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Exchange Restrictions Department

# Provisions of Brazil's Bilateral Trade and Payments Agreements

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## I. Introduction

This paper is intended to provide factual information on the provisions of Brazil's current bilateral trade and payments agreements, as a background for assessing the recent significant developments in the country's basic trade and payments systems.

Apart from the Hague Club arrangements (see SM/56/36), Brazil has bilateral trade and/or payments agreements with 21 countries. With 13 of them it has both trade and payments agreements. These agreements are usually established separately for trade and payments but sometimes take the form of one joint agreement. The countries with which Brazil has agreements both for trade and payments are Argentina, Czechoslovakia, Denmark, Finland, France, Hungary, Iceland, Israel, Japan, Norway, Poland, Portugal, and Spain. Brazil has only payments agreements with 7 countries, viz., Bolivia, Chile, Greece, Sweden, Turkey, Uruguay, and Yugoslavia. It has only a trade agreement with Venezuela. As for the geographical distribution of the partner countries of these agreements, 14 are in Europe (3 Soviet bloc countries and 11 others), 5 in Latin America, 1 in Asia, and 1 in the Middle East. However, the number of these partners may decrease in the near future. Japan has concurred with Brazil's proposal to discontinue the current Brazilian-Japanese agreements after the end of June of this year. No agreement has yet been reached about trade and payments after the termination of the current agreements. Argentina is said to have proposed to Brazil to abolish the agreements between them.

The origins of the bilateral agreements currently maintained by Brazil go back mainly to around 1949. Prior to that time, there were important agreements with several Western European countries, but most of them have recently been replaced by the multilateral trade and payments system referred to as the "Hague Club" arrangements. The only pre-1949 bilateral agreements which are still current are: a payments agreement with Chile; a trade agreement with Venezuela; and trade and payments agreements with France. During the period 1949 to 1954, every year saw the conclusion of new bilateral agreements by Brazil. No strictly bilateral agreements were newly entered into in 1955 or 1956.

The earlier agreements seem to have been concluded mainly on the initiative of the partner countries, which wished to obtain dollar-saving imports from Brazil, particularly of then scarce raw materials. The more recent agreements appear to reflect the policies adopted in Brazil following a period of heavy imports and payments arrears, the consequences of which became pronounced during 1953. The partner countries' desire to hold an export market in Brazil must also have played an important role in the establishment and maintenance of most of those bilateral agreements.

Prior to the establishment of the "Hague Club" arrangements in 1955, Brazil's reliance on bilateralism was significant.[1/] Even after the inauguration of this system, bilateralism still played a fairly important part in Brazil's external economic relations. The situation, however, seems to be changing further. The bilateral agreements with Italy which is one of the important partners for Brazilian trade were terminated recently; Italy joined the "Hague Club" at the beginning of June of this year. It has also been reported that Austria has become a member.

As was mentioned above, the current agreements with Japan, another important partner, will cease to exist very shortly. Argentina, also one of the important trade partners, has proposed to terminate its bilateral agreements with Brazil as a consequence of its policy of dismantling bilateralism. Brazilian reaction to this proposal, however, is not known.

## II. Provisions of Payments Agreements

(1) Most of the bilateral payments agreement accounts are designated in U.S. dollars. Thirteen agreements (including joint trade and payments agreements) out of 20 fall under this category. The account of agreements with Denmark, France, Portugal, and Sweden are designated in the currencies of these countries, respectively. The account with Uruguay is in cruzeiros. No information is available with regard to Israel and Iceland.

(2) As for the settlements of the account balance during the validity of the agreement, a swing provision is usual. Sixteen agreements provide for swing credit. One of these (the Czechoslovak agreement) has a periodical settlement clause also. The Uruguayan agreement has a periodical settlement clause only, and the Bolivian agreement has no settlement provision during the validity of the agreement. Information in this regard is not available for the Turkish agreement.

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1/ Brazil had agreements of a more or less bilateral nature with the original European members of the "Hague Club," viz., Germany, the Netherlands, and the United Kingdom. Although it seems that Brazil had no formal bilateral agreement with BLEU, which joined the Club a little later, the payments between these two countries had been carried out since 1948 through the Belgian franc account of a bilateral nature. (See SM/56/36, pages 2 - 6.)

The amount of swing limit varies according to different partners. Large amounts are $35 million for the Argentine agreement, $20 million for the French agreement, and $19.3 million for the Swedish agreement. Next come the Japanese ($10 million), the Chilean ($8 million), and the Danish ($7 million) agreements. The total swing limit of these 16 agreements amounts to $118.3 million. Excluding the swing amount of the Japanese agreement, which will cease to exist shortly, the total swing limit amounts to $108.3 million. If that of the Argentine agreement is also deducted, the total amount decreases to $73.3 million--almost 60 per cent of the current one.

The ratio between the swing limit and the estimate of turnover between two parties (quotas under the trade agreement) is generally between 8 - 15 per cent. The general tendency seems to be that the more the turnover, the larger the ratio.

| Partner | A. Estimate of Turnover (Mil. US$) | (Year originally agreed) | B. Swing Limit 1/ (Mil. US$) | Per Cent (B)/(A) |
|---|---|---|---|---|
| Argentina | 270 | (1954) | 35 | 12.9 |
| France | 261 | (1953) | 20 | 7.6 |
| Japan | 69.1 | (1952) | 10 | 14.4 |
| Finland | 46 | (1953) | 2.5 | 5.4 |
| Czechoslovakia | 30.2 | (1950) | 2.5 | 8.3 |
| Spain | 20 | (1952) | 1 | 5 |
| Portugal | 14.4 | (1954) | 0.13 | 1 |

1/ None of these swing limits has been changed since the year in which the respective estimate of turnover was originally made.

Settlement of the swing excess balance is usually to be made upon request by the creditor whenever the balance exceeds the swing limit, but the Argentine agreement provides that the excess amount at the end of every year of validity shall be settled during the next year. The term of periodical settlement is every year for the three agreements which also have a swing clause, while the balance of the Uruguayan account (which has no swing provision) is to be liquidated every two years.

The means of settlement for both swing and periodical settlements are generally U.S. dollars, convertible currencies, gold, or other agreed currencies. As an exception, the Danish agreement provides that Brazil's credit balance shall be settled in sterling until otherwise notified. The balance of the Argentine agreement is to be liquidated either in goods, services, or agreed currency.

(3) One of the characteristics of the Brazilian payments agreements is the liberal nature of the provision for the settlement of balances after the expiration of the agreements. Several accounts are to be kept open even after the expiration for 90 - 210 days, making continuation of payments

through the account possible for outstanding contracts. The balances after such periods are to be settled in two installments within 30 - 60 days in convertible currency, gold, or other agreed currencies. The settlement provisions are particularly liberal in the case of some of Brazil's important trade partners. In the French agreement, the balance is to be settled at the choice of the creditor, either by exports (including invisibles) by the debtor country through the account, or in four half-yearly installments in U.S. dollars starting six months after expiration. (Further, the trade agreement with France establishes a principle that the payments from Brazil for the imports of French industrial products after expiration of the agreement should be made through additional exports from Brazil.) Under the Japanese payments agreement, the balance should be settled in goods or services as much as possible. (The Japanese trade agreement has the same kind of provision as the French trade agreement, mentioned above in parentheses.) These provisions of the agreement with France and Japan seem to indicate the intention of the industrial partners to promote their exports to Brazil, especially those of manufactured products. The Argentine agreement provides for the balance to be settled in two annual installments with goods at first, and the remainder in agreed currency or in goods. The Danish, Swedish, Turkish, Bolivian, and Chilean agreements also have provisions of a similar other other kind.

(4) To meet the problem of large debit balances growing out of continuing imbalanced trade under some bilateral agreements in recent years, Brazil worked out some special arrangements with partner countries to decrease its debit balance or to prevent the accumulation of such a balance. In August 1953, Brazil and France agreed that French export quotas of more than $1 million were to be utilized only up to 90 per cent for the time being (except quotas for automobiles of $5 million) in order to secure payments resources for Brazil. In 1954, Brazil and Portugal agreed to apply export proceeds from Brazil to Portugal to cover the Brazilian swing excess deficit by $2 million for the first year. After the second year, the deficit is to be covered at a rate to be agreed between two parties, but that rate should not be less than 25 per cent of the Brazilian exports to Portugal.

(5) At least 11 agreements are known to provide for the accrual of interest on the balance of the accounts. The rate of interest is usually fixed at 3 per cent, but in some agreements it is fixed at less, and in some others it is to be decided by other methods. Although interest accrues to the total balance as a rule, under the Argentine and Danish agreements it accrues upon the balance exceeding a certain amount. In the case of the Argentine agreement, the rate if progressive also.

(6) The payments permissible through the account are usually confined to direct current transactions between the two parties. They are in most cases enumerated in the text of the agreements or in the attached documents. Among the current items, consular income is excepted and is to be paid in U.S. dollars. Capital yield (and sometimes capital) can usually be paid through the account only when agreed upon between two parties beforehand.

In several agreements, the payments for transit trade are also specifically restricted. Payments for the products of third countries which are acquired from one party of the agreement cannot be made through the agreement account except if so agreed. Payments for the products of one party to be exported to third countries through the other party are to be made in convertible currency or currency acceptable to the producing country. Notable exceptions to this principle are the Bolivian and French agreements. Under the former agreement, payments for Bolivian transit trade through Brazil are permitted to be made through a Bolivian-Brazilian account. The latter agreement provides that payments for the transit trade of third countries' products may be made through the agreement account if agreed beforehand, and further provides that the payments for transit transactions of either party's products should be agreed between the two parties with a view to authorizing such payments in French francs.

(7) It seems that not much has been provided with respect to the conversion rate of agreement account currencies. Under the French agreement, it is provided that the conversion rate between cruzeiros and French francs should be based upon the rate of each currency for U.S. dollar. The dollar rate in Rio de Janeiro is the official rate communicated from the Bank of Brazil to the Bank of France, and the rate in Paris is to be calculated periodically on the basis of the arithmetical mean of the rates on the Paris free market during a definite reference period. Under the Bolivian agreement, the rate applied to transactions, other than direct transactions of goods and incidental expenses between two parties, is to be the free market rate. Any adjustment that may have been made in these provisions as the result of the auction system of exchange certificates is not known.

(8) A guarantee clause for the change in the exchange rate of the account currency is known to have been established under some agreements, viz., the Danish, French, and Uruguayan ones.

(9) The validity period of 12 payments agreements was originally set at one year, the agreements are automatically extended annually if not renounced by either party a certain number of days before the expiratory date. Three agreements (Argentine, Czechoslovak, and Uruguayan) have an initial validity period of two years; however, after the initial period, two of these agreements (Argentine and Czechoslovak) are to be automatically extended annually while the Uruguayan agreement is extended every two years. Four agreements (Chilean, Danish, Portuguese, and Turkish) have an indefinite time of validity and can be renounced by either party after giving notice of a certain period (60 days - 6 months).

## III. Provisions of Trade Agreements

(1) As was mentioned in Section I above, Brazil has trade agreements with 13 of 21 partners of payments agreements and with one country with which no payments agreement has been concluded. The reasons why Brazil did not conclude trade agreements with certain partner countries in payments agreements seem to be the following;

(a) The possible amount of bilateral trade between Brazil and the respective partners is not significant, and there was no particular point in establishing trade quotas.

(b) Close economic relations with certain neighboring countries, including border trade, may have made it hard or unnecessary to establish commodity quotas under trade agreements. This may explain the nonexistence of trade agreements with two adjacent Latin American countries, viz., Bolivia[1/] and Uruguay.

(c) With some partners, not only the insignificance of trade but also the fact that payments agreements were concluded fairly recently might be one of the reasons for not concluding trade agreements. For under the auction system of foreign exchange certificate in Brazil since October 1953, there is not much meaning in establishing quotas for Brazilian imports. The recent tendency of relaxing the import restrictions in some partners may have decreased the necessity of quotas for the Brazilian exports.

(d) The reason why Brazil has only trade agreements with Venezuela appears to be that the main export item from Venezuela is petroleum, which is usually settled in dollars.

(2) The main provisions of the Brazilian trade agreements are almost all the same. They establish annual quotas for trade between two parties, and both parties commit themselves to issue import and export licenses up to the quotas. However, these quotas are usually not exhaustive. On the other hand, several agreements provide that licenses are to be issued taking the equal exchange of goods and services between two parties and proportionate distribution of commodities transacted into consideration. (The French, Japanese, Portuguese, and Spanish agreements have such provisions.) Some agreements also provide for automatic application of old quotas for a certain period in case agreement is not reached for renewal of quotas. The Spanish agreement specifically provides that the account balance should be taken into consideration when new quotas are established. Substantive quotas have been established under the agreements with important trade partners such as France, Japan, or Argentina. However, as was mentioned in (1) above, the meaning of establishing quotas for Brazilian imports seems to have decreased considerably as the result of the auction system in Brazil, and the liberalization of import restrictions in the partner countries also seems to have contributed to diminish the meaning of quotas for Brazilian exports. The current situation of several quotas, the original validity periods of which have already expired, is not clear. Such information as is available seems to testify to the decreased importance of commodity quotas and accordingly of the trade agreements themselves.

(3) Corresponding to the liberal provisions for settlements of balance after expiration of payments agreements, the licenses for export and import already issued at the time of the expiration of trade agreements usually

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1/ The special position of Brazil as a transit country for the passage of Bolivian trade with third countries is indicated in the provisions of the payments agreement as is mentioned in Section II above.

remain effective. As was already explained in Section II above, under some agreements with important industrial countries, treatment for transactions of industrial products is specifically provided. The French agreement provides that the authorities in France will permit the exports of industrial products already approved during the validity of the agreement on the one hand, and that the Brazilian Government will permit the exports of Brazilian products to offset such transactions on the other. The Japanese agreement also has the same kind of provisions.

(4) A restrictive attitude toward transit trade is another usual feature in the Brazilian trade agreements as well as in the payments agreements. Under many agreements, commodities imported from the other party of the agreements within the quotas are to be used for domestic consumption or processing only. In some agreements (France, Finland, and Iceland), the parties reserve the right to require certificates of origin for imports from the other parties.

(5) Some trade agreements have provisions for preferential shipments of commodities between the two parties by Brazilian ships or ships of both parties. These agreements are the Austrian, Czechoslovakian, Portuguese, and Spanish ones.

(6) The validity of agreements is usually one year (that of the Argentine agreement is two years). Most of them are to be extended automatically every year, unless renounced by either party a certain number of days prior to the expiration date. The extension of the French agreement seems to have been agreed to on an ad hoc basis.

Summary of Brazil's Bilateral Agreements

1. Payments Agreements

| Partners | 1. Date of Signature<br>2. Validity Period | 1. Currency of a/c<br>2. Holder of a/c | 1. Swing limit<br>2. Periodical settlement<br>3. Means of settlement | Settlement after Termination<br>1. Time of Settlement<br>2. Means of Settlement | Interest | Payment for Transit Trade of<br>1. Third Country's Products<br>2. Partner's Products | Other Provisions and Remarks |
|---|---|---|---|---|---|---|---|
| EUROPE | | | | | | | |
| Austria | 1. Apr. 20, 1951<br>2. One year from signature. Automatic annual extension | 1. U.S. $.<br>2. Brazil. | 1. $3 million.<br>2. Every year.<br>3. Convertible currency or gold. | 1. 50% within 90-120 days; 50% within 121-180 days.<br>2. Convertible currency or gold. | 3% | 1. Not to be permitted through a/c.<br>2. To be paid in convertible or acceptable currency. | 1. Swing was originally $1 million but increased to $3 m. in 1952.<br>2. In May 1954 Austrian authorities suspended purchase of the Brazilian a/c dollars and Austrian importers were to purchase 80% of a/c dollar in free market. |
| Denmark | 1. May 18, 1951.<br>2. Indefinite from April 27, 1951. Terminable at 60 days' notice. | 1. DKr<br>2. Denmark | 1. DKr 50 million.<br>2. US dollar, but but Brazil's credit balance to be settled in £ until otherwise notified. | 1. No definite time limit.<br>2. To be settled by exportation of goods from debtor. | 2% On balance above DKr 7.5 m. | | 1. Exchange rate guarantee on a/c balance is provided.<br>2. Original swing was DKr 20 m., then it was increased to Dkr 75 m. from Aug. 13, 1953, to Aug., 1, 1955. |

| Partners | 1. Date of Signature<br>2. Validity Period | 1. Currency of a/c<br>2. Holder of a/c | 1. Swing limit<br>2. Periodical Settlement<br>3. Means of Settlement | Settlement after Termination<br>1. Time of Settlement<br>2. Means of Settlement | Interest | Payment for Transit Trade of<br>1. Third Country's Products<br>2. Partner's Products | Other Provisions and Remarks |
|---|---|---|---|---|---|---|---|
| Finland | 1. June 9, 1953.<br>2. One year from July 1, 1953, automatic annual extension. | 1. U.S. $<br>2. Finland | 1. $2.5 million | 1. 50% within 90-120 days<br>50% within 121-150 days | 3% | | 1. No information is available as to means of settlement for swing excess or for after expiration of agreement. |
| France | 1. Mar. 8, 1946.<br>2. Extended to Mar. 31, 1956 and perhaps later. | 1. F. fr.<br>2. France | 1. $20 million equivalent for Brazil.<br>3. U.S. $ | To be settled by payments through a/c from creditor to debtor; or, at the choice of creditor, in US $ in 4 half-yearly installments starting six months after termination. | The rate of 6 mo. French Treasury Bonds. | 1. May be made through a/c if agreed beforehand.<br>2. To be agreed with a view to authorize payments in F fr. | 1. Brazil's debit balance cannot exceed $20 m. equivalent.<br>2. The conversion rate (Cr$=Ffr) is based on the rates for US $. US$ rate in Rio de Janeiro is official rate communicated from Ban o do Brasil to Bank of France and US$ rate in Paris is reference rate.<br>3. In Aug. 1953, it was agreed to utilize French export quotas of more than $1 m. (except that for automobiles of $5 m.) up to 90% only for the time being.<br>4. Investment agreement was signed on Apr. 24, 1954, under which |

| Partners | 1. Date of Signature<br>2. Validity Period | 1. Currency of a/c<br>2. Holder of a/c | 1. Swing limit<br>2. Periodical Settlement<br>3. Means of Settlement | Settlement after Termination<br>1. Time of Settlement<br>2. Means of Settlement | Interest | Payment for Transit Trade of<br>1. Third Country's Products<br>2. Partner's Products | Other Provisions and Remarks |
|---|---|---|---|---|---|---|---|
| France (Cont.) | | | | | | | promotion of transfer of French capital and goods utilizing export issuance, etc., are provided. |
| Greece | 1. June 6, 1952.<br>2. 360 days from July 10, 1952, automatic annual extension. | 1. U.S. $<br>2. Brazil | 1. $0.2 million<br>3. Convertible or acceptable currency or gold. | 1. 50% within 120 days. 50% within 150 days.<br>2. Convertible or acceptable currency or gold. | | 1. May not be made through a/c.<br>2. To be paid in convertible currency. | 1. In Mar. 1955, Greece adopted linking of export & import on 100=50 basis. Coffee imports were excluded from this system. |
| Iceland | 1. May 10, 1956. | | | | | | 1. Detailed information is not available. |
| Norway | 1. Sept. 28, 1953.<br>2. One year from signature. Automatic annual extension. | 1. U.S.$<br>2. Norway | 1. $3 million, but no provision for swing excess settlement. | To be settled in goods or services, but if new agreement is reached, old balance is to be transferred to new a/c. | | | |

| Partners | 1. Date of Signature<br>2. Validity Period | 1. Currency of a/c<br>2. Holder of a/c | 1. Swing limit<br>2. Periodical Settlement<br>3. Means of Settlement | Settlement after Termination<br>1. Time of Settlement<br>2. Means of Settlement | Interest | Payment for Transit Trade of<br>1. Third Country's Products<br>2. Partner's Products | Other Provisions and Remarks |
|---|---|---|---|---|---|---|---|
| Portugal | 1. Nov. 9, 1949.<br>2. Indefinite from Nov. 9, 1949. Terminable at 6 months' notice. | 1. Esc.<br>2. Portugal | 1. Esc 4 m. | 1. For 360 days after expiration; balance to be offset by exports from creditor.<br>2. After 360 days: 50% immediately; 50% within 180 days in creditor's convertible or acceptable currency. | | | By amendment in 1954:<br>a. During the first year Brazil's exports first to be used to settle swing excess by $2 m., then for current imports.<br>b. After that year, Brazil's debit balance to be settled at agreed rate (not less than 25% of exports to Portugal). |
| Spain | 1. July 24, 1952.<br>2. One year from signature. Automatic annual extension. | 1. U.S.$.<br>2. Brazil. | 1. $1 million.<br>2. $ on agreed currency. | 1. Swing excess immediately; 50% within 180-210 days; 50% within 211-270 days.<br>2. $ or agreed currency. | 3% | 1. Not to be paid through a/c.<br>2. To be paid in convertible or acceptable currency. | |
| Sweden | 1. May 9, 1949.<br>2. One year from May 10, 1949. Extension upon agreement. | 1 SKr.<br>2. Sweden. | 1. SKr 100 million. | 1. To be agreed upon between central banks. | 2.5% | | |
| Turkey | 1. Dec. 12, 1953.<br>2. Indefinite from signature. Terminable at 90 days' notice. | 1. U.S.$. | | 2. Goods unless otherwise agreed upon. | | | Information is insufficient. |

| Partners | 1. Date of Signature<br>2. Validity Period | 1. Currency of a/c<br>2. Holder of a/c | 1. Swing limit<br>2. Periodical Settlement<br>3. Means of Settlement | Settlement after Termination<br>1. Time of Settlement<br>2. Means of Settlement | Interest | Payment for Transit Trade of<br>1. Third Country's Products<br>2. Partner's Products | Other Provisions and Remarks |
|---|---|---|---|---|---|---|---|
| Yugoslavia | 1. June 11, 1954.<br>2. One year from signature. Automatic annual extension. | 1. U.S. $<br>2. Brazil | 1. $3.5 million | 1. Swing excess immediately 50% within 210 days; 50% within 240 days.<br>2. Convertible currency or agreed methods. | 3% | | Information is insufficient |
| ASIA | | | | | | | |
| Japan | 1. Sept. 12, 1952.<br>2. One year from July 1, 1952. Automatic annual extension. | 1. U.S. $<br>2. Japan | 1. $10 million<br>2. $ or if agreed in gold or other currency. | 1. Outstanding balance to be settled at 210 days after expiration. Thereafter settlements to be made every six months.<br>2. $, or if agreed, gold or other currency. To be settled in goods or services as much as possible. | | 1. May not be paid through a/c.<br>2. To be paid in $ or agreed currency. | 1. This agreement is to be terminated at the end of June 1956. |
| LATIN AMERICA | | | | | | | |
| Argentina | 1. June 25, 1954.<br>2. Jan. 1, 1954-Dec. 31, 1956. Automatic annual extension. | 1. U.S. $<br>2. Brazil | Balance exceeding $35 m. at the end of each year to be settled in goods or agreed currency during the next year. | To be settled in goods in two annual installments. Remaining balance to be settled in agreed currency or goods. | 2% on balance between $15-30 million. 2.5% on balance over $30 million. | | 1. Argentina has proposed termination of this agreement. |

| Partners | 1. Date of Signature<br>2. Validity Period | 1. Currency of a/c<br>2. Holder of a/c | 1. Swing Limit<br>2. Periodical Settlement<br>3. Means of Settlement | Settlement after Termination<br>1. Time of Settlement<br>2. Means of Settlement | Interest | Payment for Transit Trade of<br>1. Third Country's Products<br>2. Partner's Products | Other Provisions and Remarks |
|---|---|---|---|---|---|---|---|
| Bolivia | 1. Dec. 24, 1953.<br>2. One year from signature. Automatic annual extension. | 1. U.S. $<br>2. Bolivia & Brazil | No swing | Credit balance may be used for payments for goods listed in T/A. | | Payments for transit trade through Brazil is permitted through a/c. | Exchange rate for other transactions than direct ones is free market rate. |
| Chile | 1. Apr. 19, 1941.<br>2. Valid indefinitely but terminable at 3 months' notice. | 1. U.S. $<br>2. Chile | 1. $8 million<br>2. U.S. $ | Debtor can settle in 12 installments in U.S.$ | | | Swing was originally $3.2258 m., increased to $8 m. in 1954. |
| Uruguay | 1. Dec. 14, 1949.<br>2. Two years from March 1952. Automatic extension for every two years. | 1. Cr $<br>2. Brazil | Settlement every two years. | | | 1. Cannot be made through a/c.<br>2. To be used for domestic consumption or manufacturing only. | 1. Guarantee against change of gold price is provided.<br>2. Exchange rate between Cr$ and Ur $ is based on rates of $ in Rio de Janeiro & Montevideo. |
| IRON CURTAIN AREA | | | | | | | |
| Czechoslovakia | 1. May 17, 1950<br>2. Two years from May 17, 1950. Automatic annual extension. | 1. U.S.$<br>2. Brazil | 1. $2.5 million<br>2. Annual settlement<br>3. $ or gold | 1. 50% within 90-120 days; 50% within 121-150 days.<br>2. $ or gold. Creditor can make any current payments. | 3% | | |

| Partners | 1. Date of Signature<br>2. Validity Period | 1. Currency of a/c<br>2. Holder of a/c | 1. Swing limit<br>2. Periodical Settlement<br>3. Means of Settlement | Settlement after Termination<br>1. Time of Settlement<br>2. Means of Settlement | Interest | Payment for Transit Trade of<br>1. Third Country's Products<br>2. Partner's Products | Other Provisions and Remarks |
|---|---|---|---|---|---|---|---|
| Hungary | 1. Apr. 19, 1954.<br>2. One year from signature.<br>3. Automatic annual extension. | 1. U.S. $ | 1. $2 million | 1. 50% within 180-210 days; 50% within 211-240 days.<br>2. U.S. $ | 3% | No payments through a/c unless agreed. | |
| Poland | 1. Apr. 1, 1954.<br>2. One year from signature. Automatic annual extension. | 1. U.S. $<br>2. Brazil | 1. $2 million | 1. Swing excess to be settled immediately. Of remaining balance: 50% within 181-210 days; 50% within 211-240 days.<br>2. U.S. $, gold or agreed currency. | Rate to be agreed between central banks. | No payments through a/c unless agreed. | |

