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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/80

2:30 p.m., June 2, 1983

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	J. K. Orleans-Lindsay, Temporary
J. de Groote	H. G. Schneider
B. de Maulde	
A. Donoso	
R. D. Erb	C. H. Dallara
M. Finaish	T. Alhaimus
A. H. Habib	Jaafar A.
T. Hirao	T. Yamashita
R. K. Joyce	
	H. Arias, Temporary
	G. Grosche
G. Lovato	C. P. Caranicas
R. N. Malhotra	
Y. A. Nimatallah	J. E. Suraisry
J. J. Polak	T. de Vries
	K. G. Morrell
G. Salehkhou	O. Kabbaj
F. Sangare	E. I. M. Mtei
M. A. Senior	
	A. Lindå
	C. Taylor
Zhang Z.	Wang E.

L. Van Houtven, Secretary
B. J. Owen, Assistant

African Department: S. E. Cronquist. Asian Department: K. A. Al-Eyd, J. T. Boorman, R. J. Niebuhr. European Department: P. Gotur. Exchange and Trade Relations Department: C. D. Finch, Director; S. Mookerjee, Deputy Director; M. Allen. External Relations Department: R. Russell. Legal Department: G. P. Nicoletopoulos, Director. Middle Eastern Department: B. A. Karamali. Research Department: W. C. Hood, Economic Counsellor and Director; R. R. Rhomberg, Deputy Director; K.-Y. Chu, L. U. Ecevit, N. M. Kaibni, E. C. Meldau-Womack, P. R. Menon, T. K. Morrison, A. Muttardy, A. Salehizadeh. Secretary's Department: J. W. Lang, Jr., Deputy Secretary; A. P. Bhagwat. Treasurer's Department: D. S. Cutler, O. Roncesvalles. Western Hemisphere Department: S. T. Beza, Associate Director. Bureau of Statistics: D. K. Kar. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: A. A. Agah, C. J. Batliwalla, S. El-Khouri, S. M. Hassan, P. Kohnert, H.-S. Lee, I. R. Panday, P. D. Péroz. Assistants to Executive Directors: E. M. Ainley, H. Alaoui-Abdallaoui, L. Barbone, R. Bernardo, M. B. Chatah, T. A. Connors, G. Ercel, C. Flamant, A. Halevi, M. Hull, M. J. Kooymans, P. Leeahtam, V. K. S. Nair, Y. Okubo, J. G. Pedersen, E. Portas, M. Z. M. Qureshi, J. Reddy, J. Schuijer, Shao Z., D. I. S. Shaw, H. Suzuki, P. S. Tjokronegoro, J. C. Williams, A. Yasseri.

1. COMPENSATORY FINANCING FACILITY - REQUESTS FOR DRAWINGS BY OIL EXPORTERS

The Executive Directors resumed from the previous meeting their consideration of a staff paper on certain issues arising in relation to requests for compensatory financing facility drawings by oil exporters (SM/83/87, 5/16/83).

Mr. Habib stated that before taking up the main issue he wished to express regret that the processing of the formal request for compensatory financing by one of the members of his constituency had had to be delayed pending consideration of the staff paper. He further wished to state, like Mr. Nimatallah, Mr. Kafka, and others, that he failed to understand why requests for compensatory financing by oil exporters in general, and by members of the Organization of Petroleum Exporting Countries (OPEC) as a group in particular, should be made a special issue or should be subjected to different rules or formulas, as proposed by Mr. Polak. If the Fund was still committed to the principle of uniform treatment, there was certainly nothing in the Decision on Compensatory Financing of Export Fluctuations itself that a priori created complications for oil exporters, or for countries belonging to a commodity organization like OPEC. In his view, the matter should not have been brought before the Board in the first place. He hoped that such situations could be avoided in the future, especially when the rules on the use of a Fund facility were reasonably clear and could be applied without any serious breach of the principles on which the facility in question had been established. He trusted that the issue under discussion could be resolved satisfactorily so that the pending request from a member of his constituency could shortly be considered by the Executive Board.

He had noted with concern, Mr. Habib continued, the tendency in the Executive Board to favor the hardening of conditions attached to the use of Fund resources under the compensatory financing facility. He shared the view of Mr. Finaish and others that such a course was inconsistent with the purpose and spirit of the facility. The compensatory financing facility had been conceived to provide additional assistance in helping to stabilize members' export earnings. While all members had access to the facility, it had been intended mainly for exporters of primary products, most of which were developing countries. The compensatory financing facility was based on the premise that any decline in export earnings was temporary and reversible. The criteria that had to be met for members to qualify for the use of Fund resources under the facility were well known. However, he wished to recall that those criteria were to be applied in a flexible manner because they involved an element of judgment, particularly in determining whether or not the shortfall was beyond the member's control. Whenever there was uncertainty, it had been the practice to give the benefit of the doubt to the member.

On the central issue for discussion, Mr. Habib remarked, the staff had made it convincingly clear that there was no basis to presume that a shortfall in the export earnings of an OPEC member arose from factors within that member's control. The Executive Board could also judge the issue by trying to find out whether OPEC actions had had the effect of either creating or increasing the export shortfall; in other words, by determining whether or not it would have occurred in the absence of those OPEC actions. Again, he supported the staff judgment that actions by OPEC in the preshortfall years had had some effect in stabilizing export earnings. Had there been no resistance to upward pressures on prices in the first half of the period, and none to downward pressures in the second half, the export shortfall would have been larger because the peak of export earnings in preshortfall years would have been higher, and the fall in exports might have been more rapid. OPEC policies had led to a smaller shortfall than would otherwise have occurred.

In his view, Mr. Habib said, the emergence of the current export shortfall was not due to OPEC policies. The high export earnings during the preshortfall years had been mainly the result of a tight market, caused by several factors, not least the unnecessary building up of large stocks by some consumers. OPEC pricing policies had been simply a response to the upward movement of prices; OPEC prices had been below spot prices and non-OPEC prices through the end of 1981, and had constituted a ceiling rather than a floor. The main cause for the decline in export earnings during the shortfall year of 1982--and the one projected for 1983--was a weakening in demand due to several factors, inter alia, recession in industrial countries, more efficient use of oil, conservation and diversification of sources of energy, and inventory liquidation in anticipation of further price declines. OPEC's decision to reduce prices in March 1983 had brought stability to the market and had eliminated the danger of severe price competition among oil producers.

As for OPEC's production policy in the preshortfall years, Mr. Habib endorsed the staff's finding that there had been no control of production. In fact, some OPEC members had increased production to offset the shortfall in output of other members. During the shortfall years, although OPEC had imposed a production quota, there had been no de facto control because the quota could not be met, given the sharp decline in demand. Faced by a weakening in demand and an oil glut, OPEC policy had been aimed at reducing excess supplies in the market in order to help stabilize its members' export earnings. That objective had not been easy to achieve because of the substantial reduction in world oil consumption, a situation exacerbated by a large drawdown of world stocks by major oil companies and by the increase in production of non-OPEC countries. OPEC's share of total oil production had declined to 34 per cent.

