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Economic Developments

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ECONOMIC DEVELOPMENTS

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AGRICULTURE AND LIVESTOCK

The International Coffee Organization's executive board has accepted a recommendation that the economic provisions of the International Coffee Agreement, which deals with quotas and prices, should be eliminated when the agreement is prolonged beyond its 30 September expiry date. Many producers are unhappy at the decision, but coffee stocks are down to about twenty million bags, compared with the 1965-66 high of eighty million, according to Tropical Products Quarterly, journal of the British Commonwealth Secretariat. This should mean that the present bull market may well be sustained for some time yet, the journal said.

Major growers of Mexico, Brazil, Colombia, Portugal and the Ivory Coast have joined forces to propose the establishment of a multiinternational company for the marketing of coffee internationally. The action of the proponents stems from the growing disillusionment with the workings of the International Coffee Agreement.

Brazil has denounced unilaterally its instant coffee agreement with the United States. It has agreed, however, to make special allocations of green coffee for the October 15, 1972-January 14, 1973 quarter available to eligible U. S. coffee processors, in accordance with the pact.

Guyana has joined the Inter-American Institute of Agricultural Sciences, a special organ of the OAS. Guyana is a permanent observer in the Organization of American States.

The industrial laboratory of Puerto Rico's Economic Development Administration has succeeded in creating a new type of cattle feed based on sugar cane bagasse. An agricultural station of the University of Puerto

Rico tested the new fodder for digestibility and yield. Cows fed with this fodder gave more milk than the control animals, which consumed ordinary rations.

CHEMICALS AND PLASTICS

ARGENTINA

Petroquímica Andina has started production of polypropylene with a 25,000-30,000 metric tons per year plant at Mendoza using propylene from a nearby refinery owned by Yacimientos Petrolíferos Fiscales (YPF), which owns 37% of Andina. The other 63% is in private hands. Polypropylene had not been produced before in Argentina and imports are rising.

The Eximbank has authorized a direct loan for $6.2 million to finance 45% of U.S. costs of a $13 million sale of equipment and services required for construction of an ethylene and propylene plant in Argentina. The new plant is expected to boost the production of these chemicals in Argentina by a substantial amount.

BRAZIL

Brazil's petrochemical industry, which has been growing at a 15-20% per year rate, has reached self-sufficiency in a number of key products as a result of a flurry of plant start-ups in 1972 and early 1973. However, in almost all cases, the locally made product will cost more than the imports they replace; moreover, the Brazilian government has limited the use of imported petrochemicals to products needed to cover short-falls in local production.

Dow Chemical will build a chlorohydrin process 45,000 metric tons per year propylene oxide and 15,000 metric tons per year propylene glycol plant in the State of Bahía, Brazil, with completion scheduled for 1975.

CUBA

A new fertilizer combine has recently been started up at Cienfuegos, Cuba, to produce around 285,000 metric tons per year of urea. Existing facilities at Matanzas have also been modernized to produce about 145,000 metric tons per year of mixed and granulated fertilizers. Cuba now consumes around 550,000 metric tons per year of fertilizers, mainly for sugar beets but also for its rice, coffee and citrus fruit crops. Commissioning of plants now under construction is expected to raise production to 1.47 million metric tons per year of fertilizers by 1975.

PUERTO RICO

A. H. Robins (Richmond, Va.) will establish a pharmaceutical production operation in Barceloneta, Puerto Rico. The installation will go into operation during the fourth quarter of 1973.

VENEZUELA

Plastics manufacturers from Venezuela and Colombia have recommended the industry's full integration, with the complete removal of tariffs and the full exchange of all technical information coming from within the Andean group. The recommendation has been passed to their governments for consideration.

DEVELOPMENT AND INVESTMENT

International development strategy is to be evaluated by the Economic and Social Council (ECOSOC) of the United Nations during its fifty-fifth session July 4-August 3 in Geneva. The overall review and appraisal of progress during the first two years of the U.N. Second Development Decade (1971-1980) will be conducted by the U.N. General Assembly at its twenty-eighth session, from September to December, 1973.

An Intercontinental Trade Center is being developed in Houston, Texas. Plans call for "trade marts" featuring wholesale products from all over the world, a retail shopping center with stores and specialty shops with an international atmosphere, a convention hotel and 60,000 square feet of exhibit space. Address of the developers is 1333 West Loop South, Suite 1130, Houston, Texas, 77027.

The basins of the Esmeraldas and Santiago rivers in Ecuador will be the subject of a study to assess their natural resources and economic prospects. The project has the support of the OAS and is a part of a general plan for northwestern Ecuador. The OAS contribution will be the provision of twenty international experts on river basin planning and development, economic and social conditions, soil conservation and preservation of water quality.

Brazil's paper and pulp industry is to receive investments of $32.4 million from a consortium of ten Japanese firms, backed by their Government, who seek to establish a joint venture with local interests for producing pulp in Brazil. The companies involved will set up an investment firm, called the Japan-Brazil Resources Development Company; majority control in the joint venture will be held by Companhia Vale do Rio Doce.

Bolivia has obtained foreign credits totalling $100 million. Half of this is to be spent on the exploration and exploitation of new oil and mineral resources; $40 million will be used as local finance in support of foreign loans for highway construction; and $10 million would be spent on industrial expansion.

The International Bank for Reconstruction and Development has granted a US$60 million loan to Colombia to be used in the development of industrial manufacturing. Proceeds of the loan will be administered by the Private Investment Fund (FIP) of the Bank of the Republic which will channel the proceeds to financial institutions for commercial loans for development of manufacturing enterprises.

