. The problem of payments - the topic of the current session - should be considered against that background and bearing in mind the general and necessary trend towards integration on a footing of equality. The formation of large markets was essential to achieve economies of scale and to give the people an increasing share in the national income. While the big industrialized countries were becoming more and more self-sufficient and hence more independent of the primary producing areas, the latter were becoming increasingly dependent on the highly developed areas. Latin America had to create conditions of production which not only gave it a greater purchasing power but also enabled it to compete with the rest of the world.

14. Mr. Raúl Prebisch, Executive Secretary,^{5/} said that the immediate objective in the advance towards the common market was to establish a relationship between existing bilateral accounts and that the ultimate aim was a payments union. If the sole purpose of such a union were

^{5/} See Information Document N° 5 (Spanish only) for complete text.

to ease the flow of existing transactions, it would merely play a neutral role vis-à-vis the common market; on the other hand, if it helped to bring about structural changes in regional trade, it would become the keystone of it.

15. Industrialization, so essential for economic development, was being carried out in Latin America in twenty watertight compartments without the advantages of specialization and economies of scale, which, within a common market, would cut costs. During the first stage, it was essential to give a powerful stimulus to industrial exchanges not only to reduce expenditure but also to lessen the external vulnerability of the Latin American countries.

16. If a multilateral payments system was to function smoothly, persistent disequilibria between one country and all the others had to be avoided at all costs. Such disequilibria meant that debtor countries would be paying for part of their industrial imports from creditor countries with gold or dollars that they could have used to buy similar goods at a lower cost on the world market. In a payments union, multilateral equilibrium in respect of industrial products as well as primary commodities was particularly important.

17. For the gradual achievement of the payments union the list of products covered would be gradually lengthened. Such flexibility might make membership in the payments union attractive to those Latin American countries which found it easy to sell products on the world market against convertible currency. But, in order to export their surplus production to Latin America, each country should be prepared to buy also within the common market thus stimulating the industrialization of them all in accordance with their resources and potentialities. The principal means of securing a balanced increase in trade were to eliminate trade restrictions and to apply a preferential tariff, especially on manufactured goods. One method for the gradual removal of customs duties would be a series of negotiations confined at first to such categories of goods as best lent themselves to reciprocal treatment and gradually extended to other categories until they covered the whole field of trade.

18. The credit system, which would play an important role in the payments union, would have to fulfil two requisites. Firstly, it would need to be
/liberal enough

liberal enough for the creditor countries to be encouraged to increase their imports from the debtor countries; secondly, it would not have to be so flexible as to allow the debtor countries to go on piling up deficits, without taking preventive measures.

19. Nevertheless, if debtor countries continued to accumulate debts, corrective action would have to be taken. In most cases, it would be necessary to restrain an inflationary process or to adjust exchange rates to the real internal value of the currency. In addition to the credits received, debts would have to be settled in gold or dollars.

20. The traditional monetary mechanism did little or nothing to eliminate those structural disequilibria which were such a common feature of Latin American economies. Nor was there any justification for subordinating monetary policy to the correction of intra-regional deficits, because intra-regional trade (excluding petroleum) accounted for only 1.5 per cent of the aggregate Latin American product.

21. Among the interim measures designed to pave the way for the payments union was the multilateral transfer of bilateral balances. To that end, a system of automatic compensations had been proposed. Such an initial step had the disadvantage - which could be corrected at a later stage - of not being accessible to the multilateral countries of the region. In order to expand and diversify regional trade, the payments differences between the various countries would have to be reconciled. That did not mean that the bilateral countries would have to abandon their control measures for saving gold and convertible currencies or that the multilateral countries should adopt bilateral practices. Rather, both groups would seek a common ground of multilateralism. Their task would be facilitated by the application of the Montevideo Standard Agreement approved during the first session of the Working Group^{6/} and the consequent transferability of bilateral balances. As an added stimulus, certain countries would have to find new markets for their industrial surpluses. The common ground of multilateralism could be developed into a system in which balances over and above swing credits - or perhaps a certain percentage of such balances -

^{6/} For text of the Standard Agreement see document E/CN.12/484.

could be settled unrestrictedly at a compensation centre. In order to reduce at the outset the total payments made in convertible currency, a system of multilateral credits to absorb surplus balances could be organized. If in practice countries in a creditor position vis-à-vis the compensation centre tended to utilize their balances to increase their imports from the group of debtor countries, and if trade were thereby expanded without any considerable accompanying movement of gold and dollars, the time would have come to enlarge the system into a payments union.

22. Meanwhile, the number of compensable commodities subject to liberalization measures should be carefully and gradually extended. Those measures should invariably be non-discriminatory, since the aim was not to disrupt trade patterns but to enlarge them. Trade should not be viewed as a static phenomenon and the possibility of increasing it through industrialization should be considered.

23. The system of exchanging information about accounts, for which the ECLA secretariat would act as the centralizing agency, and the implementation of the Standard Agreement would pave the way for the multilateral transfer of balances. At the forthcoming session of the Commission, to be held in Panama in May 1959, it was proposed to submit a report on the subject, together with the conclusions reached by the Working Group on the Latin American Regional Market, which was to meet in Mexico at the beginning of 1959.

24. The establishment of a compensation system and, later, of a payments union would require not so much perfected formulae as a payments policy closely related to trade problems. For that purpose, it would be desirable to set up a committee to establish guiding principles for the compensation system and to solve whatever problems might arise in that field, as well as in the sphere of trade policy. Such a committee at a high governmental level with powers to make recommendations and to adopt certain decisions, would be the best means of acquiring experience in the handling of payments systems and trade and customs instruments. It would also help to concert economic and trade policies.

/25. There was

25. There was nothing in a payments union to prevent its incorporation into an international convertibility system. But, before that new stage could be reached, structural equilibrium would have to be attained in each country's intra-regional transactions, a task which involved a much broader problem, namely, the correction of the general imbalance caused by economic development. It could be solved by structural changes in which industrialization predominated. They would be brought about more efficaciously and economically with the enlargement of the market. As the Latin American countries continued to meet the dynamic needs of their economies, they would have played their due part in the process of establishing international convertibility on bases which would not necessarily be the same as in the past.

Attendance by representatives of the Central Banks of the multilateral-account countries

26. Various delegations expressed their satisfaction that, in accordance with the suggestion made by the Working Group on the Latin American Regional Market, invitations to attend the Group's second session had been extended to Central Banks representatives not only from the bilateral countries but also from the countries whose transactions within the area are negotiated in convertible currencies. Both groups would benefit from the solution of certain payments problems which impeded the growth of their mutual trade.