From all that he had said, Mr. Habib mentioned, it could be seen that the contributions of OPEC members had been positive. They had been following appropriate policies from the outset, not only on pricing and production, but on another important factor, the world adjustment process, which had been considerably eased by their actions. He reminded the Executive Board of the recycling of the surpluses of oil exporting countries by means of the oil facility, which the Fund had established in 1974 and 1975, as Mr. Polak had mentioned; the establishment of the OPEC Fund; and other lending to developing countries and to the Fund so that it would have increased resources to finance its facilities. Therefore, it would be unfair to exclude OPEC members from use of the compensatory financing facility merely because there was some doubt whether or not they met the requirement that the shortfall be beyond the control of a member.

Finally, Mr. Habib expressed his support of the staff's conclusions, in particular the one stating that "indeed it is the specific policies pursued by each country rather than the role of OPEC itself that is relevant." He too felt that it would be most appropriate to adopt a case-by-case approach, as suggested by the staff.

Mr. Zhang considered that the analysis in the staff paper was thorough, objective, and well documented. He could endorse the two major conclusions: first, that the actions of OPEC had not consistently determined oil export earnings in the period germane to the current shortfall; and second, that there was great diversity among the oil exporting countries with respect to production, exports, and the change in export unit values. Therefore, in conformity with Fund practice relating to the exporters of other commodities, requests from oil exporting countries for compensatory drawings should be treated on a case-by-case basis. Like many other Directors, he considered it to be extremely important to observe the principle of uniformity.

Mr. Lovato observed that several important issues were raised by the problem under discussion, and it was difficult to resolve them in a clear-cut way. However, he did not believe that the discussion itself was inappropriate, or that it threatened the principle of uniformity of treatment of members, as some Directors seemed to fear. Uniform treatment meant applying a set of rules equally to all members. One of the rules governing the compensatory financing facility was that the shortfall for which compensatory assistance was sought should be beyond the control of the authorities. Therefore, the aim of the present discussion was to establish whether or not a group of countries that had acted together in a particular market were in compliance with the requirements of the Decision on the Compensatory Financing of Export Fluctuations. It would be naive to rule it was improper to raise the issue because one of the many hundreds of commodities traded internationally would thereby be singled out for discussion. It had to be recognized that oil had been of far greater importance than any other commodity in the past ten years. Furthermore, the highly visible activity of OPEC in trying to influence the price had at least made the whole issue appear to be of some interest.

Despite the complexity of the issue, Mr. Lovato remarked, the staff had in fact drawn some clear conclusions. His authorities had been somewhat surprised by the great certainty evinced by the staff, and he too had to declare at least some uneasiness with a few of the points made.

The staff had gone to great lengths to show that OPEC could not be considered a cartel in the strict sense of the term, Mr. Lovato noted. If that had been the only purpose, it might well have been better not to discuss the paper. The staff might more usefully have explored other possible explanations of the working of the oil market. For instance, many observers felt that, although OPEC had not been able to impose production quotas--at least not for the whole period--a global supply of oil broadly consistent with prices decided from time to time had been brought to market by means of production cuts on the part of one or a few of the largest producers. One useful piece of information that came to mind for judging the validity of that hypothesis, and that could have been provided by the staff, was the degree of capacity utilization in the various countries during the relevant period. Did capacity utilization show any uniform procyclical behavior, or did it reveal marked differences among producers aimed at preventing the emergence of excess supply at the target prices?

One point mentioned in the staff paper was that OPEC had had a declining share in world oil production, Mr. Lovato continued. That was undoubtedly true but, as Mr. Lindø had suggested, in practice it was undeniable that OPEC had been a leading oil producer; new oil producers could hardly be said to have undermined the price strategy at any moment in time.

A great deal of attention had also been paid by the staff to the behavior of the Rotterdam spot price as a determinant of movements in the official reference price for oil, Mr. Lovato continued. There was no question that spot movements had been rather important, although it seemed somewhat farfetched to define the spot price as the market price in the neoclassical sense. As Mr. Nimatallah had also noted, it was very difficult to ascertain how to adapt the concept of the market price to the case of an exhaustible resource. The actual production cost toward which the price should move in the medium run under competitive conditions was in fact only a small fraction of the current price. The supply schedule must find its position in the price-output space on the basis of different considerations than those of cost and productivity and depend on the country's desire and capacity to extract a specific amount of revenue, or in other words to exercise a degree of monopoly. To claim therefore that the spot market was the price-setter, reflecting true market conditions, seemed odd and possibly tautological, expecially in view of the small relative size of the spot market.

The issues raised by Mr. Polak were definitely important, and there seemed to be grounds for his belief that under present conditions the nature of the compensatory financing facility was changing, Mr. Lovato considered. Mr. Polak's proposal for an interim solution was intriguing but could pose practical difficulties in its application. However, the question of the formula would certainly need to be taken up in the forthcoming review of the facility, including the question of oil and that of the rising share of exports of manufactures by some developing countries.

Among the factors contributing to the difficulty of the analysis, Mr. Lovato added, was that of providing a reliable forecast of the future evolution of oil prices. The staff had offered a set of projections but no preferred solution, and he envisaged great difficulties in forecasting should countries seek compensation for oil export shortfalls under the compensatory financing facilty.

One last consideration mentioned by many Directors that would probably have a bearing on the general review of the compensatory financing facility, Mr. Lovato remarked, was the consequences of compensatory drawings by oil exporters for the Fund's liquidity and for the level of its ordinary resources. Those consequences could be significant, as a glance at the quotas of potential drawing members would show. Of course, each Fund member was entitled to use the Fund's facilities if it met the conditions; however, the Fund might find itself in the position of having to rethink some aspects of those conditions if its ability to operate were to be impaired.

On the whole, Mr. Lovato stated, because of the difficulties in assessing the nature of OPEC, the role of each country in it, and the relationship between OPEC and non-OPEC producers, he could agree that there should be no a priori presumption against an individual country being an oil exporter and that requests from oil exporters should be examined on a case-by-case basis. However, he stressed that he would be very interested in having, in such cases, a careful analysis of the behavior of the member with respect to its oil output; in other words, the analysis should not be limited to establishing balance of payments need and satisfying the requirement of cooperation. He would also be grateful for a careful assessment on the effects on the Fund's liquidity of such drawings in the future, perhaps in the staff paper on the review of the Decision on Compensatory Financing of Export Fluctuations, which he awaited with considerable interest. Particular attention might be devoted in that paper to the appropriate limits for access to the facility in view of the prospective strains on the Fund's liquidity position.