The biggest hydro-electric complex in the world, with a potential of 11 million KW, it to be jointly developed by Paraguay and Brazil on the Parana river of Itaipu. Under a recent treaty, the two countries have agreed to the terms under which the power station will operate. Completion is expected in 1992. The construction and development of the plant will provide an estimated 20,000 jobs in Brazil and Paraguay, permit intensive industrialization of the heartland of South America—specifically eastern Paraguay, southern Mato Grosso and western Parana states—improve navigation on the Parana from the River Plate upstream to the Tiete river, and control destructive floods by regulating the flow of the river. Power generated at the plant will be shared by Paraguay and Brazil with the provision that the former will sell back any surplus electricity to Brazil or other takers in the area.

Guatemala has concluded a bilateral agreement with Mexico covering migration, tourism and transport, as well as trade. The latter is, by far, the most important aspect for Guatemala, since it removes traditional Mexican restrictions which had made a permanent Guatemalan trade deficit inevitable in their commercial relations. Some 100 Guatemalan goods will be given preferential treatment. Mexico will also grant preferences to Guatemalan goods, on equal terms of price and quality to those offered to other countries, for purchases made by the Public Sectors Import Committee and by Mexico's Public Buying and Retailing Agency for food and other basic necessities.

Nicaragua has obtained a $4.2 million loan from the Inter-American Development Bank (IDB). The proceeds will be relent by the Nicaraguan Central Bank (BCN) to agro-industrial firms that assemble, grade, store, process, package and distribute farm, livestock, marine and forestry goods, process and distribute production materials derived from organic raw materials, thus promoting exports, import substitution and the expansion of the domestic marketing of consumer staples, the establishment of new manufacturing enterprises using local raw materials and of integrated businesses located close to the sources of raw materials or with ready access to major consumer centers.

A Russian trade delegation recently signed a trade agreement designed to develop and strengthen trade relations between Guyana and the Soviet Union. During the visit, the team discussed with businessmen the various trade opportunities which exist in the Soviet Union, with special reference to agriculture, mining and construction. The delegation also expressed a desire to purchase more bauxite and hardwood, and to sell agricultural machinery and equipment. Additionally, a Polish trade mission is expected to arrive in Guyana in the near future to discuss with the Government the establishment of trade links. Thirdly, a team of financial experts from Yugoslavia is due to arrive in Guyana to discuss with the Government the financing on a hydro-electric power project as well as the construction of an aluminum smelter. Both projects are expected to cost between G$300 million to G$400 million and Yugoslavia has already agreed to be a partner in the construction and financing of the projects.

EXPORTS-IMPORTS

Projected 1973 U.S. exports to Latin America and the Caribbean area are expected to reach $8 billion compared with actual export of $7.3 billion in 1972. U.S. exports sales are expected to show the greatest growth in Brazil, Venezuela, and Mexico. Conversely, sales to Chile and Uruguay are expected to decline.

U.S. exports to Venezuela will unquestionably be affected by that country's new tariff schedule, which was inaugurated May 1. However, although it is still too early to predict the full impact of the tariff, it appears that the Venezuelan market will open for products which were formerly restricted, that the Venezuelan consumer will be paying higher prices for a substantial number of imported items, and that some products imported under the outgoing tariff will be substituted or eliminated. It is also expected that the 10% devaluation of the dollar by the United States and the subsequent 2.3% re-evaluation of the *bolivar* in relation to the dollar will substantially improve the U.S. export position and result in more import from the United States at the expense of Western Europe and Japan. Additionally, a preliminary appraisal suggests that initially U.S. exports to Venezuela will not be adversely affected by Venezuela's recent adherence to the Andean Pact. Of particular interest to U.S. exporters will be Venezuela's decision to eliminate the import license requirement from some 560 items, thus making it possible for the United States to export freely many commodities which were formerly restricted. As a consequence, certain products such as automobiles, cigarettes, some canned and preserved foods, textiles, clothing, appliances, cutlery, television sets, candies, plumbing fixtures and other items which had been previously excluded may now be imported. Notwithstanding Venezuela's relaxation of import controls, the new tariff has been geared to protect local industry and to encourage its growth through high tariffs which ultimately may be lowered as local industry becomes more competitive.

Exports from Panama rose by $6 million to $121.3 million last year, with bananas supplying more than half the total at $64.7 million.

A group of leading United States importers has proposed the establishment of expert advisory groups to help the United Nations Industrial Development Organization (UNIDO) boost exports of manufactured goods from the developing world. The proposal was made at a seminar held in New York on 17 May 1973 to evaluate UNIDO's product adaptation and development program in the United States. Under this program UNIDO is carrying out its mandate to assist developing countries in adapting their products to suit market requirements in the industrialized world, in this case, the United States.

The six countries of the Andean common market — Venezuela, Colombia, Ecuador, Peru, Bolivia and Chile — offer a combined import market of about $5 billion from the United States. U.S. exports to the area are expected to increase to $2.1 billion in 1973 from the $1.9 billion level of 1972.

The Brazilian government foresees annual exports to Andean Pact countries of about $250 million compared with $155 million last year and $78.5 million in 1971. An increase in Brazilian exports will be one of the main objectives of Foreign Minister Mario Gibson Barbosa when he visits all the Andean Pact countries except Chile during this year. Continuing rapid economic growth under capable economic policy management and political stability have brought significant increases in Brazil's yearly exports and imports. Both imports and exports have risen by rates exceeding 25% for the past three years, to levels of $4 billion dollars in 1972. The outlook for 1973 is for similar import increases.

Colombia's Export Promotion Fund (PROEXPO) has granted total credits to the export sector of Col.$3,275 million since its foundation in 1967.

GAS AND OIL

United States interests have proposed to the French government the construction of a $375 million oil and petrochemical complex on one or both of the islands of Martinique and Guadeloupe. The plan would involve a twenty million ton refinery, tankers, and a petro-chemical unit. The proposal, submitted by CEC International on behalf of unnamed oil and shipping companies, would be for the transhipment of crude and refined oil products from the Middle East to the U.S.A.

