## UNET OF RHFPRENCE TO BT USBD IN THE MULTILAT:RAL TRADE NEGOTTITIONS

## Note submitted by the Commission of the European Communities

1. In GATM document MTN/ $3 \mathrm{~A} / \mathrm{W} / 3$ of 24 Appil 1974, the delegation of the Duropean Commuities indicated the reasons why thought should be given to the chojee of the unit of reference to be used in tho multilateral trado negotiations. In its view, the need for comprrability in time and space as between the statistics furnishod by each participant in torms of its own currency unit made it dosirable that:
(a) a unit of roforenco should be choson;
(b) a method should be dotormined for convorting deta in terms of national currency into units of reforence particularly from 1973 onwards.

The prosont papor sets out to analyzo tho critoria to bo mot by the unit of roforonce to be used in the nogotiations, and to indicate the mothods of calculation and the raasoning which have lod the Buropean Comunitios in making theso suggostions.
2. As the statistics furnished by participants in the multilatorai trade negotiations are oxprossed in torms of thoir own currencies, they must in any case be convorted into comparable figures by applying appropriato conversion rates (clearly dofincd annual avorages).
3. The unit of moasuroment to be used as a common denominator must observe existing relationships betweon statisties oxprossod in national curroncios, i.e. it must also respect inter--currency oxchange ratios as shown in exchange markets. This will onsure comparability in space.
4. In addition, for comparisons of statistics covering sovoral yoars, it is important to use a unit of measuroment that cloos not vary with time.

Indood, if the value of such a unit of measurement diffored from one yoar to another, it would bo extrenely difficult to distinguish between a variation in the statistics resulting from a change in the unit of measuronent and a real variation in the statistics, e.g. rosulting from a change in the volume of inports of the country concerned.

This moans that the unit of mensurement, must allnw omparability in time.
5. Use of the current dollar would artificially inflato the statistical sories to be compared, without any attondant advantage. This would not be the case if the current dollar was itself linked to a fixed point of reference in tine.
6. The European Comunities thorefore suggest that the $S O R^{l}$, as fixed from December 1.971 to June 1974, which was equal to the collar until. the monotary readjustment of Deconber 1971, be adopted as unit of reference.
7. For converting data in terms of national currency into this unit of reference, the following might be considered:

- central ratos for currencies betweon which there are still officially linited nargins of fluctuation around an average rate which is the central rate connuricated to the DM';
- narlet rates for other currencies; these rates would be deternined by calculating the annual average rate of each currency in relation to all the currencies still directily linked through their central rates to the unit of reference.

The conversjon rates would be calculated on the basis of an annal average.
8. As the current cioller since 1971 cannot be considered as an unvarying unit of measurement (like any other currency which may be rlevalued or revalued), currency movenents must be measured in terms of a neutral denominator which is not a currency. This is why, since the first US Coller devaluation in December 1971, chagees in the parities or central rates for a currency have been expressed in $S D R$ ' $s^{2}$. The $S D R$ is a comon denominator which is not a currency, but represents the continuation of the former dollar as a reference point unvarying over tinc for different currencies ( 1 USN $W_{7 I}=1 S O R_{71}$ ).
9. As this unvarying unit of measurement is not a currency quoted on oxchange markets, the conversion rate as between each currency and this common unjt of reference has to be determined. This could be done by expressing a currency's par value or central. rate in terms of this unit of measurement.

- ISpecial Drawine Right
$2_{\text {As }}$ an international monetary unit; this function did not disappear on the introduction on I July 1974 of a new method of calculating the SDR transaction value between contral banks on the basis of a currency basket of sixteen cuirencies.


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However, any announcement of a par value or a central rate for a currency will lose its ain and practical significance unless the currency is simultaneously supported on exchange markets in relation to one or more other currencies also having a conversion rate (parity or central rate) defined in terms of that same cormon denominator. If the announced central rate or par value of a currency is to be used as the rate for conversion into the unit of reference, it is essential, therefore, that the monetary authorities of the countries concerned be ready to give mutual support to their currencies within officially limited margins of fluctuations around an average rate which exactiy reflects the officially intended relation between these currencies by using the same unit of reference, i.e. the


By virtue of the fact that the rates of these eurrencies cannot move on the markets beyond a given margin of fluctuation (e.g. $\pm 2.25$ per cent) from their declared rates, the conversion rate as between each of these currencies and the common unit of reference is on average achieved.

The central rate' (or par value), which is simply the conversion rate between a currency and the former US dollar or SDR thereiore represents - if supported in this way - a realistic conversion rate for this group of currencies in their exchenge market relationship and in relation to the unvarying unit of reference (I US $\$_{\$_{I I}}=1 S D R_{r 1}$ ).
1.0. Iny currency that has abandoned direct linkage with the unit of reference i.e. whose par value or central rate as communicated to the IMF is not supported during a given period - will also have to be evaluated in exchange markets in order to find a realistic conversion rate in relation to the unvarying unit of measurement. Thisg can be done on the basis of an (annual) average market rate in relation with one or more ${ }^{4}$ currencies (reference currencies) that are still linked to the former international scrip ( 1 USS ${ }^{71}=1 S D R_{71}$ ).

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11. In a case where annual market rates for a currency in relation with all the reference currencies are not available, one of the following could be taken as the basis;

- those reference currencies which are quoted on the exchange market that is representative of the currency temporarily abardoning support of its reported par value or central rate;
- the average market rate of the currency concerned in relation to the current US dollar; and theresfter the conversion rate calculated and determined as between the unit of reference and the current dollar.