Mr. de Groote said that he supported the staff's conclusions. He was of the opinion, like other Directors, that the requests of oil exporters for drawings on the compensatory financing facility should be treated on their merits and on a case-by-case basis, taking into account the specific elements of each country's situation, for instance, the degree of responsibility of each producer for the level of oil production, as illustrated in the first substantive paragraph on page 11 of SM/83/87. In addition, it would be useful to obtain some estimates of potential drawings by oil producers. At first sight, drawings so far envisaged did not entail a major threat for the liquidity of the institution; still, they would lead to a supplementary use of Fund resources that had not been fully accounted for in the recent evaluation of the Fund's liquidity. In any event, the Fund had the responsibility of meeting requests for drawings according to existing rules and procedures. That requirement applied to semiautomatic drawings, such as those under the compensatory financing facility, as well as to conditional drawings for which a member was able to propose satisfactory repurchase arrangements.

The next problem was to find the resources that the Fund required to carry out its responsibility of meeting members' financing needs, Mr. de Groote continued. The increased demand for Fund resources that might--to a limited extent--result from drawings from OPEC countries on the compensatory financing facility should, at another stage of the Executive Board's considerations, reinforce the intention of the Fund to increase borrowing from industrial member countries of the General Arrangements to Borrow as well as from other potential lenders.

In addition, Mr. de Groote commented, it might be useful to have some information, in time for the general review of the compensatory financing facility, on the relationship between changes in output in OECD member countries and the price of oil. Before 1973, the price of oil had been abnormally noncyclical; after 1973, it had become exceedingly volatile. Presumably, it could be submitted that the oil price increases since then had established a cyclical demand for oil that justified compensatory drawings; however, important savings had been made in the use of oil. It might be worthwhile to scrutinize further the precise relationship emerging from shifts in the use of the commodity and the re-establishment of a market price for oil.

It might be of value to the international community--oil producers as well as oil consumers--to set up a forum for discussing and exchanging information on energy problems in order to exercise a stabilizing role on the supply and price of oil, Mr. de Groote observed. The possibility of the Fund playing an active role in the organization of such a forum might be examined. The financing of export shortfalls of some oil producers under the compensatory financing facility might provide a good occasion to establish such a role for the institution.

While it was essential to take a decision at the present meeting in line with the staff's conclusions in SM/83/87, Mr. de Groote commented, he was open-minded about reconsidering at a later stage the essential mechanisms of the compensatory financing facility, such as the access limits and the method of calculating the shortfall. At first sight, however, he would have great difficulty with calculating the shortfall on a commodity-by-commodity basis; to do so might easily conflict with the principle of equal treatment.

Mr. Malhotra said that he fully endorsed the conclusions of the staff paper: requests for drawings under the compensatory financing facility by oil exporters should be taken up case by case on their merits. Implied in his endorsement was the view that oil, although a very important commodity, had to be treated like other commodities, and that the principle of nondiscrimination had to be respected in letter and in spirit.

His second point, Mr. Malhotra went on, was that the staff paper had rightly concentrated on the period relevant to the probable timing of requests from some oil exporters for compensatory drawings. It would not have served much practical purpose to take a more historical perspective in order to determine the role of OPEC over, say, the past ten years.

Third, Mr. Malhotra noted, whatever decision was reached would have to be implemented in the context of existing policy. Some Directors had indicated in some detail the changes they might like to see in existing policy. Essentially, it had been suggested that use of the compensatory financing facility needed to be tightened: conditionality should become stricter and access should be reduced. The occasion for debating that larger issue would arise in due course when the Fund's general policy on the compensatory financing facility was discussed by the Executive Board, when his chair would state its position. However, as a large number of Directors, especially those from the industrial countries, had expressed their views on that broader topic, he wished to state that in the view of the developing countries, as had been made clear in various communiqués of the Group of Twenty-Four, the present compensatory financing facility was inadequate and there were very good reasons for extending and liberalizing it.

In any event, Mr. Malhotra maintained, requests for compensatory financing that were likely to be made in the near future should be examined strictly in accordance with existing policy without being influenced by any views that might be held on how the future compensatory financing facility would look. Neither the view that the facility should be further liberalized nor that it should be tightened need influence the way in which those requests were handled.

Certain opinions had also been expressed on how the present criteria for governing the compensatory financing facility should be implemented, Mr. Malhotra observed. He would have thought that those criteria were well established; the Executive Board had had enough opportunities to give guidance on the subject. He had noted the observation that, in applying the criterion of cooperation with the Fund, especially for compensatory drawings above 50 per cent of quota, an adjustment program similar to a program for a stand-by or an extended Fund arrangement should be in place. Such a precondition was not a part of present policy; the required measure of cooperation for a compensatory drawing had been well established, and new a priori guidelines or rigid principles should not be entertained in the context of existing policy.

As for the determination whether it was within the power of a country wishing to use the compensatory financing facility to prevent an export shortfall, Mr. Malhotra said that he had little to add to Mr. Habib's full and substantive statement. He wished only to reiterate that the Fund's well-established practice had been to give the member country the benefit of the doubt. As for the role of OPEC in the oil market during the period under consideration, he would support Mr. Nimatallah's statement, which essentially endorsed the relevant conclusions in the staff paper.

As for Mr. Polak's suggestion at the previous meeting, Mr. Malhotra said that if he had understood it correctly, it envisaged an interim formula that could be in force for several months, based on two guidelines. First, that a correction would be made in export earnings of oil exporters for the two preshortfall years on account of the price bulge of 1978-79.

That would evidently be a major deviation from existing policy: the whole idea of selecting a five-year period for computing the shortfall in export earnings had been to take account of any bulges or dips in export earnings of member countries. Such a change in policy would imply discriminatory treatment. Second, Mr. Polak had suggested that in projecting the profile of prices in the two postshortfall years the staff should err on the side of moderation. It would not be proper to build any kind of bias into estimates, either toward restriction or toward liberalization. The staff was expected to make its best judgment in the light of available facts. He hoped that requests from oil exporters for compensatory drawings--and he had learned for the first time that there was already one such request--would be taken up and dealt with like other requests under the facility.

It had been argued that access to compensatory financing should be reduced for reasons of insufficient Fund liquidity, Mr. Malhotra remarked. In his view, the existing compensatory financing policy, which he saw as being in need of further liberalization, ought not to be tailored to fit certain supposed levels of Fund liquidity, unless the Fund's policies bearing on its liquidity were first examined, with full account taken of the use of all present facilities and of all resources that might be available to the institution. The first priority of the Fund should be to look for sufficient resources to meet the requirements of its membership under existing policies. There was an impression that, if requests for compensatory financing were entertained, especially from oil exporters, they would be additional to drawings under other Fund facilities. In that connection, he had been impressed by Mr. Prowse's argument that the Fund's facilities were not mutually exclusive; if members' financing needs were met under the compensatory financing facility, the demands made under the other facilities could be reduced.

