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SERVICES AND THEIR IMPLICATIONS IN RELATION
TO THE DRAFT PROTOCOL ON CLEARING AND PAYMENTS ARRANGEMENTS
OF THE PROPOSED TREATY FOR THE ESTABLISHMENT OF
A PREFERENTIAL TRADE AREA FOR EASTERN AND
SOUTHERN AFRICAN STATES

I. Introduction

It will be recalled that **the exact** scope of the definition of "Services" for the purpose of the proposed clearing and payments arrangements was discussed at length during the Joint meeting of the Lusaka Council of Ministers and the Extraordinary Conference of Ministers of Trade, Finance and Planning held in Maseru, Lesotho from 19-22 January 1981. Following disagreement on a proposal that all services relating to transport and transit trade should be excluded from the definition of "Services" it was decided to refer the issue to the resumed Session of the Council of Ministers. In the meantime it was agreed that Uganda, Zimbabwe, Zambia and Mozambique should hold consultations on the issue, assisted by a technical study "aimed at the establishment of a broad system of clearing and payments which would at the same time allow for bilateral consultations."

Accordingly, the purpose of this memorandum is to:

- (a) elaborate on the exact content of the term "services" in the context of the proposed Clearing and Payments Arrangements;
- (b) review the situation of intra-subregional payments in respect of trade related services;
- (c) analyse the implications of excluding transport and transit trade services from the definition of "services"; and
- (d) recommend a broad system of clearing and payments that would allow for bilateral consultations.

II. Scope of "Services" in the context of the proposed clearing and payments arrangements

Article 1 of Annex VI defines "services" as "all services directly related to the promotion of trade between the member States conducted in pursuance of the provisions of this Treaty such as those relating to the transport, storage, handling and insurance of goods".

The purpose of defining services in Article 1 of Annex VI is to identify the services in respect of which payments could be cleared through the Clearing House whose establishment is proposed under Article 4 of the Annex. First of all it should be clear that it is only those services directly related to the promotion of trade between the member States and covered by the provisions of the Treaty - which could be paid for through the Clearing House.

Further, since the provisions of the Draft Treaty directly related to the promotion of trade between the member States are those contained in Annexes I and V, it is only the services relating to the reduction and elimination of trade barriers and transit trade that may be paid for through the Clearing House. In other words, the only service charges which would be channelled through the Clearing House for settlement are those transportation, handling, insurance, storage etc. charges related to direct or transit trade between the member States in goods originating in the Preferential Trade Area.

Thus, payment for services relating to direct trade between the member States in respect of goods which do not qualify as originating in the member States under the Rules of Origin would not be channelled through the Clearing House. Similarly payments for service charges relating to transit goods consigned from or bound for third countries would be excluded from the Clearing House facility. For example, if Zimbabwe exported goods which do not qualify as "originating" in the PTA to Mozambique, the transportation costs of such goods would not be channelled through the Clearing House. Similarly, if Zimbabwe imported goods from any country outside the PTA, but through Mozambique, the respective transit service charges (transport, storage, handling etc.) levied by Mozambique would be paid direct to the Mozambican authorities and not through the Clearing House.

III. Situation of intra-subregional payments in respect of trade-related services

It is regretted that data on intra-subregional payments in respect of "services" as defined in the Draft Protocol on Clearing and Payments Arrangements is not readily available. However, since the "services" in question are those relating to intra-subregional trade and which are generally reflected in the value of goods, an examination of such trade could assist in identifying the situation of intra-subregional service payments in relation to the total trade of each member State.

Intra-subregional trade amounted in fact to about \$US506 million or 3.2 per cent of the subregion's total trade in 1978 as summarized in the attached Annex. On the other hand, service charges relating to international trade are on the average estimated at about 10 per cent of the import value of goods.

Thus, assuming that the "service" component (i.e. transport, storage, handling, insurance, etc.) accounted for 10 per cent of total value of imports during 1978, payments for "services" in respect of intra-subregional imports (including those relating to intra-subregional transit trade) could not have been more than \$US25.3 million in respect of imports for the whole subregion, or about 0.05 per cent of intra-subregional trade.

