

CONTRACTING PARTIES

Third Session

FINAL REPORT OF THE COMMITTEE ON

SPECIAL EXCHANGE AGREEMENTS

1. The Committee was in session at Annecy from April 12 to April 29 and again from June 14 to June 17, 1949, to give a final reading to the text of a special exchange agreement under the provisions of Article XV of the General Agreement, and otherwise to complete the work assigned to it.
2. The texts of the draft special exchange agreement and of the draft resolutions hereby submitted to the CONTRACTING PARTIES are annexed to this report.
3. The changes introduced in the draft agreement annexed to the interim report of the Committee (GATT/CEA/7, 16 November, 1948) do not modify substantially that draft, but the form of the agreement has been altered. Instead of proposing an agreement to which all contracting parties not members of the International Monetary Fund would be required to adhere, the Committee is recommending the execution of a separate document with each such contracting party in the terms of the agreement annexed to Resolution No. 1 submitted herewith.
4. The text of Articles II and VI of the draft agreement annexed to Resolution No. 1 will require adjustment if the signatory is to be a contracting party which uses one or more non-metropolitan currencies, in addition to the currency of its metropolitan territory, in the territories in respect of which it has accepted (or is provisionally

applying) the General Agreement. Since no present prospective signatory of a special exchange agreement uses any non-metropolitan currencies, the Committee did not undertake the preparation of texts to deal with this problem.

5. The Committee was also instructed in its terms of reference to recommend the time within which those contracting parties which are not members of the Fund must either join the Fund or enter into a special exchange agreement with the CONTRACTING PARTIES. In draft Resolution No. 1 submitted by the Committee, it is provided that each such existing contracting party shall deposit an instrument of acceptance of the special exchange agreement to be entered into by it with the CONTRACTING PARTIES on or before the first day after November 1, 1949, on which the CONTRACTING PARTIES are in session, if it is not then a member of the Fund. As regards the acceding governments, the Committee suggests that each such government should be required to accept a special exchange agreement in the terms of the text annexed to draft Resolution No. 1 within four months after it has become a contracting party, or on or before the first day after November 1, 1949 on which the CONTRACTING PARTIES are in session (whichever is the later), if such acceding government is not a member of the Fund. Resolution No. 1 provides further that any contracting party which ceases to be a member of the Fund shall accept the special exchange agreement forthwith, i.e., in no event later than thirty days after it ceases to be a member of the Fund.

6. The representatives of New Zealand stressed certain special difficulties of their Government in relation to Resolution No. 1 and the text annexed thereto. The Committee therefore submits an additional Resolution (No. 2) which would exempt New Zealand from acting in accordance with Resolution No. 1, and accord that government the

opportunity to make proposals designed to meet these special difficulties at the first session of the CONTRACTING PARTIES held after November 1, 1949. Draft Resolution No. 2 also contemplates that the time within which the Government of New Zealand must either join the Fund or enter into a special exchange agreement would be fixed after any such proposals have been considered by the CONTRACTING PARTIES.

7. The Committee also proposes that the Chairman of the CONTRACTING PARTIES should be authorized to sign the special exchange agreements on behalf of the CONTRACTING PARTIES and to take all necessary action to execute the agreements and give effect to Resolution No. 1.

8. In connection with Article XII of the Special Exchange Agreement, which incorporates the obligations of paragraph 8 of Article XV of the General Agreement, the Committee considered the implementation of the requirement that contracting parties who are not members of the Fund furnish financial information. It is recommended that the CONTRACTING PARTIES request each contracting party not a member of the International Monetary Fund to furnish to the CONTRACTING PARTIES information such as contracting parties who are members of the Fund are now required to furnish to the Fund pursuant to Article VIII, Section 5 of the Articles of Agreement of the Fund. Specific requests should be prepared in consultation with the Fund and transmitted to the contracting parties concerned by the Chairman. Copies of all information received should be transmitted promptly to the International Monetary Fund.

9. The Committee recommends further that the CONTRACTING PARTIES, at their next session, consider the procedural arrangements that will be necessary to implement the provisions of the special exchange agreements and that this question be placed on the agenda of the fourth session.