Mr. Hirao joined other Directors in the view that requests for compensatory drawings by oil exporters should be considered within the general framework of the compensatory financing facility, based on the principle of uniform treatment. Consequently, the requirements for compensatory drawings--circumstances beyond the control of the authorities, balance of payments need, and the requirement of cooperation--should be satisfied. It therefore followed that a judgment would be made on the merits of each individual request for a compensatory drawing from an oil exporter.

Doubts had been expressed in the staff paper about whether or not the actions of OPEC had been consistently determinant in respect of oil export earnings during the period from 1979 onward, Mr. Hirao added. At the same time, it could be argued that the oil market, at least in certain limited time periods, hadd been strongly influenced by the action of oil exporters. Therefore, he concurred with the staff's view that the specific policies pursued by each oil exporting country, including policy on oil production and oil pricing, were relevant in handling requests for compensatory financing, which should be considered on a case-by-case basis. In that connection, he stressed the need for caution, given the inherent complexities and difficulties.

On two technical points, Mr. Hirao noted, first, that established practice in presenting export earnings for the two postshortfall years had been, as he understood it, to break them down into price and quantity components. In SM/83/87, the staff had made various assumptions with respect only to oil export earnings for 1984 and 1985, rather than making a breakdown of price and quantity factors. He assumed that in dealing with actual requests, existing procedures would be maintained.

His second point, Mr. Hirao remarked, was related to the fact underlined by the staff that OPEC price movements had consistently followed spot price movements, leading seemingly to the interpretation that OPEC price decisions had simply reflected movements in market prices. However, the same fact could give rise to a different interpretation: there might have been occasions when spot prices had been quoted and fixed in the market in anticipation of the likely outcome of OPEC price decisions. Another point to be considered was the view held in some quarters that the spot market at times--for instance, in 1981--had not truly reflected basic market conditions. Therefore, it was possible that the spot market price had not always reflected movements in the market price.

Mr. Salehkhou observed that the whole question of petroleum policy and strategy was fraught with complications, preconceived notions, and political considerations. OPEC, as an organization that had existed to serve its members, had received more than its fair share of biased comments and adverse publicity. Therefore, any undue emphasis on the role of OPEC, as evidenced by some of the present discussion, was bound to lead into difficult terrain.

Before embarking on a consideration of the issues, Mr. Salehkhou remarked, it might be appropriate to comment on the background to the staff paper. In April 1982, the Executive Board had discussed two papers on the compensatory financing facility: one on the meaning of shortfalls attributable to circumstances beyond the control of the member, and the other on experience with the requirement of cooperation. Those two papers, and the ensuing Board discussions--in particular on the interpretation of a shortfall beyond a member's control--were highly relevant, both directly and indirectly, to the present discussion. A summary of the two papers, the Executive Board's consideration of them, and possible conclusions would have made a helpful contribution to the present debate.

The main theme of SM/83/87 was developed from the implicit distinction drawn between OPEC and non-OPEC oil exporters, Mr. Salehkhou remarked, omitting oil exporting industrial countries. Yet clear-cut analyses and conclusions were impossible, due to the diversity among oil exporters, their relative dependence on oil revenues, and the influence of market forces on those revenues. Apart from a small section on page 15 of the staff paper, which was devoted to a discussion of the diversity of non-OPEC members, there was little to be discovered about non-OPEC oil exporters. That was perhaps not suprising, since it was difficult to see the rationale for distinguishing between OPEC and non-OPEC oil exporters for the purpose of an analysis of compensatory financing, apart from the eagerness in some circles to ascribe a magical influence to OPEC and, hence, to place OPEC members beyond the pale of the compensatory financing facility.

Some oil exporters, or so it was said on page 2 of SM/83/87, could not meet certain tests of cooperation and thus would be excluded from using the facility on grounds that had nothing to do with the fact of their being oil exporters, Mr. Salehkhou continued. If that interrelation was applied in common to all potential users of the compensatory financing facility, he failed to see its particular relevance to a debate on use of that facility by oil exporters; if it was peculiar to some oil exporters, then no specific reasons were given.

As to the calculation of the 1983 shortfall, Mr. Salehkhou commented, a graphic presentation of OPEC members' potential shortfalls, based on alternative assumptions of export growth, was given in Charts 1 and 2. The calculations were apparently limited only to OPEC members; non-OPEC oil exporters were not represented. He hoped that that omission would not lead to an underestimation of the ultimate size of the shortfall.

He agreed with the staff that a meaningful analysis of whether or not potential use of the compensatory financing facility by oil exporting countries should be treated on a case-by-case basis required close consideration of the behavior of the oil market in the past ten years, Mr. Salehkhou went on. Such an analysis, however, should take into account the actions or the absence of actions by all forces that had been operating in the oil market. Those forces ranged from OPEC to oil companies, developed oil exporters to developing countries that were exporters of oil, and others. Without a comprehensive consideration of all the forces operating in the market, any analysis that dealt only with OPEC countries would be incomplete.

However, Mr. Salehkhou noted, even a one-sided treatment of the subject, based only on OPEC actions, would reveal--as the staff paper showed--that there were serious doubts whether OPEC actions had been consistently determining in respect to export earnings. The staff had referred, quite rightly, to buying pressure in 1979 and 1980, and later on to the downward movement in demand in 1981 and 1982, which had tended to raise prices in 1979 and lower them in 1981. Also, the domineering role that spot prices, reflecting market forces as they did, had played in determining oil policies amply demonstrated the complexity of the forces at work on the petroleum scene.

In discussing specific actions by OPEC, Mr. Salehkhou stated, it was necessary to consider that, according to its statutes, the principal aim of the organization was the coordination and unification of the petroleum policies of member countries, and the determination of the best means of safeguarding their interests, individually and collectively. Most of the apparent variations in OPEC's actions should be viewed as an attempt at unifying petroleum policies. Thus, during certain periods, the pricing policy had been based on the establishment of a ceiling, whereas at other times market conditions had necessitated other measures to preserve uniformity of pricing and other policies.

During the 1982 debate in the Executive Board on the meaning of shortfalls attributable to circumstances beyond the control of the member, Mr. Salehkhou added, several points had emerged that were relevant to the present discussion. First, it had been argued that an assessment of whether or not an export shortfall could be regarded as largely attributable to circumstances beyond the control of the member might frequently involve an element of judgment. Having that in mind, it had been held that the entire amount of the calculated shortfall could be regarded as compensable, once it had been established that the shortfall was largely--not entirely--attributable to exogenous factors. That had emphasized the judgmental element and the benefit of the doubt that was extended to some requests for compensatory financing.

