

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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Multilateral Trade Negotiations

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## GROUP 3(a) - UNIT OF ACCOUNT (ITEM 7)

### Note by European Communities on Determination of the Unit of Account to be Used in the Multilateral Trade Negotiations<sup>1</sup>

#### I. The problem

1. For the multilateral trade negotiations, statistics are needed that are comparable in both time and space and if possible consistent with those used by other international organizations. This comparability should make it possible to carry out static analyses (network of international trade) or dynamic analyses (evolution of imports) and at a later stage to evaluate the reciprocity of concessions. To ensure such comparability, a unit of account or reference unit should be chosen into which statistics expressed in national currencies can be converted.
2. The need for comparability should not be over-estimated, considering that some tasks can be carried out on the basis of data expressed in national currency, as for example the study of structures of the various tariffs.
3. At the present juncture, the choice of a unit of account is relevant only to the compilation of statistics for the negotiations. Indeed, it seems wise not to prejudge other possible uses.
4. Until 1971, the United States dollar was a satisfactory common denominator within a system of stable exchange rates.

Since 1972, the situation has been as follows.

Legally, some countries have official par values for their currency that have been communicated to the IMF; others have established central rates that can be changed more easily than par values. Some of these countries maintain margins of fluctuation of 2.25 per cent either side of the central rates vis-à-vis certain currencies; still others no longer intervene in the established margins of fluctuation (segregated floating). Several developing countries have pegged their currency to the dollar, the pound sterling or the French franc, while others allow their currency to float independently or adjust their fixed rates very frequently.

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<sup>1</sup>See MTN/3A/2, paragraph 15.

## II. Possible solutions

### A. Determination of a unit of account

5. For the purpose of determining the reference unit to be used in compiling statistics for the multilateral trade negotiations, one has the choice between a national currency - (current) United States dollar or some other currency - and a unit of measurement such as the SDR or a new unit specially established for GATT.

6. Adoption of a national currency as a reference basis would come up against the difficulty due to the fact that in the case of all currencies there have occurred, and may occur in the future, either changes in par values or central rates, or periods of floating, or both in succession.

The United States dollar, for example, for which a new par value has been officially communicated to the IMF on two occasions since 1971, could today be considered like any other national currency as one whose par value can be changed freely the moment the domestic or external economic situation so requires.

7. Another possibility would be to take as unit of account the special drawing right (SDR) as defined in Article XXI, section 2 of the Articles of Agreement of the IMF<sup>1</sup>, corresponding to the former definition of the United States dollar (1/35 ounce of fine gold). This possibility has already been envisaged by the GATT secretariat.<sup>2</sup>

### B. Conversion of data as between national currency and unit of account

8. Once the unit of account has been determined, the method of converting data in national currency into the unit of account must also be agreed. Three approaches are theoretically possible: conversion on the legal basis of par values communicated to the IMF, conversion on the basis of central rates<sup>3</sup>, conversion at the daily rates through a national currency or a group of currencies with relatively stable exchange relations with one another.

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<sup>1</sup>See IMF publication, International Financial Statistics on "Note on SDRs and the general Account" and the SDR tables, "Fund Accounts items".

<sup>2</sup>See GATT publication, International Trade 1971, page 5: "Given these developments, current dollar values cannot be taken any more as a proxy for volume developments in world trade. In particular, in 1972, world trade figures may be inflated by perhaps as much as 9 per cent in relation to what they would be at constant exchange rates (this gap had been nearly 2 per cent in 1971). Consequently, it may prove advisable for the future to elaborate a compilation of international trade statistics expressed in SDR's."

<sup>3</sup>See International Financial Statistics, "par values and central rates".