Petrobras Internacional S.A. (Braspetro), a subsidiary of *Petrobras*, and Chevron Overseas Petroleum Corporation, have signed an agreement covering the operation and production of petroleum in Madagascar. The Brazilian company holds 50% of the concession originally granted to Chevron by the Government of Madagascar, with equal rights and commitments, each of the parties having the right to dispose of petroleum and natural gas which may be available.

Brazil recently has given indications that it intends to concentrate on securing petroleum supplies from abroad rather than becoming self-sufficient in oil. This appears to be the conclusion of the annual report for 1972 of the State oil concern, *Petrobas*, as recently presented to its shareholders. The motive for this change of policy has not been revealed, but speculation is that either oil is not present in Brazil in any hoped-for quantities or it is being held for the future. The report showed that while in 1971 Brazil had spent $447 million on oil imports, in 1972 this figure shot up to $507 million. In light of these figures (which also reveal that over 73% of Brazil's oil is still imported), concern has been expressed at the stagnation in the domestic oil production in spite of the 1967 report by the Ministry of Mines and Power which forecast self-sufficiency in oil within ten years. The finance director of *Petrobas* has also been negotiating in Algeria, Egypt and Libya as part of the company's drive to assure itself supplies of crude from various parts of the world.

In June 1973, Ecuador joined the Organization of Oil Exporting Countries as an associate member.

Texaco and Gulf have signed a new contract with Ecuador to cover their joint operations in the country. The twenty-year contract confirms the relinquishment last winter of about half of the jointly held acreage to meet requirements of the Ecuadorean government, but the companies still retain more than one million acres in the Amazon Basin of northeastern Ecuador. Under the new contract, Ecuador will have the option in 1977 to acquire a 25% participation in the joint Texaco-Gulf operation, subject to negotiation of mutually acceptable terms.

A number of suggestions for assisting developing countries to develop their petroleum industries are set forth in a report of the Interregional Seminar on Petroleum Refining in Developing Countries, held in New Delhi, from 22 January to 3 February, 1973. Attended by thirty-two participants nominated by Governments of twenty-six developing nations, most of them oil-short consuming countries, the Seminar was organized by the United Nations to afford nationals of developing countries, with responsibility for the petroleum refining sector in their countries, an opportunity to exchange information and experience on the administrative, legal, economic and technical aspects of petroleum refining and the influence of this sector on the national economy.

LAND TRANSPORTATION

Continuing its road maintenance program begun in 1971, the Minister of Public Works of Panama has obtained a loan from Eximbank to support a $6 million sale of U.S. road maintenance, quarry, shop, spare parts and other equipment and related services. Purchases will include trucks, loaders, graders, concrete mixers and other similar types of equipment.

The European Brazilian Bank (Eurobraz) has completed arrangements for a ten year loan of $40 million for the financing of the BR-101 highway linking Santos and Salvador through Rio de Janeiro, Campos and Vitoria. Eurobraz, based in London, announced it had made pre-tax profits of 417,749 pounds in its first year of operations, while total assets were 65.5 million pounds.

Technical experts from Brazil and Argentina have signed an agreement in Rio de Janerio to carry out feasibility studies of 600 kilometres of the Uruguay River and its tributary, the Pepiri Guazu, with a view to developing their hydro-electric potential, estimated at 3 million KW. The studies will be conducted jointly with the United States firm Edison Consult.

An ambitious plan has been announced by the Director General of National Railways for the physical, administrative and financial rehabilitation of Colombia's railways. The plan contemplates a two stage development scheme with a total project cost of Col. $1,000 million, half of which is expected to be financed by the World Bank.

MARITIME AFFAIRS

The government of Peru has nationalized the fishing industry. Announcing this fact the Fisheries Minister said the industry currently had debts of some 9,000 million *soles*. Peru has fixed this year's catch of anchoveta — the raw material of the fishmeal industry — at four million tons, some 60% less than the catch in a normal year. The figure takes account of the disastrous disappearance of the fish last year as a result of the movement of ocean currents. Some 1.7 million tons has already been taken this year.

The governments of Chile and Brazil have negotiated an agreement for all maritime trade between the two countries to be carried in Brazilian or Chilean vessels. This would bring them into line with similar deals concluded by Chile with Argentina and Peru. Negotiations to the same purpose have also begun between Chile and Mexico.

Ocean transportation and shipping management will be taught this summer in Geneva to representatives from the developing nations at the second International Training Course in Shipping Economics and Management organized by the United Nations Conference on Trade and Development (UNCTAD), at the Palais des Nations in Geneva, 2 July to 23 November. Basic lectures during the first week of the course will deal with commodity geography and the need for international transport to reflect world trade. The second topic—the economics of shipping enterprises—is the core of the training course and will involve an examination of types of cargo carried, freight rates, the economic viability of different types of shipping operations, decision-making about investment in additional tonnage, and appraisal of the national benefits to be derived from an investment in shipping as compared with investment in other sectors of the economy.

Ecuador's first home built tanker has joined the country's oil fleet previously consisting of two tankers purchased from a U.S. firm. A fourth tanker — also home built — was expected to join the growing fleet in late summer 1973.

In May, 1973 Colombia and Spain signed an agreement for the construction of a dry-dock at Cartagena.

Negotiations are under way to extend the docking facilities at the Deepwater Pier in Kingstown, St. Vincent. The extension of the wharf is to be financed mainly by funds from the Caribbean Development Bank.

In August, 1973 Venezuela and Colombia integrated the international services of the Venezuelan Maritime Company and the Gran Colombian fleet.

