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THE FAO PROPOSAL FOR AN INTERNATIONAL COMMODITY CLEARING HOUSE

Wilellyn Morelle

The annual conference of the FAO now in session in Washington has given an important place on its agenda to consideration of a plan which calls for the creation of an International Commodity Clearing House. It would have a five-year term and would facilitate the movement of surplus agricultural commodities from surplus producing countries to deficit countries by means of special monetary and pricing arrangements. Initial reactions of the delegates have been so critical of the special monetary features of the plan that all thought of creating an agency of the FAO which would be authorized to engage actively in trading of commodities has been abandoned.

A working party was established in the first week of the conference to draft a substitute plan for the International Commodity Clearing House which would be more acceptable to the delegates of the FAO conference. The plan evolved by the working party has been approved by the FAO conference and provides for the formation of a "Committee on Commodity Problems" within the FAO which would perform some of the functions of the original ICCH proposal but would have no contractual powers. The functions of the committee would be (1) to consider statements of need from deficit countries and to transmit them to surplus countries, (2) to review proposals of surplus countries for disposing of their surpluses by means of gift, loan or special price to ensure that the interests of other importing and exporting countries are taken into account and (3) to initiate discussion between governments which may lead to international action on commodity surplus situations. Upon confirmation of the International Trade Organization charter, the position of the proposed commodity committee would be reviewed.

In an address before Commission I of the FAO conference endorsing the plan for the Committee on Commodity Problems, Secretary of Agriculture Brannan pointed out that as was true of the ICCH plan the initiative and the capital to move surpluses which reflect balance of payment difficulties must come from countries which produce the commodities and that the success of the committee is dependent upon the extent to which it is used by the producing countries. He pledged that the United States will make use of the facilities of the committee whenever the United States Government might "engage in efforts designed specifically to move surpluses for the purpose of helping solve world nutritional problems." Since the new plan as well as the ICCH have been concerned chiefly with the movement of U.S. surpluses financed with U.S. dollars, it appears that for the time being at least, surplus disposal programs undertaken will depend largely upon decisions of our own government.

A plan for an International Commodity Clearing House

At its Paris meeting in June 1949 the Council of the FAO centered attention on the complex situation of world trade and the special situation of primary production, e.g., the accumulation of surpluses in hard currency countries and the existence of shortages of these commodities chiefly in soft currency countries. The Director-General of the FAO (Mr. Norris Dodd) was instructed to study the problem and to prepare a report on general and specific commodity problems which would reflect the specialized knowledge and experience of experts throughout the world.

In carrying out this instruction Mr. Dodd assembled a committee of internationally known economists[1/] who met at the FAO headquarters in Washington in August and the early part of September of this year and prepared a report entitled "World Commodity Problems."

The report contained a blueprint for an "action agency," international in scope, charged with (1) essentially short-run responsibilities of facilitating the movement of commodities in world trade during the immediate period of trade disequilibrium and inconvertibility in an effort to prevent the accumulation of surpluses in the hard currency countries while need exists in soft currency countries, and (2) long-run responsibilities, involving the operation of a buffer stock agency on a limited scale if the initial charter period were successful. The ICCH also would have provided a forum where interests of consumer and producer nations could be mediated through the negotiation of a coordinated series of international commodity agreements, and through consultations among nations achieve the most advantageous world-wide use of resources. The proposed International Commodity Clearing House, organized as a public corporation, would have operated as an arm of the FAO.

As originally considered, the agency would have had an authorized capitalization of 5 billion dollars subscribed by the member countries according to the size of their national income, of which 20 per cent would be immediately payable into a general fund and would become the free capital of the ICCH. The remaining 80 per cent of a country's subscription would be callable by the Board when a surplus developed in that country. In general, the amount called would depend upon the size of the surplus and whether the country wished to avail itself of the services of the ICCH. Subscriptions would be payable in the currencies of the subscribing countries. The ICCH would have authority to accept

1/ The group consisted of John B. Condliffe, chairman, and J.K. Galbraith of the United States; Colin Clark, Australia; D. Glosh, India; Gustavo Polit, Chile; and H. Radomysler of the United Kingdom.

additional subscriptions from a country above the country's quota in convertible currency for the purchase of surpluses. Should a country exhaust its capital quota (excluding the 20 per cent subscription to the free capital of the ICCH) and additional contributions, buying of that country's surpluses by the ICCH would stop.

