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Informational Report of the Committee on International Economic Organizations

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Informational Report of the Committee on International Economic Organizations*

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Congress: Recent Legislation Affecting International Financial Institutions

A. Financial Support Fund

The Financial Support Fund, first proposed in November 1974 by Secretary of State Henry Kissinger and negotiated in the Organization for European Community Development in March 1975, was designed to insure that no industrialized country would be threatened with financial collapse as a result of the increased oil import costs. This $25 billion fund would provide guarantees for a member country's borrowing contingent on its willingness to undertake domestic and international economic adjustments and to pursue policies of energy conservation and alternative energy supply development. The United States' share of the Support Fund is 27.8 percent or $6.8 million.

Legislation to permit the United States Government to provide its contribution with United States guarantees or by participating in a collective guarantee was introduced in June 1975. It was finally voted out of the Senate Foreign Relations Committee in April and has now been referred to the Senate Banking Committee. The House Banking Subcommittee responsible for the legislation, is waiting until the Senate has completed action before taking up the legislation. Meanwhile, it appears that strong support is lacking in the Congress and passage will require continuing efforts by the administration.

B. Multilateral Development Banks

Appropriations for the multilateral development banks for fiscal year 1976 are currently being held up in the dispute between President Ford and the Congress over additional funds for Isreal in the transitional quarter. It is still

*The views expressed herein are those of the individual contributors and not necessarily those of the Committee.

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unclear whether President Ford will veto the bill or not. As a result, fiscal year 1977 authorizations, due to be voted out of the respective committees shortly, are being held up because Congress does not know whether or not the fiscal year 1976 figures hold.

The most dramatic change in fiscal year 1976 legislation was the failure of Congress to appropriate the full amount for the United States payment under the fourth International Development Association (IDA) replenishment. IDA appropriation was cut to $320 million from the $375 million that the United States has committed itself to under IDA IV. The administration says it will try to reinstate the $55 million in fiscal year 1977 appropriations, as well as to keep the $375 million it is seeking for the fiscal year 1977 tranche. The Congress also cut concessional funds for the Asian Development Fund and the Inter-American Development Bank Special Fund. These cutbacks, in the view of some members of Congress—may have repercussions in our policies toward the developing countries in the sense that failure to continue to support these ongoing core programs tends to undercut the sincerity of Secretary Kissinger's recent initiatives toward the developing countries.

The administration is seeking authorization in FY '77 for a proposed increase in the International Finance Corporation (IFC) up to $42 million and for commitment to the new International Fund for Agriculture Development (up to $200 million).

In the longer term, Congress will be asked to consider what level of participation it would be willing to undertake for the next IDA replenishment. Consultation with the executive branch is complicated by the fact that the United States will need to take a position in FY '77 even though we will not make our first payment before FY 1980.

John R. Stark
Washington, D.C.

General Agreement on Tariffs and Trade

Multilateral Trade Negotiations

1. TARGET DATE SET FOR COMPLETING MTN AGREEMENTS

As the MTN negotiations in Geneva continue to make slow but steady progress, the United States has called for setting the end of 1977 as the target date for concluding an overall package of Tokyo Round agreements. In a statement at the December 1975 meeting of the ministerial-level Trade Negotiating Committee (which provides overall guidance for the MTN working groups), Ambassador Dent of the United States urged the participating governments to make vigorous efforts to complete the necessary negotiating

framework in 1976, so that final trade agreement bargaining could be concluded in 1977. He proposed that the following nine goals be reached during 1976:

1. Agreements on tropical products;
2. A tariff formula as a starting point for achieving a substantial reduction in tariffs;
3. A framework for dealing with subsidies and countervailing duties;
4. A draft standards code;
5. An agreed procedure for achieving meaningful liberalization of quantitative restrictions;
6. Agreement on the basic concepts that should be covered by improved safeguard provisions;
7. A review and selection of sectors where complementary negotiations are feasible and will contribute to the goal of maximum achievable liberalization.
8. Parallel progress in achieving special and differential treatment for the developing countries in the various elements of the negotiations;
9. Negotiating approaches to a number of issues which have not yet received adequate attention in our deliberations. For example: Restraints affecting exports; A government procurement code, currently being explored elsewhere; Dispute settlement procedures, relevant to a number of negotiating issues before us; Treatment of tax practices affecting trade flows; and Developing of a code of conduct to eliminate unethical practices that threaten distortion of trade.

The United States timetable met with the general approval of the TNC delegates. However, differences of view among major trading countries on certain crucial issues continue to exist. The principal procedural disagreement concerns the treatment of agriculture in the MTN. The United States has taken the position that reduction of agricultural trade barriers should proceed in conjunction with liberalization of industrial trade. The ECC, however, wishes to negotiate agricultural issues separately from trade in nonagricultural products.

