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ECONOMIC COMMITTEE

SUMMARY RECORD OF THE FOUR HUNDRED AND THIRTY-FIRST MEETING

held at the Palais des Nations, Geneva
on Wednesday, 2 August 1967, at 9 p.m.

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Completion of the Committee's work

GE.67-18663

PRESENT:

<u>Chairman:</u>	Mr. VARELA	(Panama)
<u>Members:</u>	Mr. MEULEMANS)	
	Mr. DARON)	Belgium
	Mr. MA' A BITOMO	Cameroon
	Mr. GELBER)	
	Mr. WILSON)	Canada
	Mr. HOUZER)	
	Mr. BERDYCH	Czechoslovakia
	Mr. de SOUZA	Dahomey
	Mr. MARTIN-WITKOWSKI	France
	Mr. LAVALLE VALDEZ	Guatemala
	Mr. SHOURIE)	
	Mr. CHADHA)	India
	Mr. KHERADMEH)	
	Mr. NADIM)	Iran
	Mr. AL-RIFAIE	Kuwait
	Mr. SHERIF	Libya
	Mr. ZAMORA	Mexico
	Mr. QURESHI)	
	Mr. NAIK)	Pakistan
	Mr. SOLARI SWAYNE)	
	Mr. ENCINAS del PANDO)	Peru
	Mr. MABILANGAN)	
	Mr. BRILLANTES)	Philippines
	Mr. GRIGORESCO)	
	Mr. TINCA)	Romania
	Mr. SVENNEVIG)	
	Mr. FORSHELL)	Sweden
	Mr. CUHRUK)	
	Mr. LKSIN)	Turkey
	Mr. SMIRNOV)	
	Mr. POZHARSKI)	Union of Soviet Socialist Republics
	Mr. MARK)	
	Mr. HAYES)	United Kingdom of Great Britain and Northern Ireland
	Mr. BIRCH	United States of America
	Mr. FIGUEREDO	Venezuela

Observers for Member States:

Mr. NOGUEIRA-Jr.	Brazil
Mr. POPOV	Bulgaria
Mr. TAKIGAWA	Japan
Mr. CZARKOWSKI	Poland

Observers for non-member States:

Mr. KRUSE	Federal Republic of Germany
Mr. ANDINA	Switzerland

Representatives of specialized agencies:

Mr. THORMANN	International Labour Organisation
Mr. CONSOLO	International Bank for Reconstruction and Development
Mr. WILLIAMS	International Monetary Fund

Representative of the International Atomic Energy Agency:

Mr. GOSWAMI

Secretariat:

Mr. LACHMANN	Chief, Fiscal and Financial Branch, Department of Economic and Social Affairs
Mr. SMITH	Assistant Director, Centre for Development Planning, Projections and Policies
Mr. KREPKOGORSKI	Secretary of the Committee

EXTERNAL FINANCING OF ECONOMIC DEVELOPMENT OF THE DEVELOPING COUNTRIES (item 5 of the Council agenda) (concluded)

- (a) INTERNATIONAL FLOW OF CAPITAL AND ASSISTANCE (E/4327-ST/ECA/98, E/4371 and Corr.1, E/4375; E/AC.6/L.372)
- (b) PROMOTION OF PRIVATE FOREIGN INVESTMENT IN DEVELOPING COUNTRIES (E/4189 and Corr.1-2, E/4274 and Corr.1 and Add.1, E/4293 and Corr.1, E/4366 and Add.1; E/AC.6/L.371)
- (c) OUTFLOW OF CAPITAL FROM THE DEVELOPING COUNTRIES (E/4366 and Add.1, E/4374; E/AC.6/L.373)

Mr. SMITH (Secretariat) said he wished to reply to two questions raised at a previous meeting by the Indian representative concerning the implementation of Economic and Social Council resolution 1183 (XLI).