Implementation of the Montevideo Standard Agreement

27. The Group first dealt with the gradual implementation of the programme outlined in Trade Committee resolution 1(I) for the establishment of a system for transferring balances as between bilateral accounts, which would progressively lead to increasing liberalization of payments.

28. The Group noted with satisfaction the marked progress made during the first phase of the programme - adjustment of the bilateral agreements in force to the principles of the Montevideo Standard Agreement. About four-fifths of inter-Latin American trade on account was already governed by instruments modelled largely on the Standard Agreement.

/(a) Parity

(a) Parity

29. Attention was drawn to certain sectors - in some respects, of only marginal importance with regard to the aggregate value of trade on account - where, although the basic provisions of the Standard Agreement had been adopted, it had still proved impossible to apply the principles of parity between the unit of account and the genuine dollar for equal operations. The difficulties arose mainly with regard to imports and were attributable to general measures taken without any intervention by the exchange authorities. One delegation pointed out that, when an importer could acquire foreign currency at a relatively lower price than that applying to equivalent imports from outside the convertibility area, he could make a better offer to the foreign supplier and thus enable him to invoice goods above international prices.

30. Two delegations pointed out that it was undesirable to provide for successive stages in introducing parity. It should be put into effect for every operation without exception. Otherwise it would be difficult to maintain the predominance of international prices in transactions throughout the area or the regularity of the compensation system. Moreover, the existence of dual exchange markets in certain countries did not prevent the application of parity along the lines laid down in the Standard Agreement.

31. All the Central Banks representatives of countries with accounts based on the Standard Agreement felt that, although it had been applied for only a short time, it was already proving its worth. Its most important principle, parity, should be applied without exception. Yet one delegation maintained that, from certain points of view, the process would have to take place in stages.

32. The delegation from a country which had not signed agreements based on the Standard Agreement but which, prior to the drafting of the latter, had accepted a bilateral payments agreement incorporating a parity clause, made certain comments on the difficulty of retaining that clause when the exchange systems of the contracting parties were different. When the agreement had been signed, both parties had been maintaining direct exchange controls. Some time later, upon the adoption of a stabilization policy,

/his country

his country had liberalized foreign transactions and abolished direct controls. The payments agreement had then ceased to operate normally, smuggling had ousted much of the merchandise trade, and large balances of the account remained idle.

33. Another delegation thought it was less a problem of parity than of the difference in the methods followed. One country might apply the practices of multilateral trade and another might use direct controls and a dual exchange market. The elimination of the two latter features would do much to solve the problem.

34. One delegation from a multilateral country recalled that the observance of parity meant that Central Banks intervened in the market in order to purchase units of account derived from exports, thus maintaining in respect of such units a quotation equal to that of the genuine dollar when the importers' demand dropped for any reason. It might therefore be asked whether, in the experience of the bilateral-account countries, the creation of additional means of payment by those methods would cause a monetary expansion of external origin. The delegation from a bilateral-account country replied that sometimes the maintenance of parity might indeed cause a degree of inflation but such a sacrifice was offset by the maintenance of the trade quantum. If it decreased, the level of economic activity in the countries concerned would be affected.

35. Otherwise, it was generally considered essential to observe parity without exception, if progress was to be made towards multilateralism. The problem did not only concern the bilateral-account countries but should also be borne in mind by the multilateral-account countries before reaching any decision on their possible participation in the multilateral system to be gradually applied in accordance with Trade Committee resolution 1 (I).

(b) Limit in respect of bilateral credit

36. Several delegations put forward their countries' views on the desirability of establishing a ceiling for bilateral credit. The consensus of opinion was that, while such a limit was not essential for the smooth operation of agreements, it was nevertheless desirable in

/that it

that it would help to avoid excessive disequilibria by encouraging debtor countries to increase their exports. It was also made clear that, in order to effect transfers between accounts such as those provided for in resolution 1(I), there should be a reasonable limit. Once the projected system for the multilateral compensation of bilateral balances had been adopted, the absence of a ceiling in certain accounts would not interfere with the technical operation of the system.

37. One delegation observed that, although no stipulation was made as to the limit beyond which payments must be made in convertible currency, some countries had felt it desirable, when drafting their payments agreements, to fix a point above which the creditor country may request the transfer of the surplus to a third account. The debit balance would thus be reduced and there would be no need to impose restrictions on trade which otherwise might have been necessary, both on the part of the debtor country - to prevent an increase in its liabilities - and on the part of the creditor country, when it was no longer interested in accumulating more credits, the use of which was limited owing to the bilateral nature of the system.

38. Another delegation stressed that machinery and a ceiling for bilateral credit were both desirable by definition if the normal trade between pairs of countries was not to be impeded by structural disequilibria. The effect of such disequilibria was to deform credit so that it became a loan by the creditor to the debtor. Swing credits should be designed exclusively to correct moderate or seasonal disequilibria. The limit should not be rigid but a certain maximum level should be observed. As a safeguard, the maximum credit should be used in practice only up to a certain amount. The monetary authorities of the two countries should be empowered to continue using an increasing proportion of the maximum credit allowance or the whole credit, according to the trade position in question.

Compensation system for bilateral balances

39. Various delegations pointed out that the progress achieved in implementing the Standard Agreement and the smooth functioning of the service providing information on accounts facilitated the establishment
/of the

of the proposed compensation system. The results so far achieved had enabled certain multilateral transfers between accounts to be made with advantage to regional trade.

(a) Unit of account

40. In bilateral payments agreements based on the Standard Agreement, the unit of account had been stipulated as the United States dollar. Although at first that stipulation would remain in force, it was agreed that, when the projected system was well established, a unit of account with a gold equivalent should be adopted, as in the European Payments Union. Its aim would be to protect participating countries from any eventual losses in the purchasing power of their balances through possible devaluations in a unit of account expressed in terms of a given national currency, without a gold equivalent.

41. One delegation felt it might be desirable to adopt a special name for the Latin American unit of account.

(b) Transactions covered by the system

42. The Group next considered what the main criterion should be in the clearing-account countries which became members of a multilateral system of compensation for excluding certain goods or services from accounts or including them. Some delegations stated that it should depend upon individual bilateral negotiations between each pair of countries.