2. Trade Agreements

| Partners | 1. Date of Signature 2. Validity Period | Commodity Quotas and Licensing | Transactions after Termination | Other Provisions | Remarks |
|---|---|---|---|---|---|
| EUROPE | | | | | |
| Austria | 1. Apr. 20, 1951. 2. One year from signature. Automatic annual extension. | Quotas to be renewed annually, but if not agreed, old quotas apply quarterly. Licenses to be issued up to quotas, but may be issued beyond them. | Outstanding licenses remain effective. | 1. Goods imported within quotas should be for domestic use only. 2. Shipment to be made preferentially by Brazilian ships. | Latest commodity quotas available were signed on Oct. 20, 1952 (Br. exports \$1.863 m. and imports \$1.705 m.). No information for current ones. |
| Finland | 1. May 15, 1953. 2. One year from July 1, 1953. Automatic annual extension. | Quotas to be renewed annually, but if not agreed, old ones remain effective. Licenses to be issued up to quotas. Try to maintain equal exchange of goods & proportional distribution among commodities. | Outstanding licenses remain effective. | 1. Imported goods are for domestic use only. 2. Certificate of origin may be required. | Quotas for 1953-54 were \$23 m. each way. No information for current ones. |
| France | 1. Aug. 5, 1953. 2. One year from July 1, 1953. Extended to Sept. 30, 1955, & perhaps further to Mar. 31, 1956. | Licenses to be issued up to quotas. Try to maintain equal exchange of goods; and for French exports, proportional distribution among commodities. | Outstanding licenses remain effective. France should permit exports of industrial products already approved. Br. should permit counter exports. | Certificate of origin may be required. | Quotas for 1953-54 were \$132 m. for Br. exports and \$128.9 m. for Br. imports. They may apply currently. |
| Iceland | 1. May 10, 1956. 2. Valid for 3 months after denunciation | Trade targets for 1956-57 of £800 thousand each way. | | 1. Certificate of origin may be required. 2. Re-export subject to prior approval. | |

| Partners | 1. Date of Signature<br>2. Validity of Period | Commodity Quotas and Licensing | Transactions after Termination | Other Provisions | Remarks |
|---|---|---|---|---|---|
| Portugal | 1. Nov. 9, 1949.<br>2. Nov. 9, 1949 to Dec. 31, 1950. Automatic annual extension. | Licenses to be issued up to quotas, but subject to availability of a/c balance. Licenses may be issued beyond quotas. | Outstanding licenses remain effective. | 1. Imported goods within quotas are for domestic use only.<br>2. Shipment to be made by parties' ships in equal amount. | Quotas for 1954 were Esc 238 m. for Br. exports & Esc 180 m. for Br. imports. |
| Spain | 1. July 24, 1952. | Licenses to be issued up to quotas, taking balance of payments & equal distribution among commodities into consideration. Quotas are to be renewed annually. Account balance considered in making new quotas. | Outstanding licenses remain effective. | 1. Imported goods within quotas are for domestic use only unless otherwise agreed.<br>2. Goods outside quotas may be settled through a/c if agreed upon.<br>3. Shipment of quotas goods to be made by parties' ships as a rule. | Quotas for 1952-53 were $10 m. each way. |
| MIDDLE EAST | | | | | |
| Israel | 1. April 26, 1956.<br>2. One year from July | Commodity lists of exports of each country. | | 1. Goods imported within quotas should be for domestic consumption or manufacturing only, unless prior approval for re-export. | Payments subject to agreement between the Banco do Brasil and the Bank of Israel. |
| ASIA | | | | | |
| Japan | 1. Sept. 12, 1952.<br>2. One year from July 1, 1952. Automatic annual extension. | Quotas to be renewed annually. Licenses to be issued up to quotas considering equalization of trade & equal distribution among commodities. Licenses may be issued beyond quotas. | Outstanding contracts remain valid. Japan should permit such exports. Br. should permit counter exports. | Imported goods are for domestic use only. | 1. Quotas for 1952-53 were $35.6 m. for Br. exports, $33.5 m. for Br. imports.<br>2. This agreement is to be terminated at the end of June 1956. |

| Partners | 1. Date of Signature<br>2. Validity Period | Commodity Quotas and Licensing | Transactions after Termination | Other Provisions | Remarks |
|---|---|---|---|---|---|
| LATIN AMERICA | | | | | |
| Argentina | 1. June 25, 1954.<br>2. Jan. 1955. | 1. Quotas with specified quantities for main commodities & valued at $135 m. each way were established in the agreement of June 1954.<br>2. Brazilian purchase of 1.2 million tons of Argentine wheat annually during 1955, 1956, & 1957 was agreed in Jan. 1955. | | | 1. Information is insufficient.<br>2. Argentina has proposed termination of this agreement. |
| Venezuela | 1. June 11, 1940.<br>2. Extended until Oct. 2, 1954. No further information available. | Brazil imports 40,000 barrels of petroleum daily. Brazil exports agricultural & pharmaceutical products. | | | Information is insufficient. |
| IRON CURTAIN AREA | | | | | |
| Czechoslovakia | 1. May 17, 1950.<br>2. Two years from signature. Automatic annual extension. | Quotas to be renewed annually, but if not agreed, old ones apply. Licenses to be issued up to quotas, but may be issued beyond them. | | Shipment to be made preferentially by Br. ships. | Quotas for 1950-51 were $14.35 m. for Br. exports & $15.85 m. for Br. imports. |

| Partners | 1. Date of Signature<br>2. Validity Period | Commodity Quotas and Licensing | Transactions after Termination | Other Provisions | Remarks |
|---|---|---|---|---|---|
| Hungary | 1. Apr. 19, 1954.<br>2. One year. | | | | 1. Quotas for 1954-55 are $10 m. each way.<br>2. Information is insufficient. |
| Poland | 1. Oct. 23, 1954.<br>2. One year. | | | Transit trade is prohibited. | 1. Quotas for 1954-55 are said to be $14 m. (not certain whether this is for one way or two ways).<br>2. Information is insufficient. |

To file on

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ORGANISATION FOR EUROPEAN ECONOMIC CO-OPERATION

RESTRICTED

Paris, 21st March 1956

TP(56)6

Scale 2

Or. Fr.

# JOINT TRADE AND INTRA-EUROPEAN PAYMENTS COMMITTEE

## BILATERAL AGREEMENTS BETWEEN MEMBER AND NON-MEMBER COUNTRIES

### Report by the Working Party of the Joint Committee

(Note by the Secretariat of the Committee)

1. In submitting the attached Report, the Working Party wishes to recall the mandate which the Joint Committee received from the Council on 26th October 1954 and instructed the Working Party to carry out. The mandate was to study, on the basis of memoranda submitted by certain Delegations (TP(54)15 and 17), what types of bilateral agreement might be considered incompatible with the practice of convertibility.

Following discussions in December 1954 in the Ministerial Group on Convertibility, the Council confirmed the original mandate of the Joint Committee and drew its attention to the discussions of the Ministerial Group and the Council.

2. In order to carry out the mandate received it appeared necessary as a first step to examine the existing situation with regard to bilateral agreements and for this purpose to ask the Delegations of Member countries to submit memoranda on the rules applied in their trade and financial relations with third countries. The attached Report deals only with this first question.

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Ta. 41867 - 27th March

3. The Directives for the Work of the Organisation adopted by the Council on 29th February, 1956 included, however, the following paragraph on relations with third countries:

> "10. The Organisation should carry forward the study of the problem of reducing bilateralism and discrimination in trade and payments with third countries, as a step twoards attaining a convertible system of multilateral trade and payments. In this connection, multilateral arrangements already concluded between groups of Member countries and non-Member countries should be reported to the Organisation".

The Executive Committee was instructed to submit proposals for the implementation of these Directives; at its meeting of 16th March it began the examination of the methods to be followed in this connection and the instructions that should consequently be assigned to the appropriate bodies of the Organisation.

4. In these circumstances, the Working Party felt that it should submit the attached Report without delay, hoping that it would prove useful for the further work of the Organisation on relations with third countries. It suggests that the Report should be communicated for information to the bodies instructed to carry forward this work.

5. The Working Party felt on the other hand that it would not be opportune to proceed with a second stage of the work envisaged to carry out the Joint Committee's original mandate, unless new instructions were received. Indeed, the question arises, whether that mandate should be maintained after the proposals by the Executive Committee have been adopted by the Council.

# REPORT

# BY THE WORKING PARTY

# ON

# BILATERAL AGREEMENTS

## REPORT BY THE WORKING PARTY

### Introduction : Limitations and scope of the Report

1. The Working Party set up on 2nd November, 1954, by the Joint Committee to prepare a Report on bilateral agreements resumed its work on a fresh basis in January, 1956. During the first half of 1955, several Member countries responded to the Secretary-General's request, sent out on the Working Party's instructions, and submitted memoranda on their trade and financial relations with non-Member countries. These memoranda explain, in particular, the principles applied by Member countries in such relations and the main features of the bilateral agreements in force. This Report was drawn up chiefly on the basis of these memoranda.

2. In conformity with the Working Party's previous conclusions, the geographical scope of the study was confined to relations wherein a bilateral trade or payments agreement has been signed between an O.E.E.C. Member country and a non-Member country not included in the E.P.U. area (i.e. not belonging to the monetary area of a Member country) with the exception of the Eastern European countries. The Working Party also confirmed that there was no need, a priori, to make a distinction between members and non-members of G.A.T.T. The third countries with which this study is concerned (here-after referred to for the sake of convenience as the "third countries"), are thus the Latin American countries and some countries of Europe (Finland, Spain and Yugoslavia), the Middle East (Egypt, Israel), and the Far East (Japan).

3. Memoranda have not been received from all Member countries, and those supplied (by Belgium, Germany, Italy, the Netherlands, Norway, Switzerland and the United Kingdom) are accompanied by analyses of a few agreements only, to illustrate the information given in the actual memoranda. The third countries mentioned are the Argentine, Brazil and Uruguay, Yugoslavia, Spain and Finland, Egypt and Japan.

The Working Party realises that the written material supplied by the delegations covers only part of the field which it has been instructed to study.. It nevertheless thought that this material would enable it to analyse the problems relating to bilateral agreements. In the course of its discussions, the Working Party obtained certain additional data from its members; it also had at its disposal the information supplied to the Organisation following the International Monetary Fund's consultations with Member countries.

4. The Working Party agreed that in this Report it would try to define, in the light of the information available, the main features of the present situation with regard to trade and financial relations between Member and third countries, and to that end would endeavour to provide answers to the following questions:

I. What is the relative importance of trade with the third countries concerned?

II. What are the main types of bilateral agreement governing relations with third countries?

III. What are the trends in the developments over the last few years in the field of bilateral agreements? What are the main motives for concluding bilateral agreements in present circumstances?

The Working Party did not, however, attempt to examine the actual effects on trade of reducing bilateralism.

## I. RELATIVE IMPORTANCE OF TRADE WITH THIRD COUNTRIES

5. An attempt is made in some of the memoranda supplied to the Working Party to estimate the proportion of a Member country's trade that is governed by bilateral agreements. The Working Party thought that it would be very difficult to make a similar estimate with any accuracy for all Member countries combined. Not only statistics for trade with countries which are parties to bilateral agreements, but also information about trade conducted outside the agreements, would be required for this purpose.

Furthermore, such an estimate would not make it possible to decide whether or not trade was affected by bilateral agreements, as regards either its total volume or its composition and pattern.

6. The Working Party thought that in these circumstances a statistical study of overall trade relations with third countries would not yield any valid indications for the present survey. It nevertheless thought that the statistical data on the volume of trade during the last few years between Member countries and

the third countries covered by this survey (and on the proportion of such trade in the total trade of each Member country), constituted a useful source of information for the study of relations with those countries. These data are given in the Annex to this Report.

## II. MAIN TYPES OF BILATERAL AGREEMENT

7. The information supplied to the Working Party shows the variety of the main provisions of the bilateral agreements analysed. Upon examination, however, it appeared that the agreements could be broadly divided into groups, according to whether they came nearer one or another of the following types:

(a) trade provisions

(i) the agreement estimates the total volume of trade between the countries concerned; it specifies amounts of imports or exports of most commodities in an overall reciprocal trade programme (these amounts may be import or export quotas) and lays down firm commitments for the import or export of certain commodities;

(ii) the agreement does not lay down firm commitments for import or export; under an overall programme, the quotas opened constitute merely an undertaking by the government concerned to authorise imports or exports up to the agreed amount;

(iii) the agreement takes account of the fact that liberalisation measures are applied by the Member country to the third country, and consequently include quotas for imports into the Member country only in the case of non-freed commodities of particular importance to the third country's export trade. The third country, for its part, undertakes to authorise imports of certain commodities of particular importance to the Member country's export trade (this undertaking may or may not take the form of specific quotas);

(iv) the bilateral agreement does not provide for negotiated quotas for any commodities. It may include a list of commodities in which trade is contemplated up to the limit of the total financial possibilities; or it may even contain no trade clause at all.

(b) financial provisions

(i) the agreement provides that all receipts from transactions with the trading partner should be used exclusively for settlements with that partner, through a bilateral clearing account the balance of which cannot normally be used in a monetary area other than that of the trading partner; a reciprocal credit line of a limited amount enables the account to be kept in balance, any amount in excess of the credit line having to be settled in a currency acceptable to the creditor (generally fully convertible currency, gold or dollars);

(ii) the agreement contains provisions similar to the above, but these do not cover all current payments: certain disbursements (e.g. transfers of capital earnings, tourism, transit, insurance) are or can be made outside the bilateral accounts;

(iii) the bilateral account is kept in the currency of the Member country, and the agreement provides that all or part of the balance in that currency held by the third country may be sold against other currencies (usually currencies of Member countries participating in the multilateral arbitrage system). Conversely, the third country must always keep the account in funds in the currency concerned; if its receipts in that currency are insufficient, it may buy it with the "other currencies" mentioned above;

(iv) the agreement lays down that all settlements are made in the Member country's currency, which that country has rendered freely transferable between all Member countries and the third countries as defined in this report. Any amount in that currency held in the third country may therefore be used, as far as the regulations of the Member country are concerned, outside the latter's monetary area;

(v) the agreement provides that certain transactions between the two trading partners may be settled in the currency of the third country, the value of which in the currency of the Member country fluctuates on the latter's market in accordance with supply and demand;

(vi) the bilateral agreement provides for the operation of a multilateral system whereby several Member countries accept on equal terms, in their relations with the third country, their own currency or the currencies of the other Member countries participating in the arrangement, these currencies being thus freely transferable among themselves for the benefit of the third country. This system ensures that variations in the value of those currencies on the market of the third country are kept in line , and thereby ensures non-discrimination between those currencies on the part of the third country.

8. An attempt is made in Tables A and B in the Annex to classify, in accordance with the types described in the previous paragraph, the agreements on which sufficient information was available to the Working Party.

These tables may appear at once too complicated and too rigid. Too complicated, because they make a distinction between agreements which have substantially the same effect on trade, but whose clauses are presented in a different way; and, from the financial point of view, because they draw a distinction between agreements which provide for a comparable degree of transferability by different technical methods. Too rigid, inevitably, because the classification cannot take into account all the clauses included in certain complex agreements (e.g. United Kingdom-Japan).

Furthermore, the classification shows neither the motives that led the countries concerned to conclude a specific arrangement, nor the developments which may have taken place in a given bilateral relationship.

9. For all these reasons, the Working Party thought it better not to try to draw conclusions from the tables until the questions dealt with in the following section had been considered.

## III. PURPOSE OR MOTIVES OF BILATERAL AGREEMENTS

## DEVELOPMENTS IN BILATERALISM

10. Most bilateral agreements are aimed, explicitly or otherwise, at facilitating or developing trade between the countries concerned. The question is, in what circumstances is it considered necessary to resort to a bilateral agreement to achieve this general objective?

### Recourse to bilateral agreements between Member countries

11. A study of the relations between Member countries immediately after the second world war provides a first partial answer to this question. The Fifth Annual Report of the E.P.U. Managing Board described the resort to bilateral agreements between Member countries as 'a temporary expedient' which enabled them to re-establish and ensure between themselves certain imports and exports that were essential in the economic circumstances of the immediate post-war period. These circumstances were briefly as follows: insufficient acceptable means of payment (gold, convertible currency, capacity to export goods required by the trading partner); disparity between their economic situations, different value attached to the various currencies and non-transferability of these currencies as between themselves; shortage of certain goods in urgent demand (capital goods and prime necessities); surplus of "less essential" goods. In these circumstances, bilateral agreements proved to be the only means of reconciling the diverse aims of the trading partners concerned. Those aims could, in general, be reduced to one or other of the following :

- to obtain "essential" goods from the trading partner;
- to sell to the trading partner "exportable surpluses", or goods for which it was desirable to maintain a traditional foreign market;
- to balance payments with the trading partner in such a way as to avoid as far as possible in the bilateral relations in question any drawings on gold and dollar reserves or the accumulation of non-transferable claims.

12. It is clear that there was a combination of these motives when a bilateral agreement was negotiated to obtain a compromise between conflicting demands, account taken of the respective economic situations of the two partners. In relations between Member countries, the economic recovery, the rise in production and the standard of living, the progress of trade liberalisation under the aegis of the O.E.E.C. and the transferability of currencies of the E.P.U. Member countries, have gradually reduced the field of application of bilateral agreements. On payments, there remain only agreements of a technical character; on trade, bilateral agreements now cover only a limited sector of reciprocal trade.

Development of the situation with regard to third countries

13. Developments in bilateral agreements with third countries as defined in this Report, have been less rapid and less radical. Several factors have nevertheless helped to modify the relative positions of Member and third countries and their mutual system of trade and payments.

First, the measures taken by the Member countries with regard to their European partners have led to a relaxation of their system of control. As Member countries freed their imports from each other, a strict control over imports of the same commodities from third countries became, in many instances, progressively less necessary and even superfluous.

Measures taken to do away with internal controls (rationing, etc.) and state trading also helped to reduce Governments' powers to control demand for imported goods.

14. Secondly, there is a deliberate policy on the part of several Member countries to make the system applied to other Member countries and third countries (as defined in this study) as uniform as possible. In such cases, liberalisation measures are applied without distinction between Member countries and the largest possible number of non-Member countries. In the same way, in the matter of payments, the area over which the currencies of such Member countries may be freely transferred, as far as the Authorities in those countries are concerned, stretches beyond the E.P.U. area and covers a number of third countries to which the benefit of transferability is extended.

15. The improvement in the general economic situation in Member countries has in many cases enabled them to drop the distinction hitherto made between "essential" and "less essential" imports.

At the same time the improvement in the general balance of payments of several Member countries, the strengthening of their reserves and the wider transferability of their currencies, has allowed them more readily than in the past to contemplate having deficits in certain of their bilateral relations with third countries.

16. The factors enumerated above have helped to develop greater freedom in trade and payments between certain Member and third countries and to break down their strictly bilateral framework. It is clear, however, that these factors have not affected uniformly all Member countries or all third countries, so that although there is a tendency towards greater freedom and more extended multilateralism this cannot be regarded as a general and uniform development in the relations between Member and third countries.

A closer examination should therefore be made of the reasons in present circumstances for maintaining or concluding bilateral agreements with certain third countries and the purposes of such agreements.

Motives for bilateral agreements with third countries

17. Bilateral agreements meet the somewhat complex requirements of one or other of the partners. The following paragraphs nevertheless represent an attempt to distinguish and define the chief of these requirements. The Working Party thought it better to analyse the requirements from the standpoint of the Member country, although in many cases the Member country's requirements merely correspond to reciprocal requirements on the part of the third country.

Trade Motives

(a) Concern of Member countries to ensure a market in the third country for certain commodities.

18. All the memoranda received from the Delegations mention explicitly concern to ensure a market in the third country for certain traditional exports as one of the reasons which make a bilateral trade agreement necessary in certain relations.

In what circumstances is it necessary to make use of a bilateral agreement to satisfy a Member country's concern in this respect ? Generally when the third country's foreign trade is still under strict control and if the import regulations applied by that country entail a risk of discrimination.

19. There may be discrimination as between commodities, the third country wishing to reduce imports of certain commodities that it considers to be "less essential". If the third country considers certain imports to be less essential in view of its general economic situation, the Member countries for which these commodities represent a large proportion of their potential exports will be led to negotiate a large percentage of their reciprocal trade with the third country concerned; whereas a Member country to whom these commodities represent only a relatively small fraction of potential exports will on this count be led to negotiate only a relatively small fraction of its reciprocal trade with the third country concerned.

20. The need to provide against discrimination may also be the result of distinctions made by the third country between the respective currencies. Switzerland had to resort to bilateral agreements (with both Member and third countries) to prevent receipts in her currency, which was convertible, being too widely used for settlements with other countries, to the detriment of Swiss exports. To avoid such discrimination for currency reasons, Switzerland has in practice rendered her currency inconvertible in certain trade relations. The same kind of problem arises in certain other trade relations: the United Kingdom memorandum indicates that in certain cases there is an understanding that the other country will license "less essential" goods from the United Kingdom. This arrangement is designed essentially to ensure that the pattern of United Kingdom exports envisaged in the trade agreement is not unduly disturbed by discrimination against sterling goods in order to economise in sterling because that currency can be transferred freely to third countries.

(b) Need to ensure supplies of certain raw materials

21. In certain trade relations, the bilateral agreement provides the Member country with the assurance that no obstacle will be placed by the Government of the third country in the way of exports (in some cases up to the limit of a negotiated quota) of certain raw materials of which it is the normal supplier. This assurance is required only in the

case of scarce raw materials, when the export quota system applied by the third country endangers the supplies of the Member country. To judge from the memoranda received from delegations, this motive is no longer of great importance for Member countries. It is, however, mentioned as one of the aims of the agreements concluded with Spain by certain Member countries.

(c) Need to protect Member countries' production from the competition of commodities sold by the third country at abnormally low prices

22. The memoranda received from the Member countries did not mention this as being one of the reasons for maintaining bilateral agreements; the Working Party nevertheless thought that any objective study of relations with third countries should recognise that Member countries were in some cases led to restrict imports offered by certain third countries at abnormally low prices in order to protect their own production from dangerous competition. If the commodities are normally imported by the Member country from other trade partners under global quotas or in the freed sector, the special regulations applied to imports from the third country give rise to bilateral discussions and may be the subject of a bilateral agreement.

23. Various reasons may be responsible for the situation outlined in the above paragraph. In some cases the "abnormally low" prices quoted by the third country may be explained by the very advantageous conditions of production enjoyed by that country (abundance of labour, low wages...). In other cases, the prices are the result of artificial measures taken by the government of the third country. In the latter case, the restrictions imposed by the Member country are a defence against the effects of those artificial measures; the bilateral negotiations may thus lead not only to the fixing of import quotas, but to the normalisation of trade and financial relations with the third country.

Financial motives

(d) Concern to avoid non-transferable claims

24. In many trade relations the "reciprocal" credit lines provided for in the bilateral agreements concluded some years ago and since prolonged have been continuously used by the third country, so that this temporary financial facility has

in fact been converted into a medium or long-term credit. The creditor Member countries usually try to secure the settlement of such claims.

More generally speaking, Member countries try to obtain from third countries that apply severe exchange control regulations for transfers abroad, certain relaxations or assurances especially as regards the transfer of capital earnings and the repayment of outstanding debts.

As long as no steps have been taken towards the solution of these problems, they hinder the establishment of more liberal trade and financial relations and may mean that the relations can only be continued under a bilateral agreement.

25. The same considerations lead Member countries to take steps to avoid any further accumulation of non-transferable claims on third countries, and for many Member countries, this is a leading motive for maintaining bilateral agreements with certain third countries.

The methods employed to this end in bilateral agreements vary with the circumstances. In some cases there is a progressive reduction of credit facilities, and attempts continue to be made to balance transactions by trade controls. In other cases, where trade is less strictly controlled, financial equilibrium is the responsibility of the third country, which has to keep its account in funds with the Member country's currency, so that it always shows a credit balance.

( (e) Balance of payments reasons

26. Several Member countries maintain quotas on certain commodities for balance of payments reasons. If all or some of these commodities are of interest for the export trade of a third country, the latter may be led to negotiate a bilateral agreement with the Member country concerned so as to obtain either a bilateral quota or a share of the Member country's global import quota. In such circumstances therefore (which are the reverse of those envisaged in paragraph 18), a bilateral agreement may to some extent be considered as indirectly the result of the Member country's balance of payments difficulties.

27. In the circumstances envisaged in paragraphs 19 and 21 (where the Member country is anxious to increase certain exports to, or reduce certain imports from, the third country) trade reasons may very well be reinforced from the point of view of the Member country by a desire to avoid a balance of payments deficit in the bilateral relations concerned.

The Working Party does not think that the desire to obtain a bilateral payments equilibrium with each trading partner is still the major concern for Member countries in general that it was a few years ago. The system of bilateral clearing has, in fact, been dropped in many cases in favour of arrangements (described in paragraph 7(b)(iii), (iv) and (vi)) whereby a certain degree of "multilateralism" is conferred on payments between Member and third countries.

Some Member countries may, however, fear that by associating themselves with this development, they will prejudice not only their commercial interests but also their balance of payments. Such a fear is felt most keenly by Member countries that are in current deficit with the E.P.U. The deficit might, indeed, grow if the third country took advantage of new multilateral transfer facilities and used its receipts in the Member country's currency for payments to other Member countries. This is a real risk if the goods exported by the Member country to the third country under the existing bilateral agreement include a large proportion of commodities which are regarded as "less essential" by the third country, and in respect of which there are only limited outlets in other Member countries.

