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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 90/160

10:00 a.m., November 15, 1990

M. Camdessus, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
M. Al-Jasser	
G. K. Arora	L. E. N. Fernando
C. S. Clark	
	Zhang Z.
T. C. Dawson	
J. de Groote	
E. A. Evans	
R. Filosa	N. Kyriazidis
M. Finaish	M. B. Chatah, Temporary
M. Fogelholm	
	B. Goos
J. E. Ismael	T. Sirivedhin
A. Kafka	L. M. Piantini
	J.-F. Cirelli
	O. Kabbaj
L. B. Monyake	
D. Peretz	P. Wright
G. A. Posthumus	
C. V. Santos	
A. Torres	R. Marino
A. Végh	A. G. Zoccali
K. Yamazaki	S. Yoshikuni

L. Van Houtven, Secretary and Counsellor
K. S. Friedman, Assistant

Also Present

African Department: S. J. Anjaria. Asian Department: W. S. Tseng. European Department: M. Guitián, Deputy Director. Exchange and Trade Relations Department: J. T. Boorman, Director; T. Leddy, Deputy Director; M. E. Edo, S. Eken, G. R. Kincaid, C. Puckahtikom, J. P. Pujol. External Relations Department: J. E. McEuen, G. P. Newman. Fiscal Affairs Department: P. Stella. IMF Institute: O. B. Makalou. Legal Department: W. E. Holder, Deputy General Counsel; P. L. Francotte. Research Department: J. A. Frenkel, Economic Counsellor and Director; B. B. Aghevli, R. C. Baban, N. M. Kaibni, M. S. Kumar, E. C. Meldau-Womack, P. R. Menon, B. E. Rourke, P. Wickam. Secretary's Department: J. W. Lang, Jr., Deputy Secretary; A. Tahari. Treasurer's Department: G. Laske, Treasurer; D. Williams, Deputy Treasurer; D. Gupta. Western Hemisphere Department: S. T. Beza, Counsellor and Director; J. Fajgenbaum. Special Representative to the UN: R. J. Bhatia. Personal Assistant to the Managing Director: B. P. A. Andrews. Advisors to Executive Directors: M. A. Ahmed, A. Gronn, Z. Iqbal, A. R. Ismael, A. Napky, D. Powell, A. M. Tanase. Assistants to Executive Directors: B. Abdullah, T. S. Allouba, H. S. Binay, G. Bindley-Taylor, C. Björklund, Chen M., B. A. Christiansen, B. R. Fuleihan, M. A. Ghavam, S. Gurumurthi, M. A. Hansen, O. A. Himani, M. E. F. Jones, P. Kapetanovic, F. Moss, M. Mrakovcic, M. Nakagawa, S. Rouai, D. Sparkes, J.-P. Schoder, Shao Z., S. von Stenglin, J. C. Westerweel.

1. FUND RESPONSE TO RECENT DEVELOPMENTS IN MIDDLE EAST - INTRODUCTION OF OIL IMPORT ELEMENT INTO COMPENSATORY AND CONTINGENCY FINANCING FACILITY

The Executive Directors considered a staff paper on the possible introduction of an oil import element into the compensatory and contingency financing facility (CCFF) (EBS/90/179, Sup. 3, 11/9/90), and a staff paper (EBS/90/179, Sup. 2, 10/29/90) containing draft decisions reflecting proposals on the response of the Fund in the wake of recent developments in the Middle East set out in EBS/90/179 (10/16/90) and Supplement 1 (10/29/90).

The Managing Director made the following statement:

> At our informal meeting last Monday (IS/90/19, 11/12/90), you indicated your preliminary reactions on the modalities of a possible oil import element under the compensatory financing component of the compensatory and contingency financing facility (CCFF) on the basis of a staff paper on the same subject (EBS/90/179, Supplement 3, 11/9/90). From your reactions, I have sensed both a spirit of compromise and a feeling of urgency to come to an agreement so as to enable the Fund to respond in a timely manner to the needs of members that are adversely affected by the recent developments in the Middle East and are undertaking appropriate adjustment measures in response.
>
> We need to tackle three key features of such an element--access, conditionality, and phasing. On the basis of your initial reactions and further reflection on your comments and concerns, I believe that an oil import element with the following modalities could strike a reasonable balance and form an appropriate part of the Fund's response. A table 1/ illustrating present provisions and these suggestions is attached.
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> Access to purchases under an oil import element would be provided within the present total access limit of 122 percent of quota. This includes, of course, access equivalent to 40 percent of quota under the contingency element of the CCFF. The remaining 82 percent of quota is the sum of the basic access under the compensatory element (40 percent), the optional tranche (25 percent), and the amount available under the cereal facility (17 percent). Under this proposal, up to the full amount of 82 percent of quota could be used to compensate countries for an oil excess.
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> On conditionality, all drawings under an oil element would be in the framework of paragraph 12 of the CCFF decision but would require that the member take satisfactory prior energy policy actions as well as pursue appropriate policies to deal with its

1/ Reproduced in Annex I.

balance of payments difficulties. This framework is a starting point for an oil element on which I believe nearly all are agreed.

Under the framework of paragraph 12 of the CCFF decision, members requesting purchases under the oil element and falling under 12(a) (that is, those having a satisfactory record of cooperation) would present a written statement on macroeconomic objectives and policies in order to qualify for purchases up to 40 percent of quota. For these members, requests for purchases on account of oil import excesses above 40 percent and up to 82 percent of quota would need to be associated with an upper credit tranche arrangement.

For members falling under paragraph 12(b), requests for purchases on account of oil import excesses above 20 percent and up to 40 percent of quota would also need to be associated with an upper credit tranche arrangement, and purchases above 40 percent of quota and up to 82 percent of quota on account of oil would be available after the completion of a review under such an arrangement. For purchases up to 20 percent under the oil element, a written statement on the member's macroeconomic objectives and policies would be required.

The written statement setting out the member's macroeconomic objectives and policies would be required only when a request for a purchase under the oil element is not already associated with an upper credit tranche arrangement. Where such an arrangement was in place, that arrangement, together with any changes in the member's energy policies that may be needed, would provide the framework for the request. In other cases, the written statement, which would be developed together with the Fund staff and would be modeled on the letters and memoranda underlying first credit tranche purchases, would, inter alia, permit evaluation of the member's energy policies in light of the appropriateness of its macroeconomic policies as a whole. Such a statement would also ensure the consistency of the proposed purchase with the Fund's policy on financing assurances and facilitate the required assessments of the member's capacity to repay the Fund.

In order to enhance the Fund's ability to respond quickly in present circumstances, most Executive Directors have favored the use of up to 12 months of estimated data in calculating oil import excesses. Yet the uncertainties regarding future oil prices pose risks of overcompensation, and the consequent need for early repurchases that are larger than those we typically face. Accordingly, some limited phasing of purchases under an oil element would seem appropriate in cases where an oil import excess is based on 9 months or more of estimated data. I would suggest that 65 percent of the calculated compensable amount on account of oil excesses be provided at the time of the initial request, and the remaining 35 percent when actual data covering 6 months of the excess year have become available, subject to confirmation of the compensable amount. An Executive Board meeting to consider the second purchase would not be scheduled unless management felt issues had risen requiring Board discussion or a meeting was requested by an Executive Director.

An approach along these lines would enable the Fund to come to the early assistance of members in dealing with the oil shock in amounts that should be adequate in most cases on the basis of present prospects, and under conditions that appropriately safeguard the Fund's resources. Where needs for Fund resources are greater, there will be room for flexibility in determining access under the associated Fund arrangement, including through the temporary suspension of the lower access limits under the policy on enlarged access. We are facing special circumstances that we all hope will be temporary, and we are trying to develop a response that is tailored specifically to those circumstances. The necessary decisions would place the oil element in operation for only a limited period, until the end of 1991, and we would review this aspect of the Fund's response before the Interim Committee meeting next spring.

The Director of the Exchange and Trade Relations Department made the following statement:

This statement provides additional information on a number of technical questions relating to the introduction of an oil import element, which were raised by Executive Directors at Informal Board Meeting 90/19 (11/12/90).

Under the phasing option, the staff would make new calculations of the net compensable amount (oil import excess netted against the export excess or added to the export shortfall) at the time of the second drawing. The request for the second drawing would not in general be scheduled for a Board meeting unless management felt issues had arisen requiring Board discussion or a meeting was requested by an Executive Director. The new calculations could either increase, subject to access limits, or decrease the amount of the second drawing that was anticipated in the initial calculations. The issue of overcompensation would be raised only when actual data for the whole of the excess year became available. If the calculations indicated overcompensation, the member would be expected to repurchase promptly up to the amount of the overcompensation.

The rule limiting export projections in the two postshortfall years to 20 percent over the two preshortfall years was essentially aimed at safeguarding against overly optimistic forecasts. An analogue of such a rule was not adopted for projections of cereal imports, even though cereal import excesses are netted against export shortfalls. Given the volatile nature of oil prices at present, the staff is not proposing the imposition of an analogous floor on oil import projections in the two postexcess years of 20 percent below the oil imports in the two preexcess years. The imposition of such a floor would entail the Fund taking a position on oil prices in the future which might be significantly different from the market's assessment. Applying such a floor could imply an average of about $13 per barrel in the two postexcess years, a scenario which, despite the uncertainty about oil prices, is not generally expected to occur.

The oil import element could be introduced to cover imports of crude oil and petroleum products (SITC 33) and imports of natural gas (SITC 34).

Executive Directors asked about the effects of introduction of an oil import element on the Fund's liquidity ratio which, in the last liquidity update (EBS/90/185, 10/25/90), had been projected to fall to 69.9 percent at end-December 1991. As stressed in EBS/90/179, Supplement 3 (11/9/90), a number of factors would have an important bearing on members' use of such an element. These factors would have to be assessed in each individual case, and the staff does not believe that actual use can be projected accurately at this stage. Furthermore, use of an oil import element may offset other projected use of the Fund's resources although it is difficult at this stage to estimate any such offset. Nevertheless, assuming all other elements of the October 25 liquidity projections remain unchanged, each additional SDR 1 billion of purchases by end-1991 would be projected to reduce the liquidity ratio by 4-4 1/2 percentage points at end-1991. Thus, for example, if additional purchases resulting from an oil import element amounted to SDR 3.5 billion through end-1991 (corresponding to the maximum potential access simulated for the middle option of the table attached to the supplement), the liquidity ratio would be expected to fall to approximately 55 percent at end-1991. For the reasons discussed, any such simulations of maximum potential access probably overstate by a substantial amount the likely use.