43. One delegation recalled that there was an official criterion which the bilateral countries had adopted when selecting the bases for the Standard Agreement. It was contained in article 3, which provided that the bilateral account in question should include the f.o.b. value of natural or manufactured products which were traded by the contracting parties, including accessory costs. The acceptance of that criterion in the Standard Agreement was related directly to the progress made in the application of parity and hence of international prices. It also represented an effective contribution towards non-discrimination and liberalization. There should be not retreat from the position gained.

/(c) Structure

(c) Structure of the system

44. There was unanimous agreement about the ways and means of establishing a compensation system on an experimental basis which could be easily and progressively adjusted.

45. The system endorsed by the Group (see resolution 4) comprised three factors. The first was an automatic multilateralism consisting in first-category transfers designed to reduce to the amount of the smallest balance the credit or debit balances of each country participating in the circuit. The second factor consisted in voluntary transfers, which altered balances in one direction or other and which would be effected after consultation with the agent. The third factor involved the possibility of including in the circuits balances held between any member of the system and the other members. The scheme would be launched by the simple acceptance by the central banks or similar bodies of the protocol drafted by the Group. It would enable operations to begin in a relatively short time. Although these operations would probably not be on a large scale, the establishment of the system would represent an important step forward since the action outlined in Trade Committee resolution 1 (I) could then be begun.

(d) Agent

46. The Group requested the secretariat to continue its cooperation in the multilateralism programme and to act as agent in the manner laid down in the protocol. In making that request, it recalled that information on accounts was already distributed by the secretariat; that, in cooperation with the Central Banks Working Group, the secretariat was pursuing the necessary technical studies for implementing the programme laid down in resolution 1(I); that the operation of the compensation system outlined in the protocol would enable the agent to acquire valuable experience for the continuation of those studies; and that the secretariat of the Economic Commission for Europe (ECE) acted as agent for a compensation system through an ad hoc consultant temporarily engaged for that purpose.

47. The secretariat expressed its gratitude and stated that it would comply with the Group's request. It intended to engage as agent a

/specialist who

specialist who would also play an active role in the subsequent technical studies.

Liberalization

48. There was unanimous agreement that the multilateral payments programme should be carried out simultaneously with another separate programme for the gradual liberalization of transactions, since only the promotion and diversification of trade by that and other means would yield significant results.

49. Yet liberalization was not indispensable for the initiation of the system outlined in the protocol. Nevertheless, for the subsequent adoption of other more far-reaching measures, a substantial proportion of trade in goods and services could be carried on without restrictions or discrimination within the area covered by the agreement.

50. Apart from its specific contribution to the elimination of barriers, liberalization would do much to establish the preferential tariffs considered necessary for setting up the regional market. At the same time, it would enable domestic lines of production to be exported as a result of a reasonable measures of protection achieved preferably by customs machinery, in the face of competition from similar articles exported by industrialized countries of higher productivity.

51. At least during its initial stages, liberalization would be selective and non-discriminatory. Account would also be taken of the mutual advantages accruing to the participating countries with respect to traditional and industrial products, taken as a whole if necessary. Accession should be open to all the countries of the region who wished to join on the basis of the principles first laid down by the group of consultants on trade policy at the meeting held in Santiago at the end of August 1958.

52. Five countries of Central America had recently signed a preferential treaty whose entry into force would bring a free trade area legally into existence. Similarly, in October 1958, ten Latin American countries had adopted an instrument signifying their intention of instituting a regional
/preferential tariff.

preferential tariff. Two of those countries, Brazil and Chile, in their capacity as members of the General Agreement on Tariffs and Trade (GATT), sponsored a proposal at the thirteenth session of that body designed to secure recognition of the fact that such a preferential tariff would require an exception to be made in the unconditional most-favoured-nation clause.

53. Given the large volume of trade, the preparatory work for a system of liberalization would be considerable. Some countries, especially in the south, had already tackled the problem vigorously and, on the basis of their experience, had defined the criterion for granting to the other countries of the same sector certain quantitative or monetary benefits designed to stimulate trade. Those same countries and others from the northern sector of South America had recently started talks to discuss the establishment of reciprocal preferential tariffs whose application would combine, on the one hand, customs concessions and, on the other, quantitative, administrative or monetary concessions. That would avoid the difficulty which some countries now faced, for contractual or other reasons in employing the tariff as an effective preferential instrument.

54. In the different countries, liberalization - particularly with regard to the possibility of using non-tariff machinery - had only been considered very tentatively. Furthermore, those countries whose foreign trade systems were free of direct controls or based on multilateralism, would have little or no incentive to adopt effective stimuli for trade or for the operation of agreements designed to enlarge markets. It was generally thought highly desirable to use the preferential tariff when each country decided to take part in such a system. It would also be possible to use non-tariff measures for that purpose to the extent that research showed it necessary.

55. One delegation pointed out that the establishment of a preferential tariff, even at the cost of certain sacrifices, was necessary to transform the continent into a single market and thus follow the contemporary trend towards the constitution of consumption centres larger than the geographical

/area of

area of each country. At the same time, it would rationalize the costs of industrial production which were comparatively high in the small existing markets. Since countries in other regions of the world had established large groups based on ad hoc customs treatment, described as preferential, Latin America should not hesitate to call its system by the same name, since it was a fundamental element of the trade and payments policy which the region's interests required.

56. With regard to liberalization problems, the Group agreed on the points set forth in resolution 5.

Transport problems

57. One delegation pointed out that the liberalization measures and the establishment of preferential tariffs might not have the desired effects unless other problems were also solved. For example, certain transport shortcomings (such as the need for transshipments through lack of direct maritime services) meant that the importer paid more for goods originating within the region. The Trade Committee should give priority to such problems.

Co-operation between bilateral-account and multilateral-account countries

58. The Group agreed that the co-operation between bilateral-account and multilateral-account countries would be more fruitful if less emphasis was placed on bilateral practices and if, instead, all the countries gradually adopted multilateral trade procedures.

Common ground of multilateralism

59. The Group next discussed how the bilateral-account and multilateral-account countries might be linked together in a payments union which reconciled their different tendencies and interests. The secretariat submitted an illustrative outline in amplification of the comments which it had previously made. According to that outline, it would be possible to form a compensation centre, linking together the countries holding accounts (following the procedures laid down in the protocol) and the multilateral-account countries desirous of participating in what might

/be called

be called the "common ground" of multilateralism.