The first question had concerned a study on the feasibility of setting up an advisory service to assist developing countries in matters relating to the procurement, cost and quality of capital equipment (resolution 1183 (XLI), paragraph 5 (a)). A paper on the subject had been prepared by the secretariat of the United Nations Industrial Development Organization (UNIDO), but because of its technical nature had been referred to an expert group. In section XI of the report on the activities and programme of work of UNIDO (ID/B/4) presented to the Industrial Development Board in April 1967, the following project had been included:

"Pursuant to ECOSOC resolution 1183 (XLI), UNIDO plans to convene in late 1967, an expert group meeting which would be representative of both the suppliers and users of industrial equipment from private and public sectors. The group would explore appropriate ways and means for the collection, analysis, classification and dissemination of information on industrial equipment with a view to establishing an advisory service in UNIDO for such a purpose."

Secondly, the Indian representative had asked for information on the progress made by the developed countries in achieving the target for terms of lending. That was dealt with in the Secretary-General's report on factors affecting the ability of developed countries to provide resources to the developing countries (E/4375) in which the third part of resolution 1183 (XLI) was discussed. Paragraphs 23-27 of the report gave a review of country performances in respect of the target for transfer terms referred to in the resolution. Tables 4 and 5 set out the relevant information for all the countries on which data were available.

Mr. SHOURIE (India) thanked the Assistant Director of the Centre for Development Planning, Projections and Policies for his replies. It was unsatisfactory that though nearly a year had now passed since resolution 1183 (XLI) had been adopted, the feasibility study had not yet been made. On behalf of the developing countries, he expressed the hope that it would be started as early as possible.

It was also to be hoped that the developed countries would take steps to ensure the speedy implementation of the targets proposed in paragraph 3 of the resolution, in particular those set out in sub-paragraph 3 (b) (ii).

He drew the Secretariat's attention to paragraph 5 (c) of the resolution, in which the Secretary-General was requested to report to the Economic and Social Council at its forty-third Session on the implementation of resolution 1183 (XLI). To his knowledge, no such a report had yet been made available.

Mr. SMITH (Secretariat) said that the first section of the report already mentioned "The resource transfer targets and progress in their implementation", was intended as the Secretary-General's report on both the points raised in paragraph 5 (c). The Secretariat intended to keep the matter under review, and regular reports on the long-term flow of capital to developing countries would be provided.

Mr. CUHRUK (Turkey) said that Guatemala wished its name to be added to the list of sponsors of draft resolution E/AC.6/L.371. Introducing the draft resolution, he stressed the importance of tax agreements as factors which could stimulate the movement of capital to the developing countries. A number of tax agreements allowing for compensatory tax concessions had already been concluded between developed countries, but their pattern was inappropriate for agreements between developed and developing countries, since in the latter case the flow of capital was in one direction, and the developing countries would receive no compensation for tax concessions they made to encourage the flow of foreign private capital. To ensure that private investors received the full benefit of such tax concessions, combined action by both developed and developing countries was necessary. At the present time, advantages granted were sometimes nullified by the regulations applied in the developed countries.

Mr. MABILANGAN (Philippines) said that the proposals contained in the draft resolution were of vital importance to his country. The Philippines had concluded

tax agreements with a number of developed countries, but those agreements had not been found entirely satisfactory. There was need for a new tax treaty pattern which would be satisfactory to all the parties concerned.

Mr. MARK (United Kingdom) said that while fiscal questions were important, they were also extremely complex; so that before embarking on any venture such as that proposed in the draft resolution very careful thought should be given to its implications. The Fiscal Committee of the Organisation for Economic Co-operation and Development (OECD) had recently, after prolonged discussion, drawn up a model convention which, it might have been thought, could serve as a basis for the negotiation of tax agreements. It had been urged that that model was in some respects unsatisfactory for the negotiation of agreements between developed and developing countries. That might well be true, but he did not think that the case had been adequately made out in paragraphs 62-80 and 138 of the report on promotion of private foreign investment in developing countries (E/4293), which dealt with the subject. There were a number of questions to which satisfactory answers were needed before a decision was taken. For example, what would be the terms of reference of such an enquiry as that envisaged in the draft resolution? How far was a generalized study likely to be useful in view of the wide regional and national differences between developing countries? What would be the composition of the proposed "balanced ad hoc working group"? Would the "experts" referred to include economists and other persons who might be able to contribute relevant information? In what precise respects was the convention negotiated by the OECD unsatisfactory? What work had been, was being, or was planned to be done by other institutions like the International Monetary Fund (IMF) or the International Bank for Reconstruction and Development (IBRD).