The attached table 1/ supplements the information provided in the table presented in EBS/90/179, Supplement 3, giving

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1/ Reproduced in Annex II.

potential additional financing with an oil import element on the basis of a regional breakdown.

Mr. de Groote made the following statement:

After having heard the various opinions on the shape of a possible oil window inside the CCFF at last Monday's informal meeting and the complexities to which it would give rise, as evidenced already by the differences of interpretations voiced at that time, my earlier conviction as expressed in our November 2 Board meeting was wholly confirmed. That is that we should not make our immediate response to the Middle East crisis dependent on a full and detailed agreement on the remodeling of the CCFF but that we should rapidly agree on a package as presented by the staff in EBS/90/179. Ideally, we could equally decide in principle to incorporate into the CCFF all types of unexpected external shocks, to simplify its mechanism and promote its use. Implementing all the modalities of such a decision of principle could then take place in a less time-constrained way.

An additional reason for this conviction was that, in the view of the staff, there exists only a narrow range of countries which might prudently be assisted through the introduction of an oil element into the CCFF. My conclusion, therefore, was that these countries would be better served through augmented access to the Fund's resources. Following Mr. Prader's specific question in this regard at Monday's meeting, it would now seem that there does exist a number of countries which could benefit foremost from an oil window. Given the cooperative nature of this institution, it would thus be unfair not to grant these countries access to the Fund's resources in a way which would serve them best. If a workable solution can be found to have an effective oil window inside the CCFF rapidly, I would accordingly accept such an ad hoc solution as a temporary device envisaged to help certain countries in dealing with the effects of the Middle East crisis. I do hope though that our next review of the CCFF could yield a more lasting solution to take account of unexpected external shocks of which the oil price is but one.

This leaves the question of finding a workable solution which at the same time can satisfy the majority of this Board. You yourself, Mr. Chairman, have hinted at second- or third-best solutions in order to be able to reach a consensus. My intention here is to facilitate this consensus building by going over the different positions taken at last Monday's informal meeting in a systematic way. And what more systematic and yet simple way exists for economists than to make use of a graph modeling the views expressed. Allow me, therefore, to turn to this rather unorthodox means of putting forward one's ideas in this Board, since I do believe that it will ultimately help in deriving a sensible set of characteristics for an oil element in the CCFF.

The type of graph I have in mind resembles the rather familiar IS-LM diagram for an open economy and is, for the sake of convenience, reproduced in Annex III. With the level of compensatory financing for oil imports on the y-axis and time on the x-axis, three relationships can be visualized, the first one being the positively sloped conditionality line. Indeed, more compensatory financing is made available only under more stringent conditions of conditionality and requires more time to be agreed upon between the Fund and the member country. The second relationship concerns the negatively sloped relative access line, illustrating the potential trade-off that exists between obtaining additional financing to cope with the increased oil import bill through an oil import window and through augmentation of access under ordinary arrangements. This line represents the fact that to help compensate for the oil import shock, it is possible for a country either to opt for a quick disbursement under the oil window of the CCFF or to go for a more time-consuming renegotiation of its existing Fund arrangement, yielding an augmented access under ordinary arrangements which leaves less or possibly even no room for compensation under the oil import window. The third relationship concerns the eligibility line. The level of this line is being determined by the conditions on access for an oil element drawing. Its positive slope reflects the fact that over time more drawings will be made by members, while its sudden end represents the lapsing of the oil window at the end of 1991.

Given the different options the staff has outlined in EBS/90/179 Supplement 3, an area of indeterminacy, represented in the graph by the triangle ABC, had to be dealt with. This could be done in various ways, and speakers at last Monday's meeting have suggested different packages of options.

Most of the large industrial country chairs, to the extent that they took the necessity of an oil import window for granted, were in favor of attaching sufficient conditionality to the oil window drawings, thus favoring a shift to the right of the conditionality line and yielding a determinate solution at point B in the graph.

Most developing country chairs were in favor of increasing total access under the oil import element, thereby pleading for an upward shift of the eligibility line, yielding a solution at point A on the graph.

A number of other speakers, such as Mr. Fogelholm, Mr. Posthumus, Mr. Végh, as well as our chair, remained in doubt about the need for a separate oil window, finding themselves located at point T in the graph. That is to say, they preferred access to be augmented under existing arrangements rather than to extend financing through a new oil window. It would seem now that the staff will be able to convince us of the need for a separate arrangement for a well-determined number of countries. In this case, we would evidently have to start looking also for a way of having the three lines intersect at one point in the graph, thus yielding an effective oil window.

Contrary to the solutions favored by both the large industrial countries, preferring solution B, and the majority of developing countries, going for solution A, I would be inclined to opt for solution C. Such a solution would entail no change in the conditionality as compared with the other windows of the CCFF, keeping the special character of the CCFF, as opposed to that of ordinary Fund arrangements, intact. It would thus not open the door for an overall contamination of the CCFF with stringent conditionality later on, a danger to which Mr. Posthumus has already pointed.

Such a solution C would then have to combine a sufficient degree of overall access while avoiding the possibility of excessive overcompensation. On the face of it and pending further detailed staff estimates on the potential use of such an oil window, this would lead us to prefer the option whereby the total access limit is maintained at 122 percent of quota, drawings are chargeable to the cumulative access limits for the export and cereal elements combined, and purchases are phased in two equal tranches. In terms of the graph, this option will shift the eligibility line upward, since potential access is increased. At the same time, it would make the slope of the relative access line less negative, since only half of the total drawing would take place at the outset.

In practical terms, such a solution will result in an oil window fitting nicely into the mould of the CCFF, thereby satisfying Mr. Dawson's insistence that we are not going for a separate oil facility. At the same time, though, it would provide something more than token financing, given that the oil import element would be chargeable to the cumulative access limits for the export and cereal elements combined. Yet this extra financing would be balanced, not by increased conditionality, but instead by a more careful disbursement in two phases as well as by the fact that it is a temporary device intended to deal with the particular consequences of developments in the Middle East.

I believe that this approach constitutes the best possible outcome in reconciling the different demands: an increased financing potential for the affected countries, a relatively simple system being able to generate assistance in an expeditious way, and adequate assurances that no unnecessary disbursements of Fund resources will take place, in keeping with the spirit of compensatory financing.

Whatever the merits of my graphical exposition in terms of clarifying the different positions regarding the need for and content of an oil window in the CCFF, it has at least reminded us of our younger days when we were confronted regularly with graphical analysis in trying to master the theoretical aspects of economics. The problem, of course, is that our decision today has to be taken in a real world.

The Director of the Exchange and Trade Relations Department recalled that questions had been raised at the previous discussion on the proposed oil price policy and other conditionality under an oil import element. The Fund's advice on domestic energy policy thus far had been clear: there should be a pass-through to domestic prices of the recent increase in international oil market prices, that was to say, pretax prices. In countries where the distribution, production, and pricing of energy products were handled by the private sector, the pass-through issue essentially took care of itself. It was in countries with administered pricing, in particular, where the issue of appropriate energy pricing policy needed to be addressed.

Allocative efficiency suggested that fully passing through international prices that were expected to be permanent should be the guide in economic programming for countries with which the staff were holding discussions, the Director continued. If the prices were already subsidized, the case for a full pass-through was of course that much stronger. If taxes formed a wedge between international and domestic oil prices, the case, from an allocative efficiency point of view, might not be quite as strong. At the same time, other considerations--environmental or conservation considerations, for example--might also be taken into account in formulating energy pricing policy. The difficult question was to determine the extent of the permanency of the recent oil price increases and, in a volatile price environment, to decide how often to adjust domestic prices. In that connection, budgetary considerations could serve as a guide. If some smoothing of domestic prices was attempted, it could give rise to subsidies that would be temporary and which would be offset later only if the correct projection were made about future price developments. In a particularly favorable budgetary environment, some risk might be accepted in the energy pricing policy area. But in most cases, and especially where the budgetary position was weak, caution argued for full and immediate pass-through of the price changes that were taking place. Price smoothing in those environments could be effected by forward contracting by the countries concerned, but the possibilities for such action might be fairly limited. The more automaticity that could be built into the system of administered determination of energy prices, the less would be the political sensitivity of the energy price issue, and the staff recommended that countries try to make pricing adjustments automatic once prices were at world market levels.

In sum, the staff recommended full pass-through of international market price increases to domestic prices, but with three caveats, the Director said. First, if some forward contracting was possible, or if the budgetary position was particularly strong, some smoothing could be attempted. Second, if energy consumption was already substantially taxed and if the budgetary position was strong, or if expenditure or other revenue offsets were possible, there could be less than immediate pass-through. But in those cases great caution would have to be exercised to assure that other actions could be taken to maintain a sound budgetary position. Finally, the staff recognized that there were cases in which domestic prices were far below international market equivalence. It was recognized that it might not be possible immediately to make the entire price adjustment necessary to eliminate existing subsidies as well as the new international price increases. Under those circumstances, what had been recommended--as had been discussed in a recent case considered by the Board--was substantial up-front adjustment of prices and a commitment by the authorities to achieve, over a limited period, international market pretax price equivalence.

There was a clear relation between access limits and conditionality, the Director of the Exchange and Trade Relations Department said. Conditionality, in terms of the strength of the program required to justify higher levels of access, should indeed increase as the upper access limits were approached. The staff could continue to operate under the guideline that the balance of payments improvement should be, in the words of the guidelines themselves, "quick, sufficient, and durable" in the upper ranges of the access limits.

Mr. de Groote commented that, for simplicity's sake, he had envisaged phasing of 50/50. The Managing Director seemed to favor phasing of 65/35, which was acceptable. The Managing Director's compromise proposal was an excellent second-best solution. It had, first, the advantage of simplicity. It would not change the architecture of the existing arrangements; it would simply add an oil element to one of the existing facilities. It would maintain the overall access limit of 122 percent of quota, and thus would not create any excessive risks for the Fund's liquidity, which, in his view, still remained substantial. Although the Board would have to review it in due course, once use was made of the new oil import element, it would also have the great advantage of maintaining incentives for countries to continue to rely on the ordinary facilities of the Fund. The proposed oil import element would not be a substitute for the normal use of Fund resources or for programs that would qualify countries for normal use of Fund resources; the two have to be maintained pari passu.

