EXCHANGE RATE FLUCTUATIONS AND THEIR EFFECT ON TRADE

The Chairman of the Council is circulating the following draft for consideration and adoption by the CONTRACTING PARTIES at their fortieth session.

1. The CONTRACTING PARTIES, while not questioning the floating exchange rates system and the contributions it has made, acknowledge that in certain circumstances exchange market instability contributes to market uncertainty for traders and investors and may lead to pressures for increased protection; these problems cannot be remedied by protective trade action.

2. The CONTRACTING PARTIES also recognize that adjustment to uncertainty over exchange market instability could be more difficult for small traders when hedging opportunities are limited, and for small trading countries and developing countries, inter alia when the geographical distribution of their trade cannot be easily diversified.

3. The CONTRACTING PARTIES therefore urge that their concern regarding the relationship between exchange market instability and international trade be taken into account in ongoing efforts within the International Monetary Fund to review the operation of the international monetary system with a view to possible improvements.

4. The CONTRACTING PARTIES agree that they will keep under consideration through further exchanges of views the relationship between exchange market instability and trade.