It is worth noting, however, that the above figures relate to all services relating to intra-subregional trade and not to the specific "services" as defined in Annex VI to the Draft Treaty. Since "services" in respect of components of the intra-subregional import trade are bound to be much less than the figures mentioned above, probably not more than 0.02 per cent of intra-subregional trade.

Thus, for example, the "service" component of Mozambique's earnings in respect of her intra-subregional trade in 1978 may not have been more than \$US0.56 million which is less than 0.0008 per cent of her total exports and imports. However, since Mozambique must also have paid for the respective services rendered by other Eastern and Southern African States in respect of her imports and transit trade, the net balances of payments relating to such

"services" are likely to have been negligible, if any at all. In fact, taking into account the fact that Mozambique is currently a net importer within the subregion, it is possible that she might have transferred more foreign exchange to other countries in payment for services relating to intra-subregional trade than she might have received from them.

Furthermore, while one would quite clearly expect intra-subregional trade to expand following the establishment of the PTA, it is unlikely, taking into account the fact that the share of intra-subregional trade in total trade (currently estimated at 3.4 per cent) has been declining since 1975 that the "service" component of the value of intra-PTA trade will grow so substantially during the first five years of operations of the PTA as to have any serious effect, on the balance of payments of any member States.

IV. Implications of the exclusion of transport and transit trade services from the definition of "services"

To assess the implications of excluding transport and transit trade facilities from the definition of "services", it may be useful to recollect briefly the import and export procedures commonly used in international trade. As is well known, imports are generally consigned on c.i.f. and exports on f.o.b. basis. Since goods consigned f.o.b. (free on board) do not involve foreign exchange spending by the exporting country, the member States' concern would be mainly in respect of goods consigned c.i.f. (cost, insurance and freight).

An importer may opt for his goods being consigned c.i.f. to a port of entry in another country, or any point in his own territory. Thus, for example, a Zimbabwean importer may order his goods from Kenya c.i.f. Maputo or c.i.f. Salisbury. The price he pays for those goods if ordered c.i.f. Maputo will include cost, insurance and freight up to the port of Maputo. From Maputo to Salisbury, the importer has to pay separately for the handling and storage, etc. at Maputo port, and for transportation (by the Mozambique and Zimbabwe Railways) and insurance, etc. to Salisbury. On the other hand, if the goods

are ordered c.i.f. Salisbury, the price payable by the importer includes all the costs of transportation, handling, storage, insurance, etc. up to Salisbury. In both cases, the invoice value of the goods could be channelled through the Clearing House for settlement.

Since a c.i.f. invoice is based on the costs of the relevant goods, it would be difficult to separate transportation and transit trade services from the value of invoices for the purpose of settlement through the proposed clearing arrangements. If transport and transit trade services were to be excluded from the definition of services for the purpose of Annex VI to the Treaty, the alternative would be to direct that all intra-PTA imports should be consigned on an f.o.b. basis. Thus the importer would have to be invoiced and pay for the cost of goods separately and then arrange for the transportation and other services up to their destination separately with the respective authorities. This procedure could, however, result in greater costs and create many problems and delays in the delivery of goods.

V. A broad system of clearing and payments that would allow for bilateral consultations

It would appear that the major concern of those countries which would like to exclude transport and transit trade services from the definition of "services" provided for in Annex VI to the Draft Treaty is the possible loss of foreign exchange accruing from rendering transportation and transit trade services to other member States. One may perhaps assume that such a concern stems from the provisions of paragraph 1 (a) of Article 2 of Annex VI to the Draft Treaty which stipulates that:

"The Member States undertake to promote trade in goods and services within the Preferential Trade Area in accordance with the provisions of this Protocol by:

- (a) promoting the use of national currencies expressed in UAPTA in the settlement of eligible transactions between the Member States;

and also paragraph 3 of Article 6 of the same Annex which states that:

"For the purpose of paragraph 1 of this Article, the Member States agree that their Monetary Authorities shall extend to each other swing credits in their national currencies expressed in UAPTA, the maximum limits of which shall be determined by the Committee on the basis of the volume of trade of each Member State within the Preferential Trade Area."