While the proposed phasing of 65/35 was welcome, even more important frontloading would be acceptable if other Directors wished to approve it, Mr. de Groote said. However, the Managing Director's proposals were fully acceptable.

Mr. Posthumus commented that he wished to pose four questions. First, if a compensable amount had been calculated and assistance equivalent to 65 percent of quota had been provided, would the remaining 35 percent of quota become available under the phasing only after six months? What would the Fund do if, in the course of the six months, oil prices increased or decreased substantially?

Second, he wondered whether he was correct in understanding that the enlarged access policy applied only to drawings under stand-by and extended arrangements, Mr. Posthumus continued. If a country could draw on the basis of an oil import excess under a stand-by and/or an extended arrangement, and the oil element of the CCFF, was it correct to say that, in theory, it could draw in one year, under its arrangement and the oil import element, 110 percent of quota, and under the CCFF, including the oil import element, 65 percent of quota?

Third, the staff's liquidity projections of October 25, 1990 presumably included an estimate of possible drawings under the existing compensatory and contingency financing facility, not taking into account the oil element, Mr. Posthumus commented. In that connection, the staff had made certain simulations, and he wondered whether those simulations overstated the likely use of Fund resources by a substantial amount which had then been added to the new estimates that the staff had just provided.

Fourth, as he understood it, Sudan and Mexico had drawn more than three quarters of their maximum access of 440 percent of quota, Mr. Posthumus noted. In addition, Poland and Guyana had Fund-supported programs and were close to the annual access limit. Was that situation sufficient ground to compensate oil excess imports under both an arrangement and the CCFF?

The staff representative from the Research Department said that, if a country had made an initial purchase for 65 percent of access available under the oil import element on the basis of estimated data, then once six months' data became available the relevant staff calculations would be redone, using actual data and latest projections. At that time, if oil prices had moved in the direction that would justify additional purchases, then the financing 35 percent of access would be disbursed. On the other hand, if the prices had moved in the other direction, subsequent purchase could be reduced, perhaps even requiring a reduction in the 65 percent purchase which had already been made; in that case, the staff would wait until the actual data for the whole year were available before requesting a member to make an early repurchase.

Mr. Posthumus asked what would happen if, after three months, the first drawing of 65 percent of quota had been disbursed, but oil prices had increased substantially further.

The staff representative from the Research Department replied that after the data for the first six months of the oil import element purchase period were available, the staff would have to recalculate the relevant figures, using the new data, as if the member had at that moment requested a drawing. Conceivably, there could be room for an increased drawing. If the prices were significantly different from the prices that the staff had anticipated, or if the member's policies were significantly different, then the matter would have to be brought to the Board. On the other hand, if the price projections were basically on track, then the second purchase--35 percent of quota--would be permitted.

As to Mr. Posthumus's other questions, the staff representative from the Research Department continued, the simulations that Mr. Posthumus had mentioned could overstate actual demand for the Fund's resources simply because the simulations were mechanical--they were based on the assumption that the countries would qualify for the maximum compensable excess and that they would actually request purchases.

The Director of the Exchange and Trade Relations Department said that, in looking at the implications for the Fund's liquidity of a new oil import element, it was not helpful simply to add the estimates of possible access under the element to the latest calculations of possible use of Fund resources.

As Mr. Posthumus had noted, Sudan and Mexico were at or near their cumulative access limits, the Director of the Exchange and Trade Relations Department commented. Moreover, Sudan had arrears to the Fund, and Mexico was an oil exporter, which had obvious implications in the current circumstances. Poland had used about 70 percent of its access under its current arrangement with the Fund, and Guyana was near its annual access limit under its stand-by arrangement with the Fund. The arrangement for Poland was coming to an end, and a new arrangement--under which new access would be decided--was being negotiated.

Mr. Filosa remarked that clarification was needed with respect to the proposed use of an oil import element and augmentation under an existing arrangement with the Fund. Those two possible uses of Fund resources should be seen as alternatives; they should not be used together, as the access that would then be available would be excessive. Use of either alternative would of course have to be based on an assessment of a country's ability to repay the Fund.

He would wish to discuss with the staff on a bilateral basis the concept of pass-through of increased oil import prices, Mr. Filosa remarked. The staff's thinking seemed to include the idea of forward contracts. In any event, one principle should be applied in all cases: any existing subsidies should not be increased in nominal absolute terms. That principle should be a sufficient guideline for the pass-through requirement.

The Chairman commented that it was important to bear in mind that the access limits under the CCFF were just that--limits, and not targets. The prevailing guidelines on the use of CCFF resources would be maintained, and, as Mr. Fogelholm had stressed, the greater the access, the stronger the conditionality and the higher the quality the country's program would have to be.

Mr. Filosa's suggestion concerning the principle governing the oil price pass-through requirement was attractive, the Chairman said. It was simple and could provide for a quick pass-through. At the least, there should be no increase in subsidies in real terms, and, if possible, subsidies should be reduced.

The Director of the Exchange and Trade Relations Department said that, as the Chairman had stressed, the access limits were not targets and had never been treated as such. In addition, it was important to note that the limits would not change under the proposals: at present, a country notionally had access to 110 percent of quota under the enlarged access policy, 40 percent for an export shortfall, the 25 percent optional tranche, and 17 percent if it qualified for the cereal element. Under the proposals under discussion thus far, the limit on access to Fund resources would remain the same; there would simply be an additional justification for gaining access under those limits.

He would hesitate to set a hard and fast rule on the oil price pass-through that would be applied in each and every case, the Director of the Exchange and Trade Relations Department said. In the final analysis, the pass-through problem was partly a budgetary issue. At the same time, it was certainly true that the potential users of the oil import element would not have much scope for increasing subsidies for oil consumption.

Mr. Filosa commented that there would be a dramatic change in access with the adoption of the proposed oil import element. At present, a member was entitled to draw 17 percent of quota under the cereal element and 40 percent to compensate for export shortfalls; under the staff proposals, a country would be eligible to draw 82 percent of quota under the oil import element, something that had not been possible before. Accordingly, a member could, because of increased oil import costs, draw 192 percent of quota.

The access limits were not targets, Mr. Filosa remarked, but those limits should not be as high as 192 percent of quota. The limits should be much lower; otherwise, there would be a new potential for extensive and prolonged use of Fund resources, and there might be some question about members' capacity to repay the Fund.

The Director of the Exchange and Trade Relations Department said that, while the access limits would not be changed, the proposals would introduce a new rationale for access under the existing limits. The intent was that none of the CCFF access would be automatic. Access of up to 82 percent of quota would be possible under the new CCFF element to compensate for a justified oil import excess. Access of 110 percent of quota would be available for members with approved adjustment programs. Under the proposals, a member could not gain access up to 82 percent of quota unless the adjustment program included full policy assurances, there was an assessment of the country's capacity to repay the Fund, and all the other considerations that were normally involved in recommending Board approval of an arrangement were first taken into account.

Mr. Goos commented that Mr. Filosa's proposal concerning the oil price pass-through requirement was elegant but would not cover all the circumstances of members, as the proposal referred only to countries that were already subsidizing oil prices. He wondered how the Fund would respond to a member that wished to introduce oil price subsidies and did not plan to pass through oil price increases. It might well be necessary to have the more differentiated prescription for oil price policy proposed by the staff.

Mr. Filosa responded that, under his proposal, a country that did not have oil price subsidies should not be allowed to introduce them.

Mr. Goos commented that, with Mr. Filosa's explanation, the principle proposed by Mr. Filosa was acceptable.

Mr. Al-Jasser remarked that Mr. Filosa's proposal was elegant and he broadly agreed with it. Oil pricing policy should not be burdened with budgetary and environmental problems. A number of considerations were taken into account in setting energy policy. Taking environmental issues into account could open a Pandora's box. At some stage, the Board should have a more elaborate discussion, perhaps with a staff paper prepared in collaboration with the World Bank, on what was meant by energy pricing and how members should take into account all the various relevant elements, such as allocative efficiency and budget revenue. Energy included more than oil, and oil should not be singled out in any way. In applying the pass-through requirement under the decision on an oil import element, the Fund should look at oil price subsidies and not burden the issue with other questions that might not be relevant to oil alone but would be relevant to other sources of energy and maybe other economic elements in the production process.

Mr. Arora considered that Mr. Filosa had somewhat overstated the risk that members would be given excessive access under the staff proposals, particularly in the light of the average potential access foreseen in EBS/90/209. Mechanically adding 110 percent of quota plus 82 of quota did not give an accurate picture of the likely access.

There should not be a hard and fast rule with respect to oil price subsidies and the pass-through requirement under the oil import element, Mr. Arora stated. "Subsidy" was a very broad term; the application of effects of subsidies varied greatly across countries.

Mr. de Groote remarked that Mr. Filosa's concern about possible excessive access did not seem applicable solely to the staff proposals on an oil import element; the same concern could have been expressed with respect to the present CCFF and other Fund facilities.

Mr. Dawson said that the agreed with Mr. Arora and Mr. de Groote. There was a theoretical danger, perhaps, but the potential access that the staff had estimated suggested that the actual danger was not great. He also agreed with the staff that there would be genuine constraints on access through the assessments of members' capacity to repay the Fund and members' adjustment efforts.

Mr. Filosa commented that he had not meant to suggest that the potential danger of excessive access existed for all member countries. There was a possibility that access for some countries might be excessive. He agreed that, on average, no particular problem could be foreseen. But to avoid new potential arrears cases, the point that he had raised should be kept in mind.

The CCFF would be radically changed under the staff proposals, Mr. Filosa considered. The facility would be aimed at helping to shelter a country from the adverse effects relating to just one element of the balance of payments. With that change, the way might be open to introducing CCFF compensation for other individual commodity items.

Mr. Kabbaj considered that the staff had complicated the matter of the appropriate energy policy that the members concerned should be required to implement. The definition in footnote 2 on page 5 of EBS/90/179, Supplement 3, was appropriate. However, he could go along with Mr. Filosa's proposal. He agreed with Mr. Al-Jasser that, in selecting an appropriate oil price policy, singling out some elements without looking at all other relevant factors could confuse the potential users of the new oil import element. The staff had emphasized budgetary problems in connection with the selection of an appropriate energy policy. If a country's domestic prices exceeded international prices and the country had substantial oil taxation, the Fund's insistence on a full and prompt pass-through might run the risk of undermining the country's external competitiveness. Therefore, if the staff's broader definition of an appropriate energy policy was accepted, due regard should be paid to external competitiveness.