12. With the approach using as a unit of refererse a unit of measurement which is neutral (notacurrenc;) and unvarying, the US dollar itself becomes measurable in an objective way like all other currencies.

Statistics in any national currency are simply converted into a common denominator comparable in time according to the evolation of each curroncy in exchange markets.

As a correction coefficient is used, for example, in converting foreign trade data expressed in national currency into current dollarsl, the suggested approach would simply mean calculating a sincle annual coefficient for each currency, using the averafe daily rates of a currency in exchange marlets that are generally known and are published in national and international statistics.
13. Use of the former dcllar, i.e. the dollar up to December 1971 ( 1 \% $=1 \mathrm{SDR}$ ), as the unit of reference and use of the suggested method for determining conversion rates as between a given currency and the unit of reference would therefore provide:

- comparability of statistical data in time;
- while affording greater neutrality in respect of
- establishment of an average over several years, and - conversion of gach currency into a single unit of reference;
- and while respecting inter-currency relationships in exchange markets.

14. Sc long as most of the currencies are floating freely in exchange markets, no solution in the field of a unit of reference for comparing international trade flows will be perfect. The Buropean Commuities are fully aware of this fact, but consider that the suggested soistion is the least defective and most objective from the point of view of the aims envisaged for these negotiations.
${ }^{\text {ISee }}$ line "ra" in the IMF International Financial Statistics.
ANNEX I
Unit of Reference (JR) and Evolution of Conversion Rates (Annual Averages)
for Selected Currencies

$$
\begin{aligned}
& \begin{array}{c}
1974 \\
\hline 1.24442(\mathrm{~mm}) \\
48.6572^{*} \\
7.57831^{*} \\
3.21978^{*} \\
6.01(\mathrm{i}) \\
3.70565(\mathrm{am}) \\
3.35507^{*} \\
813(\mathrm{i}) \\
0.534(\mathrm{i}) \\
6.87144^{*} \\
23.2778(\mathrm{~min}) \\
5.50094^{*} \\
1.22924^{2} \\
363(\mathrm{i}) \\
\text { consizdered }
\end{array} \\
& \begin{array}{c}
1973 \\
\hline 1.24781^{1 /} / \\
48.6572^{*} \\
7.57831^{*} \\
3.32811^{*} \\
5.55419^{*} \\
3.95052(\mathrm{am}) \\
3.4740^{*} \\
729(\mathrm{i}) \\
0.511(\mathrm{i}) \\
7.17206^{*} \\
24.4334(\mathrm{am}) \\
5.46650^{*} \\
1.24781^{3 \prime} \\
339(\mathrm{i})
\end{array} \\
& 33404 \text { 339(i) } \\
& \begin{array}{c}
1972 \\
\hline 1.08571 \\
48.6572 \\
7.57831 \\
3.48872 \\
5.55419 \\
4.16913 \\
3.52281 \\
631.342
\end{array} \\
& \text { 0.437(i) } \\
& \begin{array}{l}
7.21500 \\
25.2971
\end{array} \\
& \begin{array}{l}
25.29 .1 \\
5.22545
\end{array} \\
& \begin{array}{l}
5.22545 \\
1.07594
\end{array} \\
& \text { Definition: } 1 \mathrm{UR}=1 \$_{71}=1 \mathrm{SDR}_{71} \\
& \text { 2. Conversion rate (annual average): } 1 \text { UR equals } \\
& \begin{array}{c}
1970 \\
\hline 1.00000 \\
50.00000 \\
7.50000 \\
3.66000 \\
5.55419 \\
4.37287 \\
3.62000 \\
625.000 \\
0.416667 \\
7.14 .286 \\
26.0000 \\
5.17321 \\
1.0470 \\
360.000
\end{array} \\
& \begin{array}{l}
\text { US dollar } \\
\text { Belgian/Luxembourg franc } \\
\text { Danish krone } \\
\text { Deutsche mark }
\end{array} \\
& \text { French franc } \\
& \text { Swiss franc } \\
& \text { Dutch Slorin } \\
& \text { Italian Iira } \\
& \text { Pound sterling } \\
& \text { Norvegian krone } \\
& \text { Austrian schilling } \\
& \text { Swedish krona } \\
& \text { Canadian dollar } \\
& \text { Yen } \\
& \text { at its par v. } \\
& \text { *Currencies and reference rates to be used for a } \\
& \text { at its par value or central rate notified to the } \\
& \text { See cal average, source IFS) and of conversion rate } \\
& 2 / \text { on the basis of man } \\
& \text { (i)Indicative value calculated to three significant figures by the Statistical office of the } \\
& \text { Erropean Communities on the basis of EC reference currencies only. } \\
& \text { (am)Arithmatic mean. }
\end{aligned}
$$

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ANME_II
Nethod for calculating conversion rate between UR and a currency for period when that currency is not supported at the notified value within officially limited margins of fluctuation in relation to another currency or group of currencies:

[^1]\[

$$
\begin{gathered}
\text { (3) } \\
\text { Reference rate in } 1973 \\
\text { for } 1 \text { UR }
\end{gathered}
$$
\]

Conversion rate for 1973 between UST and the unit of reference (Un) is:


[^0]:    $I_{\text {In }}$ the absence of a generally accepted intervention currency.
    ${ }^{2}$ See examples in Annexes I and II.
    3 The US dollar up to March 1973, for exaraple.
    ${ }^{4}$ Is the arithmetic mean of all these currencies or as the median rate between the strongest and weakest currencies in the group (see also example in Annex II).

[^1]:    - either 1 UR $=$ USS: 1.24781 (arithmetic mean)
    - or 1 UR $=$ US $\$ 1.24808$ (median)