Read in isolation from other provisions of the Annex, these provisions might admittedly give the impression that a country which exports more goods to other Member States will end up with a large accumulation of national currencies of other Member States after clearing, some of which arising from the transport and transit trade services rendered to other Member States. It should be noted, however, that not only would the respective amounts (relating to services) be small as indicated earlier, but also that paragraph 6 of Article 6 of Annex VI stipulates that:

"The net debit balance outstanding against a debtor monetary authority at the end of the transactions period shall be settled by the debtor monetary authority within a settlement period to be determined by the Committee in convertible currency."

As for possible delays in receiving payments for services rendered, it should be recalled not only that such delays are often experienced even under bilateral payments, but also that under the proposed clearing and payments arrangements, the net debit balance outstanding against any member State must be settled in convertible currency at the end of the "transactions period", failing which the defaulting member State will face the sanctions stipulated in paragraphs 8 and 9 of Article 6 of Annex VI.

Thus, while payment has to wait until the end of the "transactions period" (whose duration will be determined by the Committee), the accumulation of national currencies or the loss of foreign exchange may not arise, and, even if it does this is likely to be only to an insignificant extent, in particular in respect of transport and transit trade facilities. Considering the number of individual import transactions handled by member States and the related "service" payments, the proposed arrangements would not only reduce trade operational costs but also facilitate savings in foreign exchange earnings.

Further, it is hardly necessary to stress the fact that the promotion of intra-PTA trade can only be achieved if transport and transit trade services are adequately provided, and that the provision of such services is to a large extent dependent on the availability of adequate payments arrangements. Indeed on the establishment of the PTA, various member States are likely to provide transport and transit facilities for other member States. For example:

- (a) Djibouti - for Ethiopia, Somalia and Seychelles;
- (b) Ethiopia - for Djibouti and Kenya;
- (c) Kenya - for Ethiopia, United Republic of Tanzania, and
Uganda;
- (d) Mozambique -- for Botswana, Malawi, Swaziland, Zambia and
Zimbabwe
- (e) Swaziland - for Mozambique and Zimbabwe;
- (f) United Republic of Tanzania - for Kenya, Malawi, Uganda and
Zambia;
- (g) Zambia - for Angola, Botswana, Malawi, Mozambique and
Zimbabwe; and
- (h) Zimbabwe -- for Angola, Botswana, Malawi, Mozambique and
Zambia.

It seems clear from the above examples that the majority of the PTA member States will either transport goods to and from one or more member States on their own roads, railways, vehicles, ships, aircrafts, etc.,

or provide transit facilities (storage, handling, etc.) to other member States in intra-PTA trade. Thus, most of the member States will receive and remit payments for services in respect of their intra-PTA trade. For example, while Mozambique will receive payment for service rendered by her in respect of goods consigned for Botswana, Malawi, Swaziland, Zambia and Zimbabwe (whether from Mozambique itself or other PTA member States), she will also be required to pay for the services provided in respect of her imports from or transiting these countries. Of course, the net balance of payments in respect of such services will depend on the difference between the value of the services rendered and the services received. If, for example, Mozambique did not import goods or obtain services from other member States, all the transport and transit trade services rendered by her to other member States would be settled in full in convertible currencies at the end of the transactions period.

It will be recalled that, at the Joint Meeting of the Lusaka MULPOC Council of Ministers and the Extraordinary Conference of Ministers of Trade, Finance and Planning, it was proposed that the "transitional period" as defined in Article 1 of Annex VI to the Draft Treaty be extended to five years. In the light of the findings of this study and taking into account the decision of the Joint Council of Ministers regarding the need to establish "a broad system of clearing and payments which would at the same time allow for bilateral consultations", member States might wish to retain the definition of "services" as given in Article 1 of Annex VI to the Draft Treaty and decide to apply same both during and after the five-year transitional period.