Mr. Goos said that he shared Mr. Filosa's concern about the proposed access limits. Normally, one could of course say that overall access under the staff proposals would not be changed. However, the staff proposals would represent a material change, as they would add an additional reason for providing Fund financing. Given the likelihood that the available scope for financing would be fully or substantially utilized, he had stated at the previous discussion that he preferred limiting the proposed CCFF access to 65 percent of quota.

The Chairman said that he recognized that there might be some danger in providing for the accumulation of access under two possible sources of Fund financing, but the recent developments in the Middle East had created significant problems for some members, and the Board had been requested to respond within the framework of the Fund's existing instruments. In making that response, the Fund would probably provide more resources, but it would certainly continue to respect all its established operating principles and conditionality requirements, while safeguarding, to the extent possible, the Fund's resources.

Mr. Goos stated that he agreed that the Fund had to act on the mandate given to it by the Interim Committee. But the ability to fulfill the mandate was not related solely to the extent of the access to be provided to the oil import element; the Fund would continue to be able to provide financing under the regular facilities, and it would continue to have the option of providing access to those facilities even beyond 110 percent of quota. One had to recognize that complementarity between existing facilities and the proposed oil import element in considering the possibility of the Fund to respond appropriately. If he faced a choice of providing maximum access to the oil element or the regular facilities, he would clearly opt for the regular facilities. The argument that access of 82 percent of quota to the oil import element was needed in order to live up to the Interim Committee's mandate was not very convincing. There could be a trade-off between approving the 82 percent access limit and the removal or suspension of the lower access limit under the enlarged access policy.

Mr. Dawson remarked that a number of different trade-offs were conceivable, but his authorities viewed their support for the proposed oil import element as a substantial concession; they would have preferred larger total access under the CCFF--162 percent of quota--and they would have been willing to make all of the access available up front. The staff's present proposals were in themselves an attempt to create a trade-off and they constituted a compromise that was already delicately balanced.

As to singling out an individual element for coverage under the compromise proposal, it was important to bear in mind that the coverage of oil in the CCFF was to be netted out against other developments in the export sector, Mr. Dawson said. There was no question of identifying and compensating increased oil import costs in an unconstrained fashion. The capacity to repay and the strength of the adjustment effort would continue to be carefully assessed, and would probably serve to reduce access even below the level mentioned on page 3 of EBS/90/209.

Mr. Goos said that he did not fully understand Mr. Dawson's position on suspending the lower access limit under the enlarged access policy while providing access of 82 percent of quota under the oil import element. The only rationale given by Mr. Dawson for suspending the lower access limit was that the Fund must send a strong signal that it was willing to assist the countries concerned. In fact, however, the proposal to create an oil import element had in itself already sent such a signal; it seemed unnecessary to send the same signal twice, especially as there was no reason why the Board could not decide initially to maintain the lower access limit and then subsequently exceed it if the relevant requirement--higher conditionality--was fulfilled. The Board should not send the wrong signal--namely, that it was willing to weaken conditionality beyond the lower access limit.

The Chairman commented that the suspension of the lower limit made sense in the context of what could be called the marketing of the Fund's ordinary facilities. Even if actual access were not to reach that limit, it was helpful to show that that option was the preferred avenue of the Executive Board.

Mr. Filosa stated that his comments on the staff proposals should not be seen in any way as placing obstacles in path of the Fund's response to the recent developments in the Middle East. His main point was the risk that the Fund was running in permitting members to accumulate access through augmentation together with the introduction of the oil import element for one single specific reason, namely, increased oil prices. That risk should not be minimized. He understood why two financing possibilities were needed; in some cases, countries might have relatively little access to the CCFF, and, therefore, limiting the Fund's response to the provision of CCFF resources might be insufficient for those particular countries, in which event, augmentation of ordinary resources might be warranted, and vice versa. He wished to stress that the Board was accepting augmentation and a new oil import element in response to the same problem facing members. In addition, the Fund would be concentrating on a specific element of the balance of payments, something which the staff had suggested was not wise to do. He supported the staff proposals, but it was dangerous to minimize their impact; with the adoption of the proposals, the Fund would be undertaking something that the Board had decided not to do 10 years previously, at the time of the second oil shock.

The Chairman noted that in responding to the latest developments the Fund would maintain and even strengthen the conditionality of the CCFF, which made a major difference between that response and the one at the time of the second oil shock.

Mr. Peretz said that he sympathized with those who favored a 65 percent access limit, which seemed to be consistent with the points that Mr. Filosa and Mr. Goos had been stressing.

Mr. Dawson remarked that there was some support for greater access as well as a new oil import element. Hence, the Managing Director proposal was a reasonable compromise. As to Mr. Goos's skepticism about waiving the lower access limit under the enlarged access policy, Mr. Goos was theoretically correct: the Board could take special steps in exceptional circumstances. If the Board decided not to have an oil import element and not to waive the lower limit, would Mr. Goos then be willing for the Fund to announce publicly that it was willing basically to waive the upper access limit in response to a major crisis? Instead, it seemed better to maintain the upper limit, waive the lower limit, and introduce the new element in the CCFF; the latter two steps would lapse after a specified time. Theoretically, access could be increased to a high level, but under the Managing Director's proposal the actual increase in access would be made in a fairly conditional manner. In addition, waiving the lower limit would indeed send an important signal that would have a positive effect.

It had been suggested by Mr. Filosa that, under the Managing Director's proposal, the Fund would be reacting only to the increase in the price of oil, Mr. Dawson continued. In fact, the higher price of oil had had other effects as well in terms of the adjustment efforts of countries. While the first-order effect might include only the prices of oil, second-order effects were also being felt.

Mr. Goos noted that in referring to the signal that would be sent by removing the lower access limit, the Managing Director had said that such a move would signal the feeling in the Board that countries would do best to use the regular facilities and not the oil import element.

Mr. Clark stated that he supported the package of proposals outlined in the Managing Director's statement. Some Directors had said that an oil import element was not necessary, and that the flexible use and adaptation of existing facilities would be a better way of dealing with the problems at hand. At the same time, given the attempt to have the Fund respond expeditiously, he could support the creation of an oil element in the CCFF. The adequacy of the Fund's response to the recent developments in the Middle East would be determined not so much by the precise level of access or the decision whether or not to require phasing, but rather by how the agreed decision would be implemented in terms of the programs that the staff would propose, the conditionality that would be examined by the Board, and Board decisions on access in individual cases. Therefore, the Board should come to a quick agreement on an oil import element and proceed with the individual cases of potential use.

Mr. Cirelli said that he agreed that it was important to send the right signals to the countries that were expecting assistance from the Fund in handling problems caused by recent developments in the Middle East. The Fund would be expecting a great deal from those countries in terms of adjustment measures. At the same time, under the proposals the Fund would be maintaining, or even reinforcing, its conditionality. The 90 percent lower access limit and the 82 percent access for the oil import element were a minimum and reasonable compromise.

Mr. Yamazaki remarked that he understood some of the concerns that had been expressed by previous speakers. It was very important to send a strong signal at the present stage. The Board should reach a consensus on a compromise as soon as possible to show the international community that the Fund was determined to act quickly. In that connection, the Managing Director's proposals struck a very good balance. The Managing Director had stated that in applying the proposals in individual cases, solid financing assurances would be sought, the ability of the member to repay the Fund would be assessed, and the established guidelines, to which he attached importance, would be adhered to.

Mr. Torres stated that he agreed with previous speakers who had stressed that the effects on access of the Managing Director's proposals should not be minimized. Even if the access limits were not increased under the Managing Director's proposals, the proposals would increase the scope for potential effective access, which was the signal that the introduction of an oil import element would send to member countries. At the same time, Directors should not overemphasize the extent of the changes that were being proposed, as they would not be altering the criteria or guidelines that determined the effective access of members to the Fund's resources. In fact, the conditionality for the oil import element would be increased in comparison with the existing conditionality for the CCFF. Hence, while the Board would be making a quick response, it might find that the effective increase in access would be almost negligible. With respect to the reduction or elimination of the lower access limit, he tended to go along with the suggestion made by Mr. Dawson.

Mr. Posthumus said that he continued to think that the Fund should use its main instruments--stand-by and extended arrangements to support members in adjusting to and financing excess oil import costs. Little time had been taken to analyze whether the CCFF was a better vehicle for those purposes. The Board had hardly discussed the rationale for an oil import element and it had not discussed whether excess import costs of natural gas should or should not be included. In sum, the Board was involved in ad hoc policy-making under the pressure to do something visible.

In his view, Mr. Posthumus continued, suspension of the lower access limit of the enlarged access policy was not acceptable, because that policy itself should have already been discontinued. Granting access under the CCFF and under an arrangement in response to the same balance of payments problem would undermine the access limits of the CCFF, even if the matter of double compensation was not considered, and the Board should not accept that proposal. However, he agreed with the compromise Mr. Goos had suggested.

The Board should call on members to implement the Ninth General Review of Quotas in early 1991, Mr. Posthumus considered. That was by far the best way to increase the Fund's capability to support countries.

He was prepared to accept the Managing Director's statement of November 14 in all other respects, but only until end-1991, Mr. Posthumus said. He could also agree that the conditionality for the present CCFF would also apply to the oil import element, because the latter was temporary, but only if members could draw for that purpose under either the CCFF or an arrangement, but not both. If a member were to draw under an arrangement--through augmentation--then conditionality logically also extended to oil import issues. If the member were to draw under the CCFF, then the present access rules as well as the financing assurances policy were a sufficient safeguard.

