Committee III - Expansion of Trade

DRAFT REPORT OF COMMITTEE III ON THE MEETING
OF 21 OCTOBER TO 1 NOVEMBER 1963

(Continuation of Draft Report)

IV. Examination of Possibilities of Extending the Activities of GATT to Embrace the Financing Aspect of Bridging the Gap Between Export Proceeds and Import Requirements

A. Introduction

In accord with a proposal originally put forward by the Minister of the United Arab Republic, it was agreed by many Ministers at the recent ministerial meeting that the problem of financing the gap between the export proceeds and import requirements would also have to be given careful consideration. More specifically, Ministers of less-developed countries considered that in order to extend the activities of the GATT to embrace the financing aspect, and as a practical measure to achieve this end, a working group should be formed to study ways and means for enabling the less-developed countries to obtain from the industrialized contracting parties, loans on soft terms, and thus enable the GATT to realize its objective of fostering trade between the contracting parties (MIN(63)7, paragraph 27).

Since the proposal had, however, not been fully elaborated during the ministerial meeting, the matter was placed before the Action Committee at its first meeting in September. The Action Committee decided that the question should, in the first instance, be taken up by Committee III (AC/3, paragraph 33).

B. Summary of discussions

Discussion under this heading was opened with a statement by the representative of the United Arab Republic in which he placed before the Committee a number of concrete proposals designed to overcome the difficulties facing the less-developed
countries in bridging the gap between export proceeds and import requirements (see COM.III/121). Briefly, the proposals were as follows:

(a) to insert in the General Agreement a provision that industrialized countries shall be prepared to grant financial assistance to developing countries within the framework of bilateral agreements.

In granting this assistance the following provisions shall be observed:

(i) the granting of the loan should aim at financing projects embodied in the development plan and relevant to the expansion of international trade;

(ii) the loan may also aim at meeting a trade deficit resulting from unexpected falls in export proceeds and/or from severe internal damage in production;

(iii) the minimum duration of the loan should not be less than ten years;

(iv) maximum interest rates and other charges should not exceed 3 per cent;

(v) the secretariat should be informed of all loan agreements concluded accordingly. In addition the secretariat should keep records of all loans, interest, maturities and amortization of principal and interest;
(b) to call a joint meeting of the representatives of the international lending agencies and of the CONTRACTING PARTIES to:

(i) arrange for effective ways and means of co-operation; and
(ii) to study the establishment of a trade insurance fund.

Both industrialized and less-developed countries would participate in the fund with the purpose of compensating primary producing countries, Members of GATT, against short-falls in their foreign exchange earnings. Contributions to the fund would be determined on the basis of some equitable criteria, for example, the value of exports of the country concerned. Beneficiaries would be entitled to draw funds automatically in case of short-falls of export proceeds. Funds drawn could be either a final compensation, or provision might be made for partial or total reimbursement over an extended period of time, at low rates of interest.

(c) At the meeting referred to under (b) above, the United Arab Republic might also put forward a proposal intended to supply the International Monetary Fund with additional resources for the purpose of assisting the less-developed countries of the GATT. What was envisaged was a "club" or "consortium" which would grant less-developed Member countries loans on easy terms for meeting unexpected short-falls in export earnings and other payments difficulties arising from trade and development.

In submitting this proposal, the representative of the United Arab Republic stressed that it was not intended to convert the GATT into a lending institution. The aim was simply to achieve closer co-operation between the GATT and the lending institutions and to confer upon the GATT the sponsorship of financial assistance to less-developed Member countries.

Taking account of the implications of these proposals in various fields and of the fact that the Committee had not had time to study the proposals by the United Arab Republic in detail, the Committee felt that at the present
meeting it would not be feasible to go beyond a preliminary discussion. The Committee agreed, however, that the proposals should be given prompt and careful consideration. With this in mind the Committee recommended that a small expert group should be established. The proposed terms of reference and suggested membership of the expert group are set out in Part C below (will be circulated separately).

The Committee took note of the statement by the representative of the United Arab Republic that it was not intended to transform the GATT into a lending agency. There was widespread agreement that although trade and aid flows could not be separated and endorsing the efforts being made in the GATT to harmonize trade and aid policies, the primary role of the GATT would be in the field of trade. Reference was made in this connexion to the study of the trade and payments aspects of development plans to be undertaken by Committee III. (See under III above.) The view was expressed that it might be preferable to envisage concrete action of the United Arab Republic's proposal to be taken after some of these studies had been completed.

As regards the proposal for the establishment of a trade insurance fund, reference was made to studies which were being carried out by other organizations, such as the CICT, which should be taken into account.

The Committee also took note of a statement by the representative of Argentina, clarifying his Government's position with respect to compensatory financing, a matter which seemed to be closely related to the proposed trade insurance fund. Briefly, the principles elaborated by the representative of Argentina were that any satisfactory compensatory financing scheme would have to result in a net transfer of funds in favour of the less-developed countries. Further, the system of compensatory financing should cover short-term fluctuations as well as long-term fluctuations. Financing should be granted automatically and contributions should be borne by industrialized countries as well as by less-developed countries. As regards the assessment of contributions, account would have to be taken to such criteria as national income, the foreign reserve position of the country concerned and trade prospects for its most important export commodities.