However, during the transitional period, bilateral clearing and payments arrangements may be established in relation to all eligible transactions, except for transport and transit trade charges which could be excluded in respect of those member States which might opt for such an arrangement notwithstanding the findings and conclusions of this study as regards the implications of such exclusion. In this case clearing of all eligible transactions, except for transport and transit trade charges could be carried out between the relevant central banks in the subregion.

Another alternative also during the transitional period is that there may be both bilateral and multilateral clearing and payments arrangements operating concurrently and covering all eligible transactions except for transport and transit trade charges which could be excluded in respect of those member States which would decide to opt for such an arrangement. In case bilateral arrangements are, for lack of expertise or other reasons, adopted by some of the member States, then clearing operations may take place directly between the respective central banks. In respect of those countries which may still wish to retain the multilateral payments arrangements during the transitional period, the clearing operations could be undertaken by a clearing service to be set up within the Secretariat of the proposed Preferential Trade Area (PTA) for Eastern and Southern African States.

Upon the expiry of the transitional period, all eligible transactions, as defined in Article 1 of Annex VI to the Treaty, may be cleared on a multilateral basis by the proposed Clearing House. Nevertheless, in cases where some countries may still wish to opt for excluding transport and transit trade charges from the clearing system, this may then be allowed but for a specific period of time to be determined by the Council on the recommendation of the Committee.

VI. Recommendations

In the light of the above, it is recommended that:

(a) The definition of services in Article 1 of Annex VI to the Treaty be retained and applied both during and after the transitional period, in the light of the preceding analysis of the real practical implications of the exclusion of transport and transit trade charges from the range of service related transactions to be channelled through the clearing system.

(b) Notwithstanding (a) above member States may decide, if they so wish, that during the transitional period, there may be bilateral clearing and payments arrangements in respect of all eligible transactions provided that the system could permit the exclusion of transport and transit trade charges at the request of the member States which may choose such an arrangement. Clearing, in this respect, could be undertaken directly between the individual central banks in the subregion.

(c) Alternatively, there may be both bilateral and multilateral clearing and payments arrangements operating concurrently in respect of all eligible transactions which may similarly exclude transport and transit trade charges. During the transitional period, bilateral payments as may be adopted by some of the member States at the forthcoming ministerial and official meetings, could be cleared directly between the respective central banks, while the multilateral payments may be cleared through a clearing service to be established within the PTA Secretariat.

(d) Upon the expiry of the transitional period all eligible transactions may be cleared on a multilateral basis through the proposed Clearing House provided that freight (transport) and transit trade charges may be excluded from eligible transactions for a specified period of time to be determined by the Council on the recommendation of the Committee in respect of those member States wishing to opt for such an arrangement.

(e) Consequential amendments should be made to the draft PTA Treaty including the Protocol on Clearing and Payments (Annex VI to the Treaty).

Total trade (exports plus imports) and Intra-subregional Trade of Eastern and Southern
Africa - 1973-1979^{1/}

(Million US Dollars)

	1973	1974	1975	1976	1977	1978	1979 ^{2/}
Total trade (exports plus imports)	9 780	13 052	12 525	11 781	14 011	15 854	19 154
Intra-subregional trade (excl: Zimbabwe)	575	699	595	637	569	506	644
Share of intra-subregional trade (per cent)	5.9	5.4	4.7	5.4	4.1	3.2	3.4
Angola							
Total trade (exports plus imports)	1 345	1 854	1 358	981	1 726	2 146	2 640
Intra-subregional trade	18	16	9	5	3	5	6
Share of intra-subregional trade (per cent)	1.3	0.9	0.7	0.3	0.3	0.2	0.2
Botswana							
Total trade	252	305	361	385	461	575	937
Intra-subregional trade	5	5	3	7	11	9	12
Percentage	2.0	1.6	0.8	1.8	2.4	1.6	1.3
Comoros							
Total trade	20	35	33	22	27	31	39
Intra-subregional trade	3	4	4	4	5	4	4
Percentage	15.0	11.4	12.1	18.2	18.5	12.9	10.3
Djibouti							
Total trade	117	135	162	194	212	230	276
Intra-subregional trade	21	22	32	29	21	11	34
Percentage	17.9	16.3	19.8	14.9	9.9	4.8	12.3
Ethiopia							
Total trade	459	551	551	648	741	832	1 000
Intra-subregional trade	27	31	37	31	24	16	38
Percentage	5.9	5.6	6.7	4.8	3.2	1.9	3.8
Kenya							
Total trade	1 171	1 735	1 623	1 798	2 497	2 728	2 739
Intra-subregional trade	189	230	215	243	205	171	181
Percentage	16.7	13.3	13.2	13.5	8.3	6.3	6.6

