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**Development and  
raw materials —  
Problems of the moment**

Commission  
of the European Communities

The crisis situation which is currently affecting the world economy as a whole has exacerbated existing inequalities while at the same time changing the relationships of strength. However it has also increased the awareness of the problems of development and the interdependence between the members of the international community. In the light of these new circumstances, it is necessary, instead of giving free rein to our antagonisms, to develop the solidarity between the industrialized countries and those which are seeking a greater share in the wealth produced and traded in the world. The Community, while attending to its own interests, must make its own contribution to this new dialogue, since it is not without resources and because its poorer partners are counting on its generosity.

The four Commission Communications to the Council fit into this double context of a world economic crisis and the need to define a new type of international economic relations.

## **Development and raw materials— Problems of the moment**

Seventh Special Session of the UN General Assembly and mid-term review and appraisal of the International Development Strategy for the Second UN Development Decade

(Commission Communication to the Council forwarded on 5 June 1975)

Communication from the Commission to the Council on raw materials in relations with the developing which export raw materials

(presented on 22 May 1975)

Product agreements designed to limit excessive price fluctuations

(Commission Communication to the Council forwarded on 13 June 1975)

International action on stabilization of export earnings

(Supplementary Commission Communication to the Council forwarded on 13 June 1975)

COM (75) 225 final, 4 June 1975  
COM (75) 226 final, 31 May 1975  
COM (75) 290 final, 11 June 1975  
COM (75) 294 final, 11 June 1975

The crisis situation which is currently affecting the world economy as a whole has exacerbated existing inequalities while at the same time changing the relationships of strength. However it has also increased the awareness of the problems of development and the interdependence between the members of the international community. In the light of these new circumstances, it is necessary, instead of giving free rein to our antagonisms, to develop the solidarity between the industrialized countries and those which are seeking a greater share in the wealth produced and traded in the world. The Community, while attending to its own interests, must make its own contribution to this new dialogue, since it is not without resources and because its poorer partners are counting on its generosity.

In 1975, the International Development Strategy of the Second UN Development Decade reached its halfway stage. At the prompting of the developing countries, which are seeking the establishment of a more equitable international economic order, the General Assembly of the United Nations intends, at its Special Session in September, devoted to development and international economic cooperation, to make an assessment of what has been achieved and to give a new impetus to the development process.

The four Commission Communications to the Council fit into this double context of a world economic crisis and the need to define a new type of international economic relations.

The choice of actions proposed by the Commission is governed by an overall vision of the objectives to be attained. These actions are therefore designed to be complementary.

What is at stake is of such importance as will be shown by the Seventh Special Session of the UN General Assembly, that the Community and its Member States must maintain a high degree of cohesion. The greater the cohesion and maturity shown by the Community, the more it will be able to match up to the expectations of the Third World and play its twin role of reducing clashes and promoting international cooperation.

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# contents

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Seventh Special Session of the UN General Assembly and mid-term review and appraisal of the International Development Strategy for the Second UN Development Decade . . .	7
Communication from the Commission to the Council on raw materials in relations with the developing countries which export raw materials . . . . .	25
Product agreements designed to limit excessive price fluctuations . . . . .	33
International action on stabilization of export earnings . . .	47

**Seventh Special Session of  
the UN General Assembly  
and mid-term review and appraisal  
of the International Development Strategy  
for the Second UN Development Decade**

## Summary with comments

International economic cooperation is assuming growing importance in the work of the United Nations agencies. Following the Sixth Special Session of the General Assembly in April 1974, which led to a 'Declaration' and a 'Programme of Action', the new special session (1-12 September 1975) on development and international economic cooperation must in particular give an impetus to the International Development Strategy for the Second Decade, which is at present undergoing its mid-term review. The Preparatory Committee for the Seventh Special Session will hold its second meeting from 16 to 27 June.