The position of the United Kingdom delegation on the draft resolution was similar to that it had taken on draft resolution E/AC.6/L.369: that while there might well be a case for setting up a group of the kind proposed, more information and fuller documentation was needed before taking a decision. He therefore proposed that the Secretariat should be invited to provide such further documentation, and that discussion of the question should be resumed at the Council's next session in the light of whatever preliminary exchange of views might take place at the present meeting.

Mr. LACHMANN (Secretariat), replying to the United Kingdom representative, said that the issue before the Committee was by no means a new one. An identical draft resolution had been circulated unofficially at the Council's forty-first session, but it had not been introduced because informal consultations between delegations had indicated that further study of the question was needed along the lines suggested by the United Kingdom representative. It might be that the Secretariat had still failed to elucidate the subject adequately, but the question of an appropriate pattern for tax treaties was a much discussed one, very familiar to those concerned with fiscal questions.

Regarding the terms of reference of the proposed expert group, the OECD model would of course, as the Secretary-General's report indicated, be used as the basis for the group's discussions; but it had appeared that there were a number of points in the model which would require some adaptation in the case of treaties between developed and developing countries.

In a report issued in 1965 under the title Fiscal Incentives for Private Investment in Developing Countries, OECD, after pointing out that the traditional tax conventions had not commended themselves to developing countries, had enumerated in detail the matters which would require reconsideration in fiscal negotiations between developed and developing countries. The Chairman of the OECD Fiscal Committee had suggested a regional approach, but his suggestion had not been followed up because of the enormous amount of duplication it would involve: parallel series of meetings would have to be held for the developed countries and each of the developing regions. Moreover, it was not likely that the solutions to what were rather straightforward questions would be very greatly affected by regional differences.

He was not aware that either IMF or IBRD were doing, or intending to do, any work on the subject; but the representatives of those organizations could doubtless enlighten the Committee on that question.

The expression "a balanced ad hoc working group" was a rather common one in United Nations resolutions calling upon the Secretary-General to establish groups of experts. Since the purpose of the group would be to explore the terms likely to

be acceptable to governments in negotiating tax treaties, an attempt would be made to include in it persons who would later actually take part in negotiating such treaties; but to facilitate the group's work they would be there as experts and not as government representatives. In other words, the composition of the proposed group would be very much the same as that of the OECD Fiscal Committee; in fact, the representatives of the OECD countries would probably be the same individuals. The Secretariat had been in close contact with the OECD Fiscal Committee and secretariat and had been assured of its full support and co-operation if and when the Council should decide to set up such a group.

Mr. BIRCH (United States of America) said that his delegation was not convinced of the wisdom of immediately setting up a group to study the question of tax treaties. While he fully agreed on the necessity for working out some treaty pattern more suited to the requirements of both developing and developed countries, it was rather late in the session to discuss such a very complex subject. His delegation therefore supported the United Kingdom proposal that the subject should be taken up again at the next session of the Council after more work had been done on it. It might be useful as a first step to hold a series of regional and other meetings of tax officials and experts on the complicated questions involved who could put forward practical suggestions on how the matter should be handled. With regard to the draft resolution, his delegation could not approve the text of the last preambular paragraph and of the operative paragraph.

Mr. WILLIAMS (International Monetary Fund), speaking for both his own organization and IBRD, regretted that neither was able at the moment to give a definite answer to the questions raised by the United Kingdom delegate; but he undertook to provide any information which might subsequently be required. He did not think that any work was at present being done on model tax treaties; the work in both organizations was mainly directed towards the study of the problems of individual countries, although increasing attention was being given to general questions.