Total trade (exports plus imports) and Intra-subregional Trade of Eastern and Southern Africa
1973-1979^{1/2} (continuation)

(Million US Dollars)

	1973	1974	1975	1976	1977	1978	1979 ^{2/}
Lesotho							
Total trade	100	134	173	214	233	297	371
Intra-subregional trade	-	-	-	-	-	-	-
Percentage	-	-	-	-	-	-	-
Madagascar							
Total trade	406	525	659	560	685	834	1 024
Intra-subregional trade	5	10	8	7	6	6	7
Percentage	1.2	1.9	1.2	1.3	0.8	0.7	0.6
Malawi							
Total trade	239	307	390	360	424	520	575
Intra-subregional trade	21	21	13	15	14	15	18
Percentage	8.8	6.8	3.2	4.2	3.3	2.9	3.1
Mauritius							
Total trade	304	621	630	624	756	827	892
Intra-subregional trade	7	12	13	15	20	20	22
Percentage	2.2	2.0	2.0	2.4	2.7	2.4	2.4
Mozambique							
Total trade	694	760	619	451	407	719	787
Intra-subregional trade	21	30	13	12	5	28	28
Percentage	3.0	3.9	2.1	2.7	1.2	3.8	3.6
Seychelles							
Total trade	28	35	38	52	50	63	109
Intra-subregional trade	4	6	8	7	7	8	8
Percentage	14.3	17.1	21.0	13.5	14.0	12.7	7.3
Somalia							
Total trade	162	205	244	250	289	348	616
Intra-subregional trade	7	10	13	14	17	21	23
Percentage	4.3	4.9	5.3	5.5	5.9	6.1	3.7
Swaziland							
Total trade	203	316	362	394	404	512	603
Intra-subregional trade	5	7	4	4	4	4	4
Percentage	2.5	2.2	1.1	1.0	1.0	0.8	0.7
United Republic of Tanzania							
Total trade	865	1 136	1 145	1 136	1 291	1 574	1 583
Intra-subregional trade	110	129	111	120	42	37	73
Percentage	12.7	11.3	9.7	10.6	3.2	2.4	4.6

Total trade (exports plus imports) and Intra-subregional Trade of Eastern and Southern Africa
1973-1979^{1/} (continuation)

	1973	1974	1975	1976	1977	1978	1979 ^{2/}
Uganda							
Total trade	476	544	467	510	778	679	692
Intra-subregional trade	81	93	74	83	144	117	130
Percentage	17.1	17.2	15.8	16.3	18.5	17.2	18.8
Zambia							
Total trade	1 682	2 194	1 747	1 696	1 568	1 483	2 180
Intra-subregional trade	51	73	38	43	39	35	56
Percentage	3.0	3.3	2.2	2.5	2.5	2.4	2.6
Zimbabwe							
Total trade	1 254	1 660	1 664	1 506	1 466	1 456	2 091

Sources: IMF, Direction of Trade Yearbook, 1980; data provided by the national authorities; and estimates.

^{1/} Data from different sources are sometimes inconsistent. For certain countries specially Botswana, Lesotho, Swaziland, the Comoros, and Djibouti estimates of intra-subregional trade may be subject to significant errors.

^{2/} Preliminary estimates - IMF

* Including re-exports.