In this context the Community and the Member States can and must play a constructive and active role; however, they will be able to play this role and receive an adequate hearing only if they show a united front. Community action should be based on a spirit of dialogue and conciliation and aim to provide a real consensus. As to the substance, the Development Strategy should be adapted to take account of changes which have occurred since the beginning of the Decade and in the light of the new relations of strength prevailing in the world. The Community's contribution should be concerned with a balanced range of subjects answering the major concerns of the developing countries and providing real chances of progress.

For *raw materials*, the Commission confines itself to repeating the proposals contained in its Communication to the Council of 22 May 1975.

On the matter of *international trade* it is first of all proposed to state that the Community is willing to maintain and improve its generalized system of preferences. With regard to the multilateral trade negotiations the Community should confirm that it intends to take into consideration the interests of the developing countries, in line with the directives approved by the Council. Moreover, measures affecting import arrangements should be accompanied by action to promote trade relations.

On the subject of industrial cooperation and the transfer of technology, the Community and its

Member States should identify themselves more clearly with the industrial results proper of the Lima Conference (UNIDO). A special effort must be made to help firms play a part in industrial cooperation in such a way as to meet the developing countries' interests. To this end, the Community and the Member States should indicate their will to cooperate with the governments of developing countries, to step up information, promotion and cooperation activities, to encourage investment and other outside help, to improve the conditions for the transfer of technology, while insisting on the need for a favourable climate for foreign firms. The Community must be aware of the consequences which the redeployment of certain industries to developing countries will have for its internal structures.

With regard to the *transfer of real resources* it is suggested that the official development assistance objective be confirmed, a geographical reorientation of aid envisaged, special priority given to food problems, particular attention paid to the problem of indebtedness and triangular cooperation be developed. Lastly, it is proposed that constructive attitudes be adopted at the international financial institutions as regards the 'third window', the 'oil facility', the link between special drawing rights and development aid, and modification of International Monetary Fund quotas.

## Introduction

### Antecedents and background

The growing importance of economic cooperation at international level and the increased interest shown in such matters by the United Nations have over the past few years had a clear-cut effect on the activities of the United Nations organs. The tendency to incorporate these activities into increasingly structured programmes is more and more marked.

The first United Nations Development Decade covered the sixties. It was drawn up in relatively vague terms and included only two precise quantitative objectives, concerning the transfer of resources to developing countries and the average growth rate of the national product of those countries.

The International Development Strategy was adopted by a consensus, with certain reservations, on 24 October 1970.<sup>1</sup> It lays down a programme for the Second Decade, takes up again and reinforces the same growth objectives, supplements them by other objectives and endeavours also to assess the qualitative changes on the way towards integrated economic and social progress. In addition, appropriate arrangements were adopted for reviewing regularly the implementation of this Strategy in order to assess progress, determine inadequacies and their causes and recommend, where necessary, supplementary policies and aims.

This review and general appraisal of progress achieved is carried out by ECOSOC every two years.

The first appraisal by the General Assembly took place at its 28th Ordinary Session in 1974.<sup>2</sup>

The purpose of the second appraisal, which is to be undertaken now, is to review the situation half-way through the Decade.

Because of the economic crisis which broke out at the end of 1973 a special session of the General Assembly, the sixth of its kind, was held in New York in April 1974 on the initiative of the President of Algeria, Mr *Boumedienne*.

Its immediate aim was to examine the problems of raw materials from the point of view of development and in particular their influence on the situation of the countries most seriously affected by the crisis. The main object of its work, nevertheless, was to assess the existing economic order and define the rules for a 'New International Economic Order'. These rules are defined in general terms in a 'Declaration' and expressed in more specific form in a 'Programme of Action'.<sup>4</sup>

In the eyes of the developing countries, all United Nations activities in the economic field must henceforth follow the lines of this Declaration and Programme of Action so that, as all the provisions contained in them are progressively implemented, a 'new international economic order' can replace the old relations based on strength. The Programme of Action specifies, for example, that it complements and strengthens the goals and objectives of the International Development Strategy and that the latter will have to be adapted in order to align it on the Declaration on the Establishment of a 'New International Economic Order' and the Programme of Action.