60. One of the centres' constituent elements - the compensation system - would then have reached a more advanced stage of automaticity in the transfers or balances. The first- and second-category circuits would have been replaced by the automatic compensation of all deficits and surpluses, not of the total but of a given proportion or that part over and above a certain level of bilateral credits. Credits would continue to exist because at that stage the credit pool, one of the features of the payments union, would not yet have been formed. A centre of the kind suggested might gradually decrease bilateral credit and increase multilateral credit. It would thus become a kind of pre-payments-union which could reach agreement with multilateral countries to include in their automatic compensations a part or all of the balances deriving from their transactions with any bilateral-account country. The subsequent development of that embryonic payments union would bring about closer-co-operation between the bilateral-and multilateral-account countries. The centre would not only liquidate by means of compensation the balances resulting from transactions between bilateral- and multilateral-account countries. In given conditions and by agreement, it would also act as the intermediary for the operation of an additional method of liquidation whereby, at the end of a pre-arranged term, the portion of the balance, which had not been absorbed by compensations and which exceeded the amount of the swing credit existing between the centre and the multilateral country concerned, would be covered by the debtor in convertible currency in full or in the portions laid down in the appropriate regulations.

61. One delegation recalled that the European Payments Union existed side by side with various bilateral agreements. It might be asked whether the Latin American payments union might similarly include on certain terms those countries which maintained bilateral agreements, apart from the countries associated with the union for the pooling of credits and the operation of automatic multilateral compensations.

62. Another delegation observed that the bilateral- and multilateral-account countries undoubtedly had a common interest in extending markets in order to

/attract further

attract further investment, raise productivity and create employment. It was also to their advantage to produce exportable surpluses so as to swell the growing Latin American demand for capital and consumer goods with due regard for complementarity and mutual benefits. Multilateralism in respect of payments and preference - whether the latter took the form of quantitative and monetary liberalizations or of ad hoc treatment, or both - were the two instruments which should be employed to attain that objective.

63. With regard to multilateral payments, the same delegation stressed that the area of complementarity or integration could not work well without a common payments system, at least in respect of the articles included in the relevant agreement. Such a system should ensure the free and unrestricted movement of the commodities covered by the agreements. A country would be chary of subscribing to such agreements if it felt that exports of the articles in question might be interrupted by the restrictive measures applied to the corresponding imports by the other country.

64. The central bank representative of a multilateral country declared unofficially that apart from the possible changes which might be brought about by the application of preferences, it would be useful to consider more thoroughly whether or not it would be advantageous for certain countries to join a payments system restricted regionally. In principle, if a multilateral-account country paid in convertible currency for its purchases from a bilateral-account country, it gave the latter access to the international market, whereas it would not if it paid in units of account.

65. The same delegation pointed out that there were multilateral-account countries in Latin America which showed a favourable balance of payments vis-à-vis the bilateral-account countries as the result of their respective production patterns. In such cases, the inter-Latin American payments were balanced through third countries or other regions. The situation arose from structural factors which could only be altered slowly and as a result of new lines of production. It could not be remedied by monetary measures alone.

66. The multilateral-account countries, as a result of contracts entered

/into with

into with foreign investors with respect to certain exports, might be exposed to losses through arbitrage or currency differences when joining payments systems. If some commodities, such as petroleum, were excluded from account operations, the country supplying them might remain in a permanent debit position, thus jeopardizing the whole of the respective swing credit and contributing no dynamic element to the system's progress.

67. The wisest course would be to try the multilateral system outlined in the protocol to see if it worked. In the light of experience, it might give place to the payments union, with a unit, backed to a certain extent by gold, as a regional currency acceptable as one of the securities constituting the reserves of the central banks.

68. Another representative of a multilateral-account country said that collaboration between the multilateral and bilateral sectors would be encouraged if a proper policy was formulated from the outset with due regard to the economic structure and development characteristics of each country. Such a policy was all the more necessary in the case of countries which played a minor role in inter-Latin American trade because of the great similarity between their lines of production or because their industrial development was inadequate. It should be remembered that the speaker's own country wished to overcome every obstacle to the two fundamentals of its trade policy: convertibility and multilateralism. The question was whether it was desirable - assuming that the tariff was the decisive instrument for enlarging markets in regional terms - to begin now, at the same time as efforts were being made to introduce preferential treatment the work required to bring a regional payments system into existence. He feared that a principle of non-convertibility might thus be introduced into the multilateral system, jealously maintained by certain countries.

69. The representative of the central bank of a third multilateral-account country, commenting on the stabilization of balances as between each party to a multilateral system and the other members as a whole, remarked that specific multilateral-account countries in the region, which maintained a certain volume of sales to bilateral-account countries, were in a creditor position thanks to their high productivity, this circumstance being

/reflected in

reflected in the quotation of world prices for the goods in question. In such cases the disequilibrium was due to structural causes, which would presumably be partially removed by the progressive liberalization of trade and by the gradual establishment of a regional market. The latter would provide incentives for the manufacture of capital and durable consumer goods, and the incorporation of these into trade flows would mean that the current structure of trade could be remodelled to the benefit of all concerned.

70. A delegation from the bilateral sector expressed the view that the positions of the individual multilateral-account countries with respect to the collaboration under discussion might vary widely. It was common knowledge that shortage of convertible currencies often induced the bilateral-account countries to attempt to divert their purchases towards the markets for which they possessed means of payment. The importance of economizing in hard currencies was frequently linked to the individual countries' programmes for the diversification of production. The fact was that the natural complementarity which in the past had existed in so notable a degree among South American countries had been limited by the planned diversification of agricultural production. Apparently there were multilateral-account countries which might, if they refrained from joining a payments system, run the risk of partly or wholly losing certain markets that were important to them for the sale of specific surpluses. It would seem logical for the multilateral-account countries whose development might be promoted by the expansion of markets for manufactured goods to weigh the possibilities of acceding to a regional payments system, and to seek ways and means of reconciling the desirability of finding support for their economic development in markets larger than their own, with the need to avoid any weakening of their multilateral position in respect of trade policy and payment.

71. Another delegation explained that the intention of the bilateral countries was to invite those in the multilateral sector not to make concessions to bilateralism - which had emerged in Latin America mainly as a result of external factors -, but to collaborate in procedures designed to effect a general liberalization of trade and payments.

72. Developing certain ideas about bilateralism, one delegation stressed the fact that, as things were, bilateralism had rendered and was still rendering important services to Latin American countries lacking in convertible currencies.

73. The representative of the central bank of a multilateral country remarked that, as the successive stages of the programme for the liberalization of payments were gradually implemented along the lines indicated in the secretariat's technical studies, one of the basic instruments of economic integration - a payments system calculated to serve an end of such vital importance for the region's economic development - would come into being. Thus, the aim of broadening markets and ultimately establishing a regional market warranted an effort on the part of each individual country to clear away all the possible obstacles to its participation in the programme.