2. UNITED STATES INTRODUCES MTN TARIFF-CUTTING PROPOSAL

On March 23, 1976, the United States introduced its proposed tariff negotiating formula for the Geneva trade negotiations. While details of the formula presently are confidential, the plan is said to combine the linear approach (cutting all tariffs by about the same percentage) favored by the United States and the harmonization approach (cutting higher tariffs by a greater percentage than lower tariffs) favored by the EEC. The United States approach would involve substantial cuts in the rates most commonly charged by the industrial nations (i.e., in the five to fifteen percent range) and somewhat lower reductions in lower rates. The United States formula contemplates that

duties on most products imported by the major industrial countries would be reduced by more than half. Under the proposal, special consideration would be given to exports of developing countries, with a view to deep and binding reductions in tariffs on products of particular interest to the developing nations.

Final agreement on a tariff negotiating formula for the MTN probably will not be reached for several more months. The eventual formula is likely to be a compromise among proposals that have been put forth by various nations participating in the MTN negotiations.

Bilateral GATT Issues

1. EEC DRIED MILK REGULATIONS

On April 27, 1976, the United States informed the GATT Council that Washington had entered into GATT Article XXIII(1) consultations with the EEC as a result of the community's implementation of a mixing scheme for skim milk powder. The new EEC regulation, which is intended to reduce massive community dried milk surpluses, requires the mixing of milk powder into livestock feeds. Importers of vegetable proteins into community countries are required to place a security deposit to guarantee that the milk powder will in fact be purchased.

The United States has estimated that the scheme will displace about 400,000 metric tons of other proteins, a large part of which could be United States soybean exports. In the GATT Council meeting, the United States representative stated that the scheme is inconsistent with the GATT, impairs GATT bindings on soybeans, soybean meal and cake and other feedstuffs, and will have a significant adverse impact on United States exports of those products. He further stated that unless the current bilateral negotiations with the EEC resulted in a satisfactory resolution of the problem, the United States would refer the matter to the GATT Contracting Parties for action under Article XXIII(2) of the General Agreement.

2. EEC SURETY DEPOSITS AND MINIMUM IMPORT PRICE

At the April 27 GATT Council Meeting, the United States also raised the issue of the import licenses and surety deposits required by the EEC for certain processed fruits and vegetables and the minimum import price regime applied by the EEC on tomato concentrates. The United States representative stated that the measures were inconsistent with the community's obligations under GATT and added that, if bilateral resolution of the matter was not possible, the United States intended to submit these EEC measures for GATT action under Article XXII(2).

3. UNITED STATES ESCAPE CLAUSE ACTION ON SPECIALTY STEEL

On January 16, 1976, following hearings on a complaint filed by certain steel companies and unions under the Trade Act "escape clause," section 201, the

United States International Trade Commission recommended that quantitative limitations be imposed on United States imports of stainless and alloy tool steels. On March 16, 1976, President Ford decided instead to seek to negotiate "orderly marketing agreements" with the principal exporters of specialty steel, with quotas to be imposed in the event such exporters did not agree to export restraints.

Both the EEC and Japan have questioned whether United States restriction on specialty steel imports would be consistent with the GATT "escape clause" provision, Article XIX, and the EEC has indicated that if the United States imposes unilateral quotas, it will take the matter to the GATT.

The EEC also has expressed concern over the possibility of United States restrictions on auto imports as a result of an antidumping investigation pending in the United States Treasury Department.

Stephen L. Gibson
Washington, D.C.

Inter-American Development Bank

The IRBD has released preliminary figures on its operations in the year 1975.

It came as no surprise that the total of loans authorized in 1975, amounting to $1.375 billion, set a new record. Nor did the breakdown of $646.2 million from ordinary capital resources ("hard loans"), $634.2 million from the Fund for Special Operations ("soft loans"), $83.2 million from the Venezuelan Trust Fund and $11.4 from other resources, depart significantly from established patterns.

Decidedly interesting, however, is a pronounced shift in emphasis in the range of economic sectors which benefit from the bank's infusion of resources. Heading the list of these sectors in 1975 is agriculture, for which $332 million were authorized. As a result, the cumulative total for authorized loans to agriculture has nudged out of first place the cumulative total of approved loans to the electric power sector. A significant portion of the agriculture sector loans took the form of financing farm credit programs, rural savings and loan cooperatives and similar efforts, essential not only to stimulate productivity but also to facilitate land reforms.

Max A. Stolper
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International Finance Corporation

In recent testimony before the Senate Appropriations Committee concerning proposed appropriations for multilateral development finance agencies, Assistant Secretary of the Treasury Parsky expressed the administration's view that it was time to stop giving priority to organizations engaged mainly in lending to governments and to "put the International Finance Corporation at the top of our priority list." This testimony served to highlight not only the coming of age of the IFC, which will attain its 21st birthday next year, but also the administration's belief that mobilizing private capital for development of the lesser developed countries may, despite all obstacles, be easier and in some respects more effective than obtaining massive additional contributions to the development banks that mainly lend public funds to public borrowers. In contrast to those institutions, IFC continues to be the only major international institution concerned primarily with financing the private sector with equity investments and loans made without government guarantees.