Second, Mr. Salehkhou continued, under the present methods of calculation, a shortfall was established whenever the value of exports in the shortfall year was below the average value of exports during the five-year trend period centered on the shortfall year. Therefore, a shortfall for a given year could be greatly influenced, not always by past movements of export values, but also by prospective developments, or by developments in the two postshortfall years. Hence, the degree of effective OPEC control over future oil market trends became as important as its supposedly effective control over two preshortfall years. In that connection, the arguments in the staff paper made clear the dominance of other market forces in shaping the oil market, both in the past two years and also in the two years to come.

A third relevant point that had emerged in the 1982 discussion, Mr. Salehkhou said, related to export quotas--to which reference had been made at the previous meeting--and to the value and volume shortfalls. A shortfall related to variations in market prices had been regarded as being outside the control of the member. Volume shortfalls also were regarded as exogenous developments if caused by natural factors or external events. The practice with respect to export quotas had been to treat a volume shortfall resulting from the operation of such quotas as being outside the control of a member. In fact, the great difficulty in interpreting the concept of "beyond the control" involved situations in which the volume shortfalls resulted from domestic factors not related to natural phenomena. No verdict in that respect had been reached in the case of oil exporting countries; indeed, despite great variations in their policies, there had been no contention that deliberate domestic actions had contributed to oil market developments.

In dealing with shortfalls for major exporting countries, Mr. Salehkhou noted, the staff had so far applied three principles: first, a major exporter's attempts to maximize export earnings from the commodity had been presumed to be appropriate; second, a shortfall experienced by the country as a consequence of a shift in external demand had been regarded as beyond the control of the country; and third, a shortfall attributable to a member's inappropriate marketing policies had been regarded as within the control of the member. Clearly, the third principle did not apply to oil exporters. Those principles had been vigorously but uniformly put into practice by the staff dealing with all requests for compensatory financing. It had therefore been surprising to hear suggestions during the discussion that management and staff should take extra care and caution when dealing with potential requests for compensatory financing by oil exporting countries. It was surprising because of the doubt that might be cast upon the professional judgment of the staff and management.

To sum up, Mr. Salehkhou said, he strongly urged the Executive Board to continue to treat users of the compensatory financing facility--whether oil exporters or otherwise--on an individual, case-by-case basis. In that connection, he underlined the principle of uniformity of treatment, and emphasized the cooperative nature of the Fund as an international institution that stood ready to help all needy members in strict accordance with its written charter.

Mr. Sangare stated that one of the Fund's cardinal rules was that its resources should be made available to every member, without discrimination, provided that the member fulfilled the conditions prescribed for the use of those resources. He was therefore of the opinion that the question of purchases under the compensatory financing facility should be seen in that context, whether or not a member belonged to OPEC. It would then be the responsibility of the Fund to ascertain that a member applying for a compensatory drawing satisfied the criteria of the compensatory financing decision. In other words, each country's request should be considered on its merits, which was the practice followed in respect to exporters of other commodities.

In the particular case of OPEC, Mr. Sangare considered, it would be inconsistent with Fund practice to treat members belonging to that organization as a single unit without due regard to the diversity within the group with respect to domestic economic policies as well as to the volume of their oil production and its unit export value. Naturally, he would expect some members of OPEC to be eligible for use of the compensatory financing facility, whereas others might not be. The countries that qualified would be those with legitimate balance of payments problems and that had cooperated with the Fund. He noted that in some cases the level of cooperation with the Fund had extended beyond mere consultations to making resources available to the institution. For instance, a member of OPEC that was also a member of his constituency, Nigeria, had contributed to the oil facility in 1975, the supplementary financing facility, and to the Fund's resources under its enlarged access policy. Furthermore, the recent decision of the Nigerian authorities to follow the market trend and reduce its oil price in line with the price for similar North Sea crude oil had also helped to stabilize the market.

From the information provided in the staff paper, Mr. Sangare noted, it could be seen that although the actions of OPEC might have had an impact on earnings of the group in particular instances, there was also evidence indicating that other factors, some of which were market determined, had played a role. The important conclusion to be drawn from the staff paper, in his view, was that it was difficult to generalize from developments in the oil market. The policies of each oil exporting country would have to be considered on their merits.

Finally, Mr. Sangare associated himself with the point made by Mr. Nimatallah in the footnote to his statement. The Fund should not overlook the policy of South Africa, the world's major producer of gold, which had aimed at withholding gold from the market. Gold exports had been included in the staff calculation of the shortfall, and South Africa had been able to make a substantial purchase under the compensatory financing facility. It was in the interests of the Fund for its decisions to be seen as rational and for all members to be given equal treatment. If a liberal interpretation of the provision in the Decision on the Compensatory Financing of Export Fluctuations relating to the determination that the shortfall be largely beyond the control of the member was good for a country that accounted for 55 per cent of world gold production, it should be good for OPEC members, which at most accounted for 30 per cent of the world's oil.

Mr. Donoso remarked that the conclusion by the staff that there were doubts as to whether or not the actions of OPEC had had an influence on developments in the oil market facilitated the discussion. As the staff had concluded, if there were doubts about the significance of OPEC actions in determining export earnings, it followed that there must be doubts whether membership in OPEC could lead to the presumption that a shortfall in the export earnings of an OPEC member arose from factors within its control. The determination in that respect would differ among oil exporters, depending on their balance of payments need and on their degree of cooperation with the Fund. Once it had been established that the common elements in some of the countries that were OPEC members was not a priori important, it could easily be concluded that requests for use of the compensatory financing facility from them should be dealt with case by case, exactly like requests from exporters of any other commodity.

Although the staff's finding that there was no evidence of price effects as a result of OPEC intervention made it possible to solve the problem of how to deal with requests for compensatory financing from OPEC members, Mr. Donoso commented, it was interesting to speculate about what the solution might have been, had evidence been found that the behavior of oil prices had been influenced by OPEC activities. Would the question for the Fund then have been to determine to what extent prices had been affected, or, how efficiently OPEC as an organization had used its powers of monopoly? If, by controlling production, prices had been affected in such a way that OPEC members maximized their revenues, they might still have been considered eligible for compensatory financing if they had suffered an export shortfall, provided the shortfall was not attributable to the member.

Mr. Orleans-Lindsay observed that, as the staff had rightly pointed out, several developments since 1973--on both the supply and demand side--had led to upward pressure on oil prices. The resulting higher prices had in turn contributed to a reduction in the demand for oil throughout the world and created an overall glut in the oil market. Those developments had culminated in shortfalls in the export earnings of some oil producers, both OPEC and non-OPEC members.