The immediate function of the clearing house -- that of providing a means for channeling surplus commodities to deficit countries -- was to be accomplished by two types of transactions:

(1) ICCH would arrange for the sale of surplus commodities from exporting to importing countries at the prevailing market prices and against payment in the importing country's currency. These purchases would be financed by a contribution from the exporting country in its own currency for the value of the commodities involved. ICCH would transfer the commodities to deficit nations and take payment in the currencies of the importing nations -- probably inconvertible currencies. Transactions of this type would consist largely of purchases from hard currency countries, principally the United States, and of sales to soft currency countries. The soft currencies would be held by ICCH to the account of the exporting country until they became convertible or until arrangements were made by the creditor and debtor countries for a clearing of the account.

(2) ICCH would buy surpluses at reduced prices, using its free capital as a revolving fund, and would sell to soft currency countries but would take payment only in a currency acceptable to the exporting country -- normally a hard currency.

Sales of surplus commodities made by exporters to importing countries, either at a reduced price in hard currency or at the full market price in soft currency, would be determined to be in addition to normal trade in such commodities -- assuming that such determinations could be made.

The ICCH proposal and U.S. Agricultural Policy

ICCH is proposed at a time when a need for the disposition of accumulating surpluses is emerging in the United States. To date the high level of domestic consumption and rebuilding of stocks plus the large shipments abroad, financed by the ECA and the Army, have postponed the time when postwar adjustments would have to be made. However, now that stocks of a number of important commodities have been rebuilt to a high level and the purchases of agricultural commodities by ECA are being reduced, additional outlets must be found if drastic curtailment of U.S. production is to be avoided. Under these circumstances it appears that a plan such as ICCH might be used to bolster the slackening foreign demand and thus possibly reduce the extent of reliance upon production controls.

It should be pointed out, however, that neither the 5 billion dollar capitalization first suggested for ICCH nor the 1 billion dollar capital fund suggested in a modified proposal would be adequate if no adjustments were made in the use of the productive capacity of the great agricultural producing nations. The amounts proposed were not realistic when viewed either from the standpoint of current prices or the rapid advancement in agricultural technology which has increased productive capacity. Although the domestic rate of consumption in the United States was relatively high in 1948-49 and in addition approximately one-third of the 1948-49 wheat, rice, and cotton crops and about one-fourth of the soybean and peanut crops were exported, the Commodity Credit Corporation acquired over 2.0 billion dollars of commodities through price support operations throughout the year.

A recent United States Department of Agriculture estimate, which allows for the continuance of a considerable volume of exports of farm products in the next few years, suggests that a reasonable postwar adjustment of agricultural production in the United States would be a shift of 35 million acres (about 10 per cent of the total cultivated acreage) of intertilled crops to other uses. This estimate calls for 5 million fewer acres of cotton, 20 million acres less wheat, mostly in the Great Plains and the low rainfall areas of the Pacific Northwest where soils are vulnerable to erosion with a recurrence of dry weather, and 8 to 10 million fewer acres of corn and soybeans in the Corn Belt. The extent of these adjustments can be judged from the fact that in the last decade the areas of cultivated acreage increased only about 1 per cent beyond prewar and the number of people living on farms actually decreased.