28. The Working Party also noted that the anxiety to avoid any too serious payments disequilibrium in bilateral trade would not necessarily disappear once the settlements in question were made in a transferable currency. Thus in the United Kingdom's relations with Japan provision was made in an exchange of letters that both parties would take appropriate steps to correct any chronic payments disequilibrium that might arise. The steps should consist in reducing the present trade restrictions so as to restore equilibrium at the highest possible level of trade.

## CONCLUDING REMARKS

29. In the Working Party's opinion, the above attempt to analyse the main aspects of the present situation with regard to trade and financial relations between Member and third countries allows some general observations to be made.

30. In the first place, the Working Party notes that the efforts made within the O.E.E.C, to achieve reciprocal trade liberalisation and currency transferability, combined with the improvement in the general economic situation of Member countries, have had notable repercussions on the latter's relations with third countries. From the trade point of view, the liberalisation measures taken vis-à-vis European countries have in many cases been extended (simultaneously or subsequently) to third countries. From the financial point of view, the possibility of transferring one Member country's currency into other European currencies has in many cases been granted, through various technical devices, to all or some third countries.

31. In the second place, although a study of the development of bilateral agreements shows a trend towards greater freedom and wider multilateralism in trade and payments relations with third countries, the Working Party notes that this does not indicate a general, uniform development in present circumstances, as each bilateral agreement reflects the motives peculiar to the Member country and the third country concerned, account taken of their respective policies and economic situations.

32. The Member countries themselves seem to adopt different attitudes with regard to their relations with third countries. Some follow a deliberate policy of achieving the greatest possible uniformity in the trade and financial system applied by them in respect of Member and third countries; other do not regard this objective as of essential importance. Just as their attitudes may differ, so Member countries' economic situations and possibilities are not all identical: certain of the points analysed in paragraphs 17 to 28 may therefore have more importance for some Member countries than for others in their relations with the same third country.

33. The situations of the third countries referred to in this study are still more varied. Some can apply to their foreign trade and payments a system similar to that followed by Member countries.

Others have to take into account the pressures exerted on their economy and apply very strict control over their trade and payments, or practise methods incompatible with the satisfactory operation of the multilateral system. This diversity largely explains the differences between the bilateral agreements concluded by the same Member country with various third countries and the different stages reached in those relations by the progress towards greater freedom and wider multilateralism in trade and payments.

34. The Working Party noted with interest, however, that some progress towards greater freedom and wider multilateralism in trade and payments has been achieved on Member countries' initiative. In some cases progress resulted from unilateral decisions by one Member country concerning either the extension of liberalisation to certain third countries or the use which may be made of amounts held in its currency in a third country. In other cases, this progress was achieved, as a result of consultations between several Member countries, through parallel arrangements being made by them with a third country, with a view to organising common exchange provisions for the currencies of the Member countries taking part in the arrangements.

# ANNEXES

## TO THE REPORT BY THE WORKING PARTY OF THE JOINT COMMITTEE ON BILATERAL AGREEMENTS

### I. STATISTICAL ANNEXES

Table 1. Aggregate imports from the 8 third countries as a percentage of total imports of each Member country (1950-51-52-53-54).

Table 2. Aggregate exports to the 8 third countries as a percentage of total exports of each Member country (1950-51-52-53-54).

Table 3. Each Member country's imports from and exports to the Argentine (1950-54).

4. Each Member country's imports from and exports to Brazil (1950-54).

5. Each Member country's imports from and exports to Uruguay (1950-54).

6. Each Member country's imports from and exports to Spain (1950-54).

7. Each Member country's imports from and exports to Finland (1950-54).

8. Each Member country's imports from and exports to Yugoslavia (1950-54).

9. Each Member country's imports from and exports to Egypt (1950-54).

10. Each Member country's imports from and exports to Japan (1950-54).

### II. CLASSIFICATION OF A NUMBER OF BILATERAL AGREEMENTS

according to the types described in paragraph 7 of the Report.

Table A Individual Member countries' agreements with various third countries.

Table B Individual third countries' agreements with various Member countries.

## TABLE I

## IMPORTS FROM THIRD COUNTRIES (1) AS A PERCENTAGE OF TOTAL IMPORTS OF EACH MEMBER COUNTRY

Source: O.E.E.C. Statistical Bulletin in %

| MEMBER COUNTRY | 1950 | 1951 | 1952 | 1953 | 1954 |
|---|---|---|---|---|---|
| GERMANY | 7.0 | 10.4 | 10.5 | 10.1 | 12.0 |
| AUSTRIA | 6.8 | 5.6 | 8.4 | 6.6 | 6.5 |
| B.L.E.U. | 6.6 | 5.5 | 4.5 | 5.8 | 5.5 |
| DENMARK | 8.8 | 8.2 | 6.8 | 6.8 | 8.1 |
| FRANCE | 8.5 | 8.0 | 7.9 | 7.6 | 7.6 |
| GREECE | 2.2 | 3.4 | 4.4 | 8.0 | 5.4 |
| IRELAND | 4.1 | 3.6 | 3.0 | 4.4 | 5.1 |
| ICELAND | 7.6 | 10.6 | 8.6 | 9.0 | 14.4 |
| ITALY | 12.0 | 10.9 | 7.3 | 8.1 | 7.4 |
| NORWAY | 6.2 | 6.3 | 6.0 | 5.2 | 5.1 |
| NETHERLANDS | 6.6 | 6.3 | 4.8 | 5.6 | 6.1 |
| SWEDEN | 9.7 | 8.2 | 9.4 | 8.5 | .. |
| SWITZERLAND | 8.4 | 7.3 | 6.4 | 7.1 | 6.7 |
| PORTUGAL | 5.4 | 7.3 | 2.3 | 3.3 | 2.6 |
| TURKEY | 3.3 | 3.9 | 3.5 | 8.9 | 16.1 |
| UNITED KINGDOM | 10.6 | 10.1 | 7.1 | 8.4 | 8.1 |

(1) Argentine - Brazil - Uruguay - Spain - Finland - Yugoslavia - Egypt - Japan.

TABLE 2

EXPORTS TO THE THIRD COUNTRIES(1) AS A PERCENTAGE

OF TOTAL EXPORTS OF EACH MEMBER COUNTRY

Source: O.E.E.C. Statistical Bulletin in %

| MEMBER COUNTRY | 1950 | 1951 | 1952 | 1953 | 1954 |
|---|---|---|---|---|---|
| GERMANY | 8.8 | 11.4 | 13.6 | 11.5 | 9.7 |
| AUSTRIA | 11.3 | 9.6 | 11.2 | 8.8 | 8.9 |
| B.L.E.U. | 7.9 | 8.0 | 6.4 | 4.0 | 4.7 |
| DENMARK | 6.6 | 8.6 | 7.9 | 5.6 | 6.5 |
| FRANCE | 9.0 | 9.2 | 8.1 | 8.5 | 7.9 |
| GREECE | 9.6 | 9.5 | 7.3 | 11.0 | 11.2 |
| IRELAND | 4.2 | 1.2 | 1.0 | 0.5 | 0.9 |
| ICELAND | 9.8 | 11.6 | 9.8 | 11.4 | 9.3 |
| ITALY | 13.5 | 11.8 | 10.8 | 10.8 | 11.0 |
| NORWAY | 10.0 | 9.5 | 10.2 | 7.5 | 8.7 |
| NETHERLANDS | 6.3 | 7.8 | 6.7 | 5.8 | 5.7 |
| SWEDEN | 11.4 | 12.7 | 10.1 | 9.5 | .. |
| SWITZERLAND | 9.6 | 10.8 | 9.5 | 8.4 | 10.0 |
| PORTUGAL | 6.0 | 7.2 | 6.6 | 4.4 | 5.6 |
| TURKEY | 5.3 | 5.4 | 7.4 | 14.3 | 17.0 |
| UNITED KINGDOM | 8.1 | 7.7 | 7.3 | 5.1 | 5.2 |

(1) Argentine - Brazil - Uruguay - Spain - Finland - Yugoslavia - Egypt - Japan.

TABLE 3

ARGENTINE

MEMBER COUNTRIES' IMPORTS FROM AND EXPORTS TO THE ARGENTINE

$ million

| | IMPORTS | | | | | EXPORTS | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1950 | 1951 | 1952 | 1953 | 1954 | 1950 | 1951 | 1952 | 1953 | 1954 |
| GERMANY | 65.4 | 99.9 | 65.2 | 49.6 | 139.6 | 24.9 | 82.8 | 79.1 | 97.0 | 76.5 |
| AUSTRIA | 5.0 | 9.5 | 16.5 | 9.6 | 7.6 | 6.3 | 10.7 | 15.4 | 6.9 | 11.0 |
| B.L.E.U. | 29.2 | 27.0 | 20.8 | 48.5 | 58.4 | 9.9 | 36.6 | 24.0 | 5.0 | 20.1 |
| DENMARK | 6.6 | 8.1 | 7.4 | 3.3 | 22.1 | 2.9 | 6.0 | 6.2 | 1.4 | 1.7 |
| FRANCE | 88.8 | 95.6 | 56.0 | 59.6 | 56.5 | 94.7 | 102.7 | 35.9 | 19.0 | 44.0 |
| GREECE | 1.3 | 0.4 | 1.4 | 1.3 | 0.8 | .. | .. | – | – | .. |
| IRELAND | 3.2 | 2.3 | 1.2 | 5.3 | 9.0 | – | – | – | – | – |
| ICELAND | – | – | – | – | – | .. | .. | .. | .. | .. |
| ITALY | 77.2 | 98.6 | 20.6 | 59.6 | 32.8 | 64.5 | 42.0 | 17.0 | 33.0 | 35.2 |
| NORWAY | 6.9 | 6.9 | 3.5 | 3.7 | 3.2 | 4.4 | 8.0 | 2.9 | 0.9 | 2.0 |
| NETHERLANDS | 45.0 | 44.8 | 15.1 | 35.3 | 69.3 | 16.0 | 35.2 | 16.5 | 27.5 | 25.4 |
| SWEDEN | 29.2 | 26.7 | 32.0 | 16.3 | 11.4 | 21.0 | 78.4 | 20.8 | 7.0 | 14.2 |
| SWITZERLAND | 28.8 | 18.0 | 7.5 | 13.2 | 20.6 | 16.0 | 23.9 | 16.8 | 7.7 | 14.0 |
| PORTUGAL | 5.7 | 3.0 | 0.7 | 0.4 | 0.3 | 0.6 | 1.7 | 2.9 | 2.4 | 3.5 |
| TURKEY | .. | 0.6 | – | – | – | – | – | – | – | – |
| UNITED KINGDOM | 267.6 | 241.4 | 148.7 | 277.6 | 227.1 | 108.2 | 81.1 | 60.5 | 42.6 | 66.6 |
| Total Member countries | 659.9 | 682.8 | 396.6 | 583.3 | 658.7 | 369.4 | 509.1 | 298 | 250.4 | 314.2 |

TABLE 4

BRAZIL

MEMBER COUNTRIES' IMPORTS FROM AND EXPORTS TO BRAZIL

$ million

| | IMPORTS | | | | | EXPORTS | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1950 | 1951 | 1952 | 1953 | 1954 | 1950 | 1951 | 1952 | 1953 | 1954 |
| GERMANY | 20.7 | 75.0 | 74.3 | 95.2 | 158.9 | 35.1 | 112.5 | 154.3 | 109.8 | 140.5 |
| AUSTRIA | 6.7 | 4.0 | 5.2 | 8.1 | 7.4 | 4.0 | 6.8 | 3.4 | 7.6 | 6.3 |
| B.L.E.U. | 40.5 | 38.3 | 30.7 | 29.5 | 24.8 | 46.5 | 54.2 | 42.1 | 8.7 | 7.0 |
| DENMARK | 16.3 | 21.1 | 23.3 | 29.8 | 34.3 | 6.9 | 14.3 | 20.9 | 19.8 | 29.9 |
| FRANCE | 53.3 | 88.8 | 85.6 | 88.9 | 103.7 | 49.4 | 88.9 | 72.5 | 104.4 | 73.7 |
| GREECE | 2.3 | 7.3 | 6.3 | 5.6 | 6.1 | 0.6 | 0.8 | 0.4 | 2.2 | 7.1 |
| IRELAND | 1.4 | 1.8 | 0.5 | 2.1 | 0.8 | - | - | - | - | - |
| ICELAND | 0.7 | 1.2 | 1.0 | .. | 1.7 | 0.4 | 0.7 | 0.3 | .. | 1.6 |
| ITALY | 30.8 | 34.8 | 38.0 | 41.5 | 59.0 | 15.1 | 40.5 | 31.9 | 25.5 | 44.7 |
| NORWAY | 16.1 | 16.4 | 19.5 | 19.5 | 23.1 | 11.3 | 20.6 | 24.8 | 9.9 | 18.8 |
| NETHERLANDS | 18.8 | 28.7 | 20.7 | 21.5 | 18.9 | 15.1 | 29.7 | 35.5 | 11.9 | 19.1 |
| SWEDEN | 38.8 | 53.8 | 54.0 | 56.1 | 62.5 | 44.8 | 65.8 | 50.7 | 52.4 | 51.7 |
| SWITZERLAND | 18.2 | 19.8 | 13.2 | 12.3 | 15.5 | 31.2 | 46.8 | 33.6 | 22.4 | 33.8 |
| PORTUGAL | 5.0 | 11.6 | 2.2 | 6.5 | 4.3 | 6.0 | 11.5 | 8.6 | 2.6 | 3.7 |
| TURKEY | 5.5 | 7.9 | 8.1 | 8.3 | 10.1 | 0.4 | 0.9 | 0.1 | - | 10.6 |
| UNITED KINGDOM | 113.8 | 185.3 | 43.8 | 81.2 | 103.7 | 121.7 | 155.5 | 148.0 | 49.8 | 25.0 |
| Total Member countries | 388.9 | 595.8 | 426.4 | 506.1 | 634.8 | 388.5 | 649.5 | 627.1 | 427. | 478.5 |

## TABLE 5

## URUGUAY

### MEMBER COUNTRIES' IMPORTS FROM AND EXPORTS TO URUGUAY

$ million

| | IMPORTS | | | | | EXPORTS | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1950 | 1951 | 1952 | 1953 | 1954 | 1950 | 1951 | 1952 | 1953 | 1954 |
| GERMANY | 13.6 | 9.5 | 23.2 | 26.1 | 19.0 | 14.1 | 24.4 | 13.6 | 22.3 | 24.4 |
| AUSTRIA | 0.3 | 0.2 | 0.3 | 0.8 | 0.5 | 0.6 | 0.5 | 1.4 | 0.9 | 0.9 |
| B.L.E.U. | 14.2 | 12.1 | 7.4 | 15.3 | 2.8 | 10.1 | 13.5 | 6.9 | 5.2 | 10.3 |
| DENMARK | 0.3 | 0.9 | 1.6 | 2.1 | 1.9 | 0.7 | 0.5 | 0.7 | 0.8 | 0.9 |
| FRANCE | 10.3 | 9.0 | 17.4 | 13.6 | 10.1 | 13.7 | 15.6 | 9.4 | 15.7 | 16.6 |
| GREECE | 0.4 | - | - | 0.3 | 0.4 | | 0.1 | 0.1 | 0.1 | 0.3 |
| IRELAND | 0.6 | 0.5 | 0.2 | 0.7 | 0.3 | | - | | - | - |
| ICELAND | - | | | | 0.1 | | | | | 0.1 |
| ITALY | 7.1 | 9.1 | 8.3 | 12.1 | 6.6 | 6.6 | 13.1 | 4.9 | 2.6 | 7.6 |
| NORWAY | 0.1 | 0.7 | 0.3 | 1 | 0.7 | 0.4 | 0.5 | 0.4 | 0.6 | 0.6 |
| NETHERLANDS | 6.4 | 4.3 | 7.4 | 14.8 | 19.2 | 2.8 | 2.9 | 5.3 | 3.6 | 5.9 |
| SWEDEN | 7.1 | 7.3 | 5.8 | 10.4 | 5.3 | 6.2 | 10.4 | 5.5 | 5.1 | 7.7 |
| SWITZERLAND | 6.3 | 12.0 | 8.1 | 14.2 | 6.5 | 4.7 | 4.9 | 2.1 | 3.7 | 4.9 |
| PORTUGAL | - | 0.1 | 0.3 | 0.1 | - | 0.3 | 0.1 | 0.2 | - | 0.3 |
| TURKEY | 0.1 | 0.8 | 0.8 | 1.2 | 1.0 | 0.2 | 0.2 | 0.2 | 0.2 | 0.4 |
| UNITED KINGDOM | 38.1 | 44.0 | 33.0 | 86.1 | 48.5 | 38.8 | 31.9 | 24.1 | 23.3 | 38.2 |
| TOTAL MEMBER COUNTRIES | 104.9 | 110.5 | 114.1 | 198.8 | 122.9 | 99.2 | 118.6 | 74.8 | 84.1 | 119.1 |

TABLE 6

SPAIN

MEMBER COUNTRIES' IMPORTS FROM AND EXPORTS TO SPAIN

$ million

| | IMPORTS | | | | | EXPORTS | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1950 | 1951 | 1952 | 1953 | 1954 | 1950 | 1951 | 1952 | 1953 | 1954 |
| GERMANY | 13.0 | 39.4 | 58.6 | 80.0 | 74.3 | 18.7 | 22.6 | 69.6 | 80.9 | 74.9 |
| AUSTRIA | 1.6 | 2.8 | 2.8 | 3.3 | 1.8 | 3.4 | 1.2 | 1.8 | 2.9 | 3.0 |
| B.L.E.U. | 11.6 | 17.5 | 17.3 | 14.8 | 15.9 | 10.9 | 17.6 | 18.7 | 14.7 | 17.0 |
| DENMARK | 11.7 | 7.7 | 4.9 | 5.3 | 5.8 | 4.0 | 8.3 | 5.8 | 4.7 | 4.2 |
| FRANCE | 28.1 | 38.3 | 51.2 | 48.2 | 47.3 | 33.8 | 42.5 | 57.8 | 70.9 | 59.0 |
| GREECE | - | 0.1 | 0.7 | 1.4 | 0.2 | | 0.3 | 0.3 | 0.5 | 0.3 |
| IRELAND | 4.3 | 5.6 | 5.7 | 6.3 | 4.6 | 0.6 | 2.1 | 2.5 | 1.1 | 1.6 |
| ICELAND | 0.9 | 2.5 | 1.7 | 2.7 | 3.0 | 0.8 | 2.4 | 1.3 | 1.6 | 1.4 |
| ITALY | 3.7 | 5.5 | 9.0 | 6.2 | 5.2 | 3.4 | 3.7 | 13.8 | 14.0 | 10.0 |
| NORWAY | 7.5 | 9.2 | 10.0 | 14.1 | 12.3 | 7.6 | 6.8 | 9.1 | 10.2 | 9.7 |
| NETHERLANDS | 12.6 | 13.4 | 15.3 | 14.0 | 13.4 | 9.8 | 12.7 | 14.2 | 12.3 | 16.1 |
| SWEDEN | 12.4 | 17.2 | 23.1 | 19.7 | 17.0 | 10.3 | 11.5 | 18.1 | 26.5 | 15.0 |
| SWITZERLAND | 9.7 | 13.9 | 12.3 | 13.8 | 12.8 | 13.1 | 15.6 | 21.4 | 24.5 | 27.0 |
| PORTUGAL | 2.4 | 5.6 | 2.8 | 2.3 | 1.9 | 3.1 | 3.8 | 1.8 | 1.1 | 4.7 |
| TURKEY | 0.1 | 0.2 | 0.4 | 3.0 | 16.7 | 1.7 | 0.6 | 1.0 | 15.7 | 13.2 |
| UNITED KINGDOM | 94.5 | 142.0 | 115.5 | 102.0 | 112.1 | 36.2 | 43.0 | 66.4 | 68.2 | 66.6 |
| TOTAL MEMBER COUNTRIES | 214.1 | 320.9 | 331.3 | 337.1 | 344.3 | 157.4 | 194.7 | 303.6 | 349.8 | 323.7 |

## TABLE 7

## FINLAND

## MEMBER COUNTRIES' IMPORTS FROM AND EXPORTS TO FINLAND

$ million

| | IMPORTS | | | | | EXPORTS | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1950 | 1951 | 1952 | 1953 | 1954 | 1950 | 1951 | 1952 | 1953 | 1954 |
| GERMANY | 21.7 | 60.7 | 74.7 | 46.7 | 56.8 | 16.9 | 65.4 | 94.9 | 37.2 | 44.7 |
| AUSTRIA | 0.4 | 0.6 | 0.7 | 0.2 | 0.4 | 1.8 | 2.6 | 2.8 | 1.6 | 2.6 |
| B.L.E.U. | 16.4 | 25.7 | 20.2 | 16.3 | 21.4 | 15.4 | 33.1 | 20.5 | 13.7 | 18.5 |
| DENMARK | 29.0 | 39.5 | 25.3 | 21.2 | 25.3 | 23.7 | 34.0 | 26.0 | 13.3 | 14.3 |
| FRANCE | 20.5 | 53.8 | 56.4 | 29.8 | 37.2 | 19.5 | 39.2 | 66.9 | 24.3 | 42.0 |
| GREECE | 3.4 | 4.0 | 3.4 | 3.6 | 2.9 | 4.2 | 2.3 | 4.2 | 2.4 | 3.2 |
| IRELAND | 7.1 | 8.1 | 5.9 | 5.2 | 7.8 | 0.1 | 0.4 | 0.3 | - | 1.2 |
| ICELAND | 1.2 | 2.3 | 2.1 | 3.4 | 5.1 | 1.6 | 1.9 | 2.2 | 3.3 | 1.7 |
| ITALY | 8.2 | 15.4 | 9.2 | 4.7 | 9.1 | 9.2 | 18.0 | 7.1 | 4.8 | 6.7 |
| NORWAY | 5.6 | 17.6 | 11.4 | 5.1 | 9.3 | 5.7 | 8.7 | 12.5 | 7.4 | 12.4 |
| NETHERLANDS | 32.0 | 46.0 | 30.3 | 25.4 | 32.0 | 25.0 | 42.2 | 35.9 | 31.1 | 38.5 |
| SWEDEN | 13.1 | 20.7 | 22.4 | 13.1 | 15.5 | 22.6 | 33.9 | 43.2 | 19.9 | 29.9 |
| SWITZERLAND | 2.0 | 9.9 | 9.8 | 1.2 | 4.6 | 2.9 | 5.4 | 8.2 | 6.5 | 6.8 |
| PORTUGAL | 0.1 | 0.6 | 0.4 | 0.6 | 0.7 | 0.1 | 0.4 | 0.1 | 0.1 | 0.4 |
| TURKEY | 2.5 | 3.4 | 6.5 | 8.8 | 11.2 | 2.7 | 3.3 | 5.1 | 6.8 | 10.0 |
| UNITED KINGDOM | 94.5 | 279.7 | 184.2 | 143.6 | 165.2 | 59.0 | 94.2 | 107.2 | 61.5 | 91.9 |
| TOTAL MEMBER COUNTRIES | 257.7 | 558 | 462.9 | 328.9 | 404.5 | 210.4 | 385 | 437.1 | 233.9 | 324.8 |

TABLE 8

YUGOSLAVIA

MEMBER COUNTRIES' IMPORTS FROM AND EXPORTS TO YUGOSLAVIA

$ million

| | IMPORTS | | | | | EXPORTS | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1950 | 1951 | 1952 | 1953 | 1954 | 1950 | 1951 | 1952 | 1953 | 1954 |
| GERMANY | 22.8 | 38.2 | 61.- | 34.8 | 45.0 | 37.3 | 43.8 | 76.4 | 69.2 | 61.5 |
| AUSTRIA | 12.9 | 15.9 | 28.9 | 10.0 | 16.9 | 15.1 | 13.5 | 26.1 | 22.3 | 24.4 |
| B.L.E.U. | 5.6 | 4.5 | 4.6 | 2.1 | 3.1 | 4.2 | 12.1 | 20.6 | 12.3 | 7.3 |
| DENMARK | 1.1 | 1.1 | 1.2 | 0.8 | 0.8 | 1.2 | 2.9 | 1.4 | 1.6 | 3.0 |
| FRANCE | 4.5 | 7.6 | 13.8 | 8.1 | 7.8 | 5.3 | 13.0 | 27.0 | 27.4 | 19.3 |
| GREECE | 0.9 | 0.7 | 2.6 | 6.2 | 5.5 | - | 1.4 | 0.9 | 5.5 | 2.3 |
| IRELAND | 0.2 | 0.2 | - | - | - | | | | | |
| ICELAND | | | | | | | | - | - | - |
| ITALY | 17.0 | 17.3 | 33.1 | 31.8 | 32.8 | 22.5 | 30.7 | 30.3 | 35.8 | 28.9 |
| NORWAY | 0.3 | 0.4 | 0.3 | 0.2 | 1.0 | 0.2 | 2.5 | 0.3 | 0.8 | 0.9 |
| NETHERLANDS | 5.0 | 3.5 | 4.1 | 4.5 | 4.6 | 6.0 | 9.4 | 7.7 | 12.6 | 8.0 |
| SWEDEN | 4.7 | 2.2 | 2.9 | 1.7 | 2.1 | 3.4 | 2.9 | 3.0 | 5.9 | 5.7 |
| SWITZERLAND | 3.3 | 3.9 | 5.0 | 5.8 | 5.8 | 6.3 | 7.6 | 8.4 | 7.1 | 7.9 |
| PORTUGAL | - | | | - | - | | - | - | | 0.1 |
| TURKEY | 0.4 | 1.5 | 2.6 | 25.1 | 30.6 | 1.0 | 0.9 | 14.8 | 19.5 | 16.6 |
| UNITED KINGDOM | 31.7 | 30.0 | 44.8 | 24.0 | 21.0 | 19.3 | 33.9 | 31.2 | 24.0 | 21.3 |
| TOTAL MEMBER COUNTRIES | 110.4 | 127 | 205.8 | 155.1 | 177.0 | 121.8 | 174.6 | 248.1 | 244 | 207.2 |