METALS AND MINERALS

The newly formed Brazilian *Companhia Brasileira de Almacenes e Comercio (COBEC)*, owned jointly by the Banco do Brasil and principal exporting firms, is to spearhead the country's quest for new markets in Africa and Eastern Europe. COBEC terminals are already being set up in all the major Brazilian ports and its first targets overseas include Panama, New York, Rotterdam, Buenos Aires, and Lorenço Marques (Mozambique).

A contract valued at sixty-five million deutschmarks has been signed by the state-owned steel maker Usiminas of Brazil with Ferrostahl of West Germany, for the construction of a new plant designed to increase Usiminas' production from 1.4 to 2.4 million tons a year. This is part of the program to boost Brazilian steel production to twenty million tons a year by 1980.

The government of Colombia is to form the three largest gold mining companies in the country into a single corporation with the majority of the shares owned by the state. The new company will be known as Oro de Colombia.

The Ministry of Mines and Petroleum has announced that it plans to open bidding for emerald mining concessions in the Department of Boyacá. Bidding will be administered by the Colombian Mines Company (ECOMINAS) and will be open to Colombian companies and foreign companies willing to establish themselves in Colombia.

A vast copper ore body estimated to contain more than two billion tons is to be exploited in Panama. Canadian Javelin Ltd. is negotiating with the Panamanian Government for the ore of Cerro Colorado, a copper mountain some 185 miles west of Panama City. Through its control of Pavonia S.A., a Panamanian mining corporation, Javelin, took over the Cerro Colorado concession in late 1970 for a six-year period.

MONEY AND BANKING

The Eximbank of the United States has announced that during April of 1973, it made $20.9 million available through new credit lines under its cooperative finance facilities to banks in six countries to support sales of U.S. goods and services totalling $40.4 million. Of the total amounts made available, $5.5 million were to banks in Latin America.

The Inter-American Development Bank (IDB) has sold in Argentina, Bolivia, Brazil, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, Trinidad and Tobago, and Venezuela a $53,350,000 issue of two-year bonds, the eight placement of IDB short-term papers in Latin America. The bonds yield 7% interest.

The OAS Division of Manpower and Employment is providing technical assistance for the establishment and development of Workers' Banks in Latin America. These banks, which now have more than $100 million in total resources, function as full-fledged commercial and development banks and put to work in job expansion activities the money deposited or saved by their worker members. The OAS has been instrumental in initiating Workers' Banks in Argentina, Guatemala, Honduras, Trinidad and Tobago, and Venezuela, all of which cooperate closely with the Workers' Banks of Germany, Israel and Puerto Rico. In Jamaica a new Workers' Bank is being incorporated and will soon begin operations with deposits of more than $23 million. In the Dominican Republic, a newly chartered Workers' Bank has already begun to sell shares.

In a broad scale anti-inflationary program, the Colombian Government announced in May a series of economic measures designed to reduce the amount of money in circulation and the increasing cost of living. The measures included:

— Acceleration of the repayment of Government debt to the Bank of the Republic (the Government indicated that it would cancel up to Col.$700 million of its Col.$1,080 million debt prior to the end of June);

— Limitation on credits extended by the Bank of the Republic to the National Federation of Coffee Growers to current levels;

— Strict control over commercial bank reserve requirements;

— Elimination of Bank of the Republic rediscounting of warehouse receipts for products other than agricultural crops; and

— Indefinite suspension of registration of foreign currency loans.

The World Bank has approved a $60 million loan to assist Colombian industrial development by providing funds for up to eight private development finance companies *(financieras)* to be re-lent to industry. The Colombian private *financieras* account for a substantial part of institutional medium of long-term finance for private industrial investment within Colombia.

The Peruvian Housing Bank is the newest member of the Latin American Association of Development Finance Agencies (ALIDE). The bank, a State agency, is the leading Peruvian instrumentality for promoting and financing the housing and construction materials industries. ALIDE, a 65-member international organization with members in nineteen Latin American countries, is dedicated to further cooperation among its members, maintaining a constant flow of systematic information and sponsoring studies of common interest problems. It has headquarters in Lima, Peru.

The annual license fees for banks and trust companies operating in the Cayman Islands were increased effective 1 January, 1973. The new fees are CI$5,000 for Class "A" General and CI$2,500 for Class "B" Off-Shore. There are presently eighty banks and trust companies licensed in the Cayman Islands, twenty-two of which hold Class "A" licenses and fifty-eight Class "B" licenses.

The Inter-Bank Research Organization of London, at the request of the British government, has submitted a report concerning the development of London as a financial center. The report, inter alia, recommends that British banks should move in the direction of West German all-purpose banks, and that public-sector financial institutions should be strengthened "to make London the leading center for the European savings-bank and building—society [thrift unit] movements." The report—published by the government without comment—also urged the government to make it easier for multinational companies and institutions to be based in London.

The role of private banks in regional financial and monetary coordination was once again taken up by bankers conferring in Santiago de Chile from 12 to 17 March, under the auspices of the *Banco del Estado de Chile.* The eventual establishment of a Latin American market of bank acceptances was the main issue under consideration and recommendations were put forward to ensure the convertibility, transferability and reimbursement of those acceptances inside and outside the area. Private bank representatives also proposed studies on the feasibility of financing certain intrazonal trade operations through LAFTA's payments and credit system. Other recommendations made to promote relations among banking institutions of the area and better staff training included, among others, the improvements of LAFTA's annual bank directory and the establishment of a regional institute of high banking studies.

TELECOMMUNICATIONS

The Brazilian government is presently studying proposals from a number of firms which have submitted bids to provide Brazil with a satellite to relay simultaneous phone calls and multiple television channels throughout the country. The proposed system would be domestic, beamed to cover only Brazil.

