

RESTRICTED
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COMMITTEE ON SPECIAL EXCHANGE AGREEMENTS

Second Session

(Revised text of Article I of the Draft of Special
Exchange Agreement

(tentatively approved by the Committee)

The Acceding Government shall collaborate with the CONTRACTING PARTIES to promote exchange stability, to maintain orderly exchange arrangements with other contracting parties, to avoid competitive exchange alterations, and to assist in the elimination of restrictions on the working of payments and transfers for current international transactions with a view to the establishment of a multilateral system of payments and to the promotion of world trade.

NOTE BY THE UNITED KINGDOM REPRESENTATIVE

The following draft is an attempt to provide a basis for agreement. Three principles have been applied:-

- (1) An Acceding Government must accept the essential obligations.
- (2) Subject to (1), a serious effort should be made to meet the points raised by the New Zealand Representatives.
- (3) Paragraphs in the London draft which are mainly concerned with monetary detail should, where possible, be dropped or comprehended in a more general clause.

The draft has been drawn up after discussion with several members of the Working Party who have been available over the holiday but no attempt has been made to ascertain whether those members, or anyone else, would accept it.

Article I

Purpose

The purpose of this Agreement is to fulfil the requirements of paragraphs 6 and 7 of Article XV of the General Agreement on Tariffs and Trade.

Article II

Determination of Par Value

1. The Acceding Government shall declare the initial par value of its currency in the instrument by which it accedes to this Agreement; provided that the Acceding Government or the CONTRACTING PARTIES may postpone declaration for such period as may be agreed between them. During that period the Acceding Government shall consult with the CONTRACTING PARTIES with a view to fixing an agreed par value at the earliest possible date.

2. An Acceding Government declaring an initial par value for the currency of its metropolitan territory under paragraph 1 shall declare a value in terms of that currency for each separate currency, where such exists, in the territories in respect of which it has accepted the General Agreement pursuant to paragraph 4 of Article XXVI thereof. On the basis of the par value so declared, the CONTRACTING PARTIES shall compute the par value of each separate currency. An Acceding Government may, however, declare an initial par value for the currency of its metropolitan territory or any of the separate currencies alone. If the Acceding Government does so, the provisions of paragraph 1 shall apply to each of these currencies separately.

3. The par value of the Acceding Government's currency shall be expressed in terms of gold as a common denominator or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944.

4. The CONTRACTING PARTIES will keep the Acceding Government currently informed on the par values of the currencies of the other contracting parties.

Article III

Foreign Exchange Dealings and Gold Transactions based on Parity *for value*

Adopt
1. The ~~Acceding~~ Government shall not buy gold at a price which exceeds the par value of its currency by more than the CONTRACTING PARTIES consider reasonable or sell gold at a price which falls below the par value of its currency by more than the CONTRACTING PARTIES consider reasonable.

2. ~~The maximum and minimum rates for exchange transactions between the currency of the Acceding Government and the currencies of other contracting parties taking place within the territories of the Acceding Government shall not differ from parity by more than the CONTRACTING PARTIES consider reasonable.~~

Article IV

Changes in Par Value

New
1. The Acceding Government shall not propose a change in the par value of its currency except to correct a fundamental disequilibrium. *Q. Is it a relative thing? It is relative to the equilibrium of the country concerned.*

2. A change in the par value of the Acceding Government's currency may be made only on the proposal of that Government and only after consultation with the CONTRACTING PARTIES.

2 3. ~~When a change is proposed the CONTRACTING PARTIES, in deciding whether to concur or to object, shall give full weight to~~

- (a) the intent of Article XV (7) (b) of the General Agreement *and shall not object if the change, by itself, does not exceed 10% of the initial par value.*
- (b) the particular need for secrecy and expedition in reaching their decision

2 4. The CONTRACTING PARTIES shall concur in a proposed change if they are satisfied that the change is necessary to correct a fundamental disequilibrium. In particular, provided they are so satisfied, they shall not object to a proposed change because of the domestic social or political policies of the Acceding Government.

5. If the Acceding Government changes the par value of its currency despite the objection of the CONTRACTING PARTIES, ~~in cases where the CONTRACTING PARTIES are entitled to object~~, the CONTRACTING PARTIES shall proceed to such action as they consider to be appropriate under paragraph 2 of article XXIII of the General Agreement.

Article V

Avoidance of Restrictions on Current Payments

Subject to the provisions of Article VIII (1) the Acceding Government shall not, without the approval of the CONTRACTING PARTIES, impose restrictions on the making of payments and transfers for current international transactions, provided that an Acceding Government may impose such restrictions (a) if they are applied as an alternative administrative procedure ^{or} having equivalent effect ^{for the operation} to import restrictions which the Acceding Government is entitled to impose in compliance with the provisions of Article XII of the General Agreement, and (b) where the sole effect of the exchange controls, additional to the effects permitted under this Agreement, is to make effective restrictions or controls on imports or exports imposed in accordance with ^{Art XII or XIV} the General Agreement.

Article VI

Controls on Capital Transfers

The Acceding Government may exercise such controls as are necessary to regulate international capital movements, but may not exercise these controls in a manner which will restrict payments for current transactions or which will unduly delay transfers of funds in settlement of commitments, except as provided in Article VIII.