74. With specific reference to the possibilities for collaboration between Central American and South American countries in the field of payments, one delegation put forward the view that the opportunity for this would arise when the former had made further progress in implementing the economic integration programme in which they were then actively engaged, and for purposes of which they had adopted, among other measures, the Free Trade Treaty and the Agreement on Integration Industries. Those instruments would facilitate the development of Central American industries whose range might extend beyond Central America itself. In that connexion the secretariat recalled its active collaboration in the Central American Economic Integration Programme, and pointed out that the more adequately-sized market which the Central American countries as a whole were able to offer their industries would become still broader were a Latin American regional market established. Hence there was no doubt that the common market was of great importance for Central America and would fulfil an essential condition for the success of any regional programme, as it would imply advantages for all the Latin American republics.

Payments union

75. On the basis of the data supplied by the secretariat, the delegations discussed informally certain characteristics of the European Payments Union /(EPU), since

(EPU), since they felt the experience of that body to be useful.

76. It was recalled that the establishment of the EPU had been preceded by eight months of painstaking negotiations, and that its three main functions had been analysed and defined as follows: (a) To convert periodically to the EPU unit of account, at pre-determined rates, each member country's bilateral deficits or surpluses with each of the other parties, and to effect the subsequent multilateral compensation of such deficits and surpluses on reciprocal bases, so that the operation would show a net position for each country vis-à-vis the EPU as a whole. By that method any grounds for discrimination in respect of the source of imports or the destination of exports would be eliminated; (b) To assume responsibility for the settlement of net balances deriving from the above-mentioned operations, either through nominal credits, or in gold, in conformity with the regulations of the EUP; and (c) To serve as an agency through which the economic, monetary and exchange problems of the region as a whole and of each of its countries could be discussed and cleared up.

77. With reference to the possibility of establishing a system like that of the EPU in Latin America, one delegation recalled that, while inter-Latin American trade represented about one-tenth of the total foreign trade of the countries concerned, inter-European trade movements accounted for approximately two-thirds of the total foreign trade of the parties to the EPU. Moreover, when the EPU was set up, shortly after the devaluation of the pound sterling, the European countries had just brought the external value of their currencies into line with the internal devaluation. This readjustment, and the maintenance of realistic exchange rates in most of the countries members of the EPU, were the chief reasons for the success of the organization.

78. The representative of a central bank in the multilateral sector stated that his country was desirous of playing an increasing part in the region's trade and of having access to a market broader than its own in order to strengthen its industrialization process. The payments union instrument was highly desirable if the attainment of such ends as those would thereby be facilitated. He felt sure that the multilateral countries would be willing to make certain sacrifices in order to share in the advantages of

/the system

the system and to accord reciprocal preferences and incentives designed to promote the integrated development of Latin America on equitable bases.

79. Another delegation, briefly reviewing the comments formulated in the course of the discussion, pointed out that the essential objective of the Group's proceedings was to impart a dynamic character to the development of trade in order to improve the rate of economic progress and hence the standard of living. If each of the Latin American countries continued to carry out its industrialization programme in isolation, the results of their effort would be dissipated, and intra-regional trade would still make only a slight contribution to the fulfilment of such aims. It was therefore desirable for a free zone to be established on a regional basis in respect of both trade and payments, and that it should be afforded a certain reasonable degree of tariff protection against the rest of the world, although not to the extent that it became detrimental to productivity and competitiveness.

80. Such a zone would have to be conceived on lines consistent with the eventual goal of a customs and currency union, and with due regard to the final objective which was convertibility. Action would have to be taken on two closely-related planes. On the one hand, there was the lifting of barriers and the establishment of preferences; on the other, the liberalization of payments. It should be pointed out, however, that a multilateral payments system would be useless without a large and growing volume of trade transactions. Basic requisites were the adoption of realistic exchange rates and the regulation of monetary policies along such lines that possible forms of complementarity would not be adversely affected by inflationary processes. As far as the broadening of markets was concerned, it would be difficult to find any stable means of reconciling the interests of countries whose monetary systems followed different lines. The system that would be initiated once the protocol was applied might mark a great advance towards multilateralism and subsequent collaboration in this field among bilateral- and multilateral-account countries.

Advantage should be taken of the opportunity that would arise when the protocol was first put into effect to call the attention of Governments to the necessity of systematizing and co-ordinating their monetary and

/exchange policies

exchange policies to some extent, as otherwise it would be impossible - or at any rate imprudent - to move on to other successive stages on the road towards fuller multilateralism.

Contribution of observers

81. The observer from the International Monetary Fund, while stating that his organization viewed with sympathy the efforts of the Latin American countries to promote the establishment of a multilateral payments system, warned them against the danger of relying too much on measures of that type, and paying too little attention to the problem of setting the internal economy and monetary situation to rights. The measures recently adopted in several countries to combat inflation and eliminate exchange controls might help to narrow the gap between the situations of the various Latin American countries. In this context, the Fund also felt that any possible payments agreements ought to further general progress towards convertibility, and should in no country's case represent a regressive move towards bilateralism.

82. The Bank of England observer declared that his country would be very happy to see all the Latin American countries making definite progress towards complete multilateralism. He pointed out that there were two drawbacks to the multilateral compensation system deriving from the Standard Agreement: no precise limits were set to the amount of the swing credits; and there was no mandatory obligation in the compensation of bilateral balances. To judge from the United Kingdom's experience in the field of payments ten years ago, a system with those characteristics was of little practical use. Furthermore, the adoption of the compensation system defined in the protocol would be in conflict with the general world trend towards free convertibility and would consolidate in prevailing conditions all the disadvantages of bilateralism.

83. The observer from the Federal Reserve System expressed the personal opinion that Latin America was not so much short of dollars as over-supplied with other foreign exchange. There were several obstacles along the road to multilateralism, such as inflation and the existence of unrealistic exchange rates which did not safeguard the balance between regular foreign
/exchange demand

exchange demand and supply. Since intra-regional transactions represented only 10 per cent of total trade, he did not think that a system of preferences could suffice to ensure a substantial and balanced expansion of the trade in question. In addition it would be necessary to establish direct and discriminatory controls, which in the long run would lead to harmful distortions of the trade flows and diminish the advantages of free competition.

84. The observer from the Banque de France stressed the high quality of the work carried out by the Central Banks Working Group. His country's experience suggested that a multilateral system for the compensation of bilateral balances was the only method whereby countries still maintaining bilateral agreements could gradually progress towards a payments union and through it to convertibility.