ANNEX

Draft Resolution No. 1

The CONTRACTING PARTIES,

CONSIDERING that paragraph 6 of Article XV of the General Agreement on Tariffs and Trade provides that any contracting party, which is not a member of the International Monetary Fund, shall, within a time to be determined by the CONTRACTING PARTIES, after consultation with the Fund, become a member of the Fund, or, failing that, enter into a special exchange agreement with the CONTRACTING PARTIES,

CONSIDERING that paragraph 6 of Article XV of the General Agreement provides further that any contracting party which ceases to be a member of the Fund shall forthwith enter into a special exchange agreement with the CONTRACTING PARTIES,

CONSIDERING further that, in accordance with paragraph 7 of the said Article, such special exchange agreement shall provide to the satisfaction of the CONTRACTING PARTIES that the objectives of the General Agreement will not be frustrated as a result of action in exchange matters by the contracting party in question, and taking into account that the terms of such agreement shall not impose obligations on that contracting party in exchange matters generally more restrictive than those imposed by the Articles of Agreement of the International Monetary Fund on members of the Fund,

HEREBY ADOPT the text annexed to the Resolution as the text of the special exchange agreement for the purpose of the above mentioned provisions of the General Agreement;

RESOLVE that each existing contracting party not then a member of the Fund shall enter into a special exchange agreement in the terms of the text annexed to this Resolution by depositing an instrument

of acceptance on or before the first day after November 1, 1949 on which the CONTRACTING PARTIES are in session;

RESOLVE that each government which shall hereafter become a contracting party shall enter into a special exchange agreement in the terms of the text annexed to this Resolution by depositing an instrument of acceptance within four months after it becomes a contracting party or on or before the first day after November 1, 1949 on which the CONTRACTING PARTIES are in session (whichever is the later), if it is not then a member of the Fund;

RESOLVE that any contracting party which ceases to be a member of the Fund shall enter into a special exchange agreement in the terms of the text annexed to this Resolution by depositing an instrument of acceptance forthwith (which shall in no event be later than thirty days after it ceases to be a member of the Fund); and

AUTHORIZE the Chairman of the CONTRACTING PARTIES to sign on their behalf each of the agreements referred to above and to take all necessary action to give effect to this Resolution.

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ANNEX TO RESOLUTION NO. 1

124
DRAFT OF SPECIAL EXCHANGE AGREEMENT

WHEREAS paragraph 6 of Article XV of the General Agreement on Tariffs and Trade (hereinafter referred to as "the General Agreement") provides that any contracting party which is not a member of the International Monetary Fund (hereinafter called "the Fund") shall, within a time to be determined by the CONTRACTING PARTIES after consultation with the Fund, become a member of the Fund, or, failing that, enter into a special exchange agreement with the CONTRACTING PARTIES; (1)

WHEREAS paragraph 7 of the said Article provides that such special exchange agreement shall provide to the satisfaction of the CONTRACTING PARTIES that the objectives of the General Agreement will not be frustrated as a result of action in exchange matters by the contracting party in question, and taking into account that the terms of such agreement shall not impose obligations on the contracting party in exchange matters generally more restrictive than those imposed by the Articles of Agreement of the Fund on members of the Fund;

WHEREAS by Resolution of June 20 1949 the CONTRACTING PARTIES adopted the text of the special exchange agreement for the purpose of

(1) The first paragraph of the preamble shall be replaced by the following text in the case of a contracting party which has ceased to be a member of the Fund:

"WHEREAS paragraph 6 of Article XV of the General Agreement on Tariffs and Trade (hereinafter referred to as the "General Agreement") provides that any contracting party which ceases to be a member of the International Monetary Fund (hereinafter called "the Fund") shall forthwith enter into a special exchange agreement with the CONTRACTING PARTIES, "

giving effect to the above-mentioned provisions of the General Agreement and authorized their Chairman to sign on their behalf a special exchange agreement in the terms of this text with any contracting party which is not a member of the Fund and to take all necessary action to give effect to that Resolution;

THE CONTRACTING PARTIES,

and

The Government of _____ acting through its representative duly authorized for this purpose

HEREBY AGREE AS FOLLOWS :

Article I

Exchange Stability and Orderly Exchange Arrangements

The Government of _____ shall collaborate with the CONTRACTING PARTIES to promote exchange stability, to maintain orderly exchange arrangements with other contracting parties to the General Agreement, to avoid competitive exchange alterations, and to assist in the elimination of restrictions on the making 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 international trade.