With the enactment of the Agricultural Act of 1949 the United States has again committed itself to a policy of controlled production and price support, which began with the Agricultural Adjustment Act of 1933, and this policy has been a fundamental part of every other major piece of farm price legislation enacted in the intervening years. Under the 1949 Act, production control plans are being worked out for all the basic commodities beginning with 1950. These are peanuts and tobacco, which have been subject to control in the postwar, and cotton, corn, wheat and rice where surpluses are just beginning to appear. However, where acreage allotments are used, it is impossible to set quotas to insure that a favorable year or a series of years may not bring forth a large surplus. In addition, acreage diverted from the production of the basic crops may intensify the problem of surplus disposal of some other crops or of perishables where production controls are even more difficult to operate.

There are prohibitions in the United States against selling Government-owned commodities in normal trade channels at less than 5 per cent above the current support price plus certain carrying charges. The alternatives are: (1) diversion of agricultural commodities to secondary uses, such as for animal feed or fertilizer, (2) donation to domestic relief agencies, (3) disposal abroad. A preview of the difficulties involved in handling surplus production by the first method has been provided by the much publicized potato diversion programs of the past three years and currently by the surplus of dried eggs. The administrator of the CCC has testified before Congress that the latter will either have to be given away, preferably through ECA or the Army, or converted into fertilizer. The Department of Agriculture, which is charged with the disposal of these surpluses in as constructive a way as possible, is aware that surpluses will continue to accumulate because of physical limitations attending production controls. A further difficulty in securing balanced production is the high support prices provided for by the Agricultural Act of 1949 for some commodities. Under these circumstances some type of plan for financing the shipment of occasional surpluses abroad appears desirable. The proposed Commodity Committee which has been endorsed by the United States delegation appears to provide such an outlet.

In discussing the ICCH proposal nearly all of the countries represented objected to some features of the plan and the provisions for transactions involving the use of inconvertible currencies were subjected to severe criticism.

As concerns the plan to sell surpluses of the hard currency countries for soft currencies, it appears that further accumulation of inconvertible currency holdings would be likely to interfere with the return to normal trade and convertibility of currencies. The United States in particular already owns sufficient supplies of local currencies to take care of all present and prospective needs for administrative expenses of the United States Government abroad. Since a further accumulation of local currencies would be of little value to the United States Government, there is no reason to disguise a transaction which is essentially a gift as a commercial operation. If, on the other hand, the local currencies should be sold by the United States Government to U.S. importers, the foreign country would lose dollar proceeds from its commercial exports to the United States and the U.S. surpluses would in effect be paid in dollars with the result that the operation would not result in the intended easing of the dollar shortage.

The plan to buy and sell for hard currency at a price below the world price level was also criticized as being a form of dumping. The validity of such an objection turns upon the possibility of separating "surplus" transactions from regular commercial trade in that commodity. This would be particularly difficult since both types of transactions would be going on simultaneously. The plan did not suggest criteria which would make this type of separation effective.

The plan for the Committee on Commodity Problems which has been accepted by the FAO conference as a substitute for the ICCH plan, has dropped most of the objectionable features mentioned above. In arriving at a compromise, however, the provisions which would have given FAO active functions to perform in coping with the problem of surplus disposal have been discarded. In this respect the plan may not be wholly satisfactory to the FAO Council but it nevertheless provides some basis for dealing with international agricultural surplus problems. It is possible that the FAO Committee on Commodity Problems, with the cooperation of the member nations, may make a worthwhile contribution to the solution of one phase of the problem of malnutrition throughout the world.

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DEVALUATION OF THE AUSTRIAN SCHILLING Gordon B. Grimwood

The chaotic exchange situation which has existed in Austria since 1945 1/ has at last been temporarily resolved. For political and economic reasons the Austrian Government considered it impossible at this time to establish a unitary rate; however, as of November 22 two new rates were established, an official rate of 14.40 schillings to the dollar and a premium rate of 26 schillings to the dollar. An exporter may now retain 60 per cent of his foreign exchange, which is held for him in a special account by the National Bank. He may use it to purchase necessary raw materials or sell it through the Bank at the premium rate to a licensed importer who is seeking exchange. This results in an "effective" rate of 21.36 schillings to the dollar, calculated by adding 60 per cent of the premium rate to 40 per cent of the official rate. The International Monetary Fund has approved this arrangement, but has indicated that it considers it an interim solution pending the establishment of a unitary rate.