TABLE 9

EGYPT

MEMBER COUNTRIES' IMPORTS FROM

AND EXPORTS TO EGYPT

$ million

| | IMPORTS | | | | | EXPORTS | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1950 | 1951 | 1952 | 1953 | 1954 | 1950 | 1951 | 1952 | 1953 | 1954 |
| GERMANY | 23.5 | 24.5 | 30.4 | 25.3 | 33.6 | 19.1 | 29.7 | 38.4 | 54.5 | 46.8 |
| AUSTRIA | 5.4 | 3.0 | 0.5 | 3.9 | 7.5 | 5.5 | 7.5 | 4.9 | 4.6 | 5.7 |
| B%L.E.U. | 6.5 | 8.1 | 2.9 | 6.3 | 6.2 | 21.3 | 15.3 | 16.5 | 11.8 | 12.0 |
| DENMARK | 2.8 | 1.1 | 1.0 | 1.2 | 2.5 | 2.6 | 3.6 | 3.8 | 3.2 | 4.7 |
| FRANCE | 47.5 | 61.0 | 51.7 | 51.8 | 46.3 | 55.3 | 68.6 | 50.2 | 57.2 | 58.8 |
| GREECE | 1.2 | 0.8 | 0.9 | 1.0 | 1.3 | 4.0 | 4.7 | 2.9 | 3.7 | 3.7 |
| IRELAND | 0.6 | 0.2 | 0.2 | 0.4 | 0.1 | 0.1 | 0.1 | - | 0.1 | 0.1 |
| ICELAND | | | | | - | 0.1 | 0.1 | 0.1 | | 0.1 |
| ITALY | 32.7 | 51.1 | 45.3 | 33.1 | 28.1 | 41.4 | 40.7 | 28.9 | 37.2 | 33.7 |
| NORWAY | 0.7 | 2.7 | 0.9 | 0.9 | 0.7 | 8.1 | 8.2 | 6.2 | 5.6 | 6.4 |
| NETHERLANDS | 6.3 | 7.5 | 4.3 | 7.7 | 6.9 | 11.6 | 15.5 | 21.2 | 13.2 | 14.1 |
| SWEDEN | 4.0 | 4.6 | 2.0 | 4.2 | 1.7 | 12.9 | 15.0 | 11.3 | 11.9 | 11.6 |
| SWITZERLAND | 14.3 | 11.3 | 11.6 | 15.1 | 14.2 | 11.6 | 8.9 | 10.7 | 18.9 | 18.1 |
| PORTUGAL | 1.2 | 2.7 | 1.5 | 0.9 | 1.2 | 0.8 | 1.0 | 0.3 | 0.3 | 0.5 |
| TURKEY | 0.8 | 1.3 | 0.6 | 0.1 | 2.1 | 5.8 | 8.0 | 5.4 | 7.0 | 3.6 |
| UNITED KINGDOM | 112.1 | 133.0 | 36.1 | 42.9 | 46.9 | 120.2 | 115.4 | 92.3 | 59.9 | 60.1 |
| TOTAL MEMBER COUNTRIES | 259.6 | 312.9 | 189.8 | 194.8 | 199.3 | 320.4 | 342.3 | 293.1 | 289.1 | 280 |

TABLE 10

JAPAN

MEMBER COUNTRIES' IMPORTS FROM AND EXPORTS TO JAPAN

$ million

| | IMPORTS | | | | | EXPORTS | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1950 | 1951 | 1952 | 1953 | 1954 | 1950 | 1951 | 1952 | 1953 | 1954 |
| GERMANY | 9.0 | 15.6 | 17.7 | 29.1 | 20.2 | 7.8 | 13.4 | 22.1 | 37.9 | 41.9 |
| AUSTRIA | 0.2 | 0.4 | 0.1 | 0.1 | 0.6 | - | 0.5 | 0.9 | 0.6 | 0.4 |
| B.L.E.U. | 4.9 | 5.8 | 6.1 | 7.1 | 6.6 | 12.4 | 28.6 | 7.0 | 18.4 | 14.5 |
| DENMARK | 7.0 | 2.9 | 0.7 | 3.9 | 0.9 | 1.3 | 1.3 | 1.7 | 4.6 | 2.4 |
| FRANCE | 6.7 | 15.6 | 29.0 | 15.4 | 10.8 | 4.5 | 17.8 | 6.6 | 22.2 | 13.6 |
| GREECE | | 0.2 | - | 4.3 | 0.6 | | - | - | - | 0.2 |
| IRELAND | 0.6 | 1.7 | 0.9 | 2.7 | 3.3 | | - | - | 0.5 | - |
| ICELAND | | | - | - | - | - | - | | | |
| ITALY | 2.4 | 4.1 | 6.3 | 7.0 | 4.3 | 0.7 | 5.4 | 16.4 | 10.6 | 13.0 |
| NORWAY | 4.7 | 1.0 | 6.1 | 3.1 | 1.5 | 1.4 | 3.2 | 1.8 | 2.7 | 0.3 |
| NETHERLANDS | 7.0 | 10.1 | 7.5 | 7.2 | 8.3 | 0.7 | 3.4 | 4.1 | 10.4 | 9.4 |
| SWEDEN | 5.0 | 12.6 | 20.6 | 12.6 | 9.3 | 4.8 | 8.1 | 5.8 | 11.4 | 6.4 |
| SWITZERLAND | 5.7 | 10.5 | 9.7 | 8.8 | 7.0 | 1.0 | 3.2 | 3.6 | 9.7 | 10.5 |
| PORTUGAL | 0.2 | 0.3 | 0.2 | 0.3 | 0.6 | 0.2 | 0.5 | 1.6 | 3.1 | 1.1 |
| TURKEY | - | 0.2 | 0.3 | 0.6 | 5.2 | 2.1 | 2.9 | 0.4 | 7.0 | 2.6 |
| UNITED KINGDOM | 22.1 | 48.8 | 81.2 | 25.9 | 43.3 | 8.0 | 27.3 | 26.2 | 51.2 | 33.5 |
| TOTAL MEMBER COUNTRIES | 75.5 | 129.8 | 186.4 | 128.1 | 122.5 | 44.9 | 115.6 | 98.2 | 190.3 | 149.8 |

## ANNEX II

## CLASSIFICATION OF A NUMBER OF BILATERAL AGREEMENTS ACCORDING TO THE TYPES DESCRIBED IN PARAGRAPH 7 OF THE REPORT

Table A : Individual Member countries' agreements with various third countries

Table B : Individual third countries' agreements with various Member countries

Note: These Tables have been prepared from the information supplied by Member countries on the Agreements concluded with the third countries mentioned. They concern the trade and financial provisions of the actual Agreements, and not the trade and financial system applied by the Member and third countries. These provisions are grouped according to the chief types of agreement described in paragraph 7 of the Report. Nevertheless, the Tables indicate in brackets the cases in which:

(1) the Member country applies to the third country the system of liberalisation applicable to O.E.E.C. countries, although the Agreement does not correspond to type (a)(iii);

(2) there remains a reciprocal credit line, although the Agreement does not correspond to type (b)(i);

(3) the Member country's currency used in the bilateral trade relation in question is transferable, but the Agreement does come within category (b)(vi).

TABLE A

INDIVIDUAL MEMBER COUNTRIES' AGREEMENTS WITH VARIOUS THIRD COUNTRIES

| | (a) Trade provisions | | | | (b) Financial provisions | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | (i) Quota system + commitment | (ii) | (iii) O.E.E.C. Liberalisation(1) | (iv) No negotiated quota | (i) Bilateral payments | (ii) (2) | (iii) Transferability | (iv) (3) | (v) Third country's currency quoted | (vi) Multilateral system |
| **Belgium** | | | | | | | | | | |
| Argentina | - | x | (x) | - | - | x | - | - | - | - |
| Brazil | - | - | x | - | - | - | - | - | - | x |
| Egypt | - | - | (x) | x | - | - | - | - | x | - |
| Spain | - | - | x | - | x | - | - | - | - | - |
| Finland | - | - | x | - | - | - | x | - | - | - |
| Japan | - | - | - | x | - | - | - | - | - | - |
| Uruguay | - | - | (x) | x | x | - | - | - | - | - |
| Yugoslavia | - | x | (x) | - | x | - | - | - | - | - |
| **Italy** | | | | | | | | | | |
| Argentina | x | - | - | - | x | - | - | - | - | - |
| Spain | - | x | - | - | x | - | - | - | - | - |
| Yugoslavia | - | x | (x) | - | x | - | - | - | - | - |
| **Norway** | | | | | | | | | | |
| Brazil | - | x | - | x | x | - | - | - | - | - |
| Finland | - | - | x | - | - | - | x | - | - | - |
| Spain | - | x | (x) | - | x | - | - | - | - | - |
| **Netherlands** | | | | | | | | | | |
| Finland | - | - | x | - | - | - | x | - | - | - |
| Yugoslavia | - | x | - | - | x | - | - | - | - | - |
| Spain | - | x | - | - | x | - | - | - | - | - |
| Uruguay | - | - | - | x | (x) | - | x | - | - | - |
| Brazil | - | - | - | x | - | - | - | - | - | - |
| **Switzerland** | | | | | | | | | | |
| Spain | - | - | x | - | - | x | - | - | - | - |
| Finland | - | - | x | - | - | - | x | - | - | - |
| Uruguay | - | - | (x) | x | - | x | - | - | - | - |
| Egypt | - | - | - | x | - | - | - | - | x | - |
| **United Kingdom** | | | | | | | | | | |
| Finland | - | - | x | - | - | - | - | x | - | - |
| Argentina | x | - | (x) | - | (x) | - | - | x | - | - |
| Japan | x | - | - | - | - | - | - | x | - | - |
| Brazil | - | - | x | - | - | - | - | (x) | - | x |
| **Germany** | | | | | | | | | | |
| Argentina | - | x | - | - | - | x | - | - | - | - |
| Finland | - | - | x | - | - | - | - | x | - | - |
| Japan | - | x | - | - | - | - | - | x | - | - |
| Brazil | - | - | x | - | - | - | - | (x) | - | x |
| Spain | - | - | x | - | - | - | - | x | - | - |

TABLE B

INDIVIDUAL THIRD COUNTRIES' AGREEMENTS WITH VARIOUS MEMBER COUNTRIES

| | (a) Trade provisions | | | | (b) Financial provisions | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | (i) Quota system plus commitment | (ii) | (iii) O.E.E.C. Liberalisation (1) | (iv) No negotiated quota | (i) Bilateral payments (2) | (ii) | (iii) Transferability (3) | (iv) | (v) Third country's currency quoted | (vi) Multilateral system |
| **Argentine** | | | | | | | | | | |
| Belgium | - | x | (x) | - | - | x | - | - | - | - |
| Italy | x | - | - | - | x | - | - | - | - | - |
| United Kingdom | x | - | (x) | - | (x) | - | - | x | - | - |
| Germany | - | x | - | - | - | x | - | - | - | - |
| **Brazil** | | | | | | | | | | |
| Belgium | - | - | x | - | - | - | - | - | - | x |
| Norway | - | x | x | x | x | - | - | - | - | - |
| Netherlands | - | - | - | x | - | - | - | - | - | x |
| United Kingdom | - | - | x | - | - | - | - | - | - | x |
| Germany | - | - | x | - | - | - | - | - | - | x |
| **Uruguay** | | | | | | | | | | |
| Belgium | - | - | (x) | x | x | - | - | - | - | - |
| Netherlands | - | - | - | x | (x) | - | x | - | - | - |
| Switzerland | - | - | (x) | x | - | x | - | - | - | - |
| **Spain** | | | | | | | | | | |
| Belgium | - | - | x | - | x | - | - | - | - | - |
| Italy | - | x | - | - | x | - | - | - | - | - |
| Norway | - | x | (x) | - | x | - | - | - | - | - |
| Netherlands | - | x | - | - | x | - | - | - | - | - |
| Switzerland | - | - | x | - | - | x | - | - | - | - |
| Germany | - | - | x | - | - | - | - | x | - | - |
| **Finland** | | | | | | | | | | |
| Belgium | - | - | x | - | - | - | x | - | - | - |
| Norway | - | - | x | - | - | - | x | - | - | - |
| Netherlands | - | - | x | - | - | - | x | - | - | - |
| Switzerland | - | - | x | - | - | - | x | - | - | - |
| United Kingdom | - | - | x | - | - | - | - | x | - | - |
| Germany | - | - | x | - | - | - | - | x | - | - |
| **Jugoslavia** | | | | | | | | | | |
| Belgium | - | x | (x) | - | x | - | - | - | - | - |
| Italy | - | x | (x) | - | x | - | - | - | - | - |
| Netherlands | - | x | - | - | x | - | - | - | - | - |
| **Egypt** | | | | | | | | | | |
| Belgium | - | - | (x) | x | - | - | - | - | x | - |
| Switzerland | - | - | - | x | - | - | - | - | x | - |
| **Japan** | | | | | | | | | | |
| Belgium | - | - | - | x | - | - | - | - | - | - |
| United Kingdom | x | - | - | - | - | - | - | x | - | - |
| Germany | - | x | - | - | - | - | - | x | - | - |

Mr. Ivar Rooth

Room 935

(1) #1

SM/55/85

December 13, 1955

To: Members of the Executive Board

From: The Acting Secretary

Subject: Use of Bilateral Agreement Currencies for Trade with Third Countries

The attached memorandum is circulated for the information of the Executive Directors.

Att: (1)

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INTERNATIONAL MONETARY FUND

Exchange Restrictions Department

# Use of Bilateral Agreement Currencies for Trade with Third Countries

Prepared by Barend A. de Vries and F.A.G. Keesing

December 13, 1955

## Introduction and Summary

This memorandum, dealing with various aspects of the use of bilateral agreement currencies for trade with third countries, was initiated as one of the studies in response to Board requests for investigation of the broader aspects of commercial switches and retention quotas (EBM 53/63, 64 and 65). During the Board discussion of one of these studies, namely that dealing with cheap sterling (SM/53/52), the staff indicated that the problem of bilateral agreement currencies negotiated at discounts, was being studied separately (EBM 53/89). The present memorandum discusses the techniques, scope and effects of various types of cheap bilateral currency transactions with particular reference to the situation prevailing until the middle of 1954.

Since about the middle of that year, activity in the New York cheap currency markets has tapered off to a considerable extent. Transactions of this kind are much less frequent now than they were in 1953 and during the first part of 1954. As a consequence, it has become practically impossible to obtain recent quotations which indicate any particular trend. A few traders still issue lists of quotations, but those seem to show the levels of discount at which they would be inclined to solicit bids or offers, rather than transactions actually concluded.

It appears that various causes have cooperated towards the recent decline of the cheap currency market. Fewer bilateral payments agreements are now as manifestly out of balance as they were some time ago, and, on the whole, governments now appear less tolerant of these practices than they were previously. The interest of various countries which used to import dollar commodities through this procedure, has dwindled. In many cases, import restrictions against dollar goods have been relaxed or abandoned. In addition, import transactions financed in transferable sterling (which is currently traded at less than 1 per cent discount) now offer a less costly procedure to obtain dollar goods against non-dollar payments. Since most cheap currency transactions originate in the countries importing the dollar goods involved, the declining interest on their part in this type of trade undoubtedly reduces the scope for cheap currency deals.

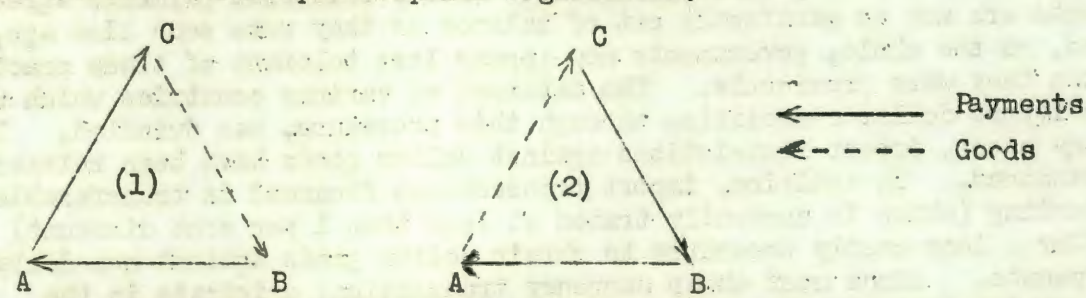
Among the more recent factors, contributing towards the decline of the cheap currency market, special mention is made of the organization of an "area of limited convertibility" by Brazil, and similar other arrangements, and of the current overhaul of the Argentine exchange system.

At this time, little business in cheap currencies is being contracted. However, dealers occasionally still manage to conclude a transaction. It is generally felt that, if monetary conditions generally develop further towards normal, the cheap currency market is bound to disappear. On the other hand, it may revive if countries were to find themselves once more in monetary difficulties.

<u>Technical Aspects of the Use of Agreement Currencies for Trade with Third Countries</u>

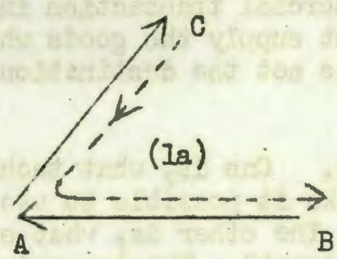
Most trade for which payment is made through a bilateral payments agreement, consists of goods originating in one partner country, and destined for the other. This is, clearly, the kind of thing to be normally expected, in accordance with the rules applying to a bilateral trade and payments relationship. During recent years, however, the payments channels between various sets of bilateral countries (A and B) have frequently been used for the settlement of trade transactions of a different nature, involving trade between one or both of the partners with a third country (C). This case arises if a payment through an account under a bilateral agreement is made from B to A 1/: (1) for the import of goods into B, not originating in A, but in C, or, (2) for the export of goods from A, not destined for B, but for C.

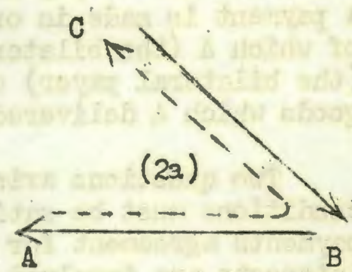
It is clear that these transactions constitute only part of a deal, since in both cases there must be some further arrangement which closes the triangle. It is conceivable that a direct payment is made by A to C (1), or, alternatively, that a direct payment is made by C to B (2). In those cases, the total three-cornered transaction will consist of one direct commercial transaction and two transfers, both of which are in conflict with normal prescription regulations.



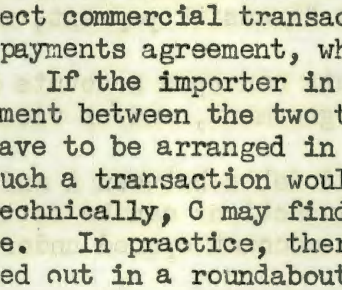

1/ Throughout this paper, "B" will represent the bilateral country which makes, and "A" the bilateral country which receives, a bilateral payment.

It is also possible that one of the bilateral partners acts as a commercial go-between, re-exporting or selling in transit C's goods to the other partner (1a), or vice versa (2a), whilst itself arranging payment in either direction. Under those conditions, there will be no direct contacts, either commercial or monetary, between the countries of origin and destination of the goods concerned. The total transaction in that case will consist of a transit deal (which may or may not be in accordance with the trade rules agreed between A and B), combined with two independent transfers. The problems relating to transit trade (including the complications of switch trade that may arise in that context) have been dealt with in previous memoranda,[1] and will not be covered again in this paper.




It is finally possible that the triangle will be closed, not by a payment but by a second commercial transaction (export from A to C, export from C to B). This type of transaction (3) will normally give rise to a so-called cheap currency quotation in a hard currency market. It consists of two separate direct commercial transactions, settled by one payment through a bilateral payments agreement, which conflicts with normal prescription regulations. If the importer in B is in direct touch with the exporter in A, settlement between the two traders in C (if they are different people) would have to be arranged in C's local currency. From the point of view of C, such a transaction would be tantamount to a three-cornered barter deal. Technically, C may find that such an exchange is very difficult to organize. In practice, therefore, this type of transaction is generally carried out in a roundabout way. The exporter in C sells his goods to B against a "transit" payment of a claim under B's bilateral agreement with A. He subsequently sells this claim to the importer in C, who uses it to settle his import from A. The technical aspects of such a "transit" payment will be explained later.[2]




1/ See EEM 53/29, SM/53/10, Sup. 6, SM/53/54.

2/ See p. 12 and following.

The transaction sub (3) may assume a more complicated shape, if either C's import or its export is organized by one of the bilateral countries as a transit deal. Under those conditions, B will be re-exporting A's goods to C, and the total transaction will be a commercial switch, consisting of one transit deal of the type (2a), plus a direct commercial transaction, directly paid for. Alternatively, the accompanying direct commercial transaction may be developed into another transit deal. Again, this type of transaction has been analyzed in previous memoranda.

It follows from the foregoing that the one binding element in the various transactions under consideration is the use of a bilateral payments channel to pay for trade transactions with a third country. Such a payment is made in order to settle a commercial transaction in respect of which A (the bilateral recipient) did not supply the goods which B (the bilateral payer) obtained, and/or B was not the destination of the goods which A delivered.

Two questions arise in this connection. One is, what technical conditions must be satisfied in order to make it possible to use a bilateral payments agreement for indirect payments? The other is, what economic interests are involved in this type of payment? The two points will be taken up separately.

The technical rules which govern a strictly bilateral relationship between two countries, and which must be circumvented or set aside in case of an indirect or a "transit" payment, may be summarized as follows:

(1) Only A residents can open accounts and hold balances in B under the A-B payments agreement, and/or vice versa.

(2) Only claims and debts between A and B residents in respect of mutually admitted transactions can be settled through the transfer of a balance, held in an account opened under the A-B agreement.

(3) In order to qualify for settlement through the agreement, a commercial transaction between the two partners must be in respect of goods, originating in one partner country and bought by the other for its own use or consumption.

Several controls are necessary to supervise these provisions and to safeguard the bilateral nature of a trade and payments relationship.

If payments between A and B are centralized, there will be either one account, opened by one central bank in the name of the other, or there will be two accounts, opened by each central bank in the other's name, depending on the type of the agreement. When this situation exists, all monetary control will be effectively vested in the central banks.

If payments are decentralized, there will, in addition to the account(s) held by the central bank(s), exist other accounts, opened by authorized banks in one country in the names of authorized banks in the other country. This arrangement necessary delegates some controls to the authorized banks. The role played by the authorized banks may be small if they only act as agents for the central banks. If the authorized banks are entitled to hold and handle their own currency positions, they will possess a greater degree of independence, although still within the framework of existing exchange control regulations, and possibly subject to specific limitations imposed by their own central bank.

As long as surrender requirements are fully enforced, no private individuals (other than authorized banks) can hold balances under a payments agreement. If surrender requirements are waived, private individuals may be permitted or required to hold and to handle their balances, but normally only through the intermediary of an authorized bank.

Each central bank or authorized bank, as the case may be, will have to check and certify that any amounts transferred through the agreement to the partner country, are paid for the account of a resident of its own country, and in respect of a transaction that has been duly authorized. The same thing applies to a bank which receives payment through the agreement.

Each central bank will impose prescription regulations which link the settlement of claims and debts under a bilateral agreement to transactions effected between the two countries concerned. In addition, commercial controls will be necessary in order to ascertain the origin of the goods imported from the partner country. The exporting country may be asked to certify the origin for the benefit of the importing country. The exporting country, furthermore, will have to ascertain in its own interests whether goods exported from its territory are in fact despatched to their alleged destination. The importing country, finally, may be requested by the exporting country to ensure that goods which it imported from the partner country are not offered for re-export.

It appears that a complicated set of controls is required to guarantee that both payments and underlying transactions between two countries are and remain purely bilateral. These controls are both of a monetary and of a commercial nature. Some of them require close cooperation between exchange authorities and customs authorities. Part of the monetary controls may be delegated to authorized banks. The intensity of controls may vary with the general restrictiveness of the currency regime concerned. In certain cases, the controls in one country depend on statements made by the other country, and which the former may not normally try to cross-check.

If those controls are effectively applied, indirect payments through a bilateral agreement appear excluded. They can only be arranged under one of the following conditions: (a) ad hoc agreement between two bilateral partners to deviate from the rules of pure bilateralism; (b) general relaxation of controls in one or both partner countries, resulting in factual abandonment of bilateralism; (c) connivance by the control authorities in one country at practices with which the partner country does not necessarily agree; (d) circumvention of the controls by private traders.

Ad hoc agreement between two partner countries about certain deviations from the normal procedure of bilateralism may affect the commercial or the monetary rules. In the former case, the partners concerned may agree that under specific conditions all or some goods imported by one of them and paid through the agreement need not originate in the other country, or, alternatively, that goods imported by one country and paid through the agreement may be re-exported, or sold in transit. In the latter case, they may agree that a payment through the agreement shall be made and accepted for a commercial transaction between either of them and a third country.

A general relaxation of controls in one or both partners may consist of the introduction of limited or unrestricted transferability amongst bilateral balances which are held in various agreements. The introduction of transferability by one partner country for the benefit of others constitutes a facility which the others are welcome to use if they see fit.

A different type of relaxation may play a role if one partner country, whilst officially and generally maintaining its controls, allows its residents in certain cases greater freedom than would normally appear compatible with the rules of its bilateral relationships. It may happen that the partner countries accept these deviations, but it is also conceivable that they find their interests damaged by them.

Finally, it is possible that private traders manage to dodge certain controls, especially those barring transit trade and/or prescription regulations, despite the best efforts of the authorities concerned to ensure their enforcement.

The next question to be considered concerns the type of economic interests that may be involved in the making of indirect payments through a bilateral agreement. Several possibilities present themselves.