Article II

Determination of Initial Par Value

1. Unless an initial par value has been previously agreed between the Government of _____ and the CONTRACTING PARTIES, the Government of _____ shall, within thirty days after the CONTRACTING PARTIES so request, communicate to them the par value of its currency based on the rates of exchange prevailing at the time. The par value so communicated shall be the initial par value

of its currency for the purpose of this Agreement unless within ninety days after the request has been received (a) the Government of _____ notifies the CONTRACTING PARTIES that it regards the par value as unsatisfactory, or (b) the CONTRACTING PARTIES notify the Government of _____ that in their opinion the adoption of such par value would be prejudicial to trade among the contracting parties. When such notification is given, the CONTRACTING PARTIES and the Government of _____ shall, within a period to be determined by the CONTRACTING PARTIES, agree upon a suitable initial par value.

2. The par value of the currency of _____ 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.

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

Article III

Gold Transactions based on Par Value

1. The Government of _____ shall not buy gold at a price above the par value for its currency plus the margin permissible under this Article, or sell gold at a price below the par value minus the margin permissible under this Article.

2. The margins permissible for transactions in gold by the Government of _____ shall be the same as those permissible to contracting parties which are members of the Fund, and the CONTRACTING PARTIES shall keep the Government of _____ informed of such margins.

Article IV

Foreign Exchange Dealings based on Parity

The maximum and minimum rates for exchange transactions between the currency of _____ and the currencies of other contracting parties

taking place within the territories of _____ shall not differ from parity :

- a) in the case of spot exchange transactions, by more than one percent, and
- b) in the case of other exchange transactions, by a margin which exceeds the margin for spot exchange transactions by more than the CONTRACTING PARTIES consider reasonable.

Article V

Obligations regarding Exchange Stability

The Government of _____ undertakes, through appropriate measures consistent with this Agreement, to permit within its territories exchange transactions between its currency and the currencies of other contracting parties only within the limits prescribed under Article IV. The Government of _____ shall be deemed to be fulfilling this undertaking if its monetary authorities, for the settlement of international transactions, in fact freely buy and sell gold within the limits prescribed under Article III.

Article VI

Changes in Par Value

1. The Government of _____ shall not propose a change in the par value of its currency except to correct a fundamental disequilibrium.
2. A change in the par value of the currency of _____ may be made only on the proposal of the Government of _____ and only after consultation with the CONTRACTING PARTIES.
3. When a change is proposed, the CONTRACTING PARTIES shall first take into account the changes, if any, which have already taken place in the initial par value of the currency of _____ as determined under Article II. If the proposed change, together with all previous changes, whether increases or decreases,

- a) does not exceed 10 percent of the initial par value,
the CONTRACTING PARTIES shall raise no objection;
 - b) does not exceed a further 10 percent of the initial par
value, the CONTRACTING PARTIES may either concur or
object, but shall declare their attitude within
ninety-six hours if the Government of _____ so
requests;
 - c) is not within (a) or (b), the CONTRACTING PARTIES may
either concur or object, but shall be entitled to a
longer period in which to declare their attitude.
4. The CONTRACTING PARTIES shall concur in a proposed change which is
within the terms of (b) or (c) of paragraph 3 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 Government of _____.
5. If the Fund, in accordance with Article IV, Section 7 of the
Articles of Agreement of the Fund, makes uniform proportionate changes in
the par values of the currencies of Fund members, the Government of
_____ will change its par value proportionately, unless it
informs the CONTRACTING PARTIES within ninety-six hours after it has been
notified by the CONTRACTING PARTIES of the Fund's action that it does not
wish the par value of its currency to be changed.
6. Changes in the par value made under paragraph 5 shall not be taken
into account in determining whether a proposed change falls within (a),
(b) or (c) of paragraph 3.
7. If the Government of _____ 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 Government of _____
shall be deemed to have failed in carrying out its obligations under this
Agreement.