Under the new system the official rate of 14.40 schillings to the dollar will apply to imports having heavy weight in the cost-of-living index, mainly food, domestic fuel, fertilizer, and seeds. Other essential imports and all exports will take place at the 21.36 rate. The premium rate of 26 schillings to the dollar will apply to non-essential or "luxury" imports, expenditures of tourists (including military occupation personnel), and other "invisible" items in the balance of payments.

The devaluation of the schilling will have its primary effect upon the Austrian price structure, with secondary effects upon the fiscal situation and foreign trade. The impact of the devaluation upon the Austrian economy will be examined in this paper along the aforementioned lines.

Impact on Domestic Prices

With the exception of a rise in prices at the time of the Third Wage-Price Agreement of May 1949, the Austrian economy maintained a relatively stable position during 1949. Monetary circulation, as defined by the Austrian National Bank (note issue plus sight liabilities of that Bank), has decreased from 7,012 million schillings on December 31, 1948, to 6,946 million schillings on October 31, 1949. Demand deposits with other credit institutions increased from 4,783 million schillings on December 31, 1948, to 5,366.6 million on August 31, 1949. This represents an increase in the circulating medium of only 5 per cent over a period in which industrial production increased by 28 per cent. During the period December 1948 to June 1949 bank credit increased from 4,915 million schillings to 5,477 million schillings which, as in the case of the monetary circulation, does not seem unreasonable in view of the increase in economic activity. The cost-of-living index (March 1938 = 100) has advanced from 369.7 in January 1949 to 417.5 in September 1949, and, as a result of the Third Wage-Price Agreement, reached a peak of 432 during July 1949. However, by October 1949 prices had risen to such an extent that trade union leaders are now

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1/ See this Review, September 13, 1949.

agitating for wage increases or the return to price control of basic items. This rise in prices has been attributed to four major causes: (1) anticipation of devaluation; (2) the release of many goods from price control or rationing during July and August 1949; (3) final results of the Third Wage-Price Agreement; and (4) formation of cartels which are alleged to be engaging in price-fixing operations. The trade unions are particularly bitter about the relaxation of controls and the alleged formation of cartels, and it seems certain that if the Government cannot prevent prices from rising further either wage increases or strikes will be inevitable.

Thus the greatest inflationary danger attending the devaluation is that it may result in a rise in prices expressed in local currency for imports of cost-of-living items, which will amount at an annual rate based on July-August figures, to 1,660 million schillings, or approximately 30 per cent of Austria's total imports for 1949. In order to avoid increased pressure from the trade unions, the Austrian Government has arranged to sell basic imports, such as bread grains, fats and oils, seeds, fertilizer, and coal for domestic use at existing inland prices, which are based on the old official rate of 10 schillings to the dollar, with the understanding that the Government will make up the difference between those prices and the schilling value of imports, converted at the official rate of 14.40 to the dollar. Although the technical means for handling this subsidy have not yet been worked out, it seems probable that the Austrian Government will borrow the necessary schillings from the Austrian National Bank on short term and deposit them in the counterpart fund. Since this loan will thus in effect be "sterilized", this particular deficit item will exert no inflationary pressure upon the Austrian economy. It will, however, reduce the amount of counterpart funds available for release for investment purposes. The Economic Cooperation Administration has accepted this arrangement with the understanding that the Government would work toward an internal fiscal position which would enable it to abandon the subsidy by the end of the third quarter of 1950.

The economic impact of the devaluation upon the export industries will depend upon whether inflationary effects of increased profits in those industries that have been exporting at rates below 21.36 schillings to the dollar will more than offset the deflationary effect of decreased receipts in those industries that have been exporting at higher rates. The latter may find themselves unable to compete in world markets at the new effective rate.