85. The secretariat, after thanking an observer for his understanding attitude towards the compensation system endorsed by the Group, emphasized its agreement with the remarks of the International Monetary Fund observer to the effect that any extension of bilateralism should be avoided and that certain internal monetary and structural adjustments should be effected in order to bring about a balanced expansion of trade. The dollar shortage was, however, a fundamental problem for the income-elasticity of demand for primary commodities was much lower than that of demand for manufactured goods. It was therefore essential that the Latin American countries should encourage an increasingly comprehensive industrialization process, particularly in the direction of import substitution. For the very reason that they occupied only a secondary position in the world economy, the Latin American countries could not impose the payments system that would suit them best on countries in other regions, and were obliged to trade with bilateral countries in order to broaden their export markets. Furthermore, although the final aim was convertibility, it should be pursued with great caution, in accordance with the example traditionally set by one of the world's most highly reputed central banks. It should also be recalled that convertibility formulae previously in force were not adapted to existing economic conditions. The secretariat further pointed out that in projecting relative solutions for payments problems

/it was

it was anxious to avoid any system that might sway the multilateral-account countries in the direction of bilateralism. It was for this reason that an endeavour was being made to discover some common ground. Bilateralism was indispensable in special circumstances, but dangerous over the long term. It was hoped that when the Group met for the third time the common ground in question might be clearly demarcated.

86. With regard to the problem whether it would be possible to create a payments system without liberalization or preferences, the secretariat stressed that, failing these, the system would offer no solution for regional problems, and recalled that the Working Group on a Latin American Regional Market had taken pains to establish bases for the gradual creation of a common market. These bases had been so conceived as to avoid the perpetuation or repetition of antiquated division-of-labour patterns in the region, and on the other hand, to afford the under-developed countries plenty of opportunities for industrialization, through protectionist customs tariffs inter alia. It was the small countries that were most in need of a broad market to enable them to develop their industries. From another point of view, the secretariat called attention to the fact that the countries interested in maintaining convertibility ran no risk of jeopardizing this position if they joined a regional payments system. With the development on industrial production in the twenty Latin American republics, and by means of negotiations, trade equilibrium could be achieved within a multilateral programme.

Final considerations

87. On the approval of the draft protocol (resolution 4), two delegations from multilateral-account countries expressed their satisfaction that, at the current session, such an understanding had been reached between the clearing-account countries on bases that promised an increasing liberalization of payments and beneficial future agreements which would be still more far-reaching in their effects on the expansion of Latin America's foreign trade.

88. With further reference to the draft protocol for the establishment of a compensation system, it was decided to place on record the fact that
/the submission

the submission of the draft to the Trade Committee for its consideration would not be inconsistent with the decision of the central banks to sign it.

89. When the draft had been approved, it had been expressly stated that, in order to expand the compensation circuits, the system would have to enlist the collaboration of similar régimes.

90. The Group stressed that the draft protocol for multilateral compensation would not lessen the validity of, or in any way alter, the bilateral agreements maintained between the contracting parties. Thus, for instance, the draft protocol would not affect the regulations laid down in such agreements concerning the way in which a debtor country should pay to its creditor that part of the balance which exceeded the limit of the bilateral credit granted, in accordance with the principles laid down in article 12 of the Montevideo Standard Agreement.

91. The delegation from a multilateral-account country in the north of Latin America considered it highly important that an effort should be made to find some common ground for both bilateral- and multilateral-account countries which would, at the earliest possible opportunity, provide an atmosphere conducive to the further integration of their economies. It also expressed the hope that the secretariat, in collaboration with experts and with the support of the countries concerned, would, in the near future, devise ways and means of finding such common ground.

92. The Chairman, summing up the discussions, stated inter alia that the participation of representatives from countries which conducted their trade transactions in convertible currency had been highly beneficial in that their interest, their assistance and even their doubts were of immense value to the Group, based as they were on a clear understanding of the fact that Latin America was indivisible and that the problems of each of its republics concerned the region as a whole. Their active co-operation was always indispensable because the desire to find a modus operandi which would ensure the increasing expansion of intra-regional trade was sincere and because one of the obstacles to such expansion was the problem of currency
/which would

which would have to be stabilized by anti-inflationary measures. As regards the objective of integration, he emphasized the importance of seeking common ground of agreement which might bring the group of bilateral countries closer to the rest of Latin America. The lively interest shown in the continuation by the secretariat of its studies on a possible formula for such reconciliation had been satisfactorily expressed in the relevant resolution adopted by the Group. Although no definite views had been formed on the nature of the formula, which had been no more than hinted at, studies carried out in that connexion could lead to something concrete which - after due examination by the respective Governments - might be discussed at a forthcoming session of the Group.

93. In order to improve the present service for distributing monthly information on bilateral accounts, the Group proposed that the secretariat should consult the central banks or equivalent institutions concerned, when convenient, on the feasibility of specific transfers.

94. It was proposed by the delegation from the Department of Currency and Credit of Brazil (SUMOC), and unanimously agreed, that the next session of the Central Banks Working Group should be held at Buenos Aires, the date to be determined by the secretariat. The delegation from the Central Bank of Argentina thanked the Group for choosing that city as the place of the next session.

95. It was also decided that the secretariat should, if it considered it to be necessary, convene a special session of the Central Banks Working Group at Panama in May 1959 to be held simultaneously with the eighth session of the Commission and the third session of the Trade Committee.

96. On behalf of the United Nations, the secretariat thanked the Ministry of Foreign Affairs, the Department of Currency and Credit, the Banco do Brasil and the Banco do Desenvolvimento Economico for the facilities provided, which had contributed to the success of the meetings, and the Brazilian people for their traditional hospitality.

Part II

RESOLUTIONS ADOPTED BY THE WORKING GROUP

97. At its second session, the Central Banks Working Group adopted the following resolutions: 7/

- 4 Draft protocol for the establishment of a Latin American system for the multilateral compensation of bilateral balances
- 5 Trade liberalization and multilateralization
- 6 Continuation of studies on multilateral payments and the expansion of intra-regional trade

7/ The numbering of the resolutions continues the sequence of the resolutions adopted at the first session (Montevideo, April 1957).

