

GENERAL AGREEMENT ON  
TARIFFS AND TRADE

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CONTRACTING PARTIES  
Fourth Session

REPORT OF WORKING PARTY "F"  
ON SPECIAL EXCHANGE AGREEMENTS

INTRODUCTION

1. The Working Party was instructed by its terms of reference :

"to consider ~~the~~ questions arising out of the conclusion of special exchange agreements, including procedural arrangements for their implementation."

Taking into account the views expressed in the plenary session of the CONTRACTING PARTIES at their 14th meeting, the Working Party first of all reviewed the position of those contracting parties not members of the International Monetary Fund (Ceylon, Burma, Pakistan, Haiti, Indonesia and New Zealand), to which paragraph 6 of Article XV of the General Agreement applied. It also examined the position of those Annex acceding Governments not members of the Fund (Liberia and Sweden), to which, upon their accession to the General Agreement, the same provision would be applicable. Its conclusions and recommendations in this respect are embodied in PART ONE of the Report.

2. The Working Party also considered the procedural arrangements for the implementation of special exchange agreements concluded pursuant to Article XV:6 of the General Agreement. This aspect of its deliberations is covered by PART TWO of this Report.

PART ONE

REVIEW OF THE POSITION OF INDIVIDUAL CONTRACTING PARTIES

I. THE IMPLEMENTATION OF THE SPECIAL EXCHANGE AGREEMENT WITH CEYLON

3. The Working Party noted that the Government of Ceylon had deposited an instrument of acceptance in respect of a special exchange agreement on March 3, 1950 and that the agreement would enter into force on April 2, 1950. Ceylon had also notified the CONTRACTING PARTIES of its intention to avail itself of the transitional arrangements of Article XI of the Special Exchange Agreement for the maintenance of restrictions on payments and transfers for current international transactions.

4. In this connection the Working Party noted that there would be certain administrative actions to be taken by the CONTRACTING PARTIES when the Special Exchange Agreement came into force. The Working Party suggests that the Chairman be authorized (a) to transmit to Ceylon the Fund's regulation on the margins permissible for transactions in gold pursuant to Article IV:2 of the Fund Agreement, which would be binding on Ceylon by virtue of Article III:2 of the Special Exchange Agreement; (b) to transmit to Ceylon in accordance with the provisions of Article II:3 of the Special Exchange Agreement a schedule of the par values of the currencies of other contracting parties, and (c) to take other similar actions of an administrative nature.

5. The provisions of paragraph 37 of this report apply to Ceylon as they do to all contracting parties which are not members of the Fund.

6. However, the Working Party was informed by the representative of the Fund that Ceylon had applied for membership of the Fund and was likely to become a member in the near future. The Fund had suggested that the CONTRACTING PARTIES might defer the submission to Ceylon of a request under Article II of the Special Exchange Agreement for an indication of the par value

of its currency until such time as the Fund might so advise.<sup>1/</sup>

7. In view of the desirability of avoiding unnecessary duplication of work between the CONTRACTING PARTIES and the Fund, the Working Party recommends that the CONTRACTING PARTIES defer, until such time as they might consider appropriate in the light of any advice received from the Fund, the action under Article II of the Special Exchange Agreement relating to Ceylon.

II. THE POSITION OF CONTRACTING PARTIES REQUIRING AN EXTENSION OF TIME LIMIT WITHIN WHICH TO COMPLETE ACTION UNDER ARTICLE XV<sup>16</sup>

Pakistan

8. The Working Party noted that the Government of Pakistan, in order to comply with the terms of Resolution No. 1 adopted at the Third Session, should either have become a member of the Fund or have entered into a special exchange agreement before the first day of the present session. The Working Party took note of the statement made by the representative of Pakistan that his Government had expected to accept Fund membership before the commencement of the present session, but that this action had been delayed by legislative procedures. The Working Party also took account of the fact that the CONTRACTING PARTIES, in view of the advanced stage of the arrangements for Pakistan's admission to the Fund, had already agreed in principle to the extension, for about six months, of the time limit for the conclusion by that country of a special exchange agreement.