Article VII

Convertibility of Balances Held by Other Contracting Parties

1. The Acceding Government shall buy balances of its currency held by another contracting party if the latter, in requesting the purchase, represents:

- (a) that the balances to be bought have been recently acquired as a result of current transactions; or
- (b) that their conversion is needed for making payments for current transactions.

2. The Acceding Government shall have the option to pay either in the currency of the contracting party making the request or in gold.

3. The obligations under paragraph 1 shall not apply

- (a) when the convertibility of the balances has been restricted consistently with Article V or VI; or
- (b) when the balances have accumulated as a result of transactions effected before the removal by the Acceding Government of restrictions maintained or imposed under Article VIII; or
- (c) when the balances have been acquired contrary to the exchange regulations of the Acceding Government; or
- (d) with the approval of the CONTRACTING PARTIES, to stop a serious decline in the monetary reserves of the Acceding Government.

Article VIII

Transitional Period

1. In the post-war transitional period the Acceding Government may, notwithstanding the provisions of any other article of this Agreement, maintain and adapt to changing circumstances (and, in the case of Acceding Governments whose territories have been occupied by the enemy, introduce where necessary) restrictions on payments and transfers for current international transactions.

The Acceding Government shall, however, have continuous regard in its foreign exchange policies to the intent of the General Agreement and of this Agreement; and, as soon as conditions permit, it shall take all possible measures to develop such commercial and financial arrangements with other contracting parties as will facilitate international payments and the maintenance of exchange stability. In particular, the Acceding Government shall withdraw restrictions maintained or imposed under this paragraph as soon as it is satisfied that it will be able, in the absence of such restrictions, to settle its balance of payments in a manner which will not unduly impair its external financial position.

2. The Acceding Government shall notify the CONTRACTING PARTIES, within thirty days of the entry into force of this Agreement, whether it intends to avail itself of the transitional arrangements in paragraph 1, or whether it is prepared to accept the obligations of Articles V and VII. In the event that the Acceding Government avails itself of the transitional arrangements, it shall notify the CONTRACTING PARTIES as soon as it is prepared to accept the above-mentioned obligations.

3. Not later than March 1, 1950, and in each year thereafter, the CONTRACTING PARTIES shall report on the restrictions still in force under paragraph 1. Not later than March 1, 1952, and in each year thereafter, if the Acceding Government still retains any restrictions inconsistent with Article V or VII, it shall consult with the CONTRACTING PARTIES as to their further retention. The CONTRACTING PARTIES may, if they deem such action necessary in exceptional circumstances, make representations to the Acceding Government that conditions are favourable for the withdrawal of any particular restriction, or for the general abandonment of restrictions, inconsistent with the provisions of any other article of this Agreement. The Acceding Government shall be given a suitable time to reply to such representations. If the CONTRACTING PARTIES find that the Acceding Government persists in maintaining restrictions which are inconsistent with the intent of this Agreement, the CONTRACTING PARTIES shall proceed to such action as they consider to be appropriate under paragraph 2 of Article XXIII of the General Agreement.

Article IX

Interpretation of this Agreement

1. The CONTRACTING PARTIES shall interpret this Agreement in the light of Article XV (7) of the General Agreement and, where they are satisfied that the objectives of the General Agreement are not frustrated as a result of action taken or proposed by the Acceding Government in exchange matters, they shall give that Government the benefit of any reasonable doubt on other aspects of the question.

2. In considering matters arising under this Agreement the CONTRACTING PARTIES shall pay due regard to the considerations set forth in paragraphs 3 (b) and (c) of Article XII of the General Agreement and shall not require the Acceding Government to desist from any action in exchange matters taken or proposed by that Government on the ground that a change in its domestic social or political policies would make such action unnecessary.

Article X

Miscellaneous

1. The relevant explanation of terms contained in Article XIX of the Articles of Agreement of the Fund shall apply to this Agreement.

2. The CONTRACTING PARTIES shall suspend the operation of Article III of this Agreement for the same period of time and to the same extent as the Fund suspends the operation of corresponding provisions of its Articles of Agreement in accordance with Article XVI, Section , of the Articles of Agreement of the Fund.

The Acceding Government shall designate from time to time the person or persons who shall act on its behalf in matters arising under this Agreement

(Provisions to cover procedure between sessions of the CONTRACTING PARTIES and Secrecy Text to be settled.)

Article XI

Amendments

Amendments to this Agreement may be suggested at any time by any contracting party. An amendment to this Agreement shall become effective in respect of those Acceding Governments which accept it upon adoption by the CONTRACTING PARTIES and thereafter for each other Acceding Government upon acceptance by it. The CONTRACTING PARTIES may decide that any amendment made effective under this Article is of such a nature that any Acceding Government which has not accepted it within a period specified by the CONTRACTING PARTIES shall be free to withdraw from the General Agreement or to remain a contracting party with the consent of the CONTRACTING PARTIES.

Article XII

Accession, Entry into Force and Termination

Text to be agreed on technical points - so far as I know uncontroversial.

Article XIII

Reciprocity of Obligations

Contracting Parties which are members of the International Monetary Fund shall accord to the Acceding Government treatment in exchange matters not less favourable than that which they accord to each other under the Articles of Agreement of the Fund.