Mr. Cirelli made the following statement:

> My authorities are satisfied with the ability the Fund has demonstrated to respond promptly and appropriately to the recent events in the Middle East. The modifications which are proposed represent a welcome adaptation of the Fund's policies in order to better respond to the additional financing needs which may arise among our members. But, beyond the "letter" of our decisions, there is also the spirit, and, if I may say so, we see the need for flexibility to be used so that the affected countries can be in a position to effectively benefit from these changes. On the other hand, the Fund neither should nor could be in charge alone of solving the problems encountered by the countries. In its intervention the Fund must maintain its catalytic role. For their part, the affected countries should implement the adjustment measures required by the situation. In this context, the role of the Fund will also be critical in helping these countries to put in place macroeconomic adjustment in response to their balance of payments problems.
>
> For my part, I can endorse the set of proposals summed up in the concluding remarks by the Chairman following our meeting of November 2. These changes will mainly reinforce the flexibility of our present instruments and will even increase it thanks to the creation of the new oil element. We are particularly pleased by the possibility of increasing access under existing programs as well as the possibility, in certain circumstances, to have a fourth annual arrangement under the ESAF.
>
> Regarding the modalities of a possible oil import element to be included in the CCFF, I would also like to express the satisfaction of my a authorities, since Mr. Bérégovoy had proposed during the Interim Committee meeting the inclusion of such an oil element in the compensatory window of the CCFF on a

temporary basis. Therefore, we are pleased that other chairs have shown a willingness to go in this direction.

Mr. Chairman, the compromise you have proposed does not represent our first-best solution. Nevertheless, we are willing to go along with its main features, as we think that rapid agreement on a package is an overriding consideration.

Regarding access, we could go along with the inclusion of the oil import element within the present total access limit of 122 percent of quota. We would be willing to go along with a specific access incremental to the present limit, if the majority of the Board supports it.

Let me add two brief remarks on access. First, we would have preferred a single access treatment among members. In fact, we are not happy with the now famous distinction between paragraphs 12a and 12b and we would favor, if there is support for this, a sole and unique access policy.

Second, the table attached to the Managing Director's opening statement shows how complex the present CCFF access limits have become. This complexity is a worrisome trend, as it is an obstacle to the understanding of our policy, and I would strongly hope that we will be able, very rapidly, to dramatically simplify the various access limits.

On conditionality, our basic wish is not to depart too much from the regular rules regarding the conditionality attached to the compensatory window. This is the reason why we would have preferred a solution under which the conditionality under an oil import element would follow the current provisions of the CCFF decision, with the requirement that the member specifically pursue appropriate domestic energy policies. In a spirit of compromise, we will show a willingness to accept that a written statement be associated with the conditionality of the oil import element. As is requested in the Articles of Agreement, we do recognize that the members' capacity to repay the Fund will have to be taken into account in our assessment. But, in our view, if the capacity to repay the Fund has to be included in the decision to allow drawings under the oil element, it should be differentiated from the need to ensure the consistency of purchases with the Fund's policy and financing assurances, especially as we do not see exactly how it could work with a country which does not have a program with the Fund. I would certainly appreciate some comments from the staff on this point.

If we accept the proposal that a written statement should accompany members' requests, it should not be seen as a means to prevent the effective use of this new opportunity, and we will ask the staff to use its judgment with caution but also with flexibility in order to address rapidly the needs of the affected countries.

Regarding the issue of phasing of the purchase as we put in place unique and special modalities, we will not object, for the very reasons given in the Managing Director's statement, to allowing some limited phasing of purchases in the specific cases in which an oil import excess is based on nine months or more of estimated data. In this respect, we would be ready to accept your proposal, namely, 65/35. This seems to be a reasonable compromise. Finally, we agree with the remainder of the proposal, including the temporary nature of an oil import element.

I strongly support Mr. Posthumus's comments on the need to accelerate, as rapidly as we can, the coming into effect of the Ninth Quota Review.

Mr. Fogelholm said that his authorities' fundamental reservations about the principle of adding an oil element to the CCFF should be well known, and, therefore, he would not reiterate them now. His authorities, nonetheless, were prepared to accept--as a temporary measure--an extension of the coverage of the CCFF to include imports of oil and natural gas, provided that that was part of an overall package balancing the need for enhanced access with the appropriate conditionality. In that connection, he was referring particularly to his chair's previously expressed concern about the suspension of the lower access limits.

In order for him to be able to accept such a temporary suspension, it should be explicitly stated that the existing conditionality requirements for access above the current lower access limits--namely, that there be a quick, sufficient, and durable improvement in the balance of payments position--would, in essence, remain valid, Mr. Fogelholm continued. Indeed, the basic principle should be that higher access went hand in hand with a tightening of conditionality. Otherwise, his authorities believed that such a suspension would run counter to the purpose of the entire exercise, i.e., to assist members to adjust their economies to the present circumstances. The Managing Director himself had often stated that the Fund should be willing to increase its access but not forgo its demands for further adjustment by the countries affected by the crisis. To that effect, the text provided by the Director of the Exchange and Trade Relations Department at the beginning of the current meeting, and which was to be included in the summing up, met with his authorities' approval. With those measures, the Fund would--he believed--send an important signal about its preparedness to alleviate the current adjustment burden of many member countries, a message that should satisfy even those who were most eager to make the exercise a political showcase.

As to the specific modalities for the oil element, Mr. Fogelholm said, he agreed with the Managing Director's proposal to include the oil element in the CCFF within existing access limits of 122 percent of quotas. However, his authorities would prefer that drawings relating to oil import excesses be charged against the access limit for the export element only. On conditionality, his authorities could go along with the Managing Director's compromise solution, even though his authorities would have preferred phasing in two equal tranches. Finally, he agreed with the suggestion that the oil element should lapse entirely by the end of 1991.

Mr. Dawson said that he welcomed the Managing Director's very constructive statement on the modalities of a possible oil element in the CCFF. It was fair to say that his authorities would probably have framed the oil element somewhat differently if it were theirs alone to design. Nevertheless, as the Managing Director had urged the Board at the close of the previous discussion, he wished to approach the issue in a spirit of compromise, so as to provide the prompt response to the situation in the Middle East mandated by the Interim Committee. The Managing Director's statement had accurately distilled the views expressed at the previous meeting and struck an appropriate balance between members' needs for financing and adjustment, as well as an appropriate balance between the need to provide prompt assistance and the need to safeguard Fund resources.

The proposal on access was clearly less than some, including his chair, would have preferred, Mr. Dawson continued. Yet, the proposal to allow oil import costs to be charged against the full 82 percent of quota available through the compensatory element of the CCFF gave adequate assurance that sufficient levels of Fund resources would be available to countries which met the relevant conditionality requirements. He welcomed the confirmation that there would also be flexibility in determining access under associated arrangements, including the temporary suspension of the lower access limits.

The proposal to require requesting members without upper credit tranche programs to provide policy letters represented a tightening of the conditionality normally associated with compensatory drawings, Mr. Dawson remarked. That, combined with the proposal to phase drawings based on more than nine months of estimated data, would also provide stronger safeguards for the Fund's resources.

He would not go so far as to suggest that the proposals on the oil element represented any Director's first-best solution, Mr. Dawson said. But for the reasons he had mentioned, the compromise that the Managing Director had proposed was acceptable to his authorities and should be acceptable to all Directors.

Although the Board's most recent discussions had focussed on the introduction of an oil element in the CCFF, he continued to support the other staff proposals contained in EBS/90/179 and discussed on November 2, Mr. Dawson commented. By that he meant the proposals related to waivers, rephasing, and augmentation of stand-by and extended arrangements; the temporary waiving of the lower access limits; modifications of arrangements under the SAF and ESAF and a fourth annual arrangement under the ESAF; and for the CCFF, the broadening of the definition of services, the change in the five-year rule, the lengthening of the period during which estimated data could be used to calculate export shortfalls, and the possibility of allowing contingency mechanisms to be attached to programs at mid-term reviews.

Mr. Evans said that it was not entirely clear to him what sort of statement Mr. Fogelholm favored. He did not agree with Mr. Filosa that in discussing the proposals the Directors had only oil in mind. The Board was considering the effects of the Middle East situation, which went beyond oil prices. Indeed, some of those effects were quite large. It would be very difficult to distinguish what was and what was not purely an oil effect. There would certainly be cases in which countries would wish to have, and should be given, augmented access under an arrangement and an oil import element in the CCFF; double compensation certainly should be avoided, but that was not the same thing as saying that members should not have access to both the new element and augmentation.

Mr. Fogelholm said that he agreed with Mr. Evans that there should not be double compensation, but members should have access to both augmented access and an oil import element.

The Chairman commented that it perhaps went without saying that the principle of avoiding double compensation should clearly be reaffirmed.

Mr. Posthumus remarked that the discussion on the choice between the oil import element and augmentation or using both at the same time without double compensation had been solely on the basis of the effect of increased costs of oil imports. The possibility of access of 192 percent of quota also was on the basis of oil effects alone, and it was that possibility which he had objected to, and not to responding to the wider effects of the oil crisis.

Mr. Peretz commented that the Managing Director's opening statement was very helpful, and the Directors were clearly moving toward a compromise. He was satisfied with that statement and wished to make several comments. First, the decision on the oil import element should be quickly conveyed to the outside world in a carefully worded presentation that would send the desired message.

Second, he sympathized with Mr. Filosa and Mr. Goos, who favored keeping the access limit at 65 percent of quota rather than moving it to 82 percent, Mr. Peretz continued. That limit was preferable for countries where there had already been balance of payments problems before the effects of the oil price increase had been felt.

Third, on conditionality, in cases in which a member did not have more general balance of payments problems--case A in the table attached to the Managing Director's opening statement--the member could, in principle, gain access up to 83 percent of quota, but it was not clear from the statement whether any form of conditionality would be required in those cases. He would hope that, even in those cases, the minimum energy price pass-through would be expected.

The Chairman said that he agreed with Mr. Peretz's third point.

Mr. Peretz commented that he would have preferred a 50-50 split between tranches rather than 65-35, although he could go along with the latter. However, there should be greater clarity about the circumstances in which the second disbursement would be brought to the Board for discussion; that clarification could usefully be a part of the Chairman's remarks at the conclusion of the present meeting. He would certainly expect such a discussion when the amount of access was increased because of higher oil prices, and certainly when there was some large departure from the statement of intent that had been given by the member prior to the first drawing. As a number of Directors had noted, the proposed modification of the CCFF was only one of the possible routes for helping countries suffering from the higher oil prices. The other route was straightforward program augmentation, the original proposal by the staff. The Fund must ensure that there would be no risk of double compensation for oil price rises. For the sake of clarity alone, it would be sensible to allow oil-related drawings either through the oil import element in the CCFF or through program augmentation, but not through a combination of the two.

