

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED
LIMITED B
GATT/CP.5/SR.15
15 November 1950
ORIGINAL: ENGLISH

CONTRACTING PARTIES
Fifth Session

SUMMARY RECORD OF THE THIRTEENTH MEETING

Held at the Marine Spa, Torquay,
on Friday, 10 November, 1950, at 10.30 a.m.

Chairman: Hon. L.D. WILKINSON (Canada)

Subject discussed: Special Exchange Agreements (GATT/CP.5/16)

Special Exchange Agreements (GATT/CP.5/16)

The CHAIRMAN noted with pleasure that the Governments of Ceylon and Pakistan had become members of the Fund. They were, therefore, left with five contracting parties not yet members of the Fund, for which texts of special exchange agreements had been deposited with the Secretary-General of the United Nations for signature. The countries were Burma, Haiti, Indonesia, New Zealand and Sweden.

Mr. U. SAH OHN TIN (Burma) informed the Chairman that his country had taken steps to join the International Monetary Fund and therefore hoped there would be no necessity to enter into a special exchange agreement with the Contracting Parties.

Mr. OMBVIN (Haiti) said that the question of joining the Fund was in suspense and his delegation had communicated with their Government drawing attention to the necessity of concluding a special exchange agreement. No reply had as yet been received.

Mr. NATADININGRAT (Indonesia) said that his Government had taken steps to accept a special exchange agreement with the Contracting Parties pending Indonesia's joining the Fund. Their country was still suffering from the consequences of the war and, as was stated in the document before them, resort to the transitional arrangements of Article XI was of fundamental importance to them.

Mr. GISLE (Sweden) said that his Government had applied to the Fund for membership well within the time limits set by the Contracting Parties, although no decision had as yet been taken. He had, however, reason to believe that agreement would be reached shortly, failing which they would enter into a special exchange agreement with the Contracting Parties. If the Contracting Parties wished to set a new time limit he suggested the first day of the next session.

Mr. SCHMITT (New Zealand) said that his Government had found certain difficulties in its endeavour to conform with the resolution of the Fourth Session of the Contracting Parties requiring participation in the Fund or the signature of a special exchange agreement. These difficulties, they believed, affected all the contracting parties to which the provisions of Article XV applied.

He thought it was generally known that his Government was not favourably disposed to participation in the Fund and quoted in this respect a speech made by the New Zealand Prime Minister in which it was stated that they did not have the intention to join the Fund because they were not convinced of the advantages of membership. This was not to imply any opposition to the aims of the Fund in respect of orderly exchange policy because it was the intention of the New Zealand Government always to do their best to conform to such principles. In particular, the New Zealand Government would not seek to secure trade advantage through exchange measures.

In the light of that attitude it was natural that his Government should give close scrutiny to the special exchange agreement into which it was proposed they should enter. In the course of this examination they had found very serious objections to entering into an exchange agreement, not because of any special circumstance in which New Zealand found itself, but because of the nature of the agreement itself. Their difficulties related to the procedural arrangements for the administration of such an agreement, the importance of which to all contracting parties he wished to stress. He referred as an example to the provisions requiring prior consultation before a member changed the par value of its currency. These provisions would require the concurrence of the Contracting Parties to any such change. The Contracting Parties on their part would be under the obligation to act with all possible speed and in the utmost secrecy upon the proposal before them and their decision should be definitive.

Apart from the difficulty of deciding whether or not such an obligation to consult was an acceptable one, he thought a very serious problem arose out of the fact that when they had signed the Protocol of Provisional Application the Agreement had been looked upon as a more or less temporary measure in view of the expectation that it would be replaced by the International Trade Organization. If the latter had come into existence he thought he could say that the problem of making procedural arrangements for the administration of special exchange agreements would have been much facilitated. When in 1948 at Geneva the Contracting Parties gave their attention to procedural arrangements at their Fourth Session it had appeared clear from the outset of the discussions that they were confronted with no simple problem. They had considered two proposals: one presented by the United States Delegation and another by the New Zealand delegation. Profound consideration of the difficulties involved had not succeeded in reducing them, and even now they did not have a solution acceptable to all contracting parties which they could submit. One thing had, however, become clear: that such an agreement would have no practical value unless it were properly administered, and this factor had led them to the conclusion that one could not expect a country to enter into a special exchange agreement until it was perfectly clear that the Contracting Parties could administer its provisions. For this reason his government did not feel it could take a final decision on the resolution of the Fourth Session. He expressed their sincere regret and assured all contracting parties that their decision was based on the serious difficulties encountered. He wished however to stress the importance attached by his Government - and he recalled as confirmation of this the recent statement by the Prime Minister - to the proper conduct of exchange matters.