It should be noted that although the Declaration and Programme of Action were formally adopted by a consensus, they nevertheless include a large number of provisions which were not acceptable to most developed countries. The developing countries' refusal to take account of the reservations expressed on this occasion and the resulting ambiguity have made it more difficult to resort subsequently to the consensus procedure.

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<sup>1</sup> Resolution No 2626 (XXV).

<sup>2</sup> Resolution No 3176 (XXVIII).

<sup>3</sup> Resolution No 3201 (S-VI).

<sup>4</sup> Resolution No 3203 (S-VI).



At its 28th Session in 1973,<sup>1</sup> the General Assembly decided to devote a special session to development and international economic cooperation with a view to examining the main themes and problems connected with the development process, identifying and adapting the necessary changes in the structures and organs of the United Nations and studying the transformations which should be undertaken in the general configuration of international economic relations.

This special session will take place from 1 to 12 September 1975. It will be prepared by a Preparatory Committee which, after a brief session on organizational matters (March 1975) will meet from 16 to 27 June in order to finalize a paper recapitulating the specific recommendations in the light of which the General Assembly will at its special session be able to give a boost to the Development Strategy on the basis of objectives and supporting policies intended to ensure that they are carried out in accordance with a strict timetable.

In this context, the results of the World Food Conference and the Second General UNIDO Conference must not be forgotten since they represent achievements which the work of the UN will have to take into account. This also applies to the Charter of Economic Rights and Duties of States adopted at the last Ordinary Session of the General Assembly. This Charter, however, includes a relatively large number of articles which most developed countries, particularly the Member States of the Community, have not been able to accept in their present wording. Finally, the Fourth UN Conference on Trade and Development, to be held next year in Nairobi, will represent a major new element among those determining the direction to be taken by the Seventh Special Session.

On the same lines, the conclusions of the meeting of the OECD Council, which took place at ministerial level on 28 and 29 May 1975, should be mentioned; following that meeting the Ministers expressed their firm determination to pursue the dialogue with developing countries in all appropriate forums, particularly at the Seventh

Special Session of the General Assembly. They also decided that the OECD should examine the economic relations between its member countries and developing countries with a view to identifying new and constructive avenues which may be explored regarding certain fundamental questions and to giving renewed support and impetus to the negotiations conducted elsewhere.

The mid-term review and appraisal of the International Development Strategy, the action to be taken following the Sixth Special Session of the General Assembly on the establishment of a 'New International Economic Order' and the decisions to be taken at the Seventh Special Session of the General Assembly are inseparably linked.

Although strictly speaking these are three distinct exercises they nevertheless all directly concern economic cooperation for development. This is why the Commission considers that it must deal with the mid-decade review and appraisal of the International Development Strategy and the preparation for the Seventh Special Session of the General Assembly at the same time.

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<sup>1</sup> Resolution No 3172 (XXVIII).

## Part One

### The Community's general approach

In the exercise which will consist of drawing conclusions from the successes and failures and in particular from the new international context in order to redefine tomorrow's international economic relations, the Community and its Member States have a constructive contribution, perhaps a decisive one to make.

Firstly, the Community is now expected to play an active role. Over the past two years the Community's role in the international organizations, particularly in the United Nations, has developed considerably because of the increased attention given to development cooperation by the United Nations and because of the widening of the Community's activities in this field. Moreover, this trend has been confirmed by the granting to the Community of observer status in the General Assembly.

Secondly, to participate constructively in seeking a new type of international economic relations is in keeping with the Community's interests. Given that for both its sources of supply and its outlets the Community depends more than other industrialized countries on the existence of a propitious climate in relations between developing countries and developed countries it has no alternative but to take an active part in the debate whose outcome will determine the quality of those relations.

This active role can be effectively played by the Community and its Member States only if they present a united front at the coming international meetings.

To the fact that the topics to be dealt with fall largely within the Community's jurisdiction or are of special interest to the common market and must therefore be the subject of common positions must be added a major political reason: it is only by concerting their positions and present-

ing common views that the Member States and the Community will carry sufficient weight and therefore have a real chance of influencing the outcome of the work. If there is a lesson to be drawn from recent experiences such as the UNIDO Conference in Lima, this is it.