Assistant Secretary Parsky's testimony and other recent actions of the United States government are in furtherance of the policies announced in September 1976 by Secretary Kissinger's address to the seventh Special Session of the United Nations General Assembly, and Secretary Simon's address to the 1975 annual meeting of the boards of governors of the World Bank Group and the International Monetary Fund. In those addresses, the American secretaries strongly supported a major increase ($480 million, according to the latest proposal) in IFC's capital.

After having operated on a very modest scale in the early years after its founding in 1956, IFC has recently become a much more significant part of the economic development process. As of June 30, 1975, the cumulative total of IFC's gross commitments for loans and equity amounted to $126.2 million, more than double the amount outstanding four years earlier. Its total new commitments in 1975 amounted to some $211.7 million. In recent years IFC has also greatly expanded the scope of its noninvestment activities, such as its efforts to promote private projects in Africa and other areas that desperately need such assistance and technical and financial assistance to develop local capital markets. All of these activities have increased IFC's overhead and its need for additional equity capital.

If IFC receives its proposed additional capital, it will be able to expand its present activities and perhaps to undertake some new roles proposed by the United States government (e.g., a greater role, as the "honest broker" in multinational private undertakings to develop new sources of vital mineral resources, and management of a mutual fund intended to permit private capital from capital exporting countries to participate in a portfolio of investments in private enterprise in the developing countries). If, on the other hand, IFC does not

receive this infusion of capital, it may soon have to begin scaling down its activities, and will certainly reduce its growth rate. Otherwise, it would exhaust its funds available for new investments within the next two years. This can be seen from the following figures: As of June 30, 1975, IFC had unrestricted resources of only about $183 million, consisting of paid-in capital stock of $107.3 million, general reserves of $70.7 million, and a loan of $5.0 million from the Netherlands' government, all of which may be invested either in equities or in loans. In addition, IFC has a line of credit from the World Bank that is usable for lending operations only, and the terms of which limit IFC's borrowings from all sources to an amount equal to four times its unimpaired capital (which imposed a borrowing limitation of approximately United States $712 million as of June 30, 1975). The foregoing resources are augmented by interest payments, repayments of loans, dividends, and sales of its investments to private investors.

As Mr. Parsky's recent testimony emphasized, the total impact of IFC's direct investment has been greater than these figures would suggest, since IFC has consistently generated or, at least, been accompanied by, more than $4 of private investment for every $1 of its own investments. Thus, the 250 enterprises in 57 countries which IFC has invested in or assisted in financing have received a total of approximately $6.4 billion from IFC and other investors. The presently proposed $480 million increase in IFC's own capital should, therefore, help generate a truly significant flow of capital into the private sector of the developing countries in the coming years.

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Washington, D.C.

World Food Organizations

International Resources Bank

On May 7, 1976 Secretary of State Henry Kissinger delivered a lengthy and complex speech in Nairobi, Kenya, to the United Nations' Conference on Trade and Development which, as one of its major provisions, called for the establishment of an International Resources Bank.

The bank's purpose would be to stimulate private investment in the development in poorer nations of energy sources (e.g., coal, oil, natural gas), minerals, and other primary raw materials including foodstuffs. The proposed International Development Bank would begin operations with a capital fund of $1 billion to be provided by the developed countries.

According to the secretary, if no other means of financing were available, the bank should also finance the establishment of buffer stocks of various essential commodities in order to stabilize the prices of these commodities. To Kissinger,

such buffer stocks are necessary because, in his words, cycles of scarcity and glut, underinvestment and overcapacity, disrupt economic conditions in both the developing and the industrial world.

While the initial and perhaps primary focus of the bank would be upon energy and mineral resources, Secretary Kissinger stated that the bank should also play an important role with respect to agricultural raw materials. In his view, nations facing declining markets due to growing competition from lower-cost producers and from synthetics could benefit from market promotion, research to improve productivity and marketability or diversification into other products. The secretary also urged the World Bank and regional development banks to give high priority to funding projects for these purposes.

In his September 1, 1976 speech before the United Nations General Assembly, Secretary Kissinger made certain concrete proposals with respect to world food problems, e.g., the establishment of a grain reserve for wheat and rice to total at least 30 million tons. These proposals were not repeated in the Nairobi speech. The latter speech, while not inconsistent with the September speech, may nevertheless ultimately be viewed as either a retreat from or a deferral of previous more specific proposals seeking to ensure an adequate supply of reasonably priced basic agricultural commodities.

On May 31, 1976, the participants at the UNCTAD meeting voted 33 to 31 to reject the United States proposal for the establishment of the International Resources Bank. The United States attributed the defeat to the efforts of the communist countries rather than to the merits of the proposal; however, some United States observers informally expressed skepticism as to that official assessment. In any event, the United States stated that it would again advance the proposal at a future date.

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