Mr. MEULEMANS (Belgium) supported the United Kingdom proposal. In view of the complexity of the questions involved, which had been apparent from the technical discussion at a previous meeting, the Secretariat should continue to examine the problem, taking into account the OECD report on fiscal incentives, and should present a more extensive study at the next session, when the discussion could be resumed and a decision taken.

Mr. QURESHI (Pakistan) observed that studies seldom reached a stage where all relevant material had been thoroughly examined. The fact just reported, that neither IMF nor IBRD were doing work on model tax treaties, underlined the urgency of the matter. It was extremely important that the work already done on the subject and all other relevant information should be examined from a practical point of view by tax administrators and other experts, with a view to determining the conditions most likely to encourage the flow of capital between countries. He thought that could best be done by an ad hoc working group, as proposed in the draft resolution. At the same time, the Secretariat could continue its work on the question. If those who had criticized the draft resolution would propose amendments, it should be possible to produce a text which would be satisfactory to all concerned.

Mr. GELBER (Canada) said that the very importance of the problems involved meant that particular care must be given to the preparation of proposals for their solution. The subject had been under discussion for over a year, and he supported the proposal that a decision should be postponed for another three months, to enable more adequate documentation to be provided.

In Canada, a Royal Commission had recently been investigating taxation problems. If the Government followed its recommendations, there would be radical changes in Canada's tax structure and its financial relations with other countries, especially those with which it had taxation agreements.

Mr. de SOUZA (Dahomey) said that while he understood the legitimate feeling expressed by previous speakers that more comprehensive documentation was needed, he thought it would be unwise to put off the creation of the working group for that reason. The question, though complex, was urgent, and the proposed working group, which would be composed of experts on taxation and related matters, would not be called upon to impose radical and irrevocable changes on the Governments of the countries concerned but merely to formulate "possible guidelines" which could be

applied with a view to working out a treaty pattern acceptable to all. Unlike the delegations which apparently wished to postpone the suggested study sine die, his delegation believed that the present system was in urgent need of change, and would vote for the draft resolution.

Mr. SHOURIE (India) said that his delegation had observed with some concern the unfortunate tendency of certain countries to express reservations even on draft resolutions which would benefit both the developed and the developing countries, simply because they were sponsored by the latter.

The reasonable points raised by Belgium, Canada, the United Kingdom and the United States had been answered: no study of the nature of that proposed had yet been made, the OECD model convention would be kept in view, any existing work along similar lines would be taken into account, and modifications to the present wording of the text would be considered. As to the suggestion that the Secretariat should make further studies before the Council came to a decision, he thought that the time had come for a study to be undertaken by a balanced working group of experts such as that called for in the draft resolution, which might eventually provide guidelines that could be used to draft model tax treaties, to the mutual benefit of all countries.

Mr. MARK (United Kingdom) said that his views on the proposal had been formulated before the draft resolution had been submitted and before he had any knowledge of which countries were to be its sponsors. He was not advocating its postponement sine die, as the representative of Dahomey appeared to think; but he hoped that all concerned realized the magnitude of the task involved: the OECD Fiscal Committee had taken seven years over the study embodied in its report. It was essential that before embarking on such an undertaking the Council should realize its extent and the fact that it would probably entail considerably more expense than that indicated in the statement of financial implications (E/4293/Add.1). While the importance of the issue was undeniable, he suggested that no decision should be taken until a proposal was made in more specific terms, indicating, for instance, the extent to which regional considerations would be taken into account and giving a more precise idea of the composition of the working group.