The ability of the Austrian Government to maintain a balanced economy during 1950 will depend primarily upon its ability to further increase production, thus avoiding price increases and consequent wage increases or strikes.

Devaluation and the Budget

The ordinary budget for 1949, which is not expected to be significantly affected by repercussions of the devaluation, estimates expenditures for the year at 7,576.9 million schillings and receipts at 7,712.1 million schillings, leaving a surplus of 138.2 million schillings. The extraordinary budget for 1949 envisages investment expenditures for the year of 1.1 billion schillings, 800 million of which will be covered by ECA counterpart funds. The remainder of 300 million schillings may come from the ordinary budget surplus, from proceeds of the recent internal reconstruction loan, which have reached approximately 85 million schillings, or from additional counterpart funds which will be increased by schilling deposits at the rate of 14.40 schillings to the dollar instead of 10.

The ordinary budget for 1950, a draft of which was prepared before the decision to devalue the schilling was taken, estimates expenditures at 9,585 million schillings and receipts at 9,588 million schillings, a level which is approximately 25 per cent above 1949. This increase in the level of receipts and expenditures over 1949 is largely due to so-called "transition" expenditures which are expected to be incurred as a result of the signing of a State treaty. The extraordinary budget provides for investment expenditures of 950 million schillings, leaving a total budget deficit of 947 million schillings which will be covered by counterpart release. At the rate of 14.40 schillings to the dollar, it is estimated that counterpart deposits during 1950 will amount to approximately 3 billion schillings, which will leave an ample margin for use by the ECA and the Austrian Government, working in conjunction, to control possible unfavorable fiscal developments.

Since this budget was prepared without regard for the effects of a devaluation, there is some danger that the repercussions of devaluation may affect the Government's expenditure and income position unfavorably, particularly if it is unable to control a price rise. The new Minister of Finance, Dr. Eugen Margaretha, has proposed a 20 per cent tax reduction which, in the absence of offsetting cuts in expenditures, would lead to a deficit in the ordinary budget for 1950. The system devised by the Austrian Government to soften the impact of the devaluation upon inland prices of cost-of-living items, described above, will lead to a deficit estimated to be in the neighborhood of 400 million schillings.

Effect of Price Structure on Foreign Trade

The general pattern of change in price structures in the majority of the Western European countries since the end of the war has been one of rising prices, characterized by a more rapid rise in prices for primary products than for manufactured goods. In Austria, on the other hand, raw materials prices have been kept at a low level by Government control, and imports of raw materials have been subsidized by means of favorable import rates. Prices of manufactured goods have risen sharply since the end of the war because of high production costs, which in turn were due largely to a low rate of productivity (85.4 per cent of 1937 in July 1949). This situation has put a premium upon exports which utilize a larger proportion of raw materials than labor, and there has been a growing tendency to export raw materials and semi-manufactured goods such as timber, pig iron, iron and steel products, etc. For example, during the first half of 1948 raw materials and semi-manufactured goods accounted for 29 per cent by value and 73 per cent by volume of Austria's total exports, while manufactured goods accounted for 70 per cent and 26 per cent, respectively. During the first six months of 1949, however, raw materials and semi-manufactures accounted for 43 per cent by value and 81 per cent by volume, while manufactures dropped to 57 per cent and 19 per cent. This shift in the commodity composition of exports is due largely, as has been pointed out, to the fact that labor has become a disproportionately high share of the cost of production. Comparable figures for July and August 1949, however, are 35 per cent by value and 76 per cent by volume for raw materials and semi-manufactures, 65 per cent by value and 22 per cent by volume for manufactures, indicating perhaps the beginning of a reversal in the recent trend.