Article VII

Avoidance of Restrictions on
Current Payments

1. Subject to the provisions of Articles IX and XI, the Government of _____ shall not, without the approval of the CONTRACTING PARTIES, impose restrictions on the making of payments and transfers for current international transactions.
2. The Government of _____ shall not engage in, or permit its Treasury, central bank, stabilization fund, or other similar fiscal agency, to engage in any discriminatory currency arrangements or multiple currency practices except as authorized under this Agreement or approved by the CONTRACTING PARTIES. If such arrangements and practices have been maintained since January 1, 1948 (the date on which the General Agreement was first provisionally applied), the Government of _____ shall consult with the CONTRACTING PARTIES as to their progressive removal. This paragraph shall not apply to such arrangements or practices maintained or imposed under paragraph 1 of Article XI, in which case the provisions of paragraph 5 of that Article shall apply.
3. Exchange contracts which involve the currency of any contracting party and which are contrary to the exchange control regulations of that contracting party maintained or imposed consistently with the Articles of Agreement of the Fund or with the provisions of a special exchange agreement entered into pursuant to paragraph 6 of Article XV of the General Agreement, shall be unenforceable in the territories of the Government of _____. In addition, the Government of _____ may, by mutual accord with other contracting parties, co-operate in measures for the purpose of making the exchange central regulations of either contracting party more effective, provided that such measures and regulations are consistent with this Agreement or with another special exchange agreement entered into pursuant to paragraph 6 of Article XV of the General Agreement or with the Articles of Agreement of the Fund, whichever may be applicable to the contracting party whose measures or regulations are involved.

Article VIII

Controls of Capital Transfers

1. The Government of _____ 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 Articles IX and XI.
2. The Government of _____ undertakes that capital outflow will be in accordance with the objectives of this Agreement and of the General Agreement.

Article IX

Scarce Currencies

1. The Government of _____ is authorized to impose temporarily, after consultation with the CONTRACTING PARTIES, limitations on the freedom of exchange operations in a currency which has formally been declared scarce by the Fund in accordance with Article VII, Section 3 (a) of the Articles of Agreement of the Fund. Subject to the provisions of Articles IV and V of this Agreement, the Government of _____ shall have complete jurisdiction in determining the nature of such limitations, but they shall be no more restrictive than is necessary to limit the demand for the scarce currency to the supply held by, or accruing to, the Government of _____; and they shall be relaxed and removed as rapidly as conditions permit. The authorization here mentioned shall expire whenever the Fund formally declares the currency in question to be no longer scarce.
2. If the Government of _____ is imposing limitations in accordance with paragraph 1, it shall give sympathetic consideration to

any representations by the contracting party whose currency has been declared scarce regarding the administration of such restrictions.

3. The CONTRACTING PARTIES shall request any contracting party against which restrictions may be permitted under this Article not to invoke the obligations of any engagement entered into with the Government of _____ prior to this Agreement in such a manner as will prevent the operation of the provisions of this Article.

Article X

Convertibility of Balances Held
by Other Contracting Parties

1. The Government of _____ 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 Government of _____ shall have the option to pay either in the currency of the contracting party making the request or in gold.
3. The obligation under paragraph 1 shall not apply
 - (a) when the convertibility of the balances has been restricted consistently with Article VII or VIII; or
 - (b) when the balances have accumulated as a result of transactions effected before the removal by the Government of _____ of restrictions maintained or imposed under Article XI; or
 - (c) when the balances have been acquired contrary to the exchange regulations of the Government of _____; or
 - (d) when the currency of the contracting party requesting the

purchase has been declared scarce and the Government of _____ has been so notified under Article IX; or

- (e) with the approval of the CONTRACTING PARTIES, in any particular circumstance in which the fulfilment of the obligations of paragraph 1 of this Article would dangerously threaten exchange stability.

Article XI

Transitional Period

1. In the post-war transitional period the Government of _____ may, notwithstanding the provisions of any other article of this Agreement, maintain and adapt to changing circumstances (1) restrictions on payments and transfers for current international transactions. The Government of _____ shall, however, have continuous regard in its foreign exchange policies to the intent of this Agreement and of the General 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 Government of _____ 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 Government of _____ shall notify the CONTRACTING PARTIES, within thirty days after it accepts 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 VII and X. If the Government of _____ avails itself

(1) In the case of a government whose territories have been occupied by the enemy, e.g. Burma, insert after the word "circumstances" in the fourth line of paragraph 1 of Article XI the words "and introduce where necessary".