Haiti

9. In the case of Haiti, the Working Party noted that the circumstances were similar to those pertaining to Pakistan. The representative of the Fund confirmed that the Fund, upon application by Haiti, had determined conditions of membership for

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<sup>1/</sup> The relevant section of a letter, of February 14, 1950, from the Managing Director of the Fund reads:

"Article II of the special exchange agreement requires Ceylon to communicate to the CONTRACTING PARTIES within 30 days after the CONTRACTING PARTIES so request, the par value of its currency based on the rates of exchange prevailing at the time, so that an initial par value of its currency may be established.

"The Fund will, of course, cooperate in the establishment of an initial par value in accordance with the special exchange agreement. However, since Ceylon has made an application to become a member of the Fund, I suggest that the transmitting of a request to Ceylon, to communicate the par value of its currency, be deferred until such time as the Fund may so advise."

for Haiti and that Haiti was expected to accept membership in the very near future, but that the Fund had extended, until September 30, 1950, the time limit set for this purpose.

10. On these grounds, the Working Party considered that it would be appropriate to grant to Haiti an extension of time similar to that set for Pakistan.

#### Burma

11. With respect to Burma the Working Party was informed that the Government of that country contemplated joining the Fund in the near future and that it, accordingly, desired to secure an extension of the prescribed period for its acceptance of a special exchange agreement.

12. The representative of Burma further brought to the notice of the Working Party the abnormal conditions prevailing in his country which had given his Government preoccupations of considerable urgency.

13. Having regard to the exceptional circumstances prevailing in Burma, the Working Party agreed to recommend that an extension of time be granted to that country for the action under Article XV:6 of the General Agreement.

### III. THE POSITION OF CONTRACTING PARTIES FOR WHICH A TIME LIMIT HAS TO BE FIXED WITHIN WHICH TO COMPLETE ACTION UNDER ARTICLE XV:6

#### New Zealand

14. At the Third Session the CONTRACTING PARTIES resolved that, notwithstanding the provisions of the Resolution No. 1 adopted by them on June 20, 1949, the Government of New Zealand would not be required to enter into a special exchange agreement until it had had an opportunity at the first meeting of the CONTRACTING PARTIES subsequent to November 1, 1949, to make proposals designed to meet certain special difficulties raised for the New Zealand Government by the text of the special exchange agreement adopted at that session, and until the CONTRACTING PARTIES had fixed a date by which that Government should enter into a special exchange agreement. The Working Party was informed by the representative of New Zealand that his Government had decided not to propose any amendments to the draft text of the special exchange agreement approved by the CONTRACTING PARTIES at the Third Session and that New Zealand would decide in due course whether to become a member of the Fund or to accept a special exchange agreement as approved by the CONTRACTING PARTIES at the Third Session.

15. As regards the time limit to be set for this purpose, the New Zealand representative proposed that the CONTRACTING PARTIES adopt a date which would allow his Government approximately six months within which to complete the necessary action.

#### Indonesia

16. The representative of the United States of Indonesia stated that his Government was making preparations to join the Fund and that it expected to commence negotiations for Fund membership within the next four months. As the status of the United States of Indonesia as a contracting party in its own right was not established until February 1950, the Working Party considered that the only action required of the CONTRACTING PARTIES at this session was to fix a date pursuant to the provisions of Article XV:6 for the completion of the action to be taken under that paragraph.

#### IV. THE POSITION OF THE ANNECY ACCEDING GOVERNMENTS

##### Liberia

17. In so far as Liberia was concerned, the Working Party noted:

- (a) that the Fund had determined the conditions for membership for Liberia and that Liberia was expected to become a member within a short time, and
- (b) that Liberia appeared to be covered by the provisions of Resolution No.3 of the Third Session.

18. The Working Party concluded that no action was needed in respect of Liberia at the present session but that if Liberia, after its accession to the General Agreement, claimed to be covered by the provisions of Resolution No. 3, the CONTRACTING PARTIES should consider the applicability of that Resolution to Liberia.