In May 1973, the Chilean government announced its intention to nationalize all foreign telecommunication companies under the National Telecommunications Commission. Affected companies are West Coast, ITT, and Transradio, Chile, a subsidiary of ITT.

MISCELLANEOUS

The Organization of American States will carry out a study on the energy crisis affecting the world and its impact on Latin America. A Latin American specialist who will be assisted by experts from AID, and specialists from the World Bank Group and the Inter-American Development Bank have also been invited to participate. This report was ordered by the Permanent Executive Committee of the Inter-American Council for Education, Science and Culture (CEPCIECC), which acted after receiving a recommendation from the Inter-American Committee on Science and Technology.

Progress toward a draft uniform law on international bills of exchange, to provide the framework for a special negotiable instrument which could be used optionally in international transactions, was made at the sixth plenary session of the United Nations Commission on International Trade Law in Geneva, April 2-18, 1973. Established in 1966 by the United Nations General Assembly, the Commission aims to promote the development of international trade law for the purpose of encouraging international trade. To this end, it seeks to encourage the harmonization and unification of that law. By eliminating or reducing the hazards, uncertainties, and complications which necessarily arise from the fact that international transactions are subject to diverse national systems of law, the Commission believes that world trade may expand to the benefit of all.

Multinational corporations are to be studied for their impact on development and international relations by a panel of international experts designated by the United Nations. The group's report, along with comments and recommendations of the U.N. Secretary General, is to be submitted to the 57th Session of the Economic and Social Council in Geneva in June 1974. A set of background documents, now being prepared by the United Nations, will provide basic data on size, geographical distribution, industrial structure, ownership status, and importance in the world economy of the multinational corporations. The main document also will consider the impact of the operation of the multinational corporations on host and home countries as well as the international monetary and trade regimes. Special studies will focus on the relationship of the technology transferred by the multinational corporations to the needs of developing countries and on alternative ways of transferring technology and their costs. Another study, dealing with international tax practices, will identify problem areas and consider proposals for reform.

A US$15.2 million agreement was signed in New York between the Brazilian government representative and the World Industrial Patents Organization, to finance the execution of a project to update the Brazilian patents system. Technical assistance will be provided by the U.S. Development Program, and the project will be executed by the National Institute of Industrial Property of the Ministry of Industry and Commerce.

In June 1973 Argentina and Cuba signed a commercial agreement for the sale of 27,000 tons of Argentine corn to Cuba for an estimated value of $3 million. This was the first commercial agreement entered into between the two countries following the reestablishment of diplomatic relations.

Colombia's automotive production capacity has received a boost from two important recent developments:

— The Ministry of Development has signed an agreement with the Spanish automotive firm Pegaso for the assembly of Pegaso trucks in Medellín. Assembly of trucks is expected to begin around the end of 1973 and production of 300 vehicles has been authorized for the first year of operation.

— A consortium of Colombian public and private capital and the Italian automobile producer, Fiat, have joined in reconstituting the Colombian automobile manufacturer, Forjas de Colombia. The reconstituted company will produce Fiat diesel trucks and automobiles with a capital of Col.$140 million, with the Industrial Development Institute, Fiat and the Colombian enterprise, Leonidas Lara e Hijos, each contributing 30% and the remaining 10% supplied by financial institutions.

An agreement on "automatic facultative reinsurance of fire and applied lines" has been reached by reinsurers of Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico and Peru. Participating companies agreed to accept automatically cessions of insurance, subject to the following limits: Argentina, Brazil, Colombia and Mexico, $250,000; Chile and Peru, $200,000; Ecuador, $150,000; and Bolivia $100,000. These limits apply to first category risks and decline to 80% in case of second category risks and 60% in the case of third category risks. In each country the leader will decide in which category the ceded risks are included. The pool manager is *Reaseguradora de Colombia.* Wars and civil war, nuclear fission and similar hazards are excluded. Endorsements covering riots and earthquakes reduce the capacity of this pool by 50%. Annually, each signatory company or agency will be allowed a profit commission on the experience of the business ceded.

SPECIAL FEATURE

EDITOR'S NOTE:

The Third Round Table on Foreign Private Investments in Latin America was held in Caracas, February 13-16, 1973. Given the general interest in and the importance of this meeting the Report on the Rapporteur is reproduced verbatim herein.

THIRD ROUND TABLE ON FOREIGN PRIVATE INVESTMENTS IN LATIN AMERICA
(Caracas, Venezuela, February 13-16, 1973)

REPORT OF THE RAPPORTEUR

Introduction

The Third Round Table on Foreign Private Investments in Latin America was held in Caracas February 13-16, 1973, under the joint auspices of the Government of Venezuela (the Centrol Office of Coordination and Planning—CORDIPLAN), the Organization of American States (OAS) and the Inter-American Development Bank (IDB), with the participation of the International Chamber of Commerce (ICC) and the Inter-American Council for Trade and Production (CICYP).

This meeting was a continuation of those held in Amsterdam, organized by the United Nations in 1969, in Medellín, Colombia, organized jointly by the United Nations, the OAS and IDB in 1970, and in Rome in 1971 under the sponsorship of the aforementioned entities and the Italo-Latin American Institute.

The Round Table provided a new opportunity for officers of multinational enterprises to hold a detailed and far-reaching dialogue on various aspects of foreign private investments in Latin America with representatives of the governments of the region, Latin American entrepreneurs, and representatives of public and private international and regional agencies.

The basis and frame of reference of the deliberations of the Round Table was the document entitled "Guidelines for International Investments," prepared at the close of 1972 by the International Chamber of

Commerce, which was discussed in detail at six work sessions. The participants also took into account miscellaneous supplementary documents which partially summarized the conclusions of other recent meetings on the same topic, including that held in Tokyo under the auspices of the United Nations in 1971 and that of Dusseldorf relative to international control of investments held in the early part of 1973 under the joint sponsorship of the Universities of Georgetown and Frankfort.

