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TARIFFS AND TRADE

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CONTRACTING PARTIES
Fourth Session

WORKING PARTY F ON SPECIAL EXCHANGE AGREEMENTS

Draft Report to the Contracting Parties

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), which were required to take action under paragraph 6 of Article XV of the General Agreement. It also examined the position of those Ancey acceding governments not members of the Fund (Liberia and Sweden), which, upon their accession to the General Agreement, would be required to take action under the same provision of the General Agreement. Its conclusions and recommendations in this respect are embodied in PART ONE of the Report.

2. The Working Party also considered the need for elaborating 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 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 3 March 1950 and that the agreement would enter into force on 2 April 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 the restrictions on payments and transfers for current international transactions.

4. The Secretariat indicated that as soon as the Agreement entered into force it would transmit to Ceylon (a) 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; and (b) a schedule of the par values of the currencies of the contracting parties for Ceylon's guidance in its currency transactions in accordance with Article IV of the Special Exchange Agreement.

5. 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.

6. 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 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:6

(i) Pakistan

7. 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 expected to complete its negotiations for Fund membership before the date by which it was required to take the alternative action envisaged in Article XV:6, but that its acceptance of Fund membership 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.

8. The Working Party received confirmation from the Representative of the International Monetary Fund of the statement made by the Representative of Pakistan regarding the prospects of his Government's acceptance of Fund membership, and of the fact that the Fund had agreed to extend to 30 September 1950 the time limit set for the formal participation in the Fund by Pakistan.

(ii) 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 negotiations had been completed between Haiti and the Fund and that the former was expected to accept membership in the very near future, but that, as in the case of Pakistan, the Fund had extended, until the 30 September 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.

(iii) 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. He assured the Working Party that negotiations for Fund membership would be started as soon as practicable.

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 completion of action under Article XV:6 of the General Agreement.

Determination of the Date by which Action under Article XV:6 should be completed

14. As regards the date by which the Governments of Pakistan and Haiti would now be required to complete the necessary action, the Working Party considered various proposals. Although the date of 30 September 1950 appeared to be logical in view of the parallel extensions of time granted by the Fund for the acceptance by the two governments of Fund membership, the Working Party nevertheless concluded that there was advantage in not requiring acceptances of special exchange agreements to be deposited at a time when the CONTRACTING PARTIES were not in session. Accordingly, 7 November 1950, the date of the beginning of the Fifth Session, was considered to be appropriate for the purpose.

15. The Working Party also concluded that there was advantage in determining a single date for all countries which had to take action under Article XV:6. Accordingly, it recommends that 7 November 1950 also be adopted as the date by which Burma must take action under that provision.

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

(i) New Zealand

16. At the Third Session the CONTRACTING PARTIES resolved that notwithstanding the provisions of the resolution adopted by them on 20 June 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 1 November 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 either to become a member of the Fund or to accept an agreement in the approved form.

17. 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.

18. The Working Party examined the reasons advanced in support of the New Zealand proposal and agreed to recommend that the Contracting Parties, pursuant to Resolution No.2 of the Third Session, fix 7 November 1950 as the date by which New Zealand should either have entered into a special exchange agreement or have become a member of the Fund. In recommending 7 November 1950 as the date by which New Zealand should complete action under Article XV:6, the Working Party was guided by considerations similar to those applicable in the case of Pakistan, Burma and Haiti.

(ii) Indonesia

19. The Representative of Indonesia stated that his Government was making preparations to join the Fund and that it expected to become a member within the next four months. As his Government had become a contracting party in its own right on 24 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 conclusion of the action to be taken under that paragraph.

20. The Working Party, accordingly, recommends that 7 November 1950 be adopted as the date by which Indonesia should be required to take action, the reasons for the adoption of this date being similar to those advanced in paragraphs 14 and 15.

IV. THE POSITION OF THE ANNECY ACCEDING COUNTRIES

(i) Liberia

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

- (a) that that country had already completed arrangements for Fund membership and so 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.

22. 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 duly consider the applicability of that Resolution to Liberia and decide accordingly.

(ii) Sweden

23. In the case of Sweden, the Working Party noted that that country's accession to the General Agreement and its acceptance of Fund membership^{were} at present receiving consideration by the Swedish Government. It therefore concluded that there was no need at this stage to make any recommendation view of the fact that Sweden would, in any case, 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

24. In recommending that 7 November 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 complement the trade matters covered by the General Agreement and that contracting parties must also be governed by the same standards of conduct in the exchange field, if the General Agreement is to achieve maximum effectiveness. It was also recognized that lack of compliance with one provision of the General Agreement tends to detract from its effectiveness on other matters. For these reasons the Working Party believed that the CONTRACTING PARTIES should adopt these proposals with the understanding that the date would not be extended at the next session except in cases in which a contracting party is in such an advanced stage of its negotiations with the International Monetary Fund that it appears reasonable to expect that the contracting party will become a member of the Fund within a few months.

25. 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 TWO

PROCEDURAL ARRANGEMENTS

28. 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)

29. 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.

30. 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;
- (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.

31. It was agreed that two essential criteria for procedures for the handling of these matter, particularly those set forth in 3(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.

32. 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 probably fail to meet **one** or both of these criteria. From this it follows that authority of the CONTRACTING PARTIES to act on these questions needs to be delegated during inter-sessional periods. These difficulties will of course be greatly reduced if not entirely eliminated when a permanent International Trade Organisation is established.

33. 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.

34. 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 delegation of authority to the Chairman offered the most practicable method for expeditious handling of matters of urgency.

35. 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 33 above. While there were different views as to the scope of the matters on which the CONTRACTING PARTIES are required to accept the views of the International Monetary Fund under Article XV (2), it was agreed that it would be most unlikely that the CONTRACTING PARTIES would fail to accept the opinions

of the Fund in particular cases arising under Special Exchange Agreements. 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.

36. 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 States representative.

37. 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.

38. 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.

39. 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.

40. 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.

41. Because of the divergent views expressed 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 immediately 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.

42. Finally, the Working Party considered the letter of 27th February, 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 have no observations to make on these draft rules and recommend that the Chairman of the Contracting Parties be authorised 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 20 June 1949 at the Third Session that each existing contracting party which on or before the first day after 1 November 1949 when the Contracting Parties are in session was not a member of the 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,

CONSIDERING that the Governments of Haiti and Pakistan have reached an advanced stage in their negotiations with the Fund for membership and 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 its intention to commence negotiations with the Fund for 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 No. 1 adopted on 20 June 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 7 November 1950, shall be deemed effective for all the purposes of the Resolution No. 1 adopted at the Third Session.

2. RESOLUTION RELATING TO NEW ZEALAND

The CONTRACTING PARTIES

CONSIDERING that it was resolved on 20 June 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 this 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,

TAKING NOTE of the fact that the Government of New Zealand has now decided not to make any proposals with respect to the text of the special exchange agreements approved by the CONTRACTING PARTIES at the Third Session it is considering either becoming a member of the International Monetary Fund or accepting a special exchange agreement in the approved form, 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 7 November 1950, if by that date it is not a member of the International Monetary Fund.

3. RESOLUTION RELATING TO 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 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 a 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 above mentioned provisions of the General Agreement,

RESOLVE that the Government 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 7 November 1950, if it is not at that time a member of the International Monetary Fund.