##### Sweden

19. In the case of Sweden, the Working Party noted that that country's accession to the General Agreement and its application for Fund membership were at present receiving the consideration of the Swedish Government. It therefore concluded that there was no need at this stage to make any recommendation in view of the fact that Sweden would, under Resolution No. 1 of the Third Session, have four months after its accession to the General Agreement within which either to join the Fund or to accept a special exchange agreement.

V. GENERAL REMARKS AND RECOMMENDATIONS

20. The Working Party considered that it would be appropriate to determine a single date for all contracting parties to which Article XV:6 applied. It was though desirable to fix a calendar date and in view of practical considerations it was agreed to recommend to the Contracting Parties the date of November 9, 1950, the opening date of the Fifth Session.

21. In recommending that November 9, 1950 be established as the date by which Burma, Pakistan, Haiti, New Zealand and Indonesia should either become members of the Fund or enter into special exchange agreements, the Working Party agreed that individual contracting parties should not be led to believe that further extensions of this time limit would be lightly granted at the next session of the CONTRACTING PARTIES. It was recognized that exchange and financial actions complemented the trade matters covered by the General Agreement and that contracting parties must all abide by common standards of conduct in the exchange field, if the General Agreement was to achieve maximum effectiveness. The Working Party believed that the CONTRACTING PARTIES should adopt these proposals with the understanding that the date would only be extended at the next session in exceptional cases, such as that in which a contracting party is in an advanced stage of its negotiations with the International Monetary Fund so that it appears reasonable to expect that the contracting party will become a member of the Fund within a few months.

22. The Working Party recommends that the CONTRACTING PARTIES adopt the resolutions annexed to this Report, which have been drafted in the light of the considerations set forth above.

PART TWOPROCEDURAL ARRANGEMENTS

23. The Working Party considered the procedural arrangements necessary for the implementation of special exchange agreements entered into by individual contracting parties under paragraph 6 of Article XV of the General Agreement. In this connection it had before it the Draft Regulations proposed by the United States delegation (GATT/CP.4/24).

24. The Working Party's review disclosed general agreement on a number of important matters especially in respect to the subject matters to be covered by the procedures. It also focussed attention on certain other issues which remain unresolved.

25. In discussing the implementation of special exchange agreements the Working Party agreed that the most important steps in the monetary field requiring positive action on the part of the CONTRACTING PARTIES would be:-

- (a) agreement on an initial par value;
- (b) changes in par value;
- (c) approval of releases from the obligations of convertibility of balances held by other contracting parties; and
- (d) approval of restrictions on payments including multiple currency and discriminatory practices, (apart from transitional arrangements).

It was also recognised that additional procedural arrangements might have to be made, whether by regulations or otherwise, covering such matters as relationships between the CONTRACTING PARTIES and the International Monetary Fund, the execution of special exchange agreements, the furnishing of information, etc.

26. It was agreed that two essential criteria for procedures for the handling of these matters, particularly those set forth in 25 (a) - (d) above, are that they should provide for prompt consultation with the International Monetary Fund, for speedy action thereafter by the CONTRACTING PARTIES, and for the utmost secrecy until the individual contracting party is prepared to announce the action proposed.

27. It was clear to the Working Party that special difficulties arose in satisfying these requirements during periods when the CONTRACTING PARTIES are not in session. Any procedure designed to submit all questions arising under

special exchange agreements to the CONTRACTING PARTIES as a whole either through the calling of a special session or through a telegraphic poll would fail to meet one or both of these criteria. From this it follows that the authority of the CONTRACTING PARTIES to act on these questions needs to be delegated during inter-sessional periods.

28. Article XV of the General Agreement requires the CONTRACTING PARTIES to accept the findings and determinations of the International Monetary Fund on the financial and exchange matters specified in that Article. The CONTRACTING PARTIES, however, are the principals in the special exchange agreements and have the responsibility for decisions taken in connection with the implementation of the agreements. The form and nature of procedures for the administration of special exchange agreements should reflect this situation.