His chair was in general agreement with the staff's observations and conclusions, Mr. Orleans-Lindsay added. The procedures for reaching decisions on oil production and pricing differed among oil exporting countries, as did the significance of oil export earnings in each country's total export receipts. Given the large measure of diversity among both OPEC and non-OPEC members, the Fund had to recognize that the circumstances of each member's request for a compensatory drawing would also differ. Therefore, his chair supported the view that each request for use of the compensatory financing facility should be examined on its merits, case by case, but should be subject to the usual tests of balance of payments need and cooperation with the Fund in an effort to find appropriate solutions to the member's balance of payments problems. Oil producing countries, in line with the doctrine of uniformity of treatment of member countries, should not be singled out for special treatment in their use of compensatory financing.

Mr. Taylor noted that he could accept some parts of the staff paper without difficulty but not others. Before going into his reasons, he would state his conclusions. First, his authorities accepted what they took to be the main finding of the staff paper, namely, that membership of OPEC did not create a general presumption against eligibility to draw under the compensatory financing facility. While that was a fair conclusion, it should also be said that no presumption was created in the other direction either, namely, that an OPEC member was eligible. His position on the issue was one of strict neutrality.

His second conclusion, Mr. Taylor said, was to accept with the staff and other Directors that requests for compensatory drawings from oil exporters, as from non-oil exporters, ought to be dealt with case by case. The Executive Board was used to operating on that basis when considering country cases, and it would be difficult for it to do otherwise. Of course, the general criteria to be applied were provided by the framework of the established policy on compensatory financing and by the Fund's Articles.

Third, policy actions by OPEC, in the view of his authorities, might well be relevant in determining eligibility where a particular applicant was a member of that organization, Mr. Taylor added, and he hoped that the staff would not feel impelled to avoid looking at that aspect of eligibility. His fourth broad conclusion was that the specific policies pursued by an oil exporter, whether a member of OPEC or not, were likely to be equally relevant to the staff's consideration and should also be explored on a case-by-case basis. Among those policies he would stress fulfillment of the test of cooperation with the Fund.

Nothing that he said at the present meeting, Mr. Taylor mentioned, should be interpreted as meaning that his chair was completely satisfied with all aspects of the compensatory financing facility; that was a matter for consideration on another occasion. Mr. Polak had raised some points that would be difficult to avoid; for instance, the problem of forecasting oil prices. The staff could perhaps not approach that problem in quite the same way that it approached projecting other commodity prices. The Executive Board would need to look at the matter fairly urgently and offer guidance to the staff.

The objective of the OPEC Agreement, Mr. Taylor recalled, was to find ways and means of stabilizing prices with a view to eliminating harmful and unnecessary fluctuations, to cite from Article II(b) of the Agreement itself. That objective seemed to be entirely in keeping with the principles of compensatory financing. However, he felt bound to add that in the past, some members of the Executive Board, including his chair, had from time to time had difficulty with compensatory drawings by members of commodity agreements, particularly those that involved production or export quotas. His chair had made that point in the April 1982 discussion of the meaning of a shortfall largely attributable to circumstances beyond the control of the member. The staff representative had explained on that occasion that one consideration guiding the staff had been that quotas under commodity agreements recognized by the Fund could generally be regarded as outside the control of the individual member because those quotas had been the outcome of joint negotiations involving producers and consumers. The OPEC Agreement was in a different category, because it did not involve consuming countries. He would put that argument forward as one not insignificant reason for careful Fund scrutiny, case by case, of requests from OPEC members for compensatory financing. In passing, he added that although he could not recall any compensatory drawing by an OPEC member, Egypt had made a compensatory drawing in 1976. As a member of the Organization of Arab Petroleum Exporting Countries (OAPEC), Egypt was bound under Article III of OAPEC by ratified resolutions of OPEC. Thus, the Fund had already granted a request for compensatory financing to a member of an affiliated organization of OPEC.

In looking at the history of oil markets since the early 1970s, Mr. Taylor went on, the staff had rightly concluded that actions by OPEC had from time to time had an effect on export earnings. It was therefore difficult for him to reconcile the staff's apparent view on page 17 that OPEC's role had not been very relevant to export earnings in the period since 1979, with the fact mentioned on page 6 of SM/83/87 that in the early 1970s, the various actions of oil producing countries, in combination with OPEC, had "galvanized the entire consuming world," and that "the recollection of the powerful effect that action on supply and prices by major producers could have in certain circumstances conditioned reactions to oil market developments from that time to the present." The staff could have pointed out more clearly, in its discussion of market developments in 1979 and 1980, that what might be thought of as an exaggerated response by consuming countries with respect to stockbuilding had to some extent been a reflection of the experience of the earlier period. In other words, although the exercise of OPEC market power might, on the surface, have been less evident in the recent period, it was the potential to exercise that latent power that had conditioned the behavior of the market. For those reasons, it was possible to argue that in certain circumstances OPEC actions could still make a major contribution, perhaps indirectly, to the creation of a shortfall that could not be totally ignored.

Possibly there was some kind of asymmetry between the conditions of a rising and a falling market, Mr. Taylor commented. In a rising market, a relatively large proportion of crude oil tended to be traded through the contract system, whereas in a falling market, a relatively high proportion tended to be traded on spot terms. Thus, in the latter circumstances, spot prices were a more important indicator of market pressure. It might therefore be difficult to generalize in making judgments in different phases of the market. Looking back at the periods of rapid oil price increases in 1973-74 and 1979, the configuration of export earnings then could have created, under the terms of the compensatory financing decision, at least a theoretical shortfall in the year preceding the sharp increase in oil earnings. Had OPEC members experienced a balance of payments need at the time and requested drawings, it would have been difficult in the circumstances for the Fund to have responded favorably. But there had certainly been periods during which oil exporters had been reacting to changes rather than generating them; the recent fall in oil prices had been to an important extent the result of actions by consumers, destocking by non-OPEC producers, and of course the general recession in world activity.

The situation was certainly far from simple, Mr. Taylor said. Oil was an important commodity and its use and price had far-reaching implications. There were undoubtedly those who would regard the weakness in oil markets in the past year as at least indirectly a response to high prices seen earlier. While those arguments were not easy to dismiss, they did not amount to a general case against oil exporters' eligibility for compensatory financing; but they did point to the wisdom of not simply a case-by-case approach but an examination of the merits of the different cases in different circumstances as they came before the Executive Board. Of course, he agreed with the staff that there was great diversity among oil exporters, which further underlined the need for a case-by-case approach.

It was hard to be specific about the sort of considerations that the staff should have in mind in examining requests for compensatory financing, Mr. Taylor continued. In his view, those considerations would include, for instance, the nature and the impact of the applicant's own price and output policies in the export sector, including whether or not it was a price-maker or price-taker, and taking into account possible quality premiums over, or discounts from, the standard market price. In addition, the staff would need to bear in mind that collective actions by OPEC might have far from uniform implications for individual exporters. Attempts by the organization to resist a downward slide in prices by introducing production ceilings, for instance, might minimize the shortfall in export earnings for oil producers taken as a whole, but might increase the shortfall for what were sometimes called swing producers, which might thus have to bear a disproportionate share of the losses.