It must be recognized that although not a little progress has been made as to Community cohesion the latter has often failed to withstand the final test of the vote on resolutions by the United Nations organs. Now—rightly or wrongly—it is mainly by the unity or lack of it shown by the Member States in the final vote that Community cohesion is judged.

The Commission therefore considers that it is vital for common positions to be defined on all the matters dealt with and for those positions to be observed by the Member States throughout the course of the work, especially when it comes to a vote. A Community whose cohesion third countries are used to seeing disintegrate at the final stage of international meetings cannot in the long run maintain, let alone increase, its standing and influence.

The objective of defining common positions must of course be to increase and improve the contributions made by cooperation as a whole. The tendency, therefore, must be to uprate common positions, not so to align different positions on the lowest level in terms of cooperation.

The spirit underlying Community action must be that of dialogue and conciliation.

The special situation of interdependence between the Community and the developing countries must quite naturally lead the Community to do everything possible to reduce the climate of confrontation which has marked the United Nations since the Sixth Special Session of the General Assembly. Within the political spectrum of the United Nations the Community is, moreover, particularly well placed to play the role of moderator and to reduce antagonism. Furthermore, the Community has shown through many recent initiatives, both in the regional and in the world aspects of its cooper-

ation policy, that it is opting clearly for cooperation as opposed to confrontation.

On their side, according to information obtained recently, the developing countries seem to want to restore a climate which is more favourable to international cooperation. It should be noted that in the work which has so far been carried out in preparation for the Seventh Special Session they seem to have shown a spirit of moderation and greater realism than in the past.

The situation therefore seems rather favourable for a breakthrough in cooperation in the strict sense of the word. The Community could here play the part of the driving force behind western coordination and of mediator *vis-à-vis* developing countries.

The above shows that the Community will have to make a serious effort to reach a consensus by negotiating mutually acceptable compromises.

This search for a consensus as to substance must not, however, be interpreted as an acceptance in advance and at any price of a consensus procedure, in other words of the adoption of the conclusions without a vote. The partners in the international debate must agree to aim at clarity in their work and to find formulae which do not hide the areas of disagreement but indeed delimit them clearly so that they can be tackled all the more effectively.

With regard to the approach to be adopted as to substance, the Commission considers that the aim should be to bring up to date the International Strategy for the Second Development Decade by adapting it to the new situation and adopting a fresh approach by reference to the main shortfalls noted.

In adopting this kind of initiative, the Community and its Member States will be helping not only to strengthen the Strategy as an overall instrument of cooperation, but also to build a more equitable international economic order.

It will not be sufficient for the Community's contribution to rest simply on an analysis of the results achieved during the first half of the Development Decade and to take account of the

present situation of economic crisis; it must also be guided by acceptance of the fact that there is a new relationship of strength now determining relations between developing and developed countries, which originates in and is expressed by the dramatic increase in the price of oil. This new relationship has been demonstrated subsequently by growing solidarity within the Group of 77.

It is obvious—as the 77 seem to acknowledge—that the updating must be limited to subjects and areas in which real progress may reasonably be expected. The Community should therefore forestall any attempt to recast the Strategy completely on the basis of the extreme demands of the developing countries expressed in the 'Charter'. This will be all the easier as the Community will show itself to be constructive and ready to compromise where possible.

In thus opting for the principle of a selective approach—the choice of subjects being dependent on what appears realistic and feasible—the Commission felt it must also draw attention to the necessity of striking a reasonable balance between the various subjects. For recent experience shows that in the view of the developing countries the various subjects for cooperation are closely interconnected: from the point of view of their negotiating power, oil serves as a lever for raw materials, the latter serving as a lever for industrial cooperation, etc. Hence the phenomenon of 'globalization' of the debate on international cooperation.

In these circumstances, it would not be realistic to think that by defining a constructive position on a single subject, however important, for instance raw materials, the Community is responding adequately to its partners' expectations.