Private traders will have a commercial interest in buying and selling goods in the most advantageous markets, unencumbered by discriminatory quota provisions and rules of bilateralism, which restrict their freedom of action. Their motive is to make a commercial profit. From the traders' point of view, profit possibilities will be determined by prices existing in various markets, recalculated at the rate of exchange between the foreign currencies concerned and their own currency. A private trader, in the course of his normal business, has no interest in particular currencies for their own sake. He will have an indirect interest, however, to the extent that broken cross rates may affect his profit possibilities, and also inasmuch as either acceptance or availability of particular currencies may allow him to carry out certain profitable transactions that could not normally be concluded. This means that in various cases (transit trade, circumvention of discriminatory restrictions, currency arbitrage through commodity transactions) private traders may see their profits increased, if they can manage to arrange roundabout transactions and/or to apply unusual payments procedures. Governments will normally try to prevent these transactions, if they feel that they are against their countries' interests or against their international commitments. If governments have no strong negative feelings on the subject, they may let them be or even encourage them.

The interests which the exchange authorities themselves have in arranging, allowing or condoning the use of bilateral balances for purposes outside the usual scope of the payments agreements involved, may be either of a monetary or of a commercial nature. Some governments have felt that such payments should be encouraged as a matter of general monetary policy, and have, therefore, established certain conditions under which they allow automatic transferability of balances which they owe in various payments agreements. More frequently, however, the monetary considerations which prompt governments to waive the rules of monetary bilateralism are of an ad hoc nature. Those considerations arise, notably, when claims or debts in certain bilateral relationships have become excessive, and means are sought to correct the situation.

Normally, an excessive bilateral balance should be reduced by increased exports from the debtor to the creditor country, or by a payment in gold or in a third currency, but there may be reasons why a different procedure is applied. If B is the creditor of the bilateral relationship, a payment by B to A for goods imported by B from C, or imported by C from A, would have the same monetary effect. For this purpose, the commercial transaction should present certain advantages for each or either bilateral country involved, or it should be acceptable to B (if necessary, at some sacrifice to it), if there is no other obvious way of reducing its outstanding claims.

One or the other government concerned may itself arrange the transaction necessary to attain the reduction of the bilateral balance (possibly, but not necessarily, in agreement with the authorities of one or both of the two other countries concerned), 1/ or it may offer to its residents inducements or facilities (waiver of currency prescription, waiver of surrender requirements, import facilities outside usual quota provisions, broken cross rates, special import or export rates, and others) which are likely to produce the desired result.

1/ If the third country has no currency regulations, its authorities will not be involved.

From the commercial point of view, a government may feel that its own discriminatory import policy, inspired by currency considerations, may be causing difficulties, since it deprives the country of desirable goods. Alternatively, it may find that its lack of competitiveness prevents it from normally selling certain export products in certain markets, whilst it may be eager to export those goods or to retain those markets, or both. In those cases, its aim may be to correct the trade situation by arranging or permitting indirect imports or exports (as the case may be). Since those transactions could not take place if they had to be paid for in the normal way, they must be settled in an indirect fashion, i.e. in an inconvertible currency.

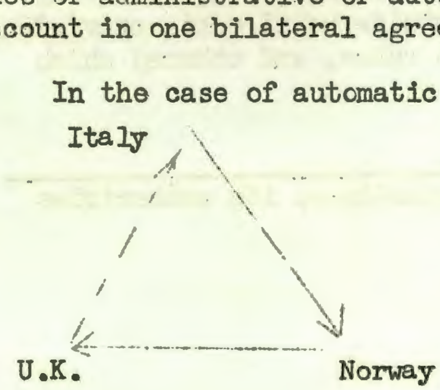
It may happen that in some cases commercial and monetary interests run parallel. Under those conditions, a country may manage, at the same time, to arrange certain commercial transactions which it deems interesting, and to correct the position of a bilateral payments agreement. In other cases, however, the trade interests may prevail, and indirect payments may be used as a means to an end, possibly leading to the result that the position of the payments agreement through which the settlement takes place, becomes more unbalanced than it was previously, or leaving the bilateral balance unaffected in the end.

Whatever may be the motivation for some kind of transaction of the character described above, one of three conditions must be fulfilled. First, it may be that the special transaction is commercially profitable at prevailing prices and under the existing exchange facilities. In that case, traders will either avail themselves of the opportunity without government permission, or they will respond as soon as the authorities extend the necessary licenses. Secondly, it may be that at prevailing prices and under the existing exchange facilities, the special transaction could only be carried out at a loss. In that case, if the government wishes its traders to play their part, it has to offer some kind of inducement (usually of a multiple currency nature) which allows traders to find compensation for the commercial loss they would have to incur. Finally, if a loss were involved, the authorities themselves may decide to bear it, if they consider the transaction to be in the public interest.

Cases (1) and (2)

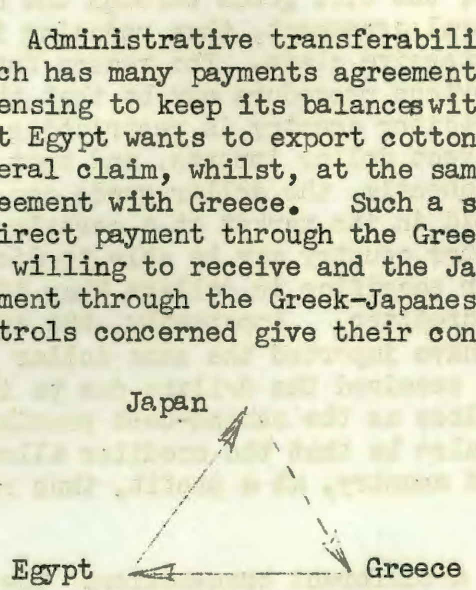
The cases (1) and (2) frequently arise when there exist possibilities of administrative or automatic transferability of balances from an account in one bilateral agreement to an account in a different agreement.

In the case of automatic transferability, an importer in one bilateral country can pay his supplier in another bilateral country in a third currency. The country whose currency has been made transferable, will play the intermediary role which is necessary to effect the indirect payment. An export from Italy to Norway, for instance, could be paid



in sterling. Instructions would be given on behalf of the Norwegian importers to a United Kingdom authorized bank to debit a Norwegian sterling account and to credit an equivalent balance to an Italian sterling account.

Administrative transferability is extensively practised by Egypt, which has many payments agreements and does not primarily rely on import licensing to keep its balances within reasonable limits. It may happen that Egypt wants to export cotton to, say, Japan, on which it has a bilateral claim, whilst, at the same time, it has a bilateral debt in its agreement with Greece. Such a situation would set the stage for an indirect payment through the Greek-Egyptian agreement, provided the Greeks are willing to receive and the Japanese are willing to make an equivalent payment through the Greek-Japanese agreement. If the three exchange controls concerned give their consent, the transaction might develop in the way indicated.



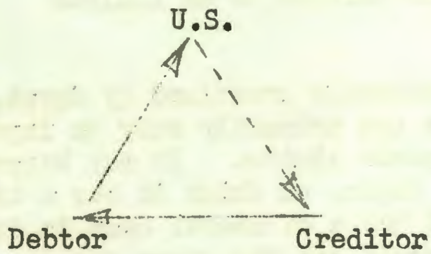

From the Egyptian point of view, the result would be that the cotton export to Japan does not raise its bilateral claim on Japan and helps to reduce its bilateral debt to Greece. Similarly, in 1952, Sweden reduced its excessive debtor position vis-a-vis Japan by deliveries of rice from Thailand. At that time, Japan could not increase its direct rice purchase from that country without exceeding its quota under the Japanese-Thai trade agreement. In several cases, deals of this type are carried out as transit transactions. In order to reduce its debtor position with Brazil, Finland, e.g., re-exported Argentine grains and commodities originating in Germany, Sweden and the United Kingdom, to Brazil, against payments through the Brazilian-Finnish accounts.

If the transactions described in the above examples do not form a substitute for any country's right to claim gold or dollars for a balance in excess of the swing, they are likely to be carried out on a straightforward basis. This means that the commercial deal will probably be concluded at its usual price, and that similarly the two payments will be made at correct cross rates. The position may be different, however, if the indirect payment through the bilateral agreement is arranged in lieu of a hard currency payment in the opposite direction, in order to reduce a balance in excess of the swing.

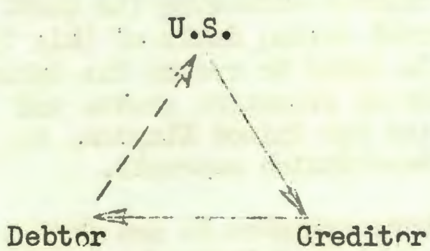
Although many bilateral agreements provide for settlement in dollars beyond a certain point, debtor countries often do not actually pay dollars to their bilateral creditors when the need arises. This may be due to the fact that the debtor's dollar position renders it difficult or quasi-impossible to make such payments, whilst the creditor country perhaps does not want to press too hard lest it endanger its exports possibilities. It may happen that, under those conditions, the two bilateral countries concerned agree upon a different procedure, which replaces the payment of dollars from A to B by a payment through the agreement from B to A, for goods imported by B, or exported by A, to the dollar area.

The following possibilities present themselves:

The bilateral debtor may be willing to make dollars available for the purchase of U.S. commodities to be shipped to the creditor country, rather than paying dollars directly to the creditor country. The latter will pay for the U.S. goods through the bilateral agreement, thus reducing its excessive claim. The reason for this devious procedure may be that the creditor country is restricting its direct dollar imports, and that, consequently, the dollar goods can be sold in its market at a certain premium. Under those conditions, the debtor country may be able to discharge its bilateral debt at a somewhat smaller sacrifice in dollars than if a direct dollar payment were made to its creditor. Apparently, the creditor country stands to lose, since it might have imported the same dollar goods at a lower price, if it had effectively received the dollars due to it. It may be that it is willing to take this loss as the second-best possibility to reduce an excessive claim. It may also be that the creditor allows the dollar goods to be resold to a third country, at a profit, thus recouping the loss.




Similar results may be obtained by a different transaction. The debtor country may undertake to export certain goods to the U.S., the proceeds of which will be turned over to the creditor against a payment by the latter through the bilateral agreement. More usually, however, the bilateral creditor would re-export the debtor's commodities to a dollar country. Since soft currency goods exported to the U.S. are likely to yield less than when sold to a bilateral partner, this method is equally likely to present complications. The creditor country to which this solution is offered in lieu of a direct dollar payment, would be faced with the same considerations as exist in the previous case.




It may happen, of course, that the export from A to C, or the export from C to B, is not carried out directly, but either through the intermediary of B or A, respectively. If the trade transaction is arranged directly, both bilateral countries are most probably in agreement about the settlement involved. This may still be so, if a transit transaction is organized, since the use of the other bilateral country's intermediary may be a matter of pure convenience. It may also happen, however, that a transit deal is necessary because there is no agreement between the two bilateral countries concerned about the triangular transaction. One partner (either the debtor or the creditor) may take the initiative to correct a payments situation in accordance with its own convenience, but in a way about which the other bilateral country does not necessarily agree, or about which its opinion is not asked. In that case, the commercial transaction, although in reality a transit transaction, may have to be disguised as a direct deal.

Several cases are known, in which countries have adjusted their bilateral debtor positions in excess of the swing by making special dollar allocations to their traders for the purchase of dollar commodities to be delivered to the creditor against payment via the agreement account, thereby obviating the need to settle the balances in excess of the swing with cash dollars. Arrangements of this nature have, for instance, been used in connection with excessive bilateral debtor and creditor positions vis-a-vis Japan. In the latter part of 1952, Germany and Sweden adjusted their debtor positions with Japan by selling Cuban sugar and other hard currency commodities to Japan against payment via the agreement account. The bilateral trade and payments agreement between Indonesia and Japan provides that Indonesia may offset part of its debtor position by selling to Japan dollar commodities up to US$15 million per year over the period 1952-1957. Japan itself sold dollar commodities to Germany and Sweden in the latter part of 1953, when an excessive creditor position in favor of Germany and Sweden had developed.

During 1952 and 1953, Germany imported approximately US$14 million of dollar goods at premium prices, paid via its agreement account with Yugoslavia, and frequently invited similar imports payable in bilateral currencies. During 1952, when the United Kingdom was making 100 per cent dollar payments to EPU, the British authorities set up the "Dollar Commodity Arbitrage Scheme", whereby United Kingdom merchants were authorized to purchase raw materials and foodstuffs for dollars, for resale to EPU countries against payment in sterling. The main purchasers of the dollar commodities resold by the U.K. appear to have been merchants in Germany and the Netherlands. Although it would seem that creditor countries frequently agreed to the sale of dollar commodities payable through a bilateral agreement account, in some cases the creditor country refused such offers since the premium demanded by the debtor country was considered too high.

Case (3)

The cases (1) and (2) involve one commercial transaction (whether carried out directly or in two stages as a transit deal), combined with two payments. Either the bilateral country receiving payment through the agreement gives up some other currency, or the partner making payment through the agreement is reimbursed in another currency. In case (3), there are two different commercial transactions combined with only one payment. A third country imports from one bilateral partner and exports to the other, the settlement being made through the monetary agreement between the two bilateral countries.

It is conceivable that the combination of transactions is carried out on a pre-arranged basis, each country expressing its agreement about the various elements involved (types of goods, prices, manner of settlement). As previously mentioned, however, it is more likely that a different technique will be followed. What usually happens is that the two commercial transactions will be concluded on their separate merits, the linking element being provided by the negotiation of an agreement balance in a hard currency market.

The third country involved in this type of transaction is not likely to have, of itself, payments agreements with the other two. If it had, there would be little reason for the complications to which a case (3) transaction gives rise. On the other hand, if the third country is a hard currency country, all parties involved may have an interest in the three-cornered deal, if the following conditions are met:

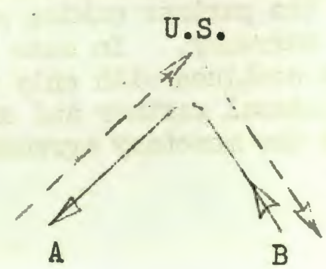
(a) Traders in the third (hard currency) country must be interested in certain export transactions which cannot normally be concluded, since the soft currency importing country lacks the hard currency required and consequently discriminates against the commodities concerned.

(b) Traders (probably different ones) in the third (hard currency) country must be interested in import transactions which cannot normally be concluded, since the soft currency exporting country is not competitive at hard currency prices.

(c) The soft currency importing country must either be eager to receive the hard currency goods concerned against payment in a soft currency, or it must be anxious to reduce a net creditor position in a bilateral payments agreement and willing to import certain hard currency goods for that purpose.

(d) The soft currency exporting country must either be eager to export certain goods which it is unable to sell at hard currency prices, if necessary against payment in soft currency, or it must be anxious to reduce a net debtor position in a bilateral payments agreement and willing to forgo dollar earnings for export of certain goods to a hard currency country. This condition, however, may not apply if the commodities concerned are sold in transit without the knowledge of the exporting country.

Under a transaction of this type a soft currency country (B) offers to buy certain hard currency goods against a "transit" payment to a dollar area (usually a U.S.) exporter of a claim which it holds in a bilateral agreement concluded with country A. The U.S. exporter sells this claim to a U.S. importer, who is interested in buying certain commodities in country A. The U.S. importer then "retransfers" the bilateral balance to the



exporter in the latter country, thereby cancelling the original claim. The U.S. importer will only be prepared to purchase B's bilateral claim on A at a discount, since it must be assumed that the exporting country is not competitive. The U.S. exporter will insist, therefore, that the amount in soft currency which he accepts in payment, shall accordingly exceed its dollar equivalent, calculated at the official rate. As a consequence, the hard currency goods imported by B will be paid at a soft currency and not at the (lower) hard currency price. The whole transaction, which could not have been carried out on a hard currency basis, materializes thanks to the sale of a bilateral balance at a discount price by a U.S. exporter to a U.S. importer.

The technique of this sale must be examined more closely. A bilateral balance in a payments agreement cannot be sold from hand to hand, like a bank-note. It consists of a book entry, according to which a resident in one of the two countries holds a claim on a resident in the other, the residents concerned probably being authorized banks. There are normally only two ways in which such a claim can be passed on. It can be transferred to the name of a different resident of the country holding the claim, which leaves the status of the balance as it is. It can, furthermore, be transferred to the name of a resident of the country on which the claim is held, in payment for a transaction, admitted under the agreement. This extinguishes the claim as far as the bilateral agreement is concerned, since the non-resident balance (as viewed from the latter country) is thereby changed into a resident balance. In most cases, the claim will be registered in the books of the debtor country. 1/ Any transfer, therefore, requires an instruction by the creditor to the debtor. Such an instruction must be compatible with the rules of the bilateral agreement. It appears extremely unlikely that under a bilateral agreement a person who is not a resident of either country could officially hold a balance in an agreement account. It follows that a balance under a payments agreement cannot be directly delivered to a U.S. exporter who might be willing to accept it in payment.

Any use of "agreement currencies" for transactions with U.S. exporters and importers, therefore, can only be arranged in a roundabout fashion. The balance has to remain outstanding in the name of a resident of the country which holds the claim, even though it is "transferred" to a U.S. exporter. 2/ The nominal holder of the balance agrees, however,

1/ It should be noted that the "debtor country", in this context, is the country which owes a debt to a bilateral partner. It is not necessarily synonymous with "net debtor country". Under many bilateral payments agreements (i.e. those which provide for accounts to be opened in each partner country), there usually exist claims and debts in both directions, the net position being determined by compensation of the accounts concerned. Although, at any given moment, there can only be one net creditor and one net debtor, each country may be, at the same time, both the other's debtor and creditor with respect to individual balances before compensation.

2/ It follows from the above that "the country which holds the claim" is not necessarily the net creditor.

to act as the agent of the U.S. exporter, and, subsequently, of the U.S. importer to whom the balance is sold at a discount. The latter can only discharge his debt in soft currency via the payments instruction which the nominal holder will give on his behalf to a bank in the debtor country. In practice, all parties may act through the intermediary of one person, who acts as a link between the nominal holder and the U.S. exporter and importer.

Various dealers who act as intermediaries for this type of transaction, issue lists of quotations, showing the discounts at which agreement currencies are being negotiated. In this connection, "agreement currency" stands for "a payment through the bilateral agreement between X and Y (expressed in whatever currency is used in that agreement as currency of account), payable by X to Y", or "payable by Y to X", as the case may be. "Discount quotation" stands for the percentage of discount of the clearing currency, so defined, as compared with the relevant currency's official rate in terms of dollars.

It should be emphasized that an agreement currency is identified both by the contractual payments relationship between two bilateral countries, and by the direction in which the payment will be made. If a quotation shows a certain discount for "clearing dollars, X to Y", it means that X is importing dollar goods against payment in soft currency, whilst Y is similarly exporting its goods to the U.S. If the quotation is for "clearing dollars, Y to X", it indicates that Y obtains dollar commodities, whilst X is doing the exporting. In practice, both quotations (referring to the same bilateral payments agreement, but applying to opposite directions) may occur side by side. The economic significance of simultaneous quotations for payments in opposite directions will be explained later.

It is evident that a market where agreement currencies are traded under the above conditions, cannot normally be considered a free exchange market. A clearing currency which is traded at a discount quotation, is not just another quantity of effectively circulating international purchasing power, but it remains a book claim, locked up in a bilateral agreement, and usually inseparable from the commodity transactions which accompany it on its somewhat unorthodox excursion through a third country.[1]

The conditions under which a bilateral country, B, may be willing to part with a claim on partner country A, will be determined by the general restrictiveness of B's dollar import regime, by the type and price of the particular dollar goods which it may want to buy against soft currency, and by the position of its bilateral payments agreement with A. The last factor may exercise its influence in an indirect way,

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1/ The above does not fully apply to transactions with a dollar country financed in transferable sterling, since sterling balances can, in fact, circulate without hindrance among non-dollar countries.

inasmuch as B may decide more easily to buy non-essentials (presumably at a higher price in its own currency) if its claim on A happens to be excessively large. The effective discount, resulting from these considerations, must be such as to enable a U.S. importer to buy certain commodities in A on an attractive basis. At the same time, A must be willing to approve or to tolerate those goods to be exported to the U.S. against soft currency. Alternatively, the transaction must lend itself to be disguised in such a way as to evade A's trade or prescription of currency regulations, if the latter should not be willing to cooperate.

It may take considerable time and ingenuity to arrange these transactions, and to bring all parties together at the right moment. Normally, C's goods will not be shipped to B, and the transaction between C and B will not be regarded as closed, unless the transfer from B to A has been effected and confirmed by the recipient bank in A. As a consequence, there is no way of foretelling whether a special transaction will turn out to be feasible, and what amounts it will involve. If one transaction has been approved or secured, the value of the other transaction will have to match the amount of the bilateral balance used in the first one. In addition, traders may find it difficult to reach agreement on prices and other conditions, especially since prices will be related to the discount for the agreement currency in terms of dollars, and the latter may only be determined in the final stages of the negotiation.

In practice, therefore, the markets for "cheap" bilateral agreement currencies are likely to be narrow and erratic, and quotations may be intermittent. 1/ Unless information about the underlying transactions happens to be available, it is difficult to judge the economic importance of any quotation that may from time to time be published. The discount allowed on a certain inconvertible currency, held in a bilateral account with another country, does not necessarily reflect that currency's real purchasing power in terms of dollars.

It should, furthermore, be noted that not all discount quotations which may be obtained are "cheap currency" quotations, arising under a case (3) transaction. Some are theoretical calculations, in terms of dollars, of soft currency premiums, established by case (1) or case (2) transactions, which do not involve the sale of inconvertible balances by a U.S. exporter to a U.S. importer.

From the point of view of the soft currency importing country, a case (3) transaction gives rise to a "switch import". 2/ Since the customs officials are frequently able to check the country of origin,

1/ Again, this does not apply to "cheap" quotations of transferable sterling.

2/ The term "switch import" is used to indicate an import of dollar goods into a soft currency country against payment by the importer in a non-dollar currency, i.e. via the account of a bilateral payments agreement. Similarly, the term "switch export" denotes a transaction involving an export to the dollar area against receipt by the exporter of a clearing currency instead of dollars.

particularly of some staple commodities and of U.S. finished products, it would seem that a soft currency country can exercise some controls over these imports. In addition, it would seem unlikely that an authorized bank in the importing country should "sell" a bilateral balance to a U.S. exporter (in clear conflict with the rules of the bilateral payments agreements concerned), if the central bank of the importing country was known to be opposed to such monetary dealings. Countries may, however, permit or tolerate such imports, since they make possible the purchase of certain types of commodities for which dollars would not normally be made available. Furthermore, as noted above, the authorities may tolerate, or even stimulate, these import transactions, if they are anxious to reduce large bilateral credit balances.

From the point of view of the soft currency exporting country, these transactions involve "switch exports" to the dollar area against receipts in clearing currencies instead of dollars. In exceptional cases, the authorities may be inclined to permit or tolerate such switch exports, e.g., when the transactions result in exportation of commodities which are hard to sell against prevailing prices and at the official rate of exchange. However, exports to the dollar area against payment in clearing currencies often take place against the wishes of the authorities in the exporting country. Available information indicates that the authorities have often found it difficult to check such export transactions. From the point of view of the trade and exchange control of the exporting country, the goods may be shipped to a country with which a bilateral agreement is in force; the shipping papers may indicate a port in the bilateral partner country as destination, and payments are received via the clearing account with the partner country. After the goods have left the port in the exporting country, however, the original shipping papers may be revised, or replaced by new ones to indicate a port in another country, e.g., the United States, as destination. The authorities in the exporting country may exercise some control by imposing an _ex post_ check requiring a certificate of landing, of consumption or of customs clearance to be sent from the bilateral partner country. This has been attempted in particular where important national exports such as wool, coffee or silk were repeatedly switched to the United States. Even in such cases, _ex post_ control may be difficult to implement, since, in order to be effective, it must be applied to many individual transactions, and since, in addition, falsification of documents may take place.

Transactions of the kind discussed here may be, but are not necessarily related to any attempts at reducing outstanding agreement balances. In fact, as is indicated in a later section, there appear to be many cases in which the transactions have the effect of increasing rather than reducing the agreement balance held by a net creditor country. When scarcity conditions prevail for certain dollar goods and importers in soft currency countries are willing to pay premium prices, or when U.S. exporters are trying hard to dispose of certain goods for which world market conditions are highly competitive, dollar exports may go to countries even when they are not in a net creditor position under the bilateral agreement via which the payment is made. Once clearing currencies are in the hands of a U.S. exporter, he will try to dispose of them by selling them to a U.S. importer. The U.S. importer is willing to acquire clearing currencies when the discount enables him to purchase soft currency goods at a price sufficiently competitive to make a sale in the U.S. market possible. Although such cases may involve imports into the United States, which would otherwise not have taken place, the importation may actually be from countries which are already in a net creditor position under the bilateral agreement concerned.

Nature of Markets for Clearing Currencies

Since about the middle of 1952, the clearing currencies of various bilateral agreements have from time to time been quoted at a discount in dollars in a number of international trading centres, particularly New York. The New York market has probably been the most active one for the negotiation of clearing currencies. This may be explained from the fact that, as noted above, most triangular transactions in case (3) involve hard currency countries, of which the United States is the most important trading nation. Due to the contacts existing between traders and intermediaries engaging in triangular operations, the quotations for clearing currencies given in New York frequently apply also to those transactions organized elsewhere and sometimes carried out with hard currency countries other than the United States.

Each discount quotation in the market usually arises as a result of two commodity transactions carried out in combination by one or more traders, with the two agreement countries concerned. For instance, a discount quotation in New York for the "Argentine-German clearing dollar, payment to Argentina" results from the negotiation of a certain amount of these clearing dollars between a U.S. exporter who has received them in payment for goods shipped to Germany, and a U.S. importer who wants to purchase them at a discount as a means of payment for imports from Argentina. The two commodity transactions — in this case the import of goods from the United States into Germany and the export of goods from Argentina to the United States — are usually carried out at approximately the same time, unless an exchange broker is willing to take the risk of holding the clearing dollars. Thus, before the clearing currencies are negotiated, two commodity transactions must be arranged, and usually effective payment through the agreement must have been made. 1/

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1/ It happens quite frequently that a discount quotation is given for a clearing currency with the connotation "bid wanted" or "offer wanted". In such cases clearing balances have not yet been negotiated at the time the quotation is published, since either the import or the export transaction with the United States must still be arranged. However, these quotations indicate the approximate discount at which traders are willing to purchase or sell the clearing currency against dollars.