Among more technical issues that were nonetheless relevant to the staff's assessment of requests, Mr. Taylor added, were, first, the need to take account of the fact that pricing strategies--for oil as for other commodities--could be based on changes in credit terms, which might have a large impact on export earnings. The staff had accepted the case for making adjustments to allow, for example, for abnormal inventory variations; and he hoped it would also make allowance for abnormal variations in accounts receivable, reflecting variations in credit terms. Such an approach should not be confined to requests from oil exporters.

His second technical point, Mr. Taylor remarked, was that oil and gas fields were "lumpy" investments, as the United Kingdom knew only too well. Bringing such investments on stream, or phasing them out of operation, sometimes had a significant impact on export earnings. Such investments were also typically subject to national policies on development and depletion, and therefore to some extent within the control of the authorities. Similar points might also apply in the mining sector. The staff should try to make allowance for those considerations in judging whether or not a shortfall was within or outside the authorities' control.

To conclude, Mr. Taylor said, there was the fairly obvious point that oil exporters, no less than non-oil exporters, must fulfill all the relevant criteria under the compensatory financing decision if they were to be judged eligible for drawings under the facility. In addition to the criteria relating to the authorities' control over export developments, on which the discussion had concentrated, there were the other criteria relating to balance of payments need--including assessment of the reserve position, as Mr. Prowse had pointed out--and to cooperation with the Fund. The principle of evenhandedness must apply no less in those respects than in respect to the assessment of responsibility for a shortfall.

Mr. de Maulde commented that once again Mr. Polak had pointed to the central problem, namely, that the compensatory financing facility had been designed to deal with problems of an incomparably smaller order of magnitude than those that oil exporters might encounter. While Mr. Prowse had deplored the drift of the discussion toward a general consideration of the Fund's policy of compensatory financing, he himself considered that the nature and magnitude of the problem made that unavoidable.

One basic point that had been made in various forms by all Directors, Mr. de Maulde recalled, was that the Fund must adhere strictly to the principle of equality of treatment of all member countries. He strongly supported that position and, more specifically, considered that oil exporters had the same right as other member countries to benefit from the compensatory financing facility, under the same conditions and limitations, meaning no less and no more. At the same time, he did not believe that the Executive Board had at its disposal all the technical and financial information and analysis to allow it to formulate the necessary decisions for revising the compensatory financing facility. A number of valuable ideas had been put forward by previous speakers, some of which he supported. Those ideas should be studied carefully by the staff and by Executive Directors as part of the general review of the compensatory financing facility that was scheduled to take place shortly in the Executive Board. It would then once again be possible to solve the problem under discussion in a constructive way, consistent with the cooperative spirit of the institution, to which Mr. Nimatallah had alluded. Meanwhile, he was confident that the case-by-case approach that had been suggested would allow the Fund to respond to the emerging needs of its members.

Mr. Finaish remarked that in addition to the issue that was under discussion, a number of other aspects of the compensatory financing facility had been raised by several Directors that would be better examined in the framework of a general review of the facility. That was why he had confined his remarks to the subject of the staff paper; as Mr. Prowse had said, those who did not think it relevant to take up all aspects at the present meeting had found themselves at a disadvantage.

In responding to Mr. Polak's suggestion of an "interim approach," Mr. Finaish stated briefly that he would be opposed to it, for two basic reasons. First, the suggestion as it stood was discriminatory between members because it would apply only to a part of the membership, a point noted by other Directors. Second, matters such as the criteria for use of the compensatory financing facility and the method of calculating a shortfall were general matters that should not be discussed or manipulated in relation only to a group of members; they should be considered in relation to the general principles and objectives of the facility and not to the potential users of it at any given time.

Many Executive Directors had stressed the principle of uniformity but had at the same time raised the question of the Fund's liquidity, Mr. Finaish observed. He too had recognized that liquidity was a problem, but considered that the main point was how to deal with it. In that respect, it should be clear that the solution to the problem did not lie in restricting access to Fund resources for a part of the membership, an approach that would obviously be discriminatory.

Noting that five of the eight oil producing countries in his constituency were members of OPEC, Mr. Finaish remarked that, as far as he knew, they were not waiting in line to use the compensatory financing facility, although that did not mean that they would not make use of their rights of membership if they were qualified to do so. The immediate concern was not so much the financial aspect as that of the principle of safeguarding the interests of all members, in his constituency or in the Fund in general. It was necessary for all Executive Directors to understand the concern of smaller members about uniformity of treatment. When they emphasized that principle, it was in part because it offered the only protection of their legitimate interests as members of the Fund; they lacked the voting power to make the laws of the institution and they had to ensure that their rights were preserved. If every policy of the Fund or decision of the Executive Board carried an invisible disclaimer, calling for a general review if a certain group of member countries was qualified to benefit from that policy or decision, the prospects for the future would be frightening. As for the suggestion made by Mr. de Maulde that the magnitude of potential use of the compensatory financing facility by the oil exporting countries would change the nature of the facility, he observed that the argument foundered on the use that had already been made by members of the Fund that were larger than many of the OPEC countries, for instance, Brazil and South Africa.

The Economic Counsellor, referring to Mr. Erb's view that inadequate weight had been given in the staff paper to the impact of oil on the world economy, noted that the main object had been to discuss the relationship of OPEC activities to the shortfall pattern described in the paper. Certainly, he would not challenge the profoundly important effects of changes in the price of oil on the world economy. As for Mr. Erb's second point, that the analysis of developments from 1981 to 1982 was set in too short a time period because the events of 1973 were still being felt in 1979 and 1980--a view that other Directors had also expressed--it should be noted that the staff had mentioned the galvanizing effect of events that were still conditioning the response in oil markets and indeed the views of most people about the nature of the oil market even at the present stage. The third point made by Mr. Erb was that not enough attention had been given to developments within OPEC, including the fear that OPEC quotas would raise oil prices, leading to a buildup of inventories; that again was part of the general apprehension existing at the time and continuing to exist at present. Some weight had to be given to such considerations; but in the end, the staff had been addressing the issue of whether or not the direct actions of OPEC had been determining in relation to the pattern of export earnings, and no evidence to that effect had been found. A fourth admittedly controversial point made by Mr. Erb was that producer organizations could have an influence on individual countries even though they might not be bound by common agreements. He would not dispute that assertion, but would take it to mean that it was important for the Fund to do its best to recognize and to give proper weight to that aspect in determining the situation of any particular member of the community of oil producers that might request the use of the compensatory financing facility.