In cases in which a member had a Fund-supported program, non-oil factors would be covered, including non-oil factors related to the recent developments in the Middle East, Mr. Peretz continued. As Mr. Evans had noted, many countries suffered from the return of large numbers of migrant workers and the consequent loss of remittances. Hence, there were problems related to the developments in the Middle East that were not covered by the oil import facility, and just compensation for higher oil prices suggested that, for the sake of simplicity, there should be a choice between the two routes of augmentation and the oil element, and not a combination of the two.

Another reason to favor that approach was that there would be cases in which previous CCFF drawings would have left insufficient room for oil-related needs to be met under the oil import element, Mr. Peretz said. Apparently it was that kind of situation that the staff had had in mind. For a country that had faced problems even before the oil price increase, those problems should be tackled under augmentation of access under an ordinary arrangement rather than through a mixture of the oil import element and augmentation. When a member had a choice between the two options, the Fund should encourage the member to choose augmentation.

He was prepared to go along with the proposed oil import element, provided it was temporary and the period of its existence was clearly specified, as the Managing Director had proposed, Mr. Peretz stated. If a review of the oil import element was necessary, it should not be held as soon as one year after the element's implementation. Instead, some time in the first half of 1991 the staff should provide a report--which the Board could discuss--on how the operation was going; it would be much too early to have a full-scale review before the Spring 1991 Interim Committee meeting.

The Chairman commented that the second phase of access under the oil import element--35 percent of the calculated excesses of all import costs--would become available, for approval on a lapse-of-time basis, when actual data covering six months of the shortfall year had become available and if the compensable amount and the policies and understandings underlying the initial purchase were to materialize as expected. However, if the compensable amount had changed significantly, or if the policy situation differed materially from that originally anticipated, management would recommend that a Board discussion take place without waiting for the members of the Board to request a discussion. Of course, at any stage, a discussion could be requested by an Executive Director. Directors seemed to agree that the staff should prepare a report on the operation of the oil import element before the Spring meeting of the Interim Committee. That report would not be the basis for a review at that early stage; the report would place Directors in a position to brief their Ministers.

Mr. Goos said that he wondered precisely what was meant by the reference that had been made to a "material change in a member's policy situation." Presumably, the Fund, in considering approval of the second phase of access to the new element, would determine whether the country had performed according to the understandings reached prior to the initial purchase under the element.

The Chairman replied that, as Mr. Goos had suggested, the Fund would look into the way in which the country had implemented the policies that the Fund had expected it to adopt.

Mr. Goos said that he would prefer to make that point in a straightforward manner rather than use a new term that might give rise to confusion. Hence, it might be helpful to refer to "adequate" or "satisfactory policy performance" instead.

The Chairman commented that an effort would be made to find more suitable language.

Mr. Al-Jasser made the following statement:

> I generally agree with the approach proposed by the staff for the inclusion of an oil import element in the CCFF. I will

address the three key features identified in the Managing Director's opening statement, which I believe is a good compromise.

Regarding access, I can go along with the maintenance of the present total limit of 122 percent of the quota. However, access under the oil element could be offset against cumulative access under the export and cereal compensatory elements, which would imply maximum access of 82 percent of quota.

On phasing, since the early repurchase clause is binding, it may not be essential to phase purchases. Nonetheless, for the sake of attaining a broad consensus, I can go along with the proposal to have limited phasing when an oil import access is based on nine months or more of estimated data. If phasing is to be introduced, it should be on a lapse of time basis.

This brings me to the most important feature of the element, namely, conditionality. Here, my initial preference is to maintain the existing conditionality of the CCFF as expressed in paragraph 12. My position is based on the concern that the introduction of a written statement on macroeconomic objectives and policies could in some cases lead to unnecessary delays. However, in the spirit of compromise and urgency that the Managing Director has expressed, I can go along with his proposals.

Nonetheless, I would like to reiterate my position regarding an appropriate domestic energy policy. I strongly endorse the staff's explanation in footnote 2 on page 5 of the staff paper of the phrase "appropriate domestic energy policies," which means a substantial movement of domestic energy prices toward international levels, provided that the letter and spirit of this definition are actually implemented. Indeed, the Fund should not request a pass-through of domestic taxes on oil and need not expect in all cases a full pass-through to domestic oil prices. On this matter, I agree to some extent with what Mr. Arora mentioned earlier. Moreover, to the extent that a country already has its domestic energy prices at international levels, then that should be viewed by the Fund as sufficient. In such cases, I recognize that the increase in oil prices could erode part of the tax revenue, yet this should not be used to justify singling out oil as a fiscal revenue source, given its efficiency and implications. Clearly, a thorough consideration of the fiscal situation is necessary while keeping in mind that this is a temporary situation. We have to keep in mind the fact that we are introducing this element because we think that at least a large part of the recent developments and their effects, if not all of them, are a temporary matter. If they are not thought to be temporary, then we should not be contemplating the introduction on an oil import element in the CCFF. If the situation is temporary, then the pass-through matter should be addressed very cautiously--that is my primary concern. We should not add too many things to this oil import element, as if it were a permanent instrument. Therefore, I trust that the staff members currently on missions or who are soon to embark on them would have explicit instructions along these lines.

I welcome the very expeditious work that was done to develop this oil import element, and I agree with Mr. Peretz that we should call it an import element and avoid calling it other names that might create confusion when we start marketing this element.

Mrs. Sirivedhin said that her chair would have preferred that balance of payments problems caused by increases in oil prices be financed through the Fund's regular facilities. In that way, no ad hoc adjustment would have to be made to the CCFF, especially its conditionality. Nonetheless, in a spirit of compromise, she could go along with the proposed introduction of an oil element in the CCFF.

She agreed with the Managing Director's statement at the previous discussion that members with oil-related balance of payments problems should normally first use the Fund's regular facilities; accordingly, they should see the oil import element as being intended primarily for use in lieu of invoking the exceptional circumstances clause, Mrs. Sirivedhin continued. In that connection, members that approached the Fund to use the oil element would normally already have a Fund-supported program with upper credit tranche conditionality, including, in all probability, energy policy actions. The conditionality that was proposed for the oil element would therefore be somewhat redundant, but since it was probably no more severe than what the member was already required to undertake, she was willing to go along with it.

She wished to raise a question concerning the treatment of countries with no balance of payments problems other than the temporary excess in the cost of oil imports, Mrs. Sirivedhin said. It was her understanding, given the response to Mr. Peretz's question on that subject, that the only requirement would be a pass-through of energy prices.

She had no objections to the proposed total access limit of 122 percent of quota, including the contingency element, or to the proposed 65-35 phasing, Mrs. Sirividhin commented.

Mr. Arora stated that the proposed package was not an ideal one. The adoption of the proposals would not send a welcome message to members in need of Fund assistance, as the proposals contained too many provisos and qualifications. In fact, there was an element of hedging about the proposals. However, the Managing Director had clearly worked very hard to reach a consensus, in keeping with the Fund's tradition, and, therefore, he himself was willing to go along with the consensus that was presented in the Managing Director's opening statement. The proposals should be taken together, including the suspension of the lower access limit.

He strongly agreed with Mr. Clark that the precise details of the proposals were less important than the spirit in which they would be implemented and the speed at which they would be implemented, Mr. Arora commented. In that connection, Mr. Cirelli's emphasis on flexibility was very important; the Fund should act with a sense of urgency, and when making decisions on providing access it should take into account the specific circumstances of individual countries.

He did not agree that the oil import element of the CCFF should be seen as an alternative to augmentation under an arrangement with the Fund, Mr. Arora said. The two types of resources were complementary, as Mr. Dawson had noted. There was an element of conditionality in the current broad access policy, which would not be changed under the Managing Director's proposals. Hence, there was no suggestion that some kind of evolution in conditionality was being attempted through the Managing Director's proposals to deal with countries that had balance of payments problems because of the impact of the oil price increase. Part of the problems would be met through the oil import element and part through stand-by and extended arrangements. Attempts could be made to estimate overcompensation, but it was not clear to him how precise the estimates would be.

He agreed with Mr. Al-Jasser's views on what should constitute a pass-through of the increased oil import costs, Mr. Arora continued. He did not have a mechanical or rigid position on that matter, because countries had different regimes and circumstances. The staff should be reasonably flexible in applying the pass-through requirement.

Mr. Végh considered that the Managing Director's statement provided a good compromise and he fully supported it. He shared some of the general concerns that had been expressed by Mr. Filosa and Mr. Goos. But with the rather restrictive interpretation provided by the staff, those concerns were not incompatible with the proposed decisions. Finally, he fully agreed with the need for energy policy conditionality and the remarks on that matter by Mr. Al-Jasser, Mr. Filosa, and the staff, who should be encouraged to coordinate on that matter with the World Bank, so that governments that did not maintain correct energy policies would have difficulty in receiving disbursements by both organizations.

Mr. Kabbaj considered that the proposed addition to the Fund's instruments to address the consequences of recent developments in the Middle East was warranted and he supported it. Although he had some reservations whether the conditionality would be consistent with the present CCFF decision, and some doubts about the proposed phasing because of the emergency nature of the import element, he could, in a spirit of compromise, go along with the Managing Director's proposals, provided that the definition of the term "appropriate domestic energy policies" would be understood to be the one in footnote 2 on page 5 of EBS/90/179, Supplement 3. He agreed with Mr. Al-Jasser's position on the pass-through of oil price increases.

Mr. Filosa said that the Managing Director's proposals were acceptable for the reasons that he had mentioned earlier in the meeting. He continued to prefer limiting the access to 65 percent of quota, but he was prepared to go along with the majority view.

One way in which to implement the pass-through policy would be to require members to keep subsidies constant in nominal absolute terms, Mr. Filosa continued. That approach could be applied in any situation, whether or not the member already had subsidies. As Mr. Végh had remarked, the Fund and the World Bank should have the same energy policy requirement. The two institutions should therefore agree on clear guidelines on that matter. The Fund's requirements with respect to energy price policy should not differ from the those of the Bank, which had the responsibility for providing advice in that area.

Mr. Evans said that he continued to believe that an oil import element was unnecessary and would do some damage to the CCFF. Nonetheless, he was pleased to join the compromise toward which the Board seemed to be moving. He agreed with Mr. Al-Jasser's comments on the energy pricing policy; it should be clearly set out and applied cautiously. In addition, the Fund's approach to oil pricing should be the same under all the facilities.