With reference to the guidelines formulated by the International Chamber of Commerce — which reflect the viewpoint of the private sector in many countries, including several developing ones, regarding investments at the world level — the participants praised the high quality of the document.

As several semantic problems arose regarding interpretation of the Spanish text in relation to the original English document, it was agreed that it would be desirable to prepare a revised Spanish translation which would reflect more faithfully the ideas of the authors of the aforementioned document. The advisability of supplementing the document with provisions aimed at Latin America was also mentioned, given the difficulty of a document designed for world-wide application, such as that of the ICC, encompassing the particular problems of Latin America.

During discussion of the ICC guidelines, reference was made to the fact that the document was merely in the form of recommendations which suggest guidelines for general application, not only to foreign private investments in developing countries but also in the capital-exporting countries themselves, without detailed examination of relations between the government and the private sector in each country.

Investment Policies

In analyzing the first chapter of the ICC guidelines relative to investment policies, various participants pointed out that, in addition to suggesting guidelines for the investors and governments of the countries of origin and recipients of investments, the document should take into account, in more specific terms, the role of national entrepreneurs in development and how they are affected by foreign private investments.

The opinion was expressed that the governments of Latin America should adopt practical measures in order to support national entrepreneurs in their efforts to acquire capital resources, modern technology and managerial capacity, thereby redressing the imbalance between national and foreign enterprises with the object of strengthening Latin American private enterprise, which would in turn lead to more harmonious relations between national and foreign capital.

Different concepts and varied aspects were discussed in relation to development — the final goal to which investments policy should be subordinated — and several participants emphasized the need to preserve the human and social dimension of such development, regarding which each country has its own particular views.

It was noted that, although in Latin America the rights of investors can in no case prevail over social interests, public order and the sovereignty of each country, the treatment accorded to foreign capital should be equitable for both parties, that is, the foreign investors and the government and private sector of the recipient country. Reference was made to the supplementary nature of foreign private investments in relation to the national effort of each country in the area of public and private savings, as an instrument for promoting development.

It was emphasized that nationalism—which is usually a positive phenomenon—may exert constructive pressure in connection with foreign private investments in Latin America, inasmuch as it safeguards the national interest of the countries of the region which import capital. From this standpoint nationalism may also be reflected in the exclusive State function of control in discouraging abuses in connection with excessive transfers of profits, absorption of local enterprises frequently effected through use of loans obtained in the local markets themselves, and ecological and urban problems caused or aggravated by industries established by means of foreign capital. There was also mention of the need for foreign capital contributions being integrated in the context of the national development policy of each recipient country, with adaptation to local factors, such as the size of the market and taking into account integration, the labor supply, the country's technological level, etc.

Ownership, Management and Control

With regard to the chapter on guidelines for ownership and management, there was agreement on the advisability of local participation in the capital of enterprises established through foreign private investments, as well as in their management and control, in conformity with one of the various possible formulas for joint ventures. Emphasis was placed on the desirability of local participation in such enterprises, with the object of ensuring optimal interaction of foreign and local capital and the public interest of the recipient country. To this end, it was emphasized that it was desirable that the appropriate provision in the ICC guidelines be couched in more specific terms in order to reflect the present situation resulting from more rapid evolution since the Medellín and Rome meetings.

Several participants referred to the frequently encountered difficulty of obtaining local participation in investment projects characterized by risk, intensive use of capital and technology, and long-term deferral of profits. In this connection, reference was made to different possible alternatives which would permit such participation, including issues of bonds and certificates, provided that the countries concerned have a well-organized and dynamic securities market, which is considered to be a priority need in the Latin American countries that do not yet possess them. Reference was also made to purchases of stock in enterprises established with contributions of foreign investors by intermediary entities which would, in turn, transfer their shares to local investors at the appropriate time.

Such intermediary entities are already operating in many countries, in either the public or private sectors, at the national level (finance corporations, development banks), the subregional level (institutions such as the Central American Bank for Economic Integration—BANCADIE), Corporacíon Andina de Fomento (CAF), the Caribbean Development Bank (CARIBANK), and the regional level (ADELA) and world-wide entities, such as the International Finance Corporation (IFC). Other forms of association that are already used successfully in several countries may also be considered, such as triangular and equitable participation of foreign and local private capital, together with the public capital of the recipient country. There was consensus on the advisability of strengthening the securities markets of the Latin American countries, and the need to expand technical assistance provided through international organizations to the governments of the region in order to achieve this objective.

The participants also recognized the desirability of increasing the availability and flow of information on possibilities of underwriting stock subscriptions through the aforementioned intermediary financial entities. In relation to a specific proposal that a Regional Information Center on International Investments in Latin America be created, it was agreed to consult the principal international organizations concerned—IFC, IDB and OAS—with the object of promoting such services, utilizing existing mechanisms as far as possible.

Following a discussion during which various supplementary and alternative suggestions were presented, the participants agreed to recommend to the entities that had co-sponsored the Round Table that they consider this proposal favorably. The proposed Center or service would compile and organize information on sources as well as opportunities for investments and co-ownership of shares at the local, subregional and international levels. Such information would be channeled through a system designed to ensure continuity and efficiency, and the Center would communicate the results of its work to the governments and enterprises of recipient and investing countries through publicity or other effective means. Information of interest to Latin America regarding intra- and extra-regional investments in the area would be compiled. In relation to procedures, it was recommended that the project be transmitted to the CIAP-IDB Committee on Coordination of Foreign Private Investments in Latin America which will meet in Washington, D.C., within three months, with the participation of other international organizations such as the United Nations, the World Bank Group, and, especially, the International Financial Corporation (IFC), as well as other entities whose participation is considered desirable.