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 Government of _____ still retains any restrictions inconsistent with Article VII or X, 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 Government of _____ 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 Government of _____ shall be given a suitable time to reply to such representations. If the CONTRACTING PARTIES find that the Government of _____ persists in maintaining restrictions which are inconsistent with the intent of this Agreement, the Government of _____ shall be deemed to have failed in carrying out its obligations under this Agreement.

4. It is recognized that the post-war transitional period is one of change and adjustment, and when decisions are being made on requests occasioned thereby which are presented by the Government of _____, that Government shall be given the benefit of any reasonable doubt.

Article XII

Furnishing of Information

1. The Government of _____ shall furnish the CONTRACTING PARTIES with such information as they may require in accordance with paragraph 8 of Article XV of the General Agreement.
2. In requesting information under paragraph 8 of Article XV of the General Agreement, the CONTRACTING PARTIES shall take into consideration the varying abilities of contracting parties to furnish the data requested. The Government of _____ shall be under no obligation to furnish information in such detail that the affairs of individuals or corporations are disclosed. The Government of _____ undertakes, however, to furnish the desired information in as detailed and accurate a manner as is practicable, and, so far as possible, to avoid mere estimates.

Article XIII

Miscellaneous Provisions

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 at all times have the right to communicate their views informally to the Government of _____ on any matter arising under this Agreement.
3. The CONTRACTING PARTIES shall suspend the operation of Articles IV and V 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 I, of the Articles of Agreement of the Fund.
4. Without prejudice to Article XXIII of the General Agreement, whenever in the opinion of the CONTRACTING PARTIES the Government of _____ fails to observe any of the provisions of this

Agreement, the CONTRACTING PARTIES shall make representations to the Government of _____. The Government of _____ shall be given reasonable time to reply to such representations.

5. The CONTRACTING PARTIES shall seek an understanding with the Fund to the effect that,

(a) whenever the CONTRACTING PARTIES consult the Fund on exchange matters particularly affecting the Government of _____, the latter will be offered an opportunity to present its case directly to the Fund, and

(b) the Government of _____ may initiate direct consultation between itself and the Fund in appropriate cases, provided that it shall notify the Chairman of the CONTRACTING PARTIES upon such occasion that it avails itself of this right.

Article XIV

Acceptance, Entry into Force and Termination

1. This Agreement shall be signed on behalf of the CONTRACTING PARTIES by their Chairman and shall be deposited with the Secretary-General of the United Nations, who is hereby authorized to register this Agreement.

2. The Government of _____ may accept this Agreement by depositing an instrument of acceptance with the Secretary-General of the United Nations. The Secretary-General will inform the CONTRACTING PARTIES of the date of deposit of such instrument of acceptance.

3. This Agreement shall enter into force thirty days after the Government of _____ deposits an instrument of acceptance in accordance with paragraph 2.

4. The provisions of this Agreement, entered into pursuant to Article XV of the General Agreement, shall be deemed to be included within that Article.

5. This agreement shall terminate on the day on which the Government of _____ becomes a member of the Fund or ceases to be a contracting party.

IN WITNESS WHEREOF, the Chairman of the CONTRACTING PARTIES has signed this Agreement.

DONE at _____, this _____ day of _____ one thousand nine hundred and _____.

Part Resolution No. 2

The CONTRACTING PARTIES

CONSIDERING that the representatives of New Zealand have indicated that certain special difficulties are raised for their Government by the text of the special exchange agreement adopted by the CONTRACTING PARTIES,

RESOLVE that, notwithstanding the provisions of the resolution adopted by them on _____, the Government of New Zealand shall not be required to enter into a special exchange agreement until it has had an opportunity at the first meeting of the CONTRACTING PARTIES in session after November 1, 1949, to make proposals designed to meet the difficulties referred to above, and until a date by which the Government of New Zealand shall enter into a special exchange agreement (if it is not then a member of the Fund) is fixed by the CONTRACTING PARTIES.