Sir Stephen HOLMES (United Kingdom) said that they had all hoped at the Fourth Session that by the time the Fifth Session was convened, New Zealand would have found it possible to enter into a special exchange agreement. They had thought that very strong reasons would have had to be produced by the Government of New Zealand if this were not the case and in the opinion of his Delegation such very strong reasons had been adduced. He did not feel it was for him to elaborate on the difficulties which confronted New Zealand. The Contracting Parties could not be in continuous sessions and they had no permanent organization which would put them in a position to take quick action under appropriate conditions of secrecy. In regard to this latter requirement they had had difficulties in other cases and even at the present session.

When in 1947 they drafted the Agreement they had thought that the burden of the administration of special exchange agreements would fall upon a much more solidly constituted organization such as the intended International Trade Organization which would have the appropriate machinery to deal with problems of that kind. Their delegation found that there was a very fundamental difficulty in the whole concept of special exchange agreements, which involved the Contracting Parties, a body designed to deal with trade matters, in a task requiring action on exchange matters. When the proposal of the

United States was being examined at the Fourth Session the delegation of the United Kingdom had drawn the attention of their colleagues to the fact that while the obligations of a contracting party under a special exchange agreement must necessarily be to the Contracting Parties, and not to the Fund, nevertheless the matter dealt with was essentially a matter which fell under the sphere of competence of the Fund. Indeed, exchange agreements as they were drafted, were virtually replicas of the Fund articles. This had led to the obviously unsatisfactory situation that the Contracting Parties, in administering a special exchange agreement would become not much more than a "rubber stamp" for the decisions of the Fund.

As to a solution of the present difficulty, he felt that the only possible course for the Contracting Parties was to make some *ad hoc* arrangement to deal with the case before them and to consider at the appropriate stage whether the relevant section of the Agreement did not need a complete revision.

Apart from the special case of New Zealand he saw no other actual instance in which difficulties of any practical importance could arise. As for New Zealand itself, he felt the Contracting Parties could be assured by the record of that Government's performance as well as by the recent statement by the Prime Minister that there were no reasons to fear any impairment of the purposes of the Agreement or of the Fund by the inability of that Government to enter into a special exchange agreement. He was sure that the New Zealand delegation would be prepared to give assurances for the future and to observe any safeguards.

For future consideration at a time when they might consider other possible amendments, he submitted that the Contracting Parties might wish to amend the General Agreement on Tariffs and Trade so as to dispense with the alternative of special exchange agreements but with the difference that any future acceding government would be required to join the Fund. They would thus be reverting to the position from which they had started. He appealed to the Contracting Parties to give sympathetic consideration to the case before them.

Mr. SAAD (International Monetary Fund) said that the Governments of Burma and Sweden had made applications to join the Fund and he believed a favourable decision could be expected in a few weeks' time. Similarly, he thought a favourable decision would be made in a short time in the case of the application of the Government of Indonesia.

In the case of Haiti there appeared to be some confusion because that Government had made an application and had had time to decide up to September 30, 1950. They had failed to do so and the request had lapsed. They had furthermore sent a letter informing the Fund that they were not prepared to join and he therefore did not think it necessary to set a further limit in which Haiti would be given time to join the Fund. The Government therefore should be asked to sign a special exchange agreement.

As for New Zealand, they were faced with a new situation. They had been informed that New Zealand would propose no amendments to the exchange agreement. They had therefore expected that New Zealand would enter into an exchange agreement by the time of the next session. He would be at the disposal of any working party which might be set up, to supply any comment or information which might be required.