Emphasis was placed on the fact that certain industries, such as the oil industry, require extraordinary capital resources and must cope with very complex technological problems—such as those pertaining to protection of the environment—and that very often such factors hamper participation by developing countries in control of shares and management of enterprises in such sectors. However, it was recognized that such participation is desirable, provided that circumstances are favorable, from the long-term standpoint. While some participants emphasized the advisability of regulating the pertinent national legislation of the recipient countries, others stressed the advantages of establishing the terms and conditions of local participation in managerial and technical control of the enterprises in conformity with pre-established contractual clauses which would not be subject to modification by either party during a previously agreed period.

At any rate, the need for absolute clarity regarding the terms and conditions under which the Latin American countries, in the exercise of their sovereignty, desire and accept foreign capital, was emphasized. In this connection, reference was made to the importance of political and economic stability in the recipient countries as factors in selective attraction of foreign capital within the framework of general development policy, that is, of economic growth combined with social justice.

It was explained that the fundamental problem of local participation in enterprises pertains not only to control of decisions which, according to a substantial group of participants, should necessarily be in local hands, but also to the management of firms, which, according to them, should be surrendered by foreign investors to qualified local personnel.

In this connection, reference was made to the shortage of properly trained managerial talent in most of the Latin American countries, and there was a consensus to the effect that both foreign capital as well as the national private sector in the recipient countries should share with the governments of the latter—if possible through technical assistance provided by international organizations—responsibility for training local personnel, in the required numbers and specializations, to enable them to gradually take over administrative and technical management of enterprises established by means of foreign capital contributions in the region.

In connection with the possibility of an enterprise established through foreign investments assuming a dominant position in the market, some participants mentioned the need for the recipient countries to control such potential abuses by means of appropriate instruments.

Finances

In discussing Chapter III ("Finances") of the ICC guidelines, the participants dwelt on the balance of payments problem caused by the flow of financial resources of investor countries to those which are recipients of capital. Some participants stated that both the former and the latter should adhere to the principles of the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT) regarding temporary application of restrictions on free transfers of financial resources.

With reference to access of foreign private investors to local capital resources, and the potential impact of such access on the availability of funds for local enterprises of the recipient country, following a long debate the participants agreed, in general terms, on the desirability of supplementing the ICC guidelines—which were considered to be exceedingly broad in this connection—with certain selective criteria. Specifically, it was stated that the restriction of long- and medium-term loans to foreign-owned enterprises—imposed by the recipient countries—should not be considered discriminatory, not only in special circumstances but also provided that such loans entail public funds, and in the following circumstances: when the countries of origin of the investors establish restrictions on the outflow of capital in the form of direct investments of their enterprises; when incentives and other facilities for access to credit may cause distortions in the capital/labor ratio; when the investment in question is for purchase of established enterprises; when there are abuses in the use of internal savings of recipient countries for financing working capital; and when such action is justified by a cost-benefit analysis.

It was agreed that, in view of the greater access facilities enjoyed by foreign enterprises, particularly the multinational ones, to capital resources in their respective countries of origin—which resources are not available, at least with equal facility, to strictly national enterprises—the governments of the recipient countries have the right and the duty of establishing selective criteria for providing resources for foreign enterprises so as to also prevent indirect discrimination against national enterprises. However, several participants cited instances in which, taking into account the effect of foreign investments on specific branches of the economy of the recipient countries, as well as resultant balance of payments problems, the governments of such countries had often provided financial assistance to foreign investors.

Reference was also made to the complete freedom enjoyed by foreign investors in certain branches of the economy, such as the automobile industry, for recourse to internal savings for funds for financing their production—for example through their own financial entities. This discussion again clearly revealed the need to strengthen securities markets in the Latin American countries in which they are still deficient, with the object of improving and facilitating financing of production. Several participants emphasized the need for investors being ready to reinvest a substantial part of their profits as a contribution to development of the recipient countries, either in the same enterprise or in other activities considered adequate.

Fiscal Policies

The participants in the Round Table did not make any specific comments with regard to Chapter IV ("Fiscal Policies") of the ICC guidelines, and merely took note of the working documents on fiscal policy presented by the OAS General Secretariat and IDB. In this context, reference was made to the reciprocal advantages for the parties embodied in international treaties designed to prevent double taxation.

The Juridical Framework

With reference to Chapter V ("the Juridical Framework") of the ICC guidelines, the Latin American participants unanimously emphasized that the principle enunciated as an obligation of countries that receive foreign investments of concluding agreements in circumstances appropriate for resolving disputes with investors through international arbitration is incompatible with internal constitutional legislation that applies in most of the Latin American countries, if not all of them. That was why none of the aforesaid countries had adhered to the Convention on the International Center for Solution of Controversies on Investments promoted for some years by the World Bank.

Labor Policies

Chapter VI ("Labor Policies") of the ICC document did not give rise to major discussions.

Technology

In considering Chapter VII ("Technology — Including Inventions, Technical Knowledge and Professional Training") the participants took into account the document entrusted to an external consultant by OAS and IDB, the co-sponsors of the seminar, regarding "Technological Development of Latin America and the Private Investor—Basic Problems and Potential for Joint Action." The aforesaid study suggests that, given the complexity of the subject, multidisciplinary meetings of specific study groups be held in order to consider this question in greater detail, linking the scientific-technological sector with the managerial one and the latter with the governmental sector. Reference was made to several Latin American meetings at the intergovernmental level scheduled for the next few months under OAS sponsorship, in which specific aspects of the problem will be considered, such as legal, economic and technological aspects of industrial property and precepts of private and mercantile international law which affect multinational enterprises. It was agreed to transmit the Round Table's recommendations to the Coordinating Committee for consideration, with the object of adopting appropriate measures and, if necessary, to propose to the co-sponsoring organizations convocation of such study groups on technology, as well as other appropriate meetings.