Although in most cases where clearing currencies are quoted at a discount, the relevant negotiation takes place between traders in hard currency countries, traders in soft currency countries may sometimes be involved in such negotiations. This may, for instance, take place when the resale to the United States of commodities originating in one partner country by traders in the other partner country is facilitated by special measures in the latter, such as a retention arrangement for the dollar proceeds from such transit sales, or a free market in which the clearing currency is negotiated at a discount. Instead of selling the commodities to the United States themselves, the traders in the agreement country may dispose of their clearing currency balances by selling them at a discount to U.S. traders, who in turn use them to pay for commodity imports from the other partner country.

<u>Factors Influencing Supply and Demand for Clearing Currencies Used in Trade with Hard Currency Countries</u>

The <u>supply</u> of clearing currencies in the New York market, i.e. the amount of clearing balances received by or offered to U.S. exporters in payment for dollar goods, is dependent on a combination of factors, the most important of which would seem to be the general conditions favoring switch imports into non-dollar countries, and the willingness of United States exporters to accept such clearing balances in payment for their exports.

The effective demand for switch imports in soft currency countries is related, first, to the scarcity conditions for dollar goods prevailing in these countries, to the extent to which bilateral clearing currencies are available for making payments for such goods, and, finally, to the attitude of the authorities concerned toward switch imports. As previously stated, the authorities, when opening the door to switch imports, may be motivated by monetary or by commercial considerations. If a country holds relatively large credit balances under some or several of its agreements, and at the same time maintains dollar restrictions, the authorities may be inclined to see some of the holdings of clearing currencies used for switch imports of dollar goods, for which importers will be inclined to pay premium prices. The type of dollar imports which a country can arrange on a switch basis, is determined by its eagerness to divest itself of some of its bilateral claims (i.e. by the discount it is willing to accept for that purpose), and by the restrictiveness of its direct dollar imports. The latter factor will largely indicate what categories of dollar goods can be sold in its market at prices whose premium corresponds with the discount at which its bilateral currency holdings can be disposed of.

It may also be that a country, when allowing switch imports, primarily looks for commercial advantages, and only uses a bilateral payment channel as a means to that end. Under those conditions, a country may even offer to pay in a bilateral currency in which it already holds a short position, thus increasing its dollar imports at the risk of complicating, or perhaps compromising, the bilateral relationship concerned.

The willingness of U.S. exporters to accept clearing currencies in payment for dollar goods will, to an important extent, depend on their familiarity with this method of conducting business, and on their ability to dispose of the clearing balances which they obtain, to U.S. importers or to middlemen. As previously explained, this method, although it may be profitable, cannot always be arranged promptly and smoothly. In general, the larger the discount at which clearing currencies are negotiated, the easier it is for the U.S. exporter to dispose of them, since a larger discount will enable the U.S. importer to purchase larger quantities or a greater variety of goods in the agreement countries concerned. However, even if the U.S. exporter has some difficulty in disposing of clearing balances, he may be willing to accept them when he has trouble selling abroad as a result of stringent dollar restrictions or of excess supply conditions in certain world commodity markets.

The demand for clearing currencies in the New York market arises from U.S. importers attempting to make purchases from bilateral agreement countries against payment in clearing currencies, and/or soft currency exporting countries willing to approve or tolerate or not being able to prevent switch exports. When exports to the United States from the soft currency countries are over-priced, U.S. importers may be able to purchase such goods only when they receive some price concession, which may take the form of a discount against which they can purchase clearing balances to be used in import payments.

In most cases, it would seem that case (3) transactions originate in the bilateral importing country, either because it has a strong demand for dollar goods, or because it wants to liquidate an excessive bilateral claim. The corresponding switch exports from the other bilateral country would, under those conditions, result from the fact that the United States importer is being offered balances in cheap agreement currencies arising from the payment of switch imports into the country holding those balances. Although bilateral agreement countries usually oppose switch exports to the dollar area, they may, as noted previously be permitted or tolerated in order to promote the sale of over-priced exports, or, in exceptional cases, to help towards reducing excessive debtor balances, which the country concerned does not manage to pay off otherwise.

## The Level of Discounts for Clearing Currencies

Some idea of the actual discounts at which clearing currencies are negotiated between traders in dollar countries, 1/ may be obtained from the quotations for various agreement currencies available in the New York

1/ Or between traders in a dollar country and a bilateral agreement country (see page 18).

market since about 1952. Clearing currencies of about fifty bilateral agreements have been quoted, some only occasionally but many others more frequently. 1/ Some general conclusions have been drawn from quotations, available on about June 1, 1953, and June 1, 1954; the results are presented in some detail in Appendix I.

As noted previously, dealings in clearing currencies are closely tied to the underlying commodity transactions. The discount quotations available for various clearing currencies should therefore be interpreted with care. Each quotation may reflect the market conditions for one or only a few commodities which were involved in the trade transactions concerned. They may not be indicative of the general scarcity conditions for dollar goods, prevailing in the domestic market of the soft-currency importing country, or of the extent to which goods from the soft-currency exporting country are generally over-priced. The discount quotations for an individual clearing currency may indeed change rapidly with the market conditions for one or more of the commodities involved, or when the trade transactions which underly the negotiation of clearing currencies, come to involve different commodities.

In general, the discount for a clearing currency reflects the import premium in the soft currency country, i.e. the premium which the importer pays in his own currency for the dollar goods involved. The discount can be in excess of the import premium only, if the U.S. exporter lowers his normal dollar price and absorbs part of the higher cost to the soft currency importer, connected with payment in clearing currencies. On the other hand, the import premium may exceed the level of the discount in the New York market when the importers in the soft currency country manage to make profits which are not fully absorbed by the loss on the sale of the bilateral balances involved. The discounts for clearing currencies will tend to go down when the import premiums fall. When dollar commodities in the domestic market of the non-dollar importing country become less scarce, as a result of relaxation of dollar restrictions, large-scale switch imports in the past, or other factors, import premiums and discounts for clearing currencies, used in payments for switch imports into the country concerned, will tend to decrease.

These observations are to some extent borne out by the actual behavior of the discounts for a number of different clearing currencies in June 1953 and June 1954. At both times, the discounts for clearing currencies used in payments for switch imports into countries where dollar restrictions had ceased to be very severe, were considerably lower

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1/ Some sources give quotations for many more bilateral agreement currencies, but it would appear that the ones selected for study in this paper are the more important ones representing the bulk of triangular transactions involving trade and/or payments under bilateral agreements.

than those for countries where stringent restrictions subsisted. For instance, while in June 1953 discounts for clearing currencies used in switch payments by Belgium, Germany and the Netherlands did not as a rule exceed 5 per cent, those for switch imports into, e.g., Austria, Brazil, France, Denmark and Yugoslavia were 10 per cent or higher. Moreover, in June 1954 discounts for clearing currencies were generally below those for June 1953, except that the discounts for clearing currencies involved in switch imports into Brazil and Sweden stayed at approximately 10 per cent, and those for Japan increased from 6 to 10 per cent approximately. Discounts relevant for switch imports into Belgium had fallen on average from 5 to 2.5 per cent, and those for Germany from 6.5 to 4.5 per cent.

Where more than one clearing currency is used in payments for switch imports by traders in the same country, the discounts for the various currencies frequently show considerable differences. Such differences may, of course, have no other implications than that individual transactions involved various import commodities for which internal market conditions in the soft currency country were considerably different. In June 1953, however, there were a number of countries whose traders were purchasing switch imports, both with clearing currencies in which the countries had a net creditor position, and with currencies in which they had a net debtor position. It appeared that for practically all of these countries, namely, Austria, Brazil, Finland, France and Japan, the discounts tended to be considerably higher for currencies in which the importing country had a net creditor position than for those in which it had a net debtor position. 1/ These differences would seem to indicate that switch imports against currencies of which the importing countries had a surplus, involved commodities which were generally scarcer in their domestic markets than those imported against payment in currencies in which the countries had a debtor position. To some extent, this may reflect the attitude of the authorities in the countries concerned toward the use of clearing currencies in payments for imports from the United States and other hard currency countries. It would seem that where currencies were used in which the importing country had a net debtor position, the commodities involved tended to be those which were regarded as more essential and for which the import premiums were lower than in the case of luxury goods. On the other hand, where the importing countries had a net creditor position in certain currencies, the authorities concerned may have been more eager to dispose of their holdings, or, alternatively, if the bilateral debtor country was in over-all balance of payments difficulties, they may have found that they could only find a market for their holdings if they agreed to accept a larger discount. As a consequence, a greater variety of commodities, including luxuries fetching relatively high premiums, tended to be imported in this manner.

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1/ Five other countries whose traders appear to have purchased switch imports with more than one agreement currency were either in a net debtor or in a net creditor position under all of the agreements concerned. The same was true for nine out of twelve countries whose traders appear to have purchased switch imports in more than one agreement currency in June 1954.

The level of the discount for a clearing currency must also reflect the extent to which commodities sold to the U.S. by the non-dollar exporting country concerned are over-priced. These discounts may indeed reflect high cost-price levels in individual agreement countries' internal markets generally, or in particular commodity sectors. Where an agreement country's export commodities tend to be over-priced, a U.S. importer purchasing them against payment in clearing currencies must be able to obtain these currencies at a sufficiently high discount to make switch exports from the agreement country possible. If the discount is too low (e.g. as a result of importers in the other partner country willing to purchase at only relatively small discounts), there will be a tendency to shift to export commodities which are more competitively priced. If that cannot be done, the transactions become more difficult to arrange, and will eventually disappear. 1/

If high cost conditions are sufficiently widespread in a bilateral country, it may be expected that high internal prices will prevail for certain import goods as well as for export goods. Thus, there are many individual cases in which the discounts for clearing currencies used in payment for switch exports and those relevant for switch imports (i.e., for payments to be made to that country, and for payments to be made by that country) are both relatively high. From the discount quotations for June 1954, it appears, for instance, that both switch exports from and switch imports into Brazil and Italy involved discounts of approximately 10 per cent. In most cases where discounts relevant for switch exports and imports of the same agreement country were available, they tended to be close together. In countries where cost-price conditions are generally not far out of line with those in hard currency countries, both types of discounts tend to be low, e.g., Belgium, where the clearing currencies involved in switch exports and imports were at a discount of approximately 2 per cent in June 1954.

On the other hand, there are cases where there is a relatively large difference between the clearing currency discounts relevant for switch imports and those for switch exports of the same country. For instance, the discounts quoted in June 1953 showed such relatively large differences

1/ This seems to have occurred during 1954 as a result of the decline in the discounts quoted for a number of clearing currencies in New York. It is understood that some firms, specializing in this type of trade, attempt to continue operations under a lower discount by combining the import and export transactions which otherwise might have been carried out by two or more traders separately. Some savings are achieved in this manner since in this case no clearing balances are negotiated between exchange brokers and traders so that the trading firms concerned do not have to pay fees to brokers. In addition, it appears that in most individual cases these so-called package deals involve sufficiently large volumes of commodities to make the transactions worth while even at a smaller disparity in prices (for the goods concerned) between the United States and soft currency countries.

for Argentina, Italy, Spain and Uruguay. Large variations in internal market conditions for the commodities which happen to be involved in these deals may be responsible for such differences. They may also arise from the fact that while a country's export prices are generally competitive, it may still maintain severe restrictions on certain luxuries which fetch, therefore, relatively high premiums. Moreover, when imports into one partner country can be switched at a relatively high discount, it may occur that the clearing currencies concerned can be obtained by U.S. importers for making payments to the other partner country at a discount which does not necessarily reflect the exporting country's cost level.

Volume of the Transactions and their Effect on Bilateral Agreement Balances

Although no accurate estimates can be constructed, some general remarks may be made about the factors which tend to influence the total value and volume of commodity transactions involved in triangular operations. As has been indicated above, a decline in the discount at which a clearing currency is negotiated may make the underlying transactions more difficult to arrange. In turn, the development on a large scale of triangular operations involving the same bilateral agreement may bring about a fall in the discounts for the clearing currency concerned. Between 1952 and 1954, the discounts for various clearing currencies have fallen significantly, while it appears that for some of them the "market" also tended to become less active. It may well be that during that period the underlying transactions have declined in total value, particularly where there has been a reduction in the credit balances held under the agreements concerned. On the other hand, in some cases, traders may have found it possible to continue the transactions, despite a decline in discounts, by organizing so-called package deals, not necessarily involving negotiation of clearing currencies (see footnote on page 22). The commodity transactions in these deals are essentially of the same nature as those for which clearing currencies are negotiated between traders in hard currency countries.

Despite a general downward trend between June 1953 and June 1954, certain discount quotations remained relatively high, or even increased. This is particularly true for a number of bilateral agreements of countries with relatively high domestic cost levels and/or intensive dollar restrictions. In these cases, there remained some scope for the organization of switch imports and switch exports. It does not follow, however, that the clearing currencies of all bilateral agreements with high-cost countries are regularly involved in triangular operations. Those countries which have large bilateral debit balances in several payments agreements, and where internal market conditions are still relatively favorable to switch trade, do not represent a large part of the total demand and supply of commodities that may be transacted in triangular operations. For those clearing currencies that do get involved, it would seem, in fact, that periods of relatively intense market activity are frequently followed by periods in which few, if any, operations take place.

The commodity imports and exports involved in these triangular operations can only to a very limited extent, if at all, be distinguished in the trade statistics of individual countries. United States trade statistics do not, for instance, single out imports (and exports) for which payments are made in clearing currencies. As may be seen from the answers to the Questionnaire on Transit Trade and Switch Trade, 1/ only a few countries assemble statistical data on transit trade licensed by the authorities. But even where such data are available for transit trade in commodities originating in partner countries to bilateral agreements, they do not give an accurate picture of the scope of the triangular transactions under discussion here. As noted above, these transactions are not necessarily transit trade, and they may appear as direct trade from the point of view of individual countries. Moreover, where transit trade in commodities purchased in agreement countries is recorded in a country's trade statistics, the transactions represented do not necessarily involve negotiation of clearing currencies at a discount. Finally, transit trade transactions may be carried out without the knowledge of the authorities of the countries concerned. Thus, as far as available trade statistics are concerned, it is virtually impossible to distinguish transit transactions which do involve "cheap clearing currencies" and those which do not.

In view of these limitations, the statistical material that is available in a few cases should be interpreted with care. Some illustrations are given for Germany, Japan and Denmark. German trade statistics distinguish between imports by countries of origin and imports by countries to which payments are made. Imports into Germany of goods originating in dollar countries exceeded those for which payments were made to dollar countries by $156 million in 1952 and $173 million in 1953. The bulk of these dollar commodities was probably purchased against payment in EPU currencies (including sterling) and did not involve clearing currencies which are of a strictly bilateral nature. However, some of these imports may well have taken place against payments via one or more of Germany's bilateral agreement accounts. This would seem to be supported by the fact that for five countries 2/ with which Germany has bilateral agreements, imports into Germany which originated in these countries fell short of commercial payments which Germany made to these countries. In 1952 this difference was $26 million, or about 8 per cent of commercial payments to the agreement countries concerned; for 1953, these figures were $32 million, or about 11 per cent. This would seem to indicate that in the case of the bilateral agreements with the countries concerned, Germany made payments via the clearing accounts for significant amounts of goods not originating in the respective partner countries. 3/

1/ SM/54/45.

2/ In 1952 these countries were: Brazil, Uruguay, Spain, Finland and Yugoslavia. For 1953, Uruguay should be omitted.

3/ Due to leads and lags between trade and payments, the amount of such payments does not necessarily equal the above figures of $26 million in 1952 and $32 million in 1953. These figures would represent a minimum when goods originating in the agreement countries concerned were also purchased via third countries. It should be noted that imports originating in Argentina exceeded commercial payments to Argentina by $22 million in 1952 and $21 million during 1953.

In the case of Japan, import payments via bilateral agreement accounts for goods not originating in the respective partner countries amounted to $25.0 million in 1952, and $15.2 million in 1953. It would seem that most of these imports involved Japan's bilateral agreements with Indonesia, France, Germany, Netherlands and Sweden. Sale of third country goods by Japan, with payment being received via clearing accounts, amounted to $0.7 million in 1952 and $5.8 million in 1953. 1/

Danish statistics also give some impression of transit operations involving payments via bilateral clearing accounts. 2/ Resale by Danish traders of products originating in certain bilateral agreement countries, namely Argentina, Brazil, Finland, Spain and Yugoslavia, to third countries, amounted to $1 million in 1952, and $0.5 million in 1953; resale of Finnish and Argentine products made up the most important part of these transactions. These agreement countries also purchased products originating in third countries via Denmark, amounting to $7.8 million in 1951 and $2.3 million in 1953. Furthermore, it appears that some imports into Denmark originating in countries with which Denmark has a bilateral agreement, take place via third countries. For instance, during 1951, imports via third countries amounted to $3.2 million for Argentine goods, $2.5 million for Brazilian and $1.6 million for Spanish goods. In 1952, these figures were $6.2 million for imports originating in Argentina, and $1.3 million for products originating in Spain. It seems that Switzerland and France were important intermediary countries for Danish imports originating in Argentina, and the United Kingdom for imports of Brazilian and Spanish products.

Effect on Countries' Bilateral Agreement Balances

In the absence of complete information about the volume and value of triangular operations, no accurate estimates can be made of the changes which they cause in existing bilateral agreement positions of the countries involved. The various discount quotations in New York indicate which bilateral partner makes payments through a particular bilateral agreement, and which partner is receiving them. For instance, the transactions underlying a discount quotation for Brazilian-Italian agreement dollars payable to Italy — involving exports from Italy to the United States and import of dollar goods into Brazil — result in a credit in favor of Italy on the Brazilian-Italian clearing account. Depending on the net agreement position at the time the transactions took place, the switch exports from Italy may have decreased Italy's net bilateral debtor position under the agreement or increased its net creditor position. All that can be inferred from the discount quotation is the direction in which the agreement position moves as a result of the underlying transactions, the actual change being determined by the magnitude of the transactions.

1/ See SM/54/45, page 52.
2/ See SM/54/46, page 41.

In certain cases, there occur simultaneous switch transactions in both directions. In the example given for the Brazilian-Italian agreement, this would be reflected by two quotations for the Brazilian-Italian agreement dollar, not necessarily equal, one for amounts payable to Italy, and one for amounts payable to Brazil. Underlying the second quotation, would be a transaction involving imports into Italy of dollar goods, financed with clearing currencies originating from payments for exports from Brazil to the United States. When there are two such quotations for one clearing currency, the net effect on the bilateral clearing position of each of the partner countries cannot be told, unless the relative magnitude of the transactions in opposite directions is known.

It may be remarked, incidentally, that the existence of simultaneous quotations, showing discounts for payments in opposite directions under the same bilateral payments agreements, tends to indicate a lack of cooperation or even of agreement between the two bilateral countries concerned. From a monetary point of view, it does not appear to make sense that one partner is reducing an outstanding balance at the same time as the other is increasing it. From a commercial point of view, the combination of two cheap currency transactions in opposite directions produces the result that each partner both imports from and exports to the United States at soft currency prices. If this result was intentional, it might have been achieved in a simpler fashion, each country carrying out its own business. The fact, however, that the more devious and complicated procedure of executing two cheap currency transactions is being resorted to, lends credence to the thesis that, generally speaking, countries are only actively interested in the import part of these transactions, and that the export part is usually organized behind the backs of the authorities concerned.

From the discount quotations of various agreement currencies, in combination with the available information about the net position of the corresponding agreements, it appears to follow that the underlying cheap currency transactions, taken together, were probably more or less evenly divided between those tending to reduce and those tending to increase existing net agreement positions. 1/ However, in June 1953, the transactions taken together probably tended to reduce clearing positions, particularly since various countries at that time were trying to dispose of excess credit balances.

1/ Although information was not available on the clearing positions of partner countries under all of the agreements of which the clearing currencies were quoted at a discount in New York, a fairly complete picture could be obtained. Allowing for short-run fluctuations, the bilateral clearing positions of Argentina, Brazil, Finland, Germany, Yugoslavia and Uruguay, at the time the discount quotation was studied, could be determined with reasonable approximation. The following sources were used: Argentina: Banco Central de la Republica Argentina, — Memoria Anual December 1953; Brazil and Uruguay: Reports on the 1953 consultations — SM/53/79 and SM/54/29. The clearing positions under the agreement with Germany are published monthly by the BDL. Finland and Yugoslavia regularly inform the Fund of their bilateral clearing positions.

In June 1953, the currencies of some forty-nine bilateral payments agreements were known to be negotiated at a discount in New York. For thirteen of these agreements, the discount quotations indicated transactions in both directions, so that they tended, at least in part, to offset each other insofar as their effect on the existing agreement positions was concerned. The quotations for the currencies of the thirty-six remaining agreements indicates that transactions carried out under seventeen of them tended to reduce agreement positions, while those under twelve agreements tended to increase them. For the remaining six agreements, the effect on the agreement position resulting from the transactions could not be told, since no information was available as to which of the partner countries held the net debtor and which the net creditor position.

For June 1954, thirty-five agreement currencies, listed at a discount in New York have been studied. Twenty of these were used for transactions in opposite directions, and their effect on the agreement positions of the countries concerned tended to offset each other. Transactions under seven of the remaining agreements tended to increase agreement positions, while under eight agreements, transactions tended to decrease them.

The effect of the transactions on existing bilateral agreement positions may be illustrated in somewhat greater detail by referring to certain individual countries. From the discount quotations in June 1953, it may, for instance, be said that the underlying transactions tended to have a balancing effect on the bilateral clearing position of Argentina. Switch exports from Argentina tended to reduce its net debtor position vis-a-vis Austria, Belgium, Denmark, Finland, Netherlands, Norway and Sweden. However, the currencies of the agreements with Brazil, France, Germany, Italy and Japan were used for both switch exports from and imports into Argentina. On the other hand, in June 1954, Argentina's net creditor position vis-a-vis Yugoslavia tended to be increased as a result of switch exports. Argentine traders paid for switch imports via the agreement accounts with Austria, Belgium, France, Italy and Sweden, but the effect on Argentina's bilateral payments position was at least in part offset by switch exports from Argentina with payments via the accounts of the same agreements. However, Argentina's net debtor position vis-a-vis Germany tended to be increased as a result of switch imports.

There appears to be no general tendency in the effects which switch exports and switch imports had on the bilateral payments position of <u>Brazil</u>. Judging from the New York quotations in both June 1953 and June 1954, there were fourteen agreements in the currencies of which switch exports and/or switch imports took place. In June 1953, there were transactions in opposite directions (i.e., involving switch exports from and switch imports into Brazil) against payment via the agreements with Argentina, France, Germany, Italy and Sweden. The currencies of the other agreements were used only in payment for switch exports from Brazil, and their effect on Brazil's existing clearing balances did not tend to be offset by payments for switch imports into Brazil. Thus, switch exports tended to decrease Brazil's net debtor position vis-a-vis Belgium, Chile, Denmark, Netherlands and Spain, and to increase its net creditor position with Austria, Finland, Japan and Yugoslavia. However, switch exports tended to reduce Brazil's net debtor position vis-a-vis Spain, and switch imports tended to decrease its net creditor position vis-a-vis Belgium and Greece. On the other hand, payments for switch imports into Brazil, made via the agreements with Belgium, Finland, Italy and Norway, had the effect of increasing Brazil's net debtor position vis-a-vis these countries.

Switch imports of goods into Yugoslavia seem to underlie all discounts quoted in June 1953 for payments through its agreements with Argentina, Brazil, France, Italy and Turkey. The transactions had the effect of increasing Yugoslavia's net debtor position, existing at the time vis-a-vis these countries. In June 1954, when eight clearing currencies were listed for Yugoslavia, the effect of the underlying transactions on its bilateral agreement balances was more mixed. Transactions in opposite directions took place in the currencies of agreements with Austria and Brazil. Yugoslavia's net debtor position with Argentina and the Netherlands tended, however, to be decreased by switch exports, while its net creditor position vis-a-vis Norway tended to be decreased as a result of switch imports. On the other hand, switch imports had the effect of increasing its net debtor position vis-a-vis Greece, Italy and Turkey.

The discount quotations given for Finland in June 1953 indicate that switch transactions involved imports into Finland rather than switch exports from Finland. They had the effect of increasing its net debtor position vis-a-vis Brazil, France and Germany, and of decreasing its net creditor position existing at the time vis-a-vis Argentina. In June 1954, the discount quotations indicated that both switch imports and exports took place against payment in the currencies of the agreements with Belgium and France. However, Finland's net creditor position vis-a-vis Argentina was decreased by switch imports, while switch exports from Finland tended to reduce its net bilateral debtor position with Germany. On the other hand, switch exports tended to increase its net creditor position with Brazil.

APPENDIX I

Observations on Discounts for Clearing Currencies
Quoted in New York in June 1953 and June 1954

In this Appendix, it is attempted to comment in some detail on the discounts which were quoted in New York for various clearing currencies on or about June 1, 1953, and June 1, 1954.

It has been explained in the text that there are usually two commodity transactions underlying each discount quotation of a clearing currency. Thus, in the case of a quotation for Argentine-German clearing dollars (payment to Argentina), the underlying commodity transactions are: (1) export of Argentine commodities to the United States; and (2) export of U.S. commodities to Germany. A 10 per cent discount for the clearing dollars indicates that a U.S. exporter could sell a commodity costing US$90 for 100 clearing dollars received from Germany. He could then sell these clearing dollars for US$90 to a U.S. importer. The U.S. importer would thus pay US$90 for an Argentine commodity costing 100 clearing dollars. 1/ When an exchange broker is involved, the discount quotation usually refers to the middle rate; at the usual broker's fee of about one per cent, the U.S. exporter would receive US$89.50 for 100 clearing dollars, and the importer would pay US$90.50 instead of US$90.