Mr. Chatah made the following statement:

> As we indicated in previous meetings, we can support the establishment of an oil element in the CCFF, and we do that because we believe that widening the coverage or the scope of compensatory financing by the Fund will enhance the Fund's ability to respond to unexpected shocks to the balance of payments. Therefore, we share very much Mr. de Groote's hope that our next review of the CCFF would "yield a more lasting solution to take account of unexpected shocks of which the oil price is but one."
>
> On the whole, we found the Managing Director's compromise proposal to be reasonable and quite reflective of the range of views that had been expressed during our informal meetings on the subject. I would like, however, to reiterate some of the concerns and questions we had expressed on that occasion.
>
> First, we would have preferred access to the oil element to be incremental to the existing joint limit of 122 percent of quota under the facility. According to the proposed compromise, joint access would not be increased beyond 122 percent, but access to the oil element alone could be as high as 82 percent of quota,

compared with 65 percent under the export component. Although we had felt and continue to feel that incremental access of the joint limit would be useful, I am not sure that the different levels of access being proposed for the export and oil elements are fully explained or justified. After all, oil imports are a smaller component of current payments than exports are of total receipts, particularly after the widening of the definition of services, which is part of the total package that is emerging.

Second, I note that the projected potential drawings on the oil element will be on average significantly lower than the 82 percent of quota, as shown in the table provided in the staff statement. It would be useful to have the staff elaborate a little more on the difference between access to the export element and the oil element, and why it was felt that such a difference was necessary.

Third, we would have preferred applying the existing conditionality under the compensatory element of the facility--that is to say, applying the same conditionality for the export cereal elements and the oil element. If I understand the current policy correctly, when a compensatory request comes before the Board, it usually includes a description of the authorities' policies and policy intentions. This is because under paragraph 12(a) the Fund has to be satisfied that the member will cooperate with the Fund to correct its external imbalance, even when that country has a good record of cooperation. I do not know if the proposed letter will go much further than this, but, in any event, we would not object to the proposed letter, if there is a strong support for it and provided it does not in practice turn into a program-like document that would require protracted discussions and negotiations.

On energy prices, we referred to this issue on previous occasions, and I will not go into that again. I agree with much of what was said about that issue by Mr. Al-Jasser and Mr. Arora.

Finally, on phasing, our first preference would have been for outright disbursement. The Managing Director's compromise proposal of 65-35 tranching is understandable, given the range of views that had been expressed on this matter. If there is strong support, and I think there is, we could go along with this proposal, but we continue to feel that phasing will be a further complication for an instrument that is already quite complex. In this connection, I wonder whether the staff could confirm my understanding of the phasing proposal, namely, that each disbursement will be divided up into two parts, so that a member making drawings under three successive tranches under the present system, will receive the money in six installments.

Mr. Zhang said that in considering the question of the introduction of an oil import element into the CCFF, including the access limit and conditionality, his chair had known that it was addressing the question of responding to the recent developments of the Middle East crisis in an expeditious manner. Therefore, he wished to support all the Managing Director's proposals. It was important for the Fund to send soon a signal of its response to the developments in the Middle East Crisis. More important, the earlier a consensus was reached, the sooner the staff could start working on a response in a timely fashion. On that point, he wished to associate himself with the comments by Mr. Clark.

Mr. Yamazaki commented that he supported the Managing Director's statement, which was well balanced, practical, and captured the essence of the previous discussion on an oil import element. He hoped that a consensus on that matter could be reached at the present meeting in a spirit of compromise.

As to the other proposed responses by the Fund, he had already stated his position and wished to comment at the present meeting on a possible fourth annual arrangement under the ESAF, Mr. Yamazaki continued. His authorities were still deeply concerned about the proposal to introduce a fourth annual arrangement, for reasons that he had explained on previous occasions. However, most, if not all other, Directors seemed to support the proposal, and he would go along with the majority view. Still, he wished to stress several points in that connection. Needless to say, access to a fourth annual arrangement should not be regarded as an entitlement. Cautious application of the provision for a fourth annual arrangement would be required, and that option should be limited to members whose past performance had been satisfactory and members that had already adopted strong adjustment measures in response to changed external circumstances. To ensure the safety of the ESAF Trust, the guidelines on the fourth annual arrangement should be adhered to strictly. Approval of the fourth-year program should take place before November 30, 1992. Approval should be limited to members that had completed their third annual arrangement but had not been able to complete their adjustment program due to unexpected developments caused by the Middle East crisis. In that context, he had been tempted to propose a small alteration of the proposed draft decisions, but he had decided not to do so in order to contribute to reaching a consensus at the present meeting.

Mr. Goos commented that apparently the willingness to compromise on the basis of the Managing Director's proposals was overwhelming. He had expressed his reservations on the proposed access and conditionality, and he would have preferred phasing of 50/50. In a spirit of compromise, he could go along with the Managing Director's proposals, although his sympathy for the establishment of an oil import element had not greatly increased since the start of the discussion on that matter.

As to the other proposals concerning the Fund's response to recent developments--the introduction of a fourth annual arrangement under the ESAF and increases in the overall financial framework on the occasion of a program review--the Board should be aware of the problems those proposals might entail for both creditors to and borrowers under the ESAF, Mr. Goos said. Finally, he fully agreed with Mr. Filosa that the Fund and the World Bank should have a common policy on energy pricing by member countries.

Mr. Kafka said that he welcomed the Managing Director's efforts to make possible appropriate financial assistance to affected countries. The decision that the Board seemed to be moving toward would not meet the need for such assistance categorically. For example, the removal of the lower access limit was, in his view, purely cosmetic. Furthermore, the requirement of the written statement would unduly delay drawings under paragraph 12a even for access up to 40 percent of quota, which might render the oil import element itself also cosmetic. The Fund must learn to trust members that had not yet proved themselves to be untrustworthy. Nevertheless, in a spirit of compromise he could accept the Managing Director's proposals as a second-best solution. Finally, with respect to Mr. Goos's last point, given the statements by the Managing Director on previous occasions, he assumed that, while the staff would encourage countries to include a contingency element in their financial arrangements, no bulldozing techniques would be used on the countries.

Mr. Santos remarked that the Managing Director's proposal fell short of the expectations of his authorities, but in the spirit of compromise that previous speakers had shown, he wished to join the consensus toward which the Board was clearly moving. At the same time, he agreed with previous speakers who had cautioned against requiring an automatic full pass-through of the increases in oil prices. Prices were of course a basic element of energy policy, but there were other considerations in setting that policy--such as growth, competitiveness, and the environment--as Mr. Al-Jasser and Mr. Kabbaj had noted.

On the question of access, there were several ways in which the tables that the Managing Director and the staff had presented could be read, Mr. Santos said. Some people would read overall access, when combined with the enlarged access policy, to be 110 percent of quota plus 82 percent of quota, or 192 percent in total. African countries would tend to read the potential access more as a question of averages than of actual access, in which event the access would be 54 percent, rather than 192 percent. Hence, the Managing Director's proposal was clearly a compromise, and in order to respond to the Interim Committee's request, that compromise should be accepted.

Mr. Torres said that his position at the previous discussion had been based on the desirability of maintaining a positive relationship between access and conditionality. He had been prepared to accept additional conditionality under option 3a(iii) if it was associated with an increase in the total access limit for the CCFF. If there was to be no increase in the total access limit, his preferred option had been 3a(i), which already implied greater conditionality than at present. After reading very carefully the additional documentation available since the previous discussion and having benefited from the Board discussions, he considered that, if no increase in the access limit was to be introduced, the special character of the CCFF relative to other Fund facilities should remain unchanged. To that end, the use of the oil import element in the CCFF should not be burdened with additional conditionality. Along the same lines, drawings under the oil element should not be phased; there was no justification even for a limited phasing of purchases under an oil element.

As the Managing Director had noted in his opening statement, "we are facing special circumstances that we all hope will be temporary," and it was for that reason that the oil import element also was to be established on a temporary basis, Mr. Torres continued. Notwithstanding the uncertainties about future oil prices, the underlying assumption was that, in the near future, prices in the oil market will return to levels that reflected underlying demand and supply conditions, and there was even a possibility of the oil price falling to low levels. Under that assumption, the risk of overcompensation seemed to be relatively low, because overcompensation would occur only if oil prices remained extraordinarily high for the coming two to three years. Therefore, excessive weight should not be given to the need for phasing. Moreover, there was a way to deal with possible overcompensation through the early repurchase provisions.

His preferred position was somewhat different from the Managing Director's compromise proposal, Mr. Torres remarked. However, Directors were clearly willing to move toward reaching an agreement at the present stage. Therefore, he was prepared to support the compromise proposal, which, all in all, represented a balanced position and met the requirements put forth by the Interim Committee.

Mr. Cirelli noted that on page 2 of his concluding remarks at EBM/90/156 (11/2/90) on the response of the Fund in the wake of recent developments in the Middle East, the Managing Director had said that "if the Fund were to consider an expansion of the eligibility list, as suggested by one Executive Director, the question of additional contributions to the ESAF Trust would have to be pursued actively." In his view, the text in question was meant to deal with two separate issues, not one related issue. The first issue was the extension of the eligibility list, a matter that Mr. Finaish had raised. The second issue was additional contributions to the ESAF Trust, which a number of Directors had referred to. Those issues were not related directly to each other. Accordingly, the text in question could be amended to read: "The possible expansion of the eligibility list was suggested by one Executive Director. The question of additional contributions to the ESAF Trust would have to be pursued actively."

The Chairman said that Mr. Cirelli's suggestion was acceptable. The question of a subsidy account or parallel contributions through augmented ESAF subsidy contributions had not been mentioned during the discussion, and some member countries were still in the process of considering a subsidy account or parallel contributions through augmented ESAF subsidy contributions. Several Directors had mentioned that they had difficulties with those possible actions, but Directors seemed to understand fully the motivations that had led management to put the options forward. He hoped that some member countries would be able to accelerate their consideration of those possible actions and the idea that contributions should come mainly from the countries that could be said to be "benefiting" from the unexpected and undesired rise in the price of oil, while other members, with a broadly satisfactory economic position, might wish to make contributions out of their feeling of a sense of solidarity with those most affected by the oil price increase.

Mr. Goos said that he wondered whether the proposal to establish a subsidy account in the Fund was not off the table. On several occasions, Directors from the majority of the potential donor countries had expressed concerns about that proposal, particularly its consistency with the monetary character of the Fund. Hence, he would have some reservations about discussing the issue yet again.