The Commission therefore proposes that the Community adopt a 'balanced selectivity' approach, which means that the Community would be prepared to tackle constructively the most important subjects which, in its partners' eyes, are so closely interconnected that virtually parallel progress is required.

Where immediate progress does not appear possible, the problems should at least be identified and a timetable laid down for seeking solutions in the near future. Since the Seventh Special Session and the ordinary session to follow it will be merely one stage in an on-going process, the impetus which they give to future work will be almost as important as the immediate results.

As regards specific subjects, the 77, in a document of 1 May 1975, drew up a provisional list of the specific areas and questions which they would like to see tackled during the Seventh Special Session of the General Assembly.

This list, which they describe as very limited and selective, actually contains a great many problems. The Commission considers, however, that in order to show a conciliatory spirit the Community could accept that this list, without prejudging the substance of the problems referred to in it, be adopted as a working hypothesis with a view to the drawing up of the agenda by the Preparatory Committee (2nd session) when it meets in New York from 16 to 27 June 1975.

The review and appraisal of the International Development Strategy, and the parallel process of preparing and convening the Seventh Special Session of the General Assembly, will culminate in the Thirtieth Ordinary Session of the General Assembly, which will provide a synthesis in the resolutions it adopts. The Community cannot, however, lose sight of the psychological importance attached by the developing countries to the Seventh Special Session. For this reason, the Commission considers that the most important Community contributions to the strengthening of international economic cooperation will have to be presented at that special session.

## Part Two

### Contributions from the Community

The initiatives taken recently at Community level regarding development cooperation have strongly emphasized the need for an approach which is comprehensive, but geared to the various specific problems to be resolved in certain types of situation. This was the idea expressed in the Commission Communication to the Council of 5 November 1974 on development aid;<sup>1</sup> this approach has now been enshrined in exemplary fashion in the Lomé Convention.

Although, for practical reasons the Commission will in what follows below be dealing successively with raw materials, international trade, industrial cooperation, the transfer of technology and the transfer of real resources, it would, however, like to stress two points:

- The various chapters are interconnected in that the various instruments of cooperation complement one another or are even mutually interdependent;
- The various fields of cooperation are of differing interest to the various categories of developing countries because of their specific problems.

In what it proposes here, the Commission has taken account of the difficulties which the Community's economy is currently passing through. It is also relying on the effect which any action proposed by the Community can have of carrying along with it the international community.

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<sup>1</sup> Development aid—Fresco of Community action, tomorrow. Supplement 8/74—Bull. E.C.

## Raw materials

The Commission has already transmitted a Communication to the Council on raw materials<sup>1</sup> on 22 May 1975. The Community contribution at the Seventh Special Session of the General Assembly could therefore include the main points of this Communication, which the Commission has outlined below.

The Community must define an overall approach with a view to adopting a clear and constructive policy towards the developing countries' claims. This approach could be based on seeking the following objectives: fair and remunerative prices without excessive fluctuations providing a long-term balance between production and consumption; the diversification of production and the development of the processing of raw materials in developing countries; the stability of developing countries' export earnings; special treatment for the poorest countries; stability of the consumer countries' raw materials supplies.

This approach could be implemented in the following ways:

— *Trade cooperation.* Measures aimed at the elimination of the tariff and non-tariff barriers which hinder access to the markets of the industrialized countries, particular attention being given to the problem of the protection of the added value of the products of first-stage processing.

— *Industrial cooperation.* Promotion of development and processing *in situ* via a contractual framework aimed at encouraging activity by business firms and the transfer of technology.

— *Production and supplies.* Search for appropriate financial mechanisms.

— *Information and consultation.* Improvement of exchanges of information on the supply and demand situation.

— *Measures to limit excessive price fluctuations.* Product-by-product examination of the problems, based on the diversity of the situations, with special attention being paid to products exported mainly by the developing coun-

tries, in particular by means of international product agreements which may include stockpiling measures.

— *Stabilization of export earnings.* International financing with the participation of all countries which have adequate resources available. The procedure for implementing this measure should be