Another aspect to be considered is the encouragement given by the Austrian Government to heavy industry, such as the iron and steel industries, at the expense of the consumers' goods industries. This point may be illustrated by a comparison of the two production indices: the capital goods index reached 173.9 per cent of 1937 in July 1949, while the consumers' goods index stood at 91.75 per cent. At any rate, assuming that wages do not rise and thus further increase the share of labor in the cost of production, the elimination of the indirect subsidy on imported raw materials should accelerate the tendency toward a return to Austria's prewar commodity pattern of trade; i.e., imports of raw materials and exports of high-value manufactured articles.

Due to the multitude of effective import and export rates under the previous system, it is difficult to reach a conclusion concerning the probable effect of the devaluation upon the volume of trade. The fact that a single rate exists will permit the Austrian Government to conclude trade and payments agreements with several countries, notably Italy, with whom agreement has not been possible in the past because of the difficulty of arriving at an exchange rate which would result in prices satisfactory to both parties. Because of this situation, over half of Austria's total foreign trade during the first half of 1949 took place under barter or compensation agreements. Trade agreements, coupled with regulations designed to discourage barter trading, should reduce the narrowness and distortion of trade which has been characteristic of barter deals.

Another corrective action which may be expected from the devaluation is an economic allocation of resources which has been impossible under the multiple rate system. Since the rate at which foreign currency was exchanged and the quota to be retained were determined by the cost of production of an industry, high-cost industries have been receiving the highest premiums and have been utilizing resources at the expense of industries which have managed to attain an efficient rate of production. The establishment of a single export rate may force some marginal export industries, which have been receiving the highest premiums, out of the export market. In this connection it may be noted that Austria's steel industry, which is scheduled to receive almost 17 per cent of the total Government investment expenditure for 1949, has been among those exporting with the assistance of a high premium and a low import rate for raw materials.

The establishment of a single effective import and export rate may result in windfall profits for some importers and exporters who have been purchasing and selling exchange above and below that rate in the past. This situation might result in some misallocation of resources, as it did in Western Germany at the time of the currency reform. Exporters in a particularly favorable position are those who export a primary product, such as magnesite, for which the world demand is so strong that they will not be forced to reduce the foreign currency price of their product.

Austria's Balance of Payments

Austria's balance of payments position in 1950 will depend upon two major factors both of which are uncertain at this moment -- the effect of the devaluation upon foreign exchange rates and expenditures, and the signing of a State treaty.

Exports during the first half of 1949 were at an estimated average effective rate only about 10 per cent below the new effective rate; it would seem therefore that the devaluation would not affect substantially foreign exchange receipts from exports unless the establishment of a single rate leads to a negotiation of more favorable trade and payments agreements and, thus, to an increase in the volume of trade. It may also be assumed that Austria's increasing rate of production cannot be maintained without an increasing rate of imports. Under these circumstances there would be little change in the balance of payments position from the standpoint of foreign trade.

The receipts of foreign exchange on "invisible" account will be somewhat reduced because dollar payments of the U. S. occupation forces under the "pay-as-you-go" plan will drop slightly under the influence of the new premium rate; however, the largest part of these expenditures, estimated at $12 million a year, are contracted in dollar terms and therefore is independent of the exchange rate. On the other hand, a large part of the payments to U. S. military and civilian personnel, estimated at $13 million a year, which so far have been going almost exclusively to the black market, should now be converted into schillings through legal channels as a result of the introduction of the premium rate. The black market rate, however, is still higher than the legal premium rate, having risen to 31 schillings per dollar, and some experts believe that a substantial portion of U. S. personnel expenditures will continue to go to the black market unless strict controls can be established.

Tourist expenditures used to go to the black market with the tacit agreement of the Austrian Government. The new premium rate is expected to channel at least part of these expenditures through official exchanges, and thus to reinforce the control of the monetary authorities over foreign exchange receipts.