Resolution 4

DRAFT PROTOCOL FOR THE ESTABLISHMENT OF A LATIN AMERICAN
SYSTEM FOR THE MULTILATERAL COMPENSATION OF
BILATERAL BALANCES

The Central Banks Working Group,

Bearing in mind:

- (a) The necessity of creating, in respect of payments, conditions conducive to the widening of national markets and to the subsequent and progressive establishment of a Latin American regional market;
- (b) The desirability of stabilizing trade between individual inter-Latin American clearing-account countries and the group as a whole, with a view to the removal of marked or persistent disequilibria by means of an increase instead of a contraction in trade in goods and services;
- (c) That, in pursuance of these aims, the central banks of countries maintaining inter-Latin American clearing accounts based on the Montevideo Standard Agreement and represented at this session deem it advisable that a system should be established for the multilateral compensation of bilateral balances;
- (d) That all countries in the area with bilateral clearing accounts based on the principles of the Standard Agreement should be induced to join such a system on terms of reciprocal benefits;
- (e) That, in order to bring the system into operation, it is essential that an Agency should be put in charge of its activities, and that the secretariat of the United Nations Economic Commission for Latin America has accepted the suggestion, made at the second session of the Central Banks Working Group, to the effect that it should undertake these duties;
- (f) That the system in question will constitute only one stage further in the programme for the attainment of more advanced and generalized forms of multilateralism in Latin America designed to promote more extensive economic relations among all of its republics and with the rest of the world;
- (g) That, whereas part of the operations inherent in such a system can be carried out only after prior consultation and, in each case, with the

/agreement of

agreement of the Contracting Parties, these Parties have announced their intention of co-operating to the fullest possible extent in the execution of such operations,

Decides to submit to the Trade Committee the following draft protocol for the establishment of a Latin American system for the multilateral compensation of bilateral balances with a view to its consideration by the Governments of the Latin American countries which maintain, or are parties to, clearing agreements based on the Montevideo Standard Payments Agreement:

Article 1. The Contracting Parties to the Latin American system for the multilateral compensation of bilateral balances shall be those which hold two or more inter-Latin American bilateral clearing accounts based on the Montevideo Standard Agreement and which indicate their intention of acceding to this Protocol by means of the communication referred to in article 15 below.

Article 2. The Contracting Parties shall effect their mutual monetary compensations in conformity with the conditions laid down in this Protocol. The compensations shall be classified as first or second category as provided for in articles 6 and 7.

Article 3. For the purposes of the provisions set forth in the preceding article, balances or availabilities shall be deemed to be those in the master accounts held, under bilateral payments agreements, by the respective central banks or equivalent institutions.

Article 4. The secretariat of the United Nations Economic Commission for Latin America shall be the Agency in charge of compensation operations.

Article 5. The first-category compensations to which this Protocol refers shall be effected at the end of every three calendar months.

Article 6. First-category compensations are those which are intended to reduce one or more of the debit balances held by each Contracting Party involved in the operation through a corresponding equivalent reduction in one or more of its credit balances.

Article 7. Second-category compensations are those which are intended to transfer balances from one account to another. When the respective movements are being planned by the Agency, the corresponding margins of bilateral credit shall also be taken into account.

Article 8

(a) First-category compensations may be effected without the prior consent of the respective central banks or equivalent institutions.

(b) The respective

(b) The respective central banks or equivalent institutions shall be consulted, and their consent obtained, before any second-category compensations may be effected.

(c) In proposing second-category compensations, the Agency shall endeavour to facilitate those which will help to settle debtor-creditor situations, due attention being paid to the need for preventing any interruption in the flow of trade between Contracting Parties.

Article 9. The Contracting Parties, on their own initiative or on the proposal of the Agency, may widen the range of compensation, establishing for that purpose, among other regulations, a fixed percentage of bilateral credits as a ceiling in order to enable such compensation to be effected without prior consultation.

Article 10. In calculating the balances available for first-category compensations, the Agency shall set aside, at the request of the respective central banks or equivalent institutions, amounts sufficient to cover possible short-term disequilibria. In making such a request, the country concerned shall take into account its corresponding credit availabilities.

Article 11. A central bank or equivalent institution intending to avail itself of the provision set forth in the preceding article shall submit to the Agency, at least ten days before the end of the current period of three calendar months, information on the amounts which it wishes to be set aside and the reasons therefor.

Article 12. After making the necessary consultations, the Agency may take into consideration for transfer purposes any balances in bilateral accounts maintained by Contracting Parties with non-signatory States.

Article 13. The central banks or equivalent institutions shall transmit to the Agency:

(a) Information on the purport and progress of the bilateral payments agreements referred to in resolution 2, adopted at the first session of the Central Banks Working Group;

(b) Monthly statements concerning their reciprocal bilateral accounts as well as bilateral accounts maintained with countries outside the area, which they would be prepared to compensate;

(c) Any other information that they may consider useful for facilitating the work of the Agency, including data relating to their bilateral accounts with countries outside the area;

Article 14. On the proposal of the central banks or equivalent institutions or of the Agency, the central banks, provided that they are in unanimous agreement, shall adopt any supplementary regulations that would, in their opinion, improve the operation of the system.

/Article 15.

Article 15. The Agency may bring the system into operation when at least four countries holding inter-Latin American bilateral clearing accounts based on the Montevideo Standard Agreement have intimated their accession to the Protocol by means of a communication addressed to the secretariat of the United Nations Economic Commission for Latin America through the respective central banks or equivalent institutions.

Article 16. The present Protocol shall be valid for one year from the date on which the Agency initiates the corresponding operations, and may be extended thereafter for equal periods by tacit agreement, except in respect of Contracting Parties which inform the Agency of their decision to withdraw from the system at least three months before the expiry of the relevant period of validity.

3 December 1958

Resolution 5

TRADE LIBERALIZATION AND MULTILATERALIZATION

The Central Banks Working Group,

Taking note of the instructions given by the States members of the Economic Commission for Latin America in Trade Committee resolution 1 (I) concerning the gradual solution of problems deriving from the bilateralism predominating in inter-Latin American payments pending the attainment of complete multilateralism,

Bearing in mind that the Working Group on a Latin American Regional Market, at its first session held at Santiago in February 1958, considered that the full potentialities of such a market could not be realized without an adequate payments system,

Considering further:

(a) The progress of the technical studies being undertaken by the secretariat in compliance with the above-mentioned resolution and recommendation;

(b) The efforts of the secretariat to plan an interim system for liquidating payments in respect of trade transactions between clearing-account and non-clearing account countries, on the basis of the gradual restriction and elimination of bilateral practices and their replacement by progressive multilateralism;

(c) The studies carried out by the secretariat in order to pave the way for the increasing liberalization of trade and to ensure systematic progress both in this and in regard to the multilateralization of payments, Resolves to express its satisfaction with the studies undertaken by the secretariat in this connexion, and to request it to continue to pursue them diligently in close collaboration with the central banks and the other competent authorities in Latin America.