Mr. CUHRUK (Turkey) said that although the representative of the Secretariat had dealt with many of the questions raised, he wished to comment on a number of points. OECD itself had recognized that its model convention would require modification to adapt it to the needs of the developing countries. Many of the countries

represented in the Council were members of OECD, and were fully aware of all the financial implications. Some delegations had urged the need for more documentation; but an extensive list of documents was given in the preface to the Secretary-General's report on promotion of private foreign investment in developing countries. The United Nations Secretariat was fully conversant with the studies already made on the question, and the statement of financial implications of the proposal provided for the appointment of one consultant at the P-5 level for a period of six months to assemble and prepare documentation for the meeting. It had also always been intended that IMF and IBRD should be consulted. The word "balanced" was traditionally used in the United Nations to imply equitable representation of both the developed and the developing countries; the group would be composed of Government taxation officials, economists and experts on development questions from the two categories of countries. While many United Nations studies were made by theorists, the experts would in this case be persons with both practical and theoretical experience of their subject, who should be able to provide useful and constructive guidelines for the formulation of tax treaties, thus assisting Governments in their negotiations on taxation questions. The sponsors had no objection to discussing amendments to the present text of their draft resolution.

Mr. MA'A BITOMO (Cameroon) said he understood that it was difficult for Governments to agree to discussion of the sources of their taxation revenue; however, the group of experts proposed would not issue directives but merely lay down possible guidelines for use in acceptable tax treaties.

Mr de SOUZA (Dahomey) said that while he fully appreciated the necessity for complete background information before important decisions were taken, absolute completeness was an unattainable ideal, for documentation was fluid and always being added to. Taxation problems were continually being discussed in all countries, and conditions were constantly changing.

The CHAIRMAN put to the vote the United Kingdom proposal that consideration of the draft resolution should be postponed.

The proposal was rejected by 11 votes to 4, with 7 abstentions.

Mr. MARK (United Kingdom) said that he wished to suggest certain amendments designed to clarify the wording of the draft resolution. In the operative paragraph, he suggested that the expression "tax administrators and experts" should be replaced by: "tax administrators and other persons with relevant knowledge in that field". The word "expert" might limit the composition of the ad hoc working group to tax experts only.

In addition he suggested that the last four words of the operative paragraph, "of the developing countries", should be replaced by "both of the developing and of the developed countries".

Mr. BERDYCH (Czechoslovakia) said he wished to clarify the position of his delegation on all three of the draft resolutions before the Committee (E/AC.6/L.371, E/AC.6/L.372 and E/AC.6/L.373). His country was in favour of any action which could stimulate economic growth in the developing countries; however, its contribution to their development had to be made within the framework of its own economic and social system.

Under the socialist economic system there was no export of private capital. His delegation felt that it could not support draft resolutions relating to processes which did not form part of his country's economic system and which it could not apply. It would therefore abstain from voting on draft resolutions E/AC.6/L.371 and E/AC.6/L.373. For the same reasons, and because his country was not a member of the International Development Association (IDA) his country could not associate itself with draft resolution E/AC.6/L.372.

Mr. SMIRNOV (Union of Soviet Socialist Republics) said that his delegation had fully explained its position on private capital investment during the general discussion of agenda item 5. Since his country was not engaged in the export of private capital, it would abstain on draft resolution E/AC.6/L.371 and on others of a similar nature.

Mr. MARTIN-WITKOWSKI (France) proposed that in the sixth preambular paragraph of draft resolution E/AC.6/L.371 the expression "interested member Governments" should be replaced by "all member Governments". He found the operative paragraph distinctly obscure. He wondered what was meant by a "balanced ad hoc working group".

If it referred to geographical distribution, it should say so. Moreover, he agreed with the representative of the United Kingdom that the expression "tax administrators and experts" was unclear if not tautological. "Experts" in that field were, in fact, "tax administrators" and he saw no reason why both expressions should be used. Again, the expression "developing and developed countries" seemed unnecessary if the word "balanced" referred to geographical distribution; it would be better to replace it by "from Member States". It was not clear whether the term "interested agencies", meant United Nations specialized agencies or outside organizations. The text continued with the words: "possible guidelines and techniques for use in tax treaties which would be acceptable to both groups of countries". But any treaty which was signed between two countries was acceptable to both those countries, otherwise it would not be signed. In any case, the expression "guidelines and techniques" seemed meaningless. He suggested that the existing operative paragraph of the draft should be replaced by the following: "Requests the Secretary-General to set up, on an equitable geographical basis, a working group consisting of government experts with the task of formulating, in consultation with the various specialized agencies, appropriate guidelines for use in tax treaties, with particular reference to the need for safeguarding the revenue interest of the developing countries."