The transactions underlying the available discount quotations in June 1953 involved switch imports from the United States (or other hard currency countries) into the following agreement countries: Austria, Argentina, Belgium, Brazil, Chile, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, Norway, Spain, Sweden, Yugoslavia and Uruguay. These same discount quotations would seem to indicate that these switch imports were combined with switch exports to the United States (or other hard currency countries) from the following agreement countries: Argentina, Brazil, France, Germany, Italy, Japan, Netherlands, Spain, Sweden, Turkey, and Uruguay. Transactions underlying the discount quotations in June 1954, involved switch imports into the following bilateral agreement countries: Austria, Argentina, Belgium, Brazil, Finland, France, Germany, Italy, Netherlands, Spain, Sweden, Uruguay and Yugoslavia. These transactions involved switch exports to hard currency countries from Austria, Argentina, Belgium, Brazil, Finland, France, Germany, Greece, Italy, Japan, Netherlands, Norway, Sweden, Turkey, Uruguay and Yugoslavia.

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1/ It should be noted that an export commodity, sold for 100 clearing dollars to a bilateral partner country, may at times be offered to a U.S. importer for a smaller amount, if payment is made in effective U.S. dollars. If that price were $95, it would still be worth while for the U.S. importer in the hypothetical case under consideration to buy the commodity concerned against a "cheap" currency.

The discount quotations available for June 1953 and June 1954, have been studied: (1) by comparing the discounts in June 1953, applicable to switch imports into individual agreement countries, with those in June 1954; (2) by comparing discounts relevant for switch exports from individual agreement countries with those for switch imports into the same countries; and (3) by comparing the discounts for currencies of agreements under which the importing country had a debtor position with those under which it was in a creditor position.

(1) From the data available, it would seem that, for June 1953 and June 1954, there were traders in at least fourteen agreement countries purchasing switch imports, payments being made via the accounts of two or more of its bilateral agreements. In general, the discounts quoted in June 1954 were lower than in June 1953. In 1953, there were eleven soft currency countries where importers carried out transactions involving discounts of 10 per cent or higher; these countries were Austria, Brazil, Chile, Denmark, Finland, France, Italy, Spain, Sweden, Yugoslavia and Uruguay. On the other hand, switch imports into Belgium, Germany and the Netherlands involved discounts for clearing currencies in terms of dollars of 6 per cent or lower. Between June 1953 and June 1954, all discounts relevant for switch imports into these fourteen countries decreased, in most cases considerably, except that for switch imports into Brazil and Sweden discounts stayed at approximately 10 per cent on average, and that for switch imports into Japan the discounts increased from 6 to 10 per cent approximately. From the data available, it would seem that in June 1954 traders in Japan, Spain and Sweden paid import premiums for switch imports from the dollar area in excess of 10 per cent. Relatively low discounts were involved in payments for switch imports into Belgium (2.5), Germany and the Netherlands (4.5), and Uruguay (2).

(2) From the June 1953 data, it appears that the discounts relevant for switch exports from and those for switch imports into individual agreement countries, were close together in some cases and showed relatively large differences in others. The average discounts for switch exports and those for switch imports were close together for Brazil, France, Germany and Japan. Large differences occurred for Argentina, Italy, Spain and Uruguay. The average discount quotation for transactions involving switch imports into Brazil was 10 per cent, and for transactions involving switch exports it was 11 per cent. These figures were: for France, 12 and 10; for Germany, $6\frac{1}{2}$ and 6; for Japan, $6\frac{1}{2}$ and 5. On the other hand, for Argentina, the figures were 9 and 16; for Italy, 10 and 7; for Spain, 20 and 7; and for Uruguay, 14 and 5.

On the basis of the June 1954 data, similar comparisons could be made for: Austria, Argentina, Belgium, Brazil, Finland, France, Germany, Italy, Japan, Netherlands, Sweden and Uruguay. It appears that for each of these countries, except Japan, switch imports and switch exports involved discounts for clearing currencies which are close together, most cases showing less than one point difference on average. Switch exports from and switch imports into Brazil, Italy and Sweden involved discounts for clearing currencies of approximately 10 per cent. On the other hand, discount quotations relevant for switch export and switch import transactions with traders in Belgium and Uruguay were approximately 2 per cent, and with Germany approximately 4½ per cent.

(3) As noted in paragraph (1), the available discount quotations for June 1953 indicated that traders in fourteen countries purchased switch imports against payment in one or more clearing currencies. Of these fourteen countries, there were twelve where payments for switch imports took place through two or more of their bilateral agreements. Five countries (Argentina, Belgium, Netherlands, Sweden and Yugoslavia) were either consistently in a net debtor or in a net creditor position under all of the agreements, through which payments for switch imports were made. However, payments for switch imports into Austria appeared to be made through agreements under which Austria was in a net creditor position, as well as in those under which it was in a net debtor position. The same applies to payments for switch imports into Brazil, Finland, France, and Japan. In all of these cases, the discounts for currencies in which the importing country had a net creditor position tended to be considerably higher than those in which it had a net debtor position. It has been previously attempted to give some explanation of these differences.

The above comparison could not be made from the June 1954 data, since most of the countries (nine out of twelve) for which more than two quotations were available, had either a net debtor or a net creditor position in all of the payments agreements through which payments for switch imports were then being made.

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DM/54/44

INTERNATIONAL MONETARY FUND

Exchange Restrictions Department

# The Operation of Bilateral Trade and Payments Agreements [1/]

Prepared by Irving S. Friedman

July 6, 1954

I have been asked to speak to you on the subject of bilateral trade and payments agreements. As you are all well aware, we are dealing in this field with a subject that is of fairly recent development, particularly in having any important effects for business in the United States. Although there are a number of prewar examples of these agreements, we are largely dealing with a development of the last eight or nine years. The literature on economic and business practices has only begun to deal with these postwar developments. For the most part, they still remain a mass of undigested and rather disorganized experience.

International trade and finance in the United States is based essentially on the operations of a free exchange market and the individual, independent decisions of private traders. These conditions do not prevail in most other countries. In other countries, importers must both obtain governmental permission to buy certain goods and also governmental permission to obtain the foreign exchange with which to pay for them. In many cases, the exporters in these countries also need permission to sell commodities abroad. It is this widespread use of governmental controls over international trade and finance that leads to the use of trade and payments agreements. It is not far from correct to say that if governments could and would give up reliance on trade and exchange restrictions over their foreign transactions bilateral trade and payments agreements would simply disappear.

Finally, there is an important distinction to be made between the provisions of these bilateral agreements which establish the broad framework within which the countries concerned conduct their trade and financial

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1/ Speech given at the Institute of International Trade, Monticello, Illinois, on June 24, 1954. The views expressed herein are the personal opinions of the author.

transactions with each other and the actual business practices of individual exporters and importers in the countries concerned who have to live with these agreements and the business practices of traders in other countries for whom the operation of these agreements may be important, particularly in the conduct of their own operations with these countries. I must emphasize that we, in the International Monetary Fund, deal essentially on the intergovernmental level. We hope on this occasion to be able to profit from your practical business experience.

The other speakers who will address you this morning and this afternoon are dealing with some of the specific problems relating to the operation of bilateral trade and payments agreements, particularly the uses which may be made of bilateral currencies. I will, therefore, endeavor to avoid dealing with these problems, and confine myself more to some of the background against which these and other specific problems may be viewed.

It must be said at the outset that much of the difficulty in dealing with this subject comes from problems of nomenclature, that is the simple problem that we are dealing with such a new set of practices that there is not even a common usage in any one country on how to call these things. We are frequently baffled by the fact that the same thing will be called many different names. It is not possible for me -- and I am afraid that it is not only a matter of brevity of time -- to sort out and deal with the very many different types of bilateral trade and payments agreements. I will try to deal briefly with the two principal kinds -- bilateral trade and bilateral payments agreements, with some remarks on various broader agreements, particularly those of the Sterling Area countries and the OEEC countries. Perhaps in the discussion it may be possible, if thought desirable, to elaborate on some of the other varied types. In practice, it may be said at the outset that these two types of bilateral agreements usually exist simultaneously.

Bilateral Trade Agreements

A bilateral trade agreement usually arises when two countries, eager to exchange commodities with each other, are not sure whether their own exports will find access to the markets of the other or whether they would obtain the imports from the other countries which they seek. Thus, for example, if Germany is eager to trade with Pakistan, because of the existence of exchange and trade controls which I have previously alluded to, Germany would have no way of being sure that the trade and exchange controls of Pakistan would not keep out German exports or whether the Pakistan export controls would allow the flow of goods which the German importers wished to buy from Pakistan. Similarly, Pakistan would have no way of knowing if the German exchange and trade controls would permit the desired trade with Pakistan to take place. The mutual desire for trade lays the basis for an international agreement between the two countries. Each country agrees to a list of commodities which it will be prepared to see traded, if, of course, their traders are interested in consummating the consequent import and export transactions. Technically, each country undertakes to issue, upon application, the import licenses required for the partner country's exports and permit the export to the partner country of its own export products which have been similarly listed.

These commitments may be unlimited in the sense that each country undertakes to allow the import and export of any amount its traders wish to buy or can sell. On the other hand, they, for payment reasons, frequently limit the commodity quotas to magnitudes which do restrict trade. We even have cases where the unit price of certain key commodities is fixed so that the country is relieved of its commitment to allow the imports of the commodity in question if it is overpriced. Normally, these agreements are for a one-year period of time, but where deliveries of capital goods are involved the period may be longer.

Thus, for the most part, trade agreements are actually found between countries which exercise domestic exchange and trade controls. However, trade agreements are also found between soft currency and hard currency countries. That is, between countries with exchange controls and those which do not have them. Usually, the country with controls undertakes to relax its restrictions on imports from the partner country and, in exchange, the country without controls makes some other form of commercial concession. For example, Cuba has granted the United Kingdom and Western Germany tariff benefits under such agreements, while Colombia has permitted agreement partners to supply goods which were on a prohibited import list.

Bilateral trade agreements-- like the bilateral payments agreements which will be discussed next-- had their start right after the war. At that time they were frequently a means of getting trade started and more particularly to obtain scarce commodities from partner countries. Usually, they were closely related to some form of over-all national planning or programming. Since then, however, the emphasis has shifted toward the use of bilateral trade agreements for the purpose of pushing exports. This change did not mean a deviation from the basic principles of trade agreements, but it has had important practical effects, for example, it increasingly caused special quotas for capital equipment under deferred payment terms to be included in the agreements concluded between industrial and under-developed countries.

Bilateral Payments Agreements

It is typical of bilateral trade agreements to provide that all trade under the terms of the trade agreement shall be financed as specified by the bilateral payments agreement in force during the validity of the trade agreement. This close inter-relation between these two types of agreements also reflects the fact that we are dealing usually with countries with exchange controls and trade restrictions. These governmental controls over foreign trade and payments have developed largely in response to the feelings of countries that they have not had sufficient foreign exchange earnings or foreign exchange reserves to allow their own traders and businessmen to buy abroad on a market basis. Instead, the governments felt it desirable, if not inevitable, that their foreign exchange earnings be rationed according to some principle of essentiality, etc. Therefore, countries eager to get imports, but feeling short of foreign exchange, entered many different types of agreements under which trade could be conducted with a minimum use of foreign exchange, particularly U.S. dollars or other equivalent convertible currencies.

Thus, bilateral payments agreements is a name which has been given to agreements under which two countries, eager to get trade started between them, undertake to effect the large majority of their settlements with each other without the use of U.S. dollars or other convertible exchange. The mechanism is usually controlled by the central banks of the countries concerned or special exchange offices. For in these countries, foreign exchange transactions are funneled into these central institutions. It is frequently the central bank or exchange office that is both the seller and recipient of all foreign exchange, and the only and the most important holder of foreign exchange assets or balances. Private banks may hold such balances, but only as agents for the monetary authorities.

In a typical case of a bilateral payments agreement, two central banks open accounts in their respective currencies in each country's name. For example, in the case of a payments agreement between two countries with inconvertible currencies, called Denmark and Italy for convenience, the Danish central bank would open an account in Danish kroner in the name of the Italian Exchange Control Office, and the Italian Exchange Control Office would open an account in lire in the name of the Danish central bank. In these accounts both credit each other with the equivalent amounts in each other's currency for purposes of working balances. The Italian importer, under the trade agreement, knows that he may buy certain Danish products and that the Danish authorities will not try to prevent their export from Denmark. The Italian importer then obtains a license to import and also an exchange permit. This exchange permit will indicate that payments to Denmark must be made in Danish kroner and must be made through the agreement account which has been established under the payments agreement. The Italian importer then purchases the necessary Danish kroner in his own currency, lire, of course, at the official rate of exchange. The Italian Exchange Control Office, which is the central source of foreign exchange, including the Danish kroner, will ask the central bank of Denmark to debit its kroner account and pay out those Danish kroner to the Danish exporter through whatever commercial bank or other financial institutions are being used.

In effect, the Italian Exchange Control Office has been the purchaser of Danish foreign exchange made available to it under the payments agreement. From the point of view of the Danish central bank, it has improved correspondingly its position through a reduction of its debt in Danish kroner and has created Danish kroner which represented the Danish exporter's sales proceeds.

In a free exchange market it is quite conceivable that these Danish kroner might have been purchased by the Italian exporter for any currency, including dollars, and, therefore, Denmark might conceivably have earned dollars from the sale of goods to Italy. However, through the operations of the Italian exchange control, Denmark is earning Italian lire from exports to Italy.

The Italian lire which Denmark has been able to earn can be used by Danish importers from Italy, and the existence of the trade agreement reflects the fact that there is a demand for each other's commodities. It may readily be seen that, as long as trade between the two countries tends to be more or less equal, the payments agreement tends to function smoothly. However, in the actual world of experience, it is not usual for the trade of two countries to tend to be equal to each other. It is just as likely that, if trade results only from market considerations, one country would tend to sell more to the other than it bought from that country, and similarly with other international transactions. Indeed, this is the very essence of what underlines our concern with bilateralism, that is, that countries do not tend, on a market basis, to trade with each other in equivalent amount, while bilateralism attempts to force this equation by governmental measures. Our concern in the postwar period has been to establish a multilateral system of trade and payments under which it would again be possible, as in the prewar years, for countries to use their surpluses with one country to pay for their deficits with other countries.

Because of this natural tendency for imbalance in the trade between two countries, one country might well end up by holding relatively large balances of the currency of its partner. Therefore, there is usually a provision in payments agreements for a limitation to the amount of the partner currency that any country undertakes to hold. In the case just cited, Denmark was, in effect, giving a credit to the Italian Exchange Control Office and, thereby, to Italy. Since Italian lire earned in this way are of only limited use to Denmark, she could not be expected to hold unlimited amounts. Therefore, most payment agreements provide a limit to the credit margin which may materialize under the payments agreements.

This credit margin usually is available to both partners and is often referred to as the "swing"credit. This so-called swing margin has been one of the key developments in postwar bilateral payments agreements, and an essential difference from prewar practice. Through this mutual extension of credit there is avoided the need for the bilateral balancing of trade between the partner countries in any given period. Because this bilateral balancing is not necessary, exporters in the country concerned may continue to get paid even though, for the moment, the exports of their country to the other is in excess of imports. As long as the exporter knows that these credit margins which are being extended by his authorities have not been exhausted, he need not fear that his monetary authorities will withdraw from the agreement and that he will earn only frozen assets by trading with the other countries.

In the well known inter-war clearing agreements, by contrast, there was frequently no provision for such inter-governmental automatic credits and at any given time an exporter might find that the partner country was not permitting the payment due to him, and his own country undertook no obligation to provide him with the local currency equivalent of his foreign exchange earning. A "waiting period" which could paralyze trade could and did ensue. During this waiting period, the exporter could not be paid out in his own currency until importers in the same country had paid in sufficient amounts in that currency to the clearing office.

In addition, under postwar payments agreements, over and above the swing margins, it is still possible for countries to continue their trade with each other, but the excess frequently has to be settled in U.S. dollars or other convertible currencies. If the debtor country feels short of U.S. dollars or is trying to avoid dollar payments -- a situation which has usually prevailed -- then, the exhaustion of the swing credit would usually lead to a re-examination of the commitments under the bilateral trade agreements. Either the creditor country could try to limit its sales to the debtor country or it could try to buy more from the debtor country, or the debtor country could try to limit its purchases from the creditor country while trying to sell more to the creditor country.

In practice, combinations of these measures at times involving both licensing and exchange rate policies, have usually been taken to cope with situations arising from the exhaustion of these credit margins. To the extent to which these bilateral balances or claims can only be used in the partner country -- or in certain specified countries -- they encourage the authorities of the creditor country to find ways and means of using them. In practice, this leads to discrimination in favor of imports from these bilateral debtor countries and against other potential supplier countries. Thus, the discrimination which the U.S. exporter has frequently found in the postwar experience has frequently been the direct result of the workings of bilateral trade and payments agreements.

In the past years, it was safe to say that these agreements reflected the existing desire for imports and monetary difficulties. However, in the more immediate past, commercial considerations have become increasingly important. With exports no longer scarce and imports being increasingly offered in all categories of goods, the original motives of obtaining needed imports in exchange for exports without expending hard currency has tended to become one of pushing exports partly financed through swing margins and buying imports as a means of being able to increase exports.

The size of these swing margins has, as a rule, been sufficiently large to be of some importance. Originally, these swing margins have frequently been established at around 10 per cent of either partner's exports to the other, as envisaged in the corresponding trade agreement. However, in a number of cases it has been found that these margins were too small to take care of seasonal trends or payments on indebtedness, and, instead, the percentage has been raised to 20 or even 30 per cent.

To an American trader, accustomed to a large degree of trade and exchange freedom, the prospect of having to engage in foreign trade under the limitations of a bilateral trade and payments agreement as just described might indeed seem onerous and cumbersome, even if it does eliminate significant areas of uncertainty and risk. However, it is to be recalled that the traders within these countries are already subject to all sorts of licensing procedures and requirements. Furthermore, in practice, a trader may be only dimly aware of the technicalities involved, since, in either case, his main concern is to get his import or export license, after which he goes to his bank which takes care of the technicalities. Indeed, our experience has been that private traders in the countries concerned frequently like to do business with payments agreements countries, particularly exporters who find that they have not only commercial access to these markets, but that in these markets they frequently obtain higher prices than in other markets. Exporters have even continued selling to a payments agreement country that has overdrawn its credit margin. At this point, however, the private exporter may well get into trouble because he may be told by his own central bank that either he must wait for his payment until some new arrangement has been worked out with the partner country, or perhaps given the option of selling his foreign exchange earnings claims, in one form or another, at a discount. This is what has happened in the payments relations between Brazil and Germany. Germany had been a creditor and Brazil had overdrawn her credit margin. The point was reached where German authorities told their exporters that they were not prepared to convert their Brazilian earnings into German marks at the comparatively favorable official rate. Instead, the German exporters would have to discount these earnings by selling them to individuals who might be willing to buy Brazilian products if they were able to obtain the Brazilian cruzeiro at discount or bargain prices. As noted before, whatever the commercial desirability of keeping exports flowing to the partner country, the point may be reached where the creditor feels it simply cannot afford to pile up further foreign exchange balances of limited usability and begins to take counter measures to protect the quality of its foreign exchange reserves.

The kind of bilateral payments agreements we have been just describing is essentially of a so-called two-currency type, i.e., the currencies of both countries are used in making settlements. Many bilateral payments agreements, however, use only one currency. Usually, the one currency used would be that of one of the partners. This is usually done because the currency of the other partner is of very little importance in world trade, or may be considered unstable in value, or is subject to a system of multiple exchange rates which make it very difficult to conduct the kind of settlement and credit arrangements we have just been discussing.

The U.K. has arrangements in both the two-currency and the one-currency type. Usually, it refers to the two-currency type as monetary agreements, and refers to the one-currency type of agreement, in which only sterling is used, as "sterling payments agreements". Among the countries with which the U.K. has had the two-type or monetary agreements are the Netherlands, Italy, France, and other Western European countries. On the other hand, all of the six payments agreements concluded with the Latin American countries by the U.K. are the one-currency type, namely sterling payments agreements. At times the single currency agreements do not provide for any swing margins, as well as providing that all transactions shall be conducted in the one-currency, for example, sterling. Of the six sterling payments agreements with South American Republics, only that with Argentina contains a swing provision. They entered into these agreements presumably because the sterling area countries may have applied discriminatory import restrictions against them for hardness of currency reasons if payments had continued in dollars.

It may be of interest to note that in many of the recent bilateral payments agreements the accounts are held in a third currency, namely the U.S. dollar. This has been true of agreements entered into by Japan and Germany. For example, this is being done in a very recent agreement made between Chile and Argentina. This does not mean that under these agreements U.S. dollars are actually used in making settlements, but rather that it is used as the currency of the account. In these cases, any swing margins are given in the manner described before, but their amounts are accounted for in terms of U.S. dollars. The main advantages of using the dollar as the currency of account would seem to lie in its being a hedge against devaluation because of its stability.

Multilateralization of Bilateral Payments Relations

In origin, the bilateral payments agreements concentrated on providing the means of financing of trade between two countries. Although I do not wish to get into areas of discussion which may be covered by other speakers, it should probably be noted that many bilateral agreements now contain provisions which permit, with the approval of both countries, the use of claims on the partner country to make settlements to third countries. This, of course, opens the road to a considerable transformation of the strictly bilateral character of these agreements and of the relations between the two countries. It means that no longer are countries trying to achieve a balance in their trade with each other within the margins of latitude given by the credit or swing margin. Instead, to the extent to which other countries are willing to accept such claims, it opens up the vista of broader third country or multilateral settlements. These clauses thus create the transferability of inconvertible currencies. The best known and most significant types of such broadening of the use of inconvertible currencies are the sterling area arrangements and those established under the European Payments Union.

There have recently been other signs that some European countries wish to reduce the extent of bilateralism in their trade and payments relations with third countries. Western Germany, for example, has informed a number of South American payments agreements partmers that she would like to terminate her payments agreements with them and instead finance their reciprocal trade in convertible currencies. The United Kingdom on March 22 of this year abolished the distinction between two classes of payments agreement partners, the Bilateral Account and the Transferable Account countries, and has since permitted all these countries to acquire sterling from each other without reference to the Bank of England.

Thus, Brazil, e.g., would now be able - without screening of an application by the Bank of England -- to spend on French exports the sterling acquired from sales to the United Kingdom, or to replenish her sterling resources by selling goods to Japan for sterling. Western Germany on April 1 created DM accounts of two types, "with limited convertibility" and "fully convertible". Here, too, amounts credited to, say, an Argentine exporter, may now be used to pay for purchases from Western Germany, from any EPU country or from any other country with which Germany has concluded a payments agreement. Both in the case of the United Kingdom and Germany, however, the actual effect of these moves away from strict bilateralism will depend on the reactions of their payments agreement partners. If, for example, Argentina and Brazil continue to prescribe that their exporters may accept sterling only from the sterling area and DM only from Germany, and if they continue to allocate sterling and DM only for purchases in the sterling area and Germany, respectively, these moves would not widen trade and payments relations between these Latin American and European countries.

The European Payments Union is a multilateral payments agreement. It is based on an agreement concluded by fifteen Western and Central European countries and their overseas territories, in which they undertake to offset periodically among each other all creditor and debtor balances arising from payments made and received in the currencies of the participating countries. Thus, there is full transferability of member countries' currencies within the group, but not convertibility. Gold and dollar settlements are limited to specified proportions of countries' over-all creditor or debtor positions within their "quotas", and to settlement in full in respect of debtor positions beyond the quota limits. The quotas are comparable to the swings in bilateral payments agreements since they determine the maximum debit and credit positions which members can ordinarily accumulate with each other. There is a difference to the extent that each quota does not represent a firm credit margin but rather a mixture of credit and gold or dollar payments. The signing of the 1950 agreement made obselete many of the provisions of the existing bilateral payments agreements among the European countries, but payments agreements are still in force between all pairs of EPU countries. These revised bilateral payments agreements are still necessary for various purposes. They contain the definition of the partners' exchange rates with reference to the EPU accounting unit, the list of the types of transactions between each pair of countries which are to be settled through the EPU mechanism, provisions regarding the steps to be taken in case either country leaves the EPU or in case the EPU is terminated, etc.

The members of EPU have also agreed on certain trade rules to be applied within the group. These rules are contained in a Liberalization Code both for trade and for invisibles. It may be considered as a multilateral trade agreement, which is supplemented by the bilateral trade agreements which EPU members have continued negotiating with each other.

At this point it may be useful to summarize briefly what has been said on the bilateral trade and payments agreements.

A trade agreement thus opens the way for the actual exchange of commodities between two countries entering into such an agreement. The payments agreement makes it possible, within the framework of the exchange control of both countries, to provide the financing for the exchange of goods envisaged under the trade agreement. Without the payments agreement, the same exchange of goods might well not have taken place if it involved payments in currencies of which the other country was in short supply. However, since trade between two countries does not tend to be equal at any given moment, credit margins have become an important feature of their actual operation. But since in the very nature of things countries are unwilling to undertake unlimited commitments to give credits, these credit margins are frequently limited and, in practice, exhausted. At this point the dilemma is posed of trying to change the trade pattern or of finding new and additional means of financing. In many cases, trade between the two countries would naturally tend to be in a state of imbalance, with one country being the creditor and the other the debtor. No real solution may then be possible within the framework of bilateralism, unless we may assume that the creditor country does not mind becoming increasingly a creditor with more and more uncertainty as to the eventuality of repayment. The real lasting solution lies in the end of bilateralism, in removing the necessity to avoid bilateral imbalance, and, instead, to achieve convertibility conditions under which countries can be indifferent to their bilateral positions because surpluses with one country can be used to offset deficits with others. Through the achievement of domestic monetary stability and realistic exchange rates the problem of multilateral settlement is considerably reduced since the bilateral imbalances become smaller, more predictable and manageable.