In analyzing the ICC guidelines on technology, the participants considered the recommendations of the Inter-American Conference on the Application of Science and Technology to Development (CACTAL), held in Brasilia in May 1972 under OAS auspices, to be appropriate and timely. The aforesaid recommendations should provide an institutional framework for the activities of the aforementioned study groups, beginning with the technology group. It was stated that it was desirable that the latter group have available broad documentation on studies already carried out or under way in other entities and institutions, such as UNCTAD, the Cartagena Agreement, etc., and that the various currents of thinking on this question be adequately represented in the group.

Although the ideas of the participants did not diverge significantly from the ICC guidelines in connection with the responsibility of foreign investors with respect to technology transfers—recognized as one of the fundamental aspects of problems pertaining to foreign private investment in Latin America—several Latin American participants who had in mind the fact that this question is the object of careful study by the governments and appropriate regional agencies expressed reservations regarding the recommendation embodied in the ICC document addressed simultaneously to the governments of investing and recipient countries, respectively, in the sense that they should adhere to international treaties on industrial property.

There was detailed discussion of the specific responsibilities of the governments of recipient countries and the investing companies in relation to absorption of technology, and a distinction was drawn in connection with the latter among technical, commercial and fiscal aspects. The close connection between technological development and social change was recognized, with special reference to conditions in the labor market of the recipient countries, and the resultant need to channel multinational investments in conformity with prevalent conditions in such countries. The participants agreed on the need for the governments of the recipient countries regulating the absorption of technology, with the double objective of preventing the historical trend toward expansion of its costs and perpetuation of technological dependence on foreign countries without adequate transfer of technology to local personnel.

The real importance of the foreign investor becoming "acclimated" to prevalent conditions of the recipient country, from the psychological as well as business standpoint, was emphasized. In this connection, it was also stated that the functions of the government of the recipient country include provision for national enterprises of the most complete information possible regarding current technology, and sharing with foreign investors as well as responsibility of the national academic and scientific community for establishing centers for scientific and technological research and training adapted to local conditions. Reference was made to the fact that the technology that the enterprise may transfer pertains not only to production aspects but also to those of marketing and distribution. The desirability of foreign investors utilizing the recipient country's capacity in engineering and construction technology as far as possible was also mentioned.

Trade Policies

Chapter VIII, the last part of the ICC guidelines ("Trade Policies") was not analyzed in detail.

Presentation Relative to FUNDASE

At the end of the fourth work session, in relation to creation of a receptive and favorable climate for foreign private investments in Latin America, Marcel Curiel, President of the Venezuelan Foundation for Development of Socioeconomic Activities (FUNDASE), presented a paper on new means for obtaining resources for development investments. It was agreed to transmit his paper to the Coordinating Committee for consideration, with a view to its possible application to other countries of the region.

General Discussion

At the sixth and last work session, Dr. Antonio Casas González, Head of CORDIPLAN and Chairman of the Round Table, made a presentation pertaining to Venezuela's adherence to the Cartagena Agreement, dwelling on an analysis of the provisions of the "Consensus of Lima" signed in that city on February 13, 1973, on the occasion of the visit to Peru of President Rafael Caldera during his visits to several Latin American countries. Specifically, Dr. Casas González explained the agreements concluded among the Andean countries regarding foreign private investments, following Venezuela's entry into the Pact. The participants then discussed the possible impact of the new measures adopted in Lima on the Andean Group, LAFTA, and the Latin American countries in general.

Conclusions

The participants agreed that informal discussions among the governments of the Latin American countries, foreign private investors, the Latin American private sector, and the international organizations that are active in the region—a process initiated in Medellín and continued in Rome and Caracas—are extremely useful for all the participating parties.

It was agreed to refer all matters related to activities following the Caracas Round Table to the CIAP-IDB Coordinating Committee on Foreign Private Investments, the membership of which would be expanded, making it more representative, with participation of all the sectors mentioned above, with specific inclusion of the United Nations and the International Financial Corporation. It was also agreed that the aforesaid Committee should again meet in Washington, D.C., within the next three months.

The following principal general conclusions were reached by the Round Table and will be discussed at the next meeting of the Coordinating Committee:

1. The amendments and additions to the guidelines of the International Chamber of Commerce will be reviewed carefully, with the object of adapting them to the Latin American situation.

2. The proposed establishment of a Regional Center for Information on International Investments in Latin America will be considered in detail.

3. Establishment of appropriate mechanisms for dealing specifically with the problem of scientific-technological development and its application to Latin American needs will be considered. It was agreed that the CACTAL recommendations on action programs should be studied carefully under the aegis of the CIAP-IDB Coordinating Committee, with consideration of the need for close and effective collaboration among the Latin American governments, national and private foreign investors, and the scientific-technological community. Specifically, the Coordinating Committee should examine the proposals of the Round Table regarding systematic consultation between the governments and representatives of foreign investors with reference to development, transfer and adaptation of technology.

4. The agenda and organization of the Fourth Round Table on Foreign Private Investments in Latin America will be planned.

> In accordance with the offer of representatives of the government and private sector of Brazil, which was accepted by the Round Table, the aforesaid seminar will be held in that country during the second half of 1974.

It was agreed that, in the light of the discussions of the Round Table, upon their return to their respective countries the participants would again discuss the document prepared by the International Chamber of Commerce, together with the Report of the Rapporteur of the Round Table, in order to obtain the views of the various sectors of the nation on each aspect discussed with regard to problems of foreign private investments in Latin America. It was requested that the participants transmit to the Coordinating Committee—prior to its next meeting in Washington, D.C.—the viewpoints regarding the questions discussed expressed on this matter by the different sectors in their countries.