29. To overcome the difficulties arising from the absence at the present time of a suitable organisation capable of handling exchange matters with speed and secrecy between sessions of the CONTRACTING PARTIES, two proposals were put before the Working Party. The first proposal (which is the basis of the proposals in the Draft Regulations submitted by the United States delegation) envisaged that the Chairman of the CONTRACTING PARTIES would act on behalf of the CONTRACTING PARTIES in administering special exchange agreements and would be guided in the decisions which he would take on behalf of the CONTRACTING PARTIES by the advice of the International Monetary Fund. Some believed that such a delegation of authority to the Chairman offered the most practicable method for expeditious handling of matters of urgency.

30. Certain objections were expressed by some members of the Working Party to this proposal. In particular, the objection was made that this proposal did not take adequate account of the considerations referred to in paragraph 28 above. Several members of the Working Party also expressed objection to the form of regulations proposed by the United States delegation, but some agreed with the United States representative that this objection could probably be overcome by suitable redrafting of the detailed provisions of the United States proposals.



31. In order to provide for satisfactory administration of special exchange agreements whilst, at the same time, meeting these objections, a procedure along the following lines was proposed by the New Zealand representative and received some support: There should be established a Committee of contracting parties able to be convened at very short notice and located conveniently to the headquarters of the International Monetary Fund. The CONTRACTING PARTIES would delegate to this Committee their functions under special exchange agreements. The establishment of such a Committee would, it was urged, obviate the necessity for detailed rules and regulations of the type suggested by the United Nations representative.

32. Some members of the Working Party, however, considered that the establishment of such a committee would create a cumbersome mechanism, and would probably delay action and duplicate unnecessarily the work of the International Monetary Fund.

33. In an effort to find a solution to these difficulties it was suggested that it might be possible to devise a procedure under which the CONTRACTING PARTIES would only be called upon to enter actively into the administration of special exchange agreements in cases where the International Monetary Fund disagreed with action taken or proposed by a contracting party operating under a special exchange agreement. This suggestion was not considered in detail, but it is possible that this line of approach if found practicable might simplify the problem of administering special exchange agreements.

34. On the general question of the delegation of functions by the CONTRACTING PARTIES, the view was expressed that the CONTRACTING PARTIES could not delegate their responsibilities under a special exchange agreement to any person or persons without an amendment to Article XXV of the General Agreement. Others expressed the view that an amendment of the General Agreement would not be necessary. It was generally agreed that this question would require further study.

35. The difficulties which give rise to these differing opinions will of course be greatly reduced, if not entirely eliminated, when a permanent International Trade Organization is established. In this connection the view was expressed that it would be undesirable to finalise arrangements for

inter-sessional action unless there is urgent need, while there remains the prospect that a permanent International Trade Organisation may come into existence in the near future, in view of the danger that such interim arrangements might prejudice future action in a permanent organisation. Others believed that experience with interim arrangements might assist in developing more satisfactory procedures in connection with a permanent organisation.

36. Because of these divergent views, it appeared that considerable discussion would be required before a satisfactory solution to these problems could be found. Although it was recognised that the adoption of procedural regulations would assist contracting parties considering the alternatives of seeking membership in the Fund or signing a special exchange agreement, the Working Party considered that in the absence of any urgent practical problem, it would not be justifiable to extend the present session of the CONTRACTING PARTIES to enable this discussion to be concluded. The Working Party considers, however, that the agreements reached at this session and the clarification of divergent views will assist the CONTRACTING PARTIES in resolving the outstanding issues. In recommending to the CONTRACTING PARTIES that this matter be postponed until the next session, the Working Party has taken into account the likelihood that no contracting party will be operating under a special exchange agreement for any significant period prior to the next session, and also the fact that the position in respect of the possible entry into force of the Havana Charter may then be clearer.