Mr. CUHRUK (Turkey) said that the sponsors of the draft resolution could accept the two amendments proposed by the United Kingdom representative.

With regard to the objections raised by the representative of France, the word "balanced" meant that there must be a degree of parity in the numbers of experts from developed and developing countries; the sponsors would be prepared to accept language calling for equal representation from the two groups of countries. Since the United Kingdom amendment had been accepted, the term "experts" no longer appeared, having been replaced by "other persons with relevant knowledge in that field". He noted that although the French representative had objected to the word "guidelines", he had in fact included it in his own amended text.

The CHAIRMAN suggested that the Committee should suspend its proceedings for ten minutes to permit informal discussion of the text of the draft resolution.

Mr. de SOUZA (Dahomey) supported the Chairman's suggestion. There was no point in continuing the discussion while a new text was being worked out.

Mr. MARTIN-WITKOWSKI (France) also supported the Chairman's suggestion.

The meeting was suspended at 11.05 p.m. and resumed at 11.20 p.m.

Mr. CUHRUK (Turkey) said that while the United Kingdom amendments had been accepted by the sponsors, it had been found impossible to reach agreement on the amendments proposed by the representative of France. Accordingly, the operative paragraph now read: "Requests the Secretary-General to set up a balanced ad hoc working group of tax administrators and other persons with relevant knowledge in that field from developing and developed countries, with the task of formulating, in consultation with interested agencies, possible guidelines and techniques for use in tax treaties which would be acceptable to both groups of countries and would fully safeguard the revenue interest both of the developing and of the developed countries".

Mr. MARTIN-WITKOWSKI (France) said he had submitted his amendments in a constructive spirit and regretted they had not proved acceptable to the sponsors. He thought that the composition of the proposed working group would be most anomalous, and that the group was liable to be quite irresponsible.

Mr. MA'IA BILGMO (Cameroon) said he feared that the second United Kingdom amendment, the reference to the revenue interest of the developed countries, would emasculate the draft resolution, the point of which was to stimulate the flow of capital to developing countries. As the text now stood, he wondered if it in fact constituted any progress.

Mr. GELBER (Canada) said his delegation had previously explained why it did not consider the draft resolution timely; and in any event it found its wording unsatisfactory. He would therefore abstain from voting.

Mr. de SOUZA (Dahomey) said he was surprised that the representative of France should think that the composition of the proposed working group would make it an irresponsible body. While it might be true that in France all persons with expert knowledge in the tax field were tax administrators, that was not necessarily the case in other countries. The existing wording would make it possible for the Secretary-General to select competent experts either from inside or outside the service of a particular Government.

Mr. MARTIN-WITKOWSKI (France) said he was still unable to understand what was meant by a "balanced ad hoc working group". He wished to know, for example, how many members the group would have, how many of them would be civil servants and how many would be taken from outside government service. The expression was extremely vague; all he wanted was precise information. In the case of his own country, for example, he wondered whether it would be allocated two experts, one expert or none, and whether, if its allocation were two, one of the persons concerned would be selected from the civil service and the other from a university.

Mr. CUHRUK (Turkey), replying to the representative of Cameroon, said that the second United Kingdom amendment, which the sponsors had accepted, was intended simply to protect the legitimate interests of the developed countries. As to the questions asked by the representative of France, the composition of the group had not yet been decided. In any case, even if in practice many of the persons concerned came from their respective government services they would serve not as representatives of their Governments but as independent experts.