Mr. BRONZ (United States) noted with pleasure that at least three of the five countries were taking steps to join the Fund. He wished to refer to the fact that all the countries in question had let the time limit elapse without taking the steps demanded of them by the Contracting Parties. He thought that punctual observance of dates fixed should become a regular practice of contracting parties.

With regard to the statement of New Zealand, he said there had never been a suspicion that New Zealand harboured improper designs in the matter; but indeed, although no suspicions were entertained of any country, it had nevertheless been felt at Bretton Woods that adherence to a formal document was essential. Their memories of pre-war events were still fresh and they had agreed that the Fund would be a solution towards the improvement of relationships in this field.

In 1946, when drawing up the Agreement, most delegations had felt that Fund membership should be a pre-requisite of membership in the International Trade Organization; and although this attitude was relaxed in favour of countries which might have difficulties, it had been understood that the obligations upon members of the International Trade Organization in exchange matters would be those of Fund members with the exception that no contributions were claimed and no access to Fund resources was given - so much so that paragraph 2 of Article XV instituted the Fund as a final instance in judgments relating to foreign exchange, monetary reserves and balances of payment.

All the present difficulties had been foreseen in 1946 and his delegation had never been in favour of special exchange agreements. For this reason they would agree to explore any possibility of amending the Agreement as proposed by the Delegation of the United Kingdom, without prejudice, however, to the question as to whether Fund membership should only be made obligatory on future acceding governments.

At the Fourth Session the Working Party had concerned itself with procedural arrangements for the implementation of exchange agreements. If it appeared that there would be no practical cases between the present and the next session, he thought it would not be necessary for the Working Party to continue its task as recommended at the previous session. Perhaps some discretion could be left to the Working Party on this point in its terms of reference.

Mr. REISMAN (Canada) expressed his satisfaction with the indication of three countries that negotiations for Fund membership were well advanced. His comments on the case of New Zealand would be made largely in view of that situation. The decision taken by the New Zealand Government would raise a number of difficult issues because the terms of the General Agreement were very precise.

His delegation felt that the reasons adduced by the Delegate of New Zealand were strong and valid. The failure of the International Trade Organization to come into being had created real difficulties.

He felt that if, in fact, it turned out that all contracting parties but one became members of the Fund, the Contracting Parties would be well advised to re-examine the position to see whether it were not better to introduce as a rule for the future compulsory Fund membership as originally intended by a large number of the framers of the Agreement.

He felt they should endeavour to meet the special position of New Zealand. They should, however, bear in mind that some form of control such as, for instance, authority for the Contracting Parties to consult on exchange matters, was necessary.

Mr. GUERRA (Cuba) agreed with the representative of Canada that the difficulties of the New Zealand Delegation were real ones arising from the fact that the Contracting Parties had no adequate machinery to deal with the problem. This was a real difficulty for all countries where quick action and secrecy were necessary.

A spirit of co-operation had always been found in the Contracting Parties and, when necessary, arrangements to meet special cases had been made. He appealed to the Contracting Parties to attempt to find a solution to the

case of New Zealand in this spirit. He feared, however, that in view of certain difficulties he could not see how a solution could easily be arrived at. In the first place he could not see how they could dispense with some form of commitment on the part of the Government of New Zealand or of any other country. Monetary factors were so linked with commercial factors that complete freedom in the monetary field could not be accepted. Secondly, a greater difficulty arose out of the fact that they could not look upon the case of New Zealand as an isolated one in view of the possibility, envisaged by the Agreement, of a contracting party withdrawing from the Fund. In that event there was a definite provision in the Agreement that such a contracting party should sign a special exchange agreement. They should therefore ensure that in meeting the case of New Zealand they would not be weakening the obligations of paragraph 6 or Article XV. He did not think they should leave it open to a contracting party which considered its freedom of action limited by provisions of the Fund to obtain a free hand by withdrawing from that Agency.

Mr. CAUVIN (Haiti), with reference to the remark of the representative of the Fund that no delay need be granted to the Government of Haiti to join the Fund but that it be asked to sign a special exchange agreement, wished to point out that his country was at present faced with a change of government and of constitution and that he felt that if a short delay were granted the matter might be satisfactorily cleared. He suggested that the delay be extended to the opening date of the next session.

The meeting rose at 1 p.m.