As for the view expressed by Mr. Grosche and Mr. Taylor that the staff had gone too far in coming to the conclusion that there must be doubts as to whether membership in OPEC might reasonably be held to create a presumption that a shortfall in the export earnings of an OPEC member arose from factors within that member's control, because membership in OPEC was not relevant, the staff had in fact said that it was the specific policies pursued by each country rather than the role of OPEC itself that was relevant, the Economic Counsellor stated.

On a technical point raised by Mr. Grosche, suggesting that consideration should be given to not compensating part of the shortfall that was of a long-term nature, the Economic Counsellor commented that his first reaction would be to recall that the essence of the shortfall in export earnings was presumably its reversibility, as judged by the forecast of earnings for the postshortfall period. He had difficulty grasping what was meant by a shortfall of a long-term nature, unless the idea was to extend the postshortfall period from two years to, say, four to six years.

He assured Mr. Hirao that the staff did not intend to depart from its regular practice of forecasting export earnings in both volume and price terms, the Economic Counsellor said. He would agree with Mr. Hirao's view that prices in the spot market might not fully reflect the market situation. Not all the total oil supply was channeled through the spot market, which therefore might not at all times reflect the conditions in the oil market at large. Nevertheless, the staff had felt that the relationship on the up side and on the down side of the market between spot prices and non-OPEC prices had shown too consistent a pattern to be ignored.

An effort has been made to distinguish in the staff paper between the atmosphere created by action that OPEC might have taken some time ago, and direct action that was currently being taken, the Economic Counsellor stated. It would be difficult to establish whether or not a change in that atmosphere was affecting the current pattern of export earnings, even though a finding that it was would be more relevant to the determination of the pattern of export earnings in the current period. The overreaction in the markets to earlier developments, if it could be so described, was to some extend a reflection of both past and present concerns.

On Mr. Taylor's technical observation about making allowance for variations in accounts receivable, the Economic Counsellor noted that it was not a factor that had customarily been taken into account. It might be worth considering, although it was not unique to the oil situation.

A number of Executive Directors had referred to the question of the Fund's liquidity, the Economic Counsellor recalled, and had expressed the hope that the implications of any use of the compensatory financing facility by oil producers would be taken up in the forthcoming staff paper on the review of the compensatory financing facility. He would state simply that the matter would be covered in that paper. Certainly, in examining individual requests for compensatory financing, the production and pricing policies of individual members would have to be considered carefully.

Mr. Malhotra, referring to Mr. Taylor's suggestion that some provision be made for taking accounts receivable into consideration, noted that credits extended in the oil market were usually of a very short-term nature, typically for about one month, and at the most for three months. Credits extended for imports of capital goods, for instance, those granted by industrial and other countries, were normally for longer terms.

Mr. Taylor said that he was prepared to consider the evidence.

Mr. Erb observed that he had specifically mentioned, in his treatment of the issue of how to evaluate behavior within OPEC and its impact on oil prices, the impact of the efforts of some members of OPEC at certain times of tight markets to seek an even higher oil price and explicit price agreements. In addition, especially when the market had been extremely tight, subgroups within OPEC, and at other times non-OPEC members, had sometimes taken advantage of the market situation to follow pricing and production policies that influenced spot market prices. Such action was in one sense not completely independent of OPEC; yet in another sense, it was independent of OPEC action as such. It would be necessary to look at that aspect in individual cases to determine how an OPEC member, and perhaps in some cases a nonmember, had actually behaved in tight market situations, and to consider the possible impact on price developments, especially in the two years prior to the potential shortfall period under discussion.

The Managing Director made the following summing up:

1. Uniformity of treatment. There has been a universal reaffirmation of the uniformity of treatment of members as one of the basic principles holding this institution together. I am heartened to note that.

2. Case-by-case approach. Directors have indicated that membership in OPEC is not by itself a relevant criterion for determining the eligibility of an oil exporter to make use of the compensatory financing facility. OPEC membership creates neither a negative nor a positive presumption relating to a member's eligibility. What is important for the purpose of applying the criterion of whether or not an export shortfall is beyond the member's control is an examination of the specific conditions and behavior of each country requesting a drawing, covering such matters as output, stockpiking, and price policies. Against that background, and because of the importance given to the principle of uniformity of treatment, I think it is fair to say that almost all Directors explicitly endorsed the case-by-case approach in which each request is examined on its own merits--an expression that I have heard many times today--on the basis of the Articles of Agreement and the policy decisions adopted by the Board.

3. Application of conditionality under the compensatory financing facility. A number of Directors stressed that they will wish, when and if the time comes, to examine carefully the question whether the explicit conditions under the compensatory financing decision are effectively met. A number of references were made to the three conditions of balance of payments need, cooperation with the Fund, and "in circumstances beyond the

control of the member"; these criteria have formed part of the established policy since the creation of the compensatory financing facility, and it is normal for the satisfaction of the conditions to be examined carefully on each occasion. Several Directors have reiterated their wish to emphasize certain aspects of these conditions, perhaps more than in the current application of the decision and for all compensatory drawings, be they related to oil shortfalls or non-oil shortfalls. Reference was made also by a number of Directors to the comprehensive discussions held a year ago, on experience with the requirement of cooperation, and on the meaning of a shortfall largely attributable to circumstances beyond the control of the member (EBM/82/39 and EBM/82/40, 4/2/82; EBM/82/41 and EBM/82/42, 4/5/82).

4. General policy. Although general policy questions relating to the compensatory financing facility were not the subject of today's discussion, a number of Directors touched on some broader questions. I will cite a few examples for illustration; the list is not exhaustive.

- Access and liquidity aspects of use of the compensatory financing facility in the years ahead. On this, several Directors stressed that in their minds these two questions would have to be examined in close relation with both the general financial position of the Fund and discussions relating to the enlarged access policy.

- Nature of the formula for calculating shortfalls. One of the questions raised was whether the formula gives too much weight to extraordinary deviations from trend.

- The interpretation given under the present practice to the requirements of need, cooperation, and "beyond the control."

- Problems of forecasting in postshortfall years.

- Problems of coverage under the concept of compensable shortfall. For instance, should a shortfall cover all exports, or categories of exports?

Some of the questions on that broad list, and in particular considerations relating to access and to liquidity, will be taken up in the review scheduled for mid-July, for which the staff has already produced a paper that will be issued shortly. Because of its timing, that paper could not cover the entire range of questions raised by Directors today, but it will make a start. We will need to hear the discussion in July to have a better understanding of what the Board wishes us to study and to examine, and we may have to come back to the issue at some further stage. Meanwhile, of course, Executive Directors should rest assured that all their statements and suggestions will be studied very carefully.

I think the discussion has been extremely helpful and, I may say, has shown a great spirit of thoughtfulness and mutual respect.

APPROVED: October 20, 1983

LEO VAN HOUTVEN
Secretary