The signing of a State treaty would influence foreign exchange receipts partly favorably and partly unfavorably. The reintegration of former German-owned assets located in the Russian zone of occupation and now operated by the Soviet authorities, would make available to the Austrian economy the proceeds of exports estimated at $40 million a year; only part of that amount, however, would become available in convertible currencies. The return of these assets also might enable the Austrian economy to cut back their imports to some extent. On the other hand, the signing of the State treaty would obligate the Austrian Government to pay to the Soviet Government $25 million a year for six years in freely-convertible currency, as compensation for the former German-owned assets. The signing of the State treaty also would mean to the Austrian economy a loss in foreign exchange of approximately $25 million a year which at present is accruing to it as a result of the "pay-as-you-go" policy of the U. S. Occupation authorities. On balance therefore the State treaty would probably result in a slightly larger deficit in the balance of payments position for 1950.

Generally speaking, it would appear that, whether the State treaty is signed or not, Austria will continue to be faced with a deficit on current account until increased productivity and a more stable internal financial position permit the adoption of a unitary exchange rate which will integrate the Austrian economy into the economy of the rest of the world at a viable level of production and consumption.

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FURTHER USE OF THE BRITISH EXPORT CREDITS GUARANTEES

Gretchen Fowler

The earlier analysis of the British experience with export credit guarantees in this Review noted that the scheme had proven to be a flexible means of aiding British export trade under changing conditions. 1/ Illustrative of this flexibility is the new British program to use the system to expand exports to North America. On October 20, it was announced that exporters could make use of the guarantee system to insure against certain losses involved in introducing new products to the dollar markets. Authorization for this extension of coverage is found in Section 2 of the Act of 1949 which allows the Board of Trade to extend guarantees where such action is deemed to be in the national interest.

Under the announced extended coverage of guarantees, five new facilities are offered to British exporting firms: (1) financing market surveys to explore the market; (2) financing new production or merchandising techniques recommended by these surveys; (3) financing advertising and sales promotions campaigns; (4) financing the holding of inventories; and (5) extension of financial risk-taking when sales are made to local buyers for reselling. This last provision might include assisting the local buyer by dollar guarantees and in financing installment sales of British goods, e.g., cars.

The official announcement does not give the precise details of how the guarantees will operate. It would appear, however, that the mechanics of the scheme will operate along the following lines. The British exporter must obtain approval of his proposed operation from the Export Credits Guarantees Department. With official approval, the exporter should have less difficulty in obtaining bank financing. He will be required to repay his bank an agreed percentage of gross new sales each month and will be expected to liquidate his entire indebtedness over a fixed number of years. If the exporter is unable to liquidate from actual earnings the obligation incurred to finance the project, he will be relieved of further liability and the obligation will be liquidated on terms agreed between the Export Credits Guarantees Department and the financing institution. The upper limit of the loss to be borne by the Government will be stipulated when the project is initially approved, but it would appear that the specific distribution of the actual loss between the Government and the financing institution will be determined at the time of liquidation. This latter conjecture may, however, be a misinterpretation of the actual scheme, since it would involve an indefinite commitment on the part of the financing institution. The Export Credits Guarantees Department hopes

1/ May 24, 1949. This note is intended as a supplement, and brings up to date the material in the original article on British experience with export credit guarantees.

that the Treasury will permit guarantees covering up to 75 per cent of the loss caused by the cost of activities in utilizing and following up on market surveys, and up to 50 per cent of the loss caused by financing inventories or other risks borne by the British exporter. The percentage of loss guaranteed, the percentage of the exporter's new sales in the dollar market to be paid back to the bank honoring the guarantee, and the period of years during which the exporter will pay will vary with each individual transaction. It is expected that the exporter will have to repay to the bank on a monthly basis about 3 per cent of gross new sales. The period for repayment will vary, but will probably not exceed seven years.

This plan is designed to encourage the introduction of new British products and new British firms into the North American market by guaranteeing against initial promotion losses. The program to encourage the movement of new products into the dollar area is realistic in the sense that, if Britain's dollar earnings are to expand sufficiently to reduce her import deficit with this area, a large number of new products must be introduced into these markets.