The Chairman remarked that there were two issues to address. One was additional contributions to the ESAF Trust; there had been no objections to that idea on the ground of the so-called monetary character of the Fund, which at some stage should be more precisely defined. Hence, that issue was still completely open. The second issue was the possible subsidy account, which several Directors had said they did not like, although it was not clear to him why subsidies had been acceptable in the past--and had not been thought to be inconsistent with the Fund's monetary character--while a similar subsidy was seen by some to be unacceptable at the present stage. Several members had indicated that they would be willing to consider making contributions to a subsidy account, and it would be reasonable to discuss how those resources could be utilized and whether there might be enough resources to broaden the list of ESAF beneficiaries--a difficult question, especially as candidates for the broadened list included several countries with significant quotas; in those cases, a blend of ESAF with ordinary resources might be warranted. It was important to address first the decisions on the compromise proposals on the oil import element and other possible responses of the Fund to the recent developments in the Middle East, but he hoped that the subsidy issues could be discussed by the Board soon.

Mr. Goos said that he had no objection to discussing the issues that the Chairman had mentioned. The main issue, however, was the location of a subsidy account, not the willingness of particular countries to make contributions to an account. A number of potential creditor countries, if not most of them, would not like to see the establishment of such an account in the Fund for various reasons, and he doubted whether it would be in order to bring up that particular issue again. There were clear differences between the subsidization in the past and the current proposal, which would involve subsidizing the Fund's regular resources.

Mr. Cirelli commented that the issue of the introduction of a subsidy account--which his chair favored--should be examined without linking it to other questions.

Mr. Yamazaki said that he agreed with Mr. Goos's comments on a possible subsidy account in the Fund.

Mr. Evans remarked that he, too, agreed with Mr. Goos's comments on a possible subsidy account in the Fund. He doubted whether the Board should discuss that topic; the fact that some potential donors had indicated that they were prepared to contribute to an account was not in itself a reason for the Board to discuss it when the majority of the Board and, indeed, the majority of the Interim Committee had expressed quite strong views on the matter. For the sake of the Fund, any such account should be outside the Fund.

The Chairman commented that the Interim Committee had invited the Board to look carefully, within the framework of the Fund's response to the recent developments in the Middle East, at the situation of countries that could have difficulty in repaying the Fund, and that invitation implicitly covered all the ways that were available to help those countries repay the Fund. In that connection, the Interim Committee had stated that it "invited the Executive Board expeditiously to develop the modalities of these adaptations and to take account of the requirements of current circumstances in tailoring members' access to Fund resources, including ways to address the problem of certain members in servicing such new debt." He understood that several Directors had reservations about a subsidy account and preferred to see it established outside the Fund, but the matter should be brought to the agenda of the Board, which could consider the reasons for taking one decision or another, and then to adopt an explicit decision.

Mr. Kabbaj commented that, in the past, no thought had been given to subsidizing the Fund's ordinary resources when the decision had been taken to subsidize borrowed resources because the cost of ordinary resources at that time had been almost half that of borrowed resources. At present, the cost of ordinary resources exceeded that of borrowed resources, although the spread was not as large at present as it had been in the past.

The Chairman considered that Mr. Kabbaj's point was well taken. The Board should discuss the subsidy issues in greater detail on another occasion.

Mr. Chatah noted that Mr. Finaish had referred to the possible expansion of ESAF eligibility in a particular context: Mr. Finaish had responded to the possibility, presenting some tentative views and posing some questions, and he had asked whether or not the Fund had a general problem of high charges and, if so, whether that problem should perhaps be approached from the general angle of expansion of eligibility. Of course, that possible approach raised a number of issues and questions, institutional and otherwise. For instance, a list of eligible countries could change over time, depending on what happened to oil prices.

Mr. Posthumus said that he fully agreed with Mr. Evans's latest comments. The summing up of the discussion on November 2, 1990 did not fully reflect what had been said in the Board; there had been much stronger hesitation about introducing a temporary subsidy account than was reflected in the summing up. Many Directors did not feel that such an account was the best solution; only a few Directors had expressed support for a temporary subsidy account.

Mr. Al-Jasser said that he agreed with the comments of Mr. Goos, Mr. Evans, and Mr. Posthumus on the question of a possible subsidy account--which was different from the ESAF options, which could be discussed in the near future. As he understood it, in recent informal discussions there had not been a large enough majority for a subsidy account in the Fund. The original draft of the communique of the Interim Committee had included an explicit reference to a subsidy, and that text had subsequently been deleted in favor of a less direct reference to a subsidy. Hence, it was his impression that the subsidy proposal was no longer on the table.

Mr. Wright stated that he agreed with Mr. Al-Jasser. The issue of a subsidy account was separate from the issue of ESAF eligibility and should be considered as such. As he understood it, the subsidy account proposal effectively was no longer on the table. To the extent there had been a request from the Interim Committee to consider that proposal, he agreed with previous speakers' understanding that the Board had considered that option and had rejected it.

The Chairman considered that the question of a subsidy account must be addressed in a formal Board meeting, and he hoped that the discussion could be held in the near future. In addition, there were issues concerning the ESAF that also had to be resolved by the Board.

The Director of the Exchange and Trade Relations Department commented that it was somewhat difficult to make more specific the guidelines that the staff would employ when trying to implement some of the general principles embodied in the proposals by the Managing Director and the staff. As Directors had requested, the staff would of course make every effort to avoid double compensation in cases involving the use of a regular arrangement and the oil import element. Similarly, on the nature of the statement that would be associated with oil import element requests in the first credit tranche under either paragraphs 12a or 12b, the concerns that Directors had expressed would certainly be taken into account, and the staff would look forward to learning Directors' reactions as the first concrete cases began to emerge.

On the question of the pass-through of oil prices, the staff would have to work with the World Bank to make sure that in general there would be an agreement on how to proceed in individual cases, so that consistent advice would be provided to the authorities, the Director continued. Some component of the price increases was likely to prove be permanent and would have to be adjusted to by member countries. For the remaining element of the price increases--which was even more uncertain than the first element--it must either be financed or adjusted to. In that connection, the staff would have to look carefully at each country concerned to assess the implications for the external sector. In most cases, the staff would lean toward minimizing the risk that enlarged subsidies would emerge, or in cases in which subsidies did emerge or were continued, the staff would have to consider what was feasible--from a budgetary viewpoint, in the context of the overall macroeconomic situation--for the authorities to maintain over time. The question of the appropriate policy on energy pricing was obviously a matter of macroeconomic and other energy efficiency considerations; it would be totally independent of the facility under which the resources of the Fund were to be provided; the staff's energy advice would not be tailored to a country's particular choice to use an arrangement or the CCFF oil import element.

The Executive Directors agreed to continue their discussion in the afternoon.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/90/159 (11/12/90) and EBM/90/160 (11/15/90).

2. MOROCCO - TECHNICAL ASSISTANCE

In response to a request from the Moroccan authorities for technical assistance in the fiscal field, the Executive Board approves the proposal set forth in EBD/90/370 (11/7/90).

Adopted November 12, 1990

3. NAMIBIA - TECHNICAL ASSISTANCE

In response to a request from the Namibian authorities for technical assistance in the fiscal field, the Executive Board approves the proposal set forth in EBD/90/373 (11/7/90).

Adopted November 13, 1990

4. SAO TOME AND PRINCIPE, AND GUINEA-BISSAU - TECHNICAL ASSISTANCE

In response to requests from the authorities of Sao Tome and Principe and of Guinea-Bissau for technical assistance in the central banking field, the Executive Board approves the proposal set forth in EBD/90/372 (11/7/90).

Adopted November 12, 1990

5. EXECUTIVE BOARD COMMITTEES

The Executive Board approves the reconstitution of the membership of the four Executive Board standing committees as proposed by the Managing Director in EBD/90/374 (11/9/90).

Adopted November 13, 1990

6. PENSION COMMITTEE - NOMINATIONS

The Executive Board approves the election of the Executive Directors nominated to serve as members of the Pension Committee for the term ending October 31, 1992, as set forth in EBAP/90/289, Supplement 1 (11/12/90).

Adopted November 14, 1990

7. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/90/268, Supplement 1 (11/12/90) and EBAP/90/294 (11/12/90), by an Advisor to Executive Director as set forth in EBAP/90/294 (11/12/90), and by Assistants to Executive Directors as set forth in EBAP/90/260, Supplement 1 (11/9/90) and EBAP/90/290 (11/8/90) is approved.

8. <u>TRAVEL BY MANAGING DIRECTOR</u>

Travel by the Managing Director as set forth in EBAP/90/293 is approved.

APPROVED: September 6, 1991

JOSEPH W. LANG, JR.
Acting Secretary

Table. CCFF: Access Limits 1/

	Present Status	Oil Import Element Added
	(Percent of quota)	
A. Countries without BOP difficulties except for the temporary shortfall/excess (no program)		
Exports/Oil imports	83/--	83/83
Cereal imports	83	83
Joint access limit (Compensatory elements)	105	105

	Present Status		Oil Import Element Added	
	12(a) 2/	12(b) 2/	12(a) 2/	12(b) 2/
B. Countries with BOP difficulties in addition to temporary shortfalls/excesses				
1. No program				
Exports/oil imports	40/--	20/--	40/40	20/20
Cereal imports/oil imports	17/--	17/--	17/--	17/--
Joint access limit (compensatory elements)	57	37	57	37
2. With program 3/ or equivalent policies				
Exports/oil imports	40/--	40/--	40/40	40/40
Cereal imports/oil imports	17/--	17/--	17/17	17/--
Optional tranche	25	--	25	--
a. Joint access limit (compensatory elements)	82	57	82	57
b. Joint access limit (including contingency) 4/	122	97	122	97
3. With program 3/ and review or equivalent policies				
Exports/Oil imports	40/--	40/--	40/40	40/40
Cereal imports/oil imports	17/--	17/--	17/17	17/17
Optional tranche	25	25	25	25
a. Joint access limit (compensatory elements)	82	82	82	82
b. Joint access limit (including contingency) 4/	122	122	122	122

1/ The notation "/" on the access numbers denotes "or".
2/ CCFF Decision paragraphs.
3/ Supported by a Fund arrangement in the upper credit tranches.
4/ To the extent that the access limits for the various elements are not used, remaining contingency access will exceed the difference between rows (a) and (b).