The CHAIRMAN, commenting on the possible size of the proposed group, said that paragraph 3 (b) of the statement by the Secretary-General of the financial implications of the suggestions made in the report on promotion of private foreign investment in developing countries referred to eighteen experts.

In view of the fact that the operative paragraph of the draft resolution had been orally amended, he would submit that paragraph to the vote separately before taking a vote on the draft resolution as a whole.

The operative paragraph of the draft resolution was adopted by 11 votes to none, with 10 abstentions.

Draft resolution E/AC.6/L.371, as a whole, as amended, was approved by 13 votes to none, with 9 abstentions.

Mr. ZAMORA (Mexico) said his delegation had supported the draft resolution in order to promote the transfer of capital to the developing countries. It assumed that in carrying out its task the ad hoc working group would bear in mind that every country had its special characteristics and that its recommendations would therefore have to be of a general nature.

His delegation attached importance to the composition of the group. He wondered who the experts would be, and which would be the "interested agencies", since the answers to those two questions would largely determine the group's conclusions. He sincerely hoped that the Secretary-General would select persons of completely independent views. However, his country must reserve its position concerning any decisions and recommendations which might be made by the group in submitting its report.

Mr. MARK (United Kingdom) said that while his delegation had abstained from voting on the resolution on grounds of timing it did not object to its substance, and would be interested in taking part in the work of the group.

Mr. GELBER (Canada) said that his delegation too had abstained from voting on the proposal primarily on grounds of its timing, but there was another aspect to which he wished to draw attention. The third preambular paragraph of the draft resolution was an affirmation of belief that there would be a real advantage to all Governments concerned if unilateral relief from double taxation were replaced by bilateral or multilateral agreements. Since that matter was currently under consideration in his country, his delegation was, for the moment, unable to subscribe to such a statement.

Mr. MARTIN-WITKOWSKI (France) said that since the objections he had raised had not been met, he reserved the right to return to the matter in the plenary session.

Mr. QURESHI (Pakistan), introducing draft resolution E/AC.6/L.372, said that developing countries were deeply concerned over the inordinate delay in the replenishment of IDA resources on an adequate scale. The resolution was short and simple. The value of soft loans to the developing countries had been well established and fairly widely acknowledged. Very few developing countries had economies strong enough to enable them to rely exclusively on loans with a rate of interest approaching that charged by IBRD. The growing debt burden, and other factors, rendered them dependent on soft loans with terms of repayment similar to those of IDA. Hence the profound significance of a decision to increase the volume of resources available to IDA, which would be a necessary step towards the strengthening of aid management in the developing countries, towards a strategic view of aid as a combined operation,

towards more effective interaction between donors and recipients and towards the more effective allocation and use of aid in pursuit of economic development. He thought that the increase necessary to enable IDA to fulfil the functions entrusted to it was well within the capacity of Member countries.

In the existing text, the words "and A.IV.5" should be inserted after "A.IV.2" in the first preambular paragraph and the word "Agency" in the fourth preambular paragraph should be replaced by "Association".

To meet the wishes expressed and suggestions made by a number of delegations with whom they had had informal consultations, the sponsors wished to amend the second operative paragraph to read: "Appeals to all Governments members of IDA to treat the question of further increasing the resources of IDA as a matter of high priority."

Mr. MA'A BITOMO (Cameroon) supported by Mr. de SOUZA (Dahomey) suggested that the words "in varying degrees" should be inserted after the word "financing" in the fifth preambular paragraph of the draft resolution.

Mr. MARTIN-WITKOWSKI (France) said that as negotiations were already in progress on the question raised in the draft resolution it would be inappropriate for it to contain anything that implied an expression of opinion on the substance of the negotiations. He accordingly proposed that the words "to the required level" in the second operative paragraph should be deleted.

Mr. GELBER (Canada) pointed out that the text to which the French representative had objected had **already** been withdrawn. The Canadian Government had attached great importance to the replenishment of IDA funds; his delegation could accept either the original version of the second operative paragraph or the amendment suggested by the representative of Pakistan, and would vote for the draft resolution.