3 December 1958

/Resolution 6

Resolution 6

CONTINUATION OF STUDIES ON MULTILATERAL PAYMENTS
AND THE EXPANSION OF INTRA-REGIONAL TRADE

The Central Banks Working Group,

Considering:

(a) That the system for the multilateral compensation of bilateral balances established by the Protocol, adopted today at the second session of the Central Banks Working Group, constitutes a step forward in the gradual advance towards the multilateralization of payments in the area and the ultimate objective of full convertibility;

(b) That, in order that the system may operate efficiently, its implementation should be accompanied by a policy of gradual and progressive liberalization in respect of imports and exports of goods and services among the countries of the area;

(c) That it is likewise necessary to promote the expansion and diversification of such trade by providing appropriate incentives, including preferential treatment, which would also make it possible for agreements to be concluded on economic complementarity;

(d) That the customs tariff is the most effective instrument for creating such incentives;

(e) That the adaptation of the Contracting Parties' current tariff systems to such a policy will require thorough study; and that such adaptation and the removal of certain limitations will also take some time to accomplish;

(f) That it would seem advisable, while the requisite studies are being undertaken and the limitations removed, for the above-mentioned incentives to be created by administrative and/or other measures, which would thus be of a temporary nature;

(g) That during the consultative meetings on trade policy, held at Santiago in August 1958, it was suggested that the secretariat of the Economic Commission for Latin America should submit a draft resolution to the Commission at its eighth session inviting Governments to set up agencies to put into operation the liberalization procedures to be established among the countries of the area and to supervise a common payments system,

/Declares:

Declares:

(1) That it is essential that the policy for the gradual multilateralization of payments should be carried out in close association with the progressive liberalization of intra-regional trade so that any country participating in the system for the multilateral compensation of bilateral balances is brought into the above-mentioned liberalization system;

(2) That it recognizes the advisability of setting up a special inter-governmental agency or agencies to carry out the liberalization procedures established among the countries in the area and to supervise their common payments system;

(3) That it supports the ECLA secretariat's proposal to submit to the Commission at its eighth session, to be held at Panama, a draft resolution inviting the Governments of the Latin American countries to set up agencies for the purpose indicated; and

(4) That it recommends to the secretariat that it give the highest possible priority to the studies that it is requested to undertake by virtue of Commission resolution 119 (VII) with respect to increasing and diversifying commodity trade in the area.

3 December 1958

ANNEX

LIST OF REPRESENTATIVES

MEMBERS OF THE CENTRAL BANKS WORKING GROUP

Argentina

Representative: Eusebio Campos, Vice-President, Banco Central.
Delegation: Alberto H. Mago, Ovidio Santos Ventura, Raúl Lopes Maguil.

Bolivia

Representative: Luis Peñaloza, President, Banco Central.
Delegation: Claudio Calderón, Eduardo Soriano.

Brazil

Representative: José Garrido Torres, Director, Department of Currency and Credit.
Delegation: Paulo Pooch Corrêa, Maurício Chagas Bicalho, Joaquim Ignacio Tosta F^o, Gerson Augusto da Silva, Sérgio Corrêa da Costa, Paulo Leão de Moura, Herculano Borges da Fonseca, Arnaldo Walter Blanck, Ivan de Oliveira, Paulo Pinto da Silva, Joaquim Ferreira Mangia.

Executive Secretary: Nelson Augusto de Faria Baptista.

Advisers: Antônio de Abreu Coutinho, Christiano N. de Sampaio Vianna, Fernando Bergstein, Hélio Schlitter da Silva, Lázaro Baumann das Neves, Waldir de Oliveira Pinto, Benedito Fonseca Moreira, Denio Chagas Nogueira, Henrique de Oliveira Duprat, Irlíio de Figueiredo Pessoa, Paulo Cabral de Mello.

Chile

Representative: Eduardo Morgan, Director, Department of Compensations, Banco Central.
Delegation: Alejandro Jara Lazcano.

Colombia

Representative: Ignacio Copete Lizarralda, General Manager, Banco de la República.
Delegation: Antonio José Gutiérrez, Augusto Hanabergh R., Jaime Sabogal.

/Cuba

Cuba

Representative: Bernardo Figueredo, Adviser, Banco Nacional.
Delegation: Ernesto Martin, Marcelino Suárez.

Dominican Republic

Representative: Oscar G. Ginebra, Sub-Secretary of Banking and Credit.
Delegation: José García Aybar.

Ecuador

Representative: José María Avilés Mosquera, Director, Department of Exchange, Banco Central.
Delegation: Eduardo Larrea Stacey, Alfredo Blum Flor.

Guatemala

Representative: Rafael Ramos Bosch, Vice-President, Banco de Guatemala.^{8/}
Delegation: Ramiro Aragón Castañeda.

Haiti

Representative: Maurice Télémaque, Co-President and General Director, Banque Nationale.
Delegation: Joseph Chatelain.

Honduras

Representative: Trinidad Fiallos, Director of Statistics.
Delegation: Gautama Fonseca.

Mexico

Representative: Daniel J. Bello, Manager, Banco de México, S.A.
Delegation: Oscar Castro.

Paraguay

Representative: Juan Félix Morales, former Minister of Industry and Trade, Director, Banco Central.
Delegation: Augusto Urbieta Fleitas, Pedro Ramón Chamorro, Ranulfo Martínez Yegros.

^{8/} This delegation also represented the Banco Central de Costa Rica and the Banco Central de Nicaragua.

Peru

Representative: Rómulo Ferrero, former Minister of Finance.

Delegation: Jorge Pollack Angosto, Rodolfo León.

Uruguay

Representative: Luis Isidro Carlevaro, Deputy General Manager, Banco de la República Oriental del Uruguay.

Venezuela

Representative: Ernesto Peltzer, Adviser, Banco Central.

Delegation: Rafael Capriles, Domingo Felipe Maza Zavala, Juan Salazar Rondón.

OBSERVERS

Spain

Antonio Vidal Gabas, Jesús Pintos.

International Monetary Fund: F. A. G. Keesing, Eduardo Laso.

Federal Reserve System: Robert L. Sammons.

Bank of England: Richard Ewbank.

Banque de France: Jean-Marie Parmentier.

Interamerican Council of Trade and Production: Angelo Beltrão Frederico, Carlos Sanguinetti.