Significance of Bilateral Agreements and Effects on Other Countries

We have attempted thus far to sketch in general terms the operation of bilateral trade and payments agreements. In practice, as noted, they are found in many different forms. This is to be expected in view of the widespread use of these bilateral trade and payments agreements. I have appended here some tables giving indications as to how extensively such agreements are used. Indeed, it would be far simpler to list the countries that have few or no payments agreements than to list those that do. The United States, Canada, Mexico, Liberia, the Philippines, and a few other Central American and South American Republics constitute the countries which do not make important use of such agreements. It is safe to say that considerably more than 50 per cent of world trade is settled in inconvertible currencies in accordance with the terms for the operations of these agreements. (See Appendix A.) It should also be emphasized, however, that not all of this is on the basis of bilateral agreements, since, in recent years, we have seen the breakdown of pure bilateralism in favor of regional groups, such as sterling area and the EPU. This extension of the transferability of these inconvertible currencies has altered the significance of these trade and payments agreements. They have enabled more freedom to be given to individual traders and, as a result, existing patterns of world trade and payments come closer to what might be regarded as their natural patterns than if the world had continued on the basis of pure bilateralism.

However, as we are all aware, because of the continued inconvertibility of currencies, much of the artificial character of world trade and payments remains. Currency or exchange control considerations still play a vital part in effecting international trade and payments and will continue to do so until currencies become convertible. Furthermore, pure bilateral trade and payments agreements are still important and constitute, for many countries, a major factor in the conduct of their international trade and finance.

Furthermore, they have a major impact on the trade of other countries with the agreement countries. It is hard to give statistical estimates since existing trade figures already reflect the influence of these agreements and we would need the statistically impossible to make a quantitative judgment, namely — what the trade would have been in the absence of such agreements. A brief recapitulation of how these agreements operate will indicate how they affect other countries. (Since this is a U.S. audience, I have taken the position of the U.S. exporter as an example, but the analysis would apply equally to other exporters dealing with the countries concerned who do not have the preferential access to the markets obtained through the bilateral agreements).

When a soft currency country, for convenience, let us call it Country A, operates trade and exchange controls on hardness of currency grounds, there are two methods of allocating import and exchange licenses: one applied to payments agreement countries (and non-sterling area countries which do accept sterling), and one for the others. As long as a country such as Argentina is in the second group (with the United States and Canada), Argentine exports to Country A are handicapped by discriminatory licensing. If Country A is a sufficiently important potential buyer of Argentine products, Argentina may wish to eliminate this handicap by signing a bilateral agreement. Once the agreement is in force, Country A increases its imports from Argentina. Argentina thus acquires Country A's inconvertible currency. She then tries to use these up by granting more licenses for imports from Country A. This is the genesis and operation of a bilateral payments agreement.

The U.S. exporter is affected adversely in two direct ways: Country A now buys Argentine wheat with its currency and will consider imports of U.S. wheat in dollars as marginal, i.e., to be permitted only if unavoidable, or if the over-price on Argentine wheat were to be so high as to offset the advantage of not using dollars. And Argentina now imports railroad cars and radio sets from Country A instead of the United States. An additional adverse effect on U.S. exports may arise if Country A wishes to expand its own exports to Argentina. Country A might expand its purchases from Argentina which leaves Argentina with claims which can be spent only on Country A exports. There is considerable evidence that payments agreements (and the trade agreements containing the quotas which implement these practices) have been frequently used by industrial soft currency countries to acquire a preferential position in the import markets of underdeveloped countries. A third way in which the U.S. exporter is affected by the operation of these agreements is that frequently in such bilateral relationships, one partner ends up by holding a claim so large that it must be consolidated in one way or another. Under such circumstances, agreement is frequently reached that the partner country shall make direct investments, e.g., building automobile or tractor plants. Such direct investments might well involve products which replace competing U.S. exports. Thus, while currency considerations dominated in the earlier phases of postwar use of bilateral payments agreements, commercial considerations have become increasingly more important in recent years. This is made more important for the United States by the fact that it exports both agricultural and industrial commodities, and may thus be affected by the policies of both bilateral partners.

With the discussions taking place in Europe respecting the prospects of convertibility of certain European currencies, particularly sterling, there is reason to hope that we may be soon approaching the time when bilateral trade and payments agreements will become less important and more of world trade and payments will be reflective of international market conditions. However, we know that for many countries the basic causes leading to the use of exchange controls and trade restrictions have still not been fully overcome. Even if major steps forward are taken in removing restrictions on trade and international payments, it seems likely that countries for a number of years to come will make important use of exchange controls and restrictions, and that bilateral trade and payments agreements will continue to be important instruments of international commerce and finance in the years ahead. But we may hope that their importance will be much less than in the past and that the decisive factors in world trade will again be such things as relative efficiency in prices and costs, and that governmental considerations related to currency stringency or desire to maintain easy preferential markets for certain exports will become of less and less importance. In this way, the harmful effects of the two-price world high prices in soft currency countries and lower prices in dollar countries, will be reduced, if not eliminated, and international trade made more able to contribute to the interest of all.

Appendix A

World Trade by Major Currency Areas, 1953

(In billions of dollars)

| | Imports by / Exports to | (a) Dollar Area | (b) Sterling Area | (c) Continental EPU | (d) Rest of World | (e) Total |
|---|---|---|---|---|---|---|
| 1 | Dollar Area | 11.1 | 2.8 | 3.8 | 3.8 | 21.5 |
| 2 | Sterling Area | 2.8 | 9.7 | 4.7 | 1.9 | 19.1 |
| 3 | Continental EPU | 3.0 | 3.8 | 13.7 | 2.9 | 23.4 |
| 4 | Rest of World | 3.1 | 3.4 | 3.8 | 2.0 | 12.3 |
| 5 | Total | 20.0 | 19.7 | 26.0 | 10.6 | 76.3 |
| 6 | Total Trade | 41.5 | 38.8 | 49.4 | 22.9 | 152.6 |
| 7 | Trade Balances | 1.5 | -.6 | -2.6 | 1.7 | 0 |

Source: International Financial Statistics, May 1954, IMF.

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Attached hereto are provisional tables indicating the present usage of bilateral payments agreements, which may be of interest in connection with the lecture of "The Operation of Bilateral Trade and Payments Agreements" circulated as DM/54/44. These tables were compiled by Johan H. C. de Looper, of the Trade and Payments Division, Exchange Restrictions Department.

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Table 1: The Financing of Trade Among European Countries

| | MEMBERS OF THE EUROPEAN PAYMENTS UNION | | | | | | | | | | | | | | | | OTHER WESTERN EUROPE | | | EASTERN EUROPE | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Austria | BLEU | Denmark | Eire | France | W. Germany | Greece | Iceland | Italy | Netherl. | Norway | Portugal | Sweden | Switzerl. | Turkey | U. Kingdom | Finland | Spain | Yugos. | Bulgaria | Czechosl. | E. Germany | Hungary | Poland | Rumania | USSR |
| **E. P. U.** | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Austria | | e | e | st | e | e | e | e | e | e | e | e | e | e | e | st | o | X | X | X | X | X | X | X | X | o |
| BLEU | e | | e | st | e | e | e | st | e | e | e | e | e | e | e | st | X | X | X | X | X | c | X | X | X | X |
| Denmark | e | e | | st | e | e | e | e | e | e | e | e | e | e | e | st | X | X | X | X | X | X | X | X | X | X |
| Eire | st | st | st | | st | st | st | sa | st | st | st | st | st | st | st | sa | st | st | st | st | st | st | st | st | st | st |
| France | e | e | e | st | | e | e | e | e | e | e | e | e | e | e | st | X | X | X | o | X | X | X | X | o | X |
| W. Germany | e | e | e | st | e | | e | st | e | e | e | e | e | e | e | st | X | X | X | X | X | X | X | X | c | o |
| Greece | e | e | e | st | e | e | | st | e | e | e | e | e | e | e | st | X | X | X | X | X | X | X | X | o | X |
| Iceland | e | st | e | sa | e | st | st | | st | st | st | st | st | st | st | sa | X | X | st | st | X | st | X | X | X | X |
| Italy | e | e | e | st | e | e | e | st | | e | e | e | e | e | e | st | X | X | X | X | o | X | X | X | X | X |
| Netherl. | e | e | e | st | e | e | e | st | e | | e | e | e | e | e | st | X | X | X | X | X | X | X | X | o | X |
| Norway | e | e | e | st | e | e | e | st | e | e | | e | e | e | e | st | X | X | X | X | X | c | X | X | X | X |
| Portugal | e | e | e | st | e | e | e | st | e | e | e | | e | e | e | st | X | X | o | o | o | o | o | o | o | o |
| Sweden | e | e | e | st | e | e | e | st | e | e | e | e | | e | e | st | X | X | X | X | X | c | X | X | c | X |
| Switzerland | e | e | e | st | e | e | e | st | e | e | e | e | e | | e | st | X | X | X | X | X | X | X | X | X | o |
| Turkey | e | e | e | st | e | e | e | st | e | e | e | e | e | e | | st | X | X | X | X | X | X | X | X | o | X |
| U. Kingdom | st | st | st | sa | st | st | st | sa | st | st | st | st | st | st | st | | st | st | st | st | st | st | st | st | st | st |
| **Other W. EUROPE** | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Finland | o | X | X | st | X | X | X | X | X | X | X | X | X | X | X | st | | X | X | X | X | X | X | X | X | X |
| Spain | X | X | X | st | X | X | X | X | X | X | X | X | X | X | X | st | X | | o | o | o | o | o | o | o | o |
| Yugoslavia | X | X | X | st | X | X | X | st | X | X | X | o | X | X | X | st | X | o | | o | o | o | X | o | X | o |
| **EASTERN EUROPE** | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bulgaria | X | X | X | st | o | X | X | st | X | X | X | o | X | X | X | st | X | o | o | | o | o | o | o | o | X |
| Czechoslov. | X | X | X | st | X | X | X | X | o | X | X | o | X | X | X | st | X | o | o | o | | o | o | X | o | X |
| E. Germany | X | c | X | st | X | X | X | st | X | X | c | o | c | X | X | st | X | o | o | o | o | | o | o | o | X |
| Hungary | X | X | X | st | X | X | X | st | X | X | X | o | X | X | X | st | X | o | X | o | o | o | | o | o | X |
| Poland | X | X | X | st | X | X | X | X | X | X | X | o | X | X | X | st | X | o | o | o | X | o | o | | o | X |
| Rumania | X | X | X | st | o | c | o | X | X | o | X | o | c | X | o | st | X | o | X | o | o | o | o | o | | X |
| U.S.S.R. | o | X | X | st | X | o | X | X | X | X | X | o | X | o | X | st | X | o | o | X | X | X | X | X | X | |

(OVER)

SYMBOLS USED:

X
sa
st
o

See Table 5

e: A bilateral payments agreement is in force; bilateral positions are multilaterally offset through the EPU accounting mechanism.

c: An arrangement providing for balanced compensation trade is in force.

NB: The payments agreement between Austria and Spain has expired but its renegotiation is reportedly being undertaken.

* Table compiled from various unofficial as well as official sources.

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Table 2: The Financing of Trade Between Western and Eastern Hemisphere Countries

| | MEMBERS OF THE EUROPEAN PAYMENTS UNION | | | | | | | | | | | | | | | | OTHER WESTERN EUROPE | | | EASTERN EUROPE | | | | | | | OTHER | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Austria | BLEU | Denmark | Eire | France | W. Germany | Greece | Iceland | Italy | Netherl. | Norway | Portugal | Sweden | Switzerl. | Turkey | U.K.ingdom | Finland | Spain | Yugoslav. | Bulgaria | Czechosl. | E. Germany | Hungary | Poland | Rumania | USSR | Israel | Japan |
| SO. AMERICA | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Argentina | X | o | X | st | X | X | o | st | X | X | X | c | X | X | c | st | X | X | X | X | X | c | X | X | X | X | X | X |
| Bolivia | – | X | – | – | X | – | – | – | – | – | – | – | – | – | – | – | – | X | – | – | – | – | – | – | – | – | – | – |
| Brazil | X | c | X | st | X | X | X | X | X | X | X | X | X | c | X | st | X | X | X | c | X | o | X | X | o | o | o | X |
| Chile | c | c | o | st | X | X | o | st | X | o | o | c | o | o | o | st | c | X | o | o | c | o | o | o | c | c | o | o |
| Colombia | – | X | X | – | – | X | – | – | X | – | – | – | – | – | – | – | X | X | – | – | – | – | – | – | – | – | – | – |
| Ecuador | – | – | – | – | X | X | – | – | X | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Paraguay | X | o | X | st | X | X | o | st | X | X | o | c | o | c | o | st | X | X | X | o | X | c | X | c | o | o | c | c |
| Peru | o | o | c | st | X | o | o | st | o | o | o | o | o | o | o | st | o | o | o | c | c | o | o | o | c | c | c | – |
| Uruguay | X | X | X | st | X | X | X | st | X | X | o | o | X | X | X | st | X | X | X | o | X | o | X | c | o | o | X | – |
| Venezuela | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| OTH.LAT.AM. | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Costa Rica | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Cuba | – | – | – | – | X | – | – | – | – | – | – | – | – | – | – | – | – | X | – | – | – | – | – | – | – | – | – | – |
| Dom. Rep. | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| El Salvador | – | – | – | – | – | – | – | – | X | – | – | – | – | – | – | – | – | X | – | – | – | – | – | – | – | – | – | – |
| Guatemala | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Haiti | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Honduras | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Mexico | – | – | – | – | X | – | – | – | – | – | – | – | – | – | – | – | – | X | – | – | X | – | – | – | – | – | – | – |
| Nicaragua | – | – | – | – | – | – | – | – | X | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Panama | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| NORTH AMERICA | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Canada | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| U. S. | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |

(OVER)

* Table compiled from various unofficial as well as official sources.

SYMBOLS USED:

X: A bilateral payments agreement, clearing arrangement or similar arrangement is in force.

st: One country is a member of the sterling area, and their inter-trade is financed in transferable sterling.

o: No bilateral payments agreement or clearing arrangement exists, but inter-trade may be financed in transferable sterling.

-: No soft currency financing; exclusive use of U.S. dollars, other convertible currencies, or balances in convertible accounts in soft currencies (such as American Account Sterling).

<u>Provisional</u> *

Table 3: The Financing of Trade Among European, Middle and Far Eastern Countries

| | MEMBERS OF THE EUROPEAN PAYMENTS UNION | | | | | | | | | | | | | | | | OTHER WESTERN EUROPE | | | EASTERN EUROPE | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Austria | BLEU | Denmark | Eire | France | W. Germany | Greece | Iceland | Italy | Netherl. | Norway | Portugal | Sweden | Switzerl. | Turkey | U. Kingdom | Finland | Spain | Yugoslav. | Bulgaria | Czechosl. | E. Germany | Hungary | Poland | Rumania | USSR |
| **MIDDLE EAST** | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Egypt | X | X | o | st | X | X | X | st | X | X | o | X | o | X | X | st | o | X | X | X | X | X | X | X | X | X |
| Ethiopia | o | o | o | st | o | o | o | st | o | o | X | o | o | o | o | st | o | o | o | o | o | o | o | o | o | o |
| Iran | o | o | o | st | X | X | o | st | o | X | o | o | o | X | X | st | o | o | o | o | o | o | o | X | o | o |
| Iraq | st | st | st | sa | st | st | st | sa | st | st | st | st | st | st | st | sa | st | st | st | st | st | st | st | st | st | st |
| Israel | o | o | X | st | X | o | o | X | X | X | X | o | o | o | X | st | X | o | X | st | st | st | st | st | st | st |
| Jordan | st | st | st | sa | st | st | st | sa | st | st | st | st | st | st | st | sa | st | st | st | st | st | st | st | st | st | st |
| Lebanon | o | o | o | st | X | o | o | st | o | o | o | o | o | o | o | st | o | o | o | o | X | o | o | o | o | X |
| Libya | st | st | st | sa | st | st | st | sa | st | st | st | st | st | st | st | sa | st | st | st | st | st | st | st | st | st | st |
| Saudi Arabia | o | o | o | st | X | o | o | st | o | o | o | o | o | o | o | st | o | o | o | o | o | o | o | o | o | o |
| Syria | o | o | o | st | X | o | o | st | o | o | o | o | o | o | o | st | o | o | o | o | o | o | o | o | o | o |
| Yemen | o | o | o | st | o | o | o | st | o | o | o | o | o | o | o | st | o | o | o | o | o | o | o | o | o | o |
| **FAR EAST** | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Australia | st | st | st | sa | st | st | st | sa | st | st | st | st | st | st | st | sa | st | st | st | st | st | st | st | st | st | st |
| Burma | st | st | st | sa | st | st | st | sa | st | st | st | st | st | st | st | sa | st | st | st | st | st | st | st | st | st | st |
| Ceylon | st | st | st | sa | st | st | st | sa | st | st | st | st | st | st | st | sa | st | st | st | st | st | st | st | st | st | st |
| India | st | st | st | sa | st | st | st | sa | st | st | st | st | st | st | st | sa | st | st | st | st | st | st | st | st | st | st |
| Indochina | X | X | X | st | X | X | X | st | X | X | X | X | X | X | X | st | X | X | X | X | X | X | X | X | o | X |
| Indonesia | X | X | X | st | X | X | X | st | X | X | X | X | X | X | X | st | X | X | X | X | X | X | X | X | o | X |
| Japan | o | o | o | st | X | X | o | st | X | X | o | o | X | o | o | st | X | o | o | o | o | o | o | o | o | o |
| Korea | o | o | o | st | o | o | o | st | o | o | o | o | o | o | o | st | o | o | o | o | o | o | o | o | o | o |
| Pakistan | st | st | st | sa | [illegible] | st | st | sa | st | st | st | st | st | st | st | sa | st | st | st | st | st | st | st | st | st | st |
| Philippines | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Ryukyus | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Taiwan | o | o | o | st | X | o | o | st | o | o | o | o | o | o | o | st | o | o | o | o | o | o | o | o | o | o |
| Thailand | o | o | o | st | o | o | o | st | o | o | o | o | o | o | o | st | o | o | o | o | o | o | o | o | o | o |

*Table compiled from various unofficial as well as official sources

(OVER)

SYMBOLS USED:

X: A bilateral payments agreement, a clearing arrangement or a similar arrangement is in force.

sa: Both countries belong to the sterling area and finance their inter-trade in sterling.

st: One of the two countries is a member of the sterling area and their inter-trade is financed in transferable sterling (and, in some cases, in the other country's currency).

o: No bilateral payments agreement exists; inter-trade may be financed in transferable sterling.

-: No soft currency financing; exclusive use of U.S. dollars, other convertible currencies, or balances in convertible accounts in soft currencies (such as American Account Sterling).

NB: Japan's settlements with the BLEU and Spain are on a dollar basis in accordance with bilateral payments agreements of the "cash dollar" type.

CONFIDENTIAL

Table 4: The Financing of Trade Within the Western Hemisphere

Provisional*

| | SOUTH AMERICA | | | | | | | | | | OTHER LATIN AMERICA | | | | | | | | | | NORTH AMER. | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Argentina | Bolivia | Brazil | Chile | Colombia | Ecuador | Paraguay | Peru | Uruguay | Venezuela | Costa Rica | Cuba | Dom. Rep. | El Salvador | Guatemala | Haiti | Honduras | Mexico | Nicaragua | Panama | Canada | US |
| **SOUTH AMERICA** | | | | | | | | | | | | | | | | | | | | | | |
| Argentina | | X | X | X | X | X | X | X | X | – | – | – | – | – | – | – | – | 1/ | – | – | – | – |
| Bolivia | X | | X | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Brazil | X | X | | X | – | – | X | o | X | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Chile | X | – | X | | – | X | o | o | o | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Colombia | X | – | – | – | | X | – | – | X | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Ecuador | X | – | – | X | X | | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Paraguay | X | – | X | o | – | – | | o | x | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Peru | X | – | o | o | – | – | o | | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Uruguay | X | – | X | o | X | – | X | o | | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Venezuela | – | – | – | – | – | – | – | – | – | | – | – | – | – | – | – | – | – | – | – | – | – |
| **Other LATIN AMERICA** | | | | | | | | | | | | | | | | | | | | | | |
| Costa Rica | – | – | – | – | – | – | – | – | – | – | | – | – | – | – | – | – | – | – | – | – | – |
| Cuba | – | – | – | – | – | – | – | – | – | – | – | | – | – | – | – | – | – | – | – | – | – |
| Dominican Republic | – | – | – | – | – | – | – | – | – | – | – | – | | – | – | – | – | – | – | – | – | – |
| El Salvador | – | – | – | – | – | – | – | – | – | – | – | – | – | | – | – | – | – | X | – | – | – |
| Guatemala | – | – | – | – | – | – | – | – | – | – | – | – | – | – | | – | – | – | – | – | – | – |
| Haiti | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | | – | – | – | – | – | – |
| Honduras | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | | – | – | – | – | – |
| Mexico | 1/ | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | | – | – | – | – |
| Nicaragua | – | – | – | – | – | – | – | – | – | – | – | – | – | X | – | – | – | – | | – | – | – |
| Panama | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | | – | – |
| **NORTH AMERICA** | | | | | | | | | | | | | | | | | | | | | | |
| Canada | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | | – |
| U. S. | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | |

1/ Payments agreement provides for financing of books and periodicals only; all other payments continue in convertible currencies.

(OVER)

* Table compiled from various unofficial as well as official sources.

SYMBOLS USED:

X: A bilateral payments agreement, a clearing arrangement or a similar arrangement is in force.

o: No bilateral payments or clearing arrangement exists but inter-trade may be financed in transferable sterling.

-: No soft currency financing; exclusive use of US dollars, other convertible currencies, or balances in convertible accounts in soft currencies (such as American Account Sterling).

## Table 5: The Financing of Trade Among Middle and Far Eastern Countries



| | MIDDLE EAST | | | | | | | | | | | FAR EAST | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Egypt | Ethiopia | Iran | Iraq | Israel | Jordan | Lebanon | Libya | S Arabia | Syria | Yemen | Australia | Burma | Ceylon | India | Indochina | Indonesia | Japan | Korea | Pakistan | Philippines | Ryukyus | Taiwan | Thailand |
| **MIDDLE EAST** | | | | | | | | | | | | | | | | | | | | | | | | |
| Egypt | | o | o | st | o | st | X | st | x | o | o | st | st | st | X | f | n | X | o | st | – | – | o | o |
| Ethiopia | o | | o | st | X | st | o | st | o | o | o | st | st | st | st | o | o | o | o | st | – | – | o | o |
| Iran | o | o | | st | X | st | o | st | o | o | o | st | st | st | st | f | o | o | o | st | – | – | o | o |
| Iraq | st | st | st | | st | sa | x | sa | st | st | st | sa | sa | sa | sa | st | st | st | st | sa | – | – | st | st |
| Israel | o | X | X | st | | st | o | st | o | o | o | st | st | st | st | f | n | o | o | st | – | – | o | o |
| Jordan | st | st | st | sa | st | | st | sa | st | st | st | sa | sa | sa | sa | st | st | st | st | sa | – | – | st | st |
| Lebanon | x | o | o | x | o | st | | st | o | o | o | st | st | st | st | o | o | o | o | st | – | – | o | o |
| Libya | st | st | st | sa | st | sa | st | | st | st | st | sa | sa | sa | sa | st | st | st | st | sa | – | – | st | st |
| Saudi Arabia | X | o | o | st | o | st | o | st | | o | o | st | st | st | st | o | o | o | o | st | – | – | o | o |
| Syria | o | o | o | st | o | st | o | st | o | | o | st | st | st | st | o | o | o | o | st | – | – | o | o |
| Yemen | o | o | o | st | o | st | o | st | o | o | | st | st | st | st | o | o | o | o | st | – | – | o | o |
| **FAR EAST** | | | | | | | | | | | | | | | | | | | | | | | | |
| Australia | st | st | st | sa | st | sa | st | sa | st | st | st | | sa | sa | sa | st | st | st | st | sa | – | – | o | o |
| Burma | st | st | st | sa | st | sa | st | sa | st | st | st | sa | | sa | sa | st | st | st | st | sa | – | – | st | st |
| Ceylon | st | st | st | sa | st | sa | st | sa | st | st | st | sa | sa | | sa | st | st | st | st | sa | – | – | st | st |
| India | X | st | st | sa | st | sa | st | sa | st | st | st | sa | sa | sa | | st | st | st | st | X | – | – | st | st |
| Indochina | f | o | f | st | f | st | o | st | o | o | o | st | st | st | st | | n | X | o | st | – | – | o | o |
| Indonesia | n | o | o | st | n | st | o | st | o | o | o | st | st | st | st | n | | X | o | st | – | – | o | o |
| Japan | X | o | o | st | o | st | o | st | o | o | o | st | st | st | st | X | X | | X | st | X | – | X | X |
| Korea | o | o | o | st | o | st | o | st | o | o | o | st | st | st | st | o | o | X | | st | – | – | o | o |
| Pakistan | st | st | st | sa | st | sa | st | sa | st | st | st | sa | sa | sa | X | st | st | st | st | | – | – | st | st |
| Philippines | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | X | – | – | | – | – | – |
| Ryukyus | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | | X | – |
| Taiwan | o | o | o | st | o | st | o | st | o | o | o | o | st | st | st | o | o | X | o | st | – | X | | o |
| Thailand | o | o | o | st | o | st | o | st | o | o | o | o | st | st | st | o | o | X | o | st | – | – | o | |

* Table compiled from various unofficial as well as official sources.

(OVER)

SYMBOLS USED:

X: A bilateral payments agreement, a clearing arrangement or a similar arrangement is in force.

sa: Both countries belong to the sterling area and finance their inter-trade in sterling.

st: One of the two countries is a member of the sterling area and their inter-trade is financed in transferable sterling (and, in some cases, in the other country's currency).

o: No bilateral payments agreement exists; inter-trade may be financed in transferable sterling.

f: trade is financed under a French bilateral payments agreement.

n: trade is financed under a Netherlands bilateral payments agreement.

-: No soft currency financing; exclusive use of U.S. dollars, other convertible currencies, or balances in convertible accounts in soft currencies (such as American Account Sterling).