Mr. SVENNEVIG (Sweden) stressed the importance his Government attached to the replenishment of the resources of IDA; his delegation was prepared to vote for the resolution as it stood.

Mr. MARK (United Kingdom) agreed with the Canadian and Swedish representatives. The wording of the revised text proposed by the representatives of Pakistan had been very carefully chosen, and he did not think it justified the misgivings expressed by the French representative.

Mr. MEULEMANS (Belgium) agreed with the Canadian, Swedish and United Kingdom representatives, but thought that the first operative paragraph might be construed as implying criticism of certain Governments or, in particular, certain finance ministers. He would prefer a more neutral wording.

Mr. LAVALLE VALDEZ (Guatemala) proposed that the fourth preambular paragraph of the draft resolution should be amended to read: "Appreciating that the International Development Association is one of the most important multilateral means of transmitting assistance from developed to developing countries."

Mr. SHOURIE (India) said that in view of what had been said by the Canadian and other representatives, he left the question of the amendments to be incorporated in the draft treaty entirely to the representative of Pakistan.

Mr. QURESHI (Pakistan) accepted the Cameroonian amendment.

He had listened carefully to the French representative's statement, but he failed to understand his difficulties. The revised draft of the second operative paragraph already represented an extremely diluted version, and his delegation would not be prepared to dilute the text any further. As the United Kingdom representative had stated, the wording had been carefully chosen and had to some extent been modelled on that of operative paragraph 4 of Economic and Social Council resolution 1183 (XLI).

Replying to the Belgium representative, he said that the sponsors had no intention of casting aspersions on any Government or minister of finance. They did, however, feel concern at the delay that had occurred, and the resolution was intended to bring that to the notice of the authorities concerned.

Mr. MARTIN-WITKOWSKI (France) said that until he had an opportunity of studying the French text of the amended version, he was not sure that he could associate his delegation with a favourable vote. He therefore wished, provisionally, to abstain.

Mr. SMIRNOV (Union of Soviet Socialist Republics) said that as the USSR was not a member of IDA the Soviet delegation would abstain in the vote on the resolution.

Draft resolution E/AC.6/L.372, as amended, was approved by 19 votes to none, with 3 abstentions.

Mr. QURESHI (Pakistan), introducing draft resolution E/AC.6/L.373, said that its sponsors had hoped to carry Economic and Social Council resolution 1183 (XLI) a step further, in particular by the inclusion of an operative paragraph 2(d) referring to the compensation of developing countries for the high prices paid by them in the case of procurements financed by tied credits. However, informal discussions with developing and some developed countries had revealed that it was not yet possible to reach a consensus on that point. His delegation felt that if the draft resolution were approved by a majority vote, without a consensus, it would serve no useful effect and would not represent any significant progress beyond the Council's resolution passed at the forty-first session. The sponsors had therefore decided to withdraw the draft resolution, though a draft on similar lines might be introduced at the next session.

Mr. ENCINAS del PANDO (Peru) agreed with the representative of Pakistan. Tied credits were a very serious problem for developing countries, but it had been found that the climate of opinion was not yet favourable to taking the further step proposed in the draft resolution towards the liberalization of international credits and hence of international trade.

The CHAIRMAN said that as the draft resolution had been withdrawn and no further draft resolutions had been submitted in connexion with the problems discussed under item 5(c), it would be appropriate if, in its report to the Council, the Committee stated that it noted with appreciation the documents submitted to it on the subject of the flow of resources to developing countries (E/4371, E/4373 and E/4375) and hoped that the Secretary-General would continue to work on the problems in question in the light of Economic and Social Council resolution 1183 (XLI) and report to the Council at its forty-fifth session.

It was so decided

COMPLETION OF THE COMMITTEE'S WORK

After the customary exchange of courtesies, the CHAIRMAN declared the proceedings of the Economic Committee closed.

The meeting rose at 0.30 a.m.