37. The Working Party wishes to draw attention to paragraph 8 of the Final Report of the Committee on Special Exchange Agreements (GATT/CP.3/44). The Working Party recommends that the Chairman discuss with the Fund working arrangements of an administrative nature which will aim at avoiding duplication in the collection of statistics and ensuring the effective application of Article XV:8 of the General Agreement.

38. Finally, the Working Party considered the letter of February 27, 1950, addressed to the Chairman of the CONTRACTING PARTIES by the Managing Director of the International Monetary Fund enclosing draft rules of procedure for direct consultation between an individual contracting party and the Fund on the monetary aspects of problems arising in the course of the application of the General Agreement. The Working Party has no observations to make on these draft rules and recommends that the Chairman of the CONTRACTING PARTIES be authorized to inform the International Monetary Fund that the rules are satisfactory to the CONTRACTING PARTIES.

ANNEX

1. RESOLUTION RELATING TO HAITI, PAKISTAN AND BURMA

The CONTRACTING PARTIES,

CONSIDERING that it was resolved on June 20, 1949 at the Third Session that each existing contracting party which on the first day after November 1, 1949 when the CONTRACTING PARTIES are in session was not a member of the International Monetary Fund should enter into a special exchange agreement, in the terms of the text adopted at that Session, and that each Government which became a contracting party after the date of that resolution should likewise enter into a special exchange agreement within four months after its becoming a contracting party if it was not then a member of the Fund,

CONSIDERING that the Governments of Haiti and Pakistan have reached an advanced stage in their arrangements with the Fund for membership and both are likely to become members in the near future,

CONSIDERING that the Government of Burma, which has been prevented by abnormal and difficult circumstances from taking action pursuant to the above mentioned resolution, has expressed the likelihood of its applying for Fund membership at the earliest possible date, and

HAVING CONSULTED with the International Monetary Fund in accordance with the provisions of paragraph 6 of Article XV of the General Agreement,

RESOLVE that, notwithstanding the provisions of the Resolution N° 1 adopted on June 20, 1949 at the Third Session, an instrument of acceptance of a special exchange agreement deposited by the Governments of Pakistan, Burma and Haiti, if received by the Secretary-General of the United Nations on or before [November 9, 1950], shall be deemed effective for all the purposes of the Resolution N° 1 adopted at the Third Session.

2. RESOLUTION RELATING TO NEW ZEALAND

The CONTRACTING PARTIES,

CONSIDERING that it was resolved on June 20, 1949, at the Third Session that the Government of New Zealand would not be required to enter into a special exchange agreement until it had had an opportunity at the present session to make proposals designed to meet the special difficulties raised for that Government by the text of the special exchange agreement approved by the CONTRACTING PARTIES, and until the CONTRACTING PARTIES had fixed a date by which the Government of New Zealand should enter into a special exchange agreement if it were not then a member of the International Monetary Fund,

TAKING NOTE of the fact that the Government of New Zealand has decided not to make any proposals with respect to the text of the special exchange agreement approved by the CONTRACTING PARTIES at the Third Session, and

HAVING CONSULTED with the International Monetary Fund in accordance with the provisions of paragraph 6 of Article XV,

RESOLVE that the Government of New Zealand shall enter into a special exchange agreement in the terms of the text approved at the Third Session, by depositing an instrument of acceptance on or before [November 9, 1950], if by that date it is not a member of the International Monetary Fund.

3. RESOLUTION RELATING TO THE REPUBLIC OF  
THE UNITED STATES OF INDONESIA

THE CONTRACTING PARTIES,

CONSIDERING that paragraph 6 of Article XV of the General Agreement provides that any contracting party 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 the text of the special exchange agreement has been approved by the CONTRACTING PARTIES for the purpose of giving effect to the above mentioned provisions of the General Agreement, and

HAVING CONSULTED with the International Monetary Fund in accordance with the provisions of paragraph 6 of Article XV of the General Agreement,

RESOLVE that the Government of the Republic of the United States of Indonesia shall enter into a special exchange agreement in the terms of the text approved at the Third Session, by depositing an instrument of acceptance on or before [November 9, 1950], if it is not at that time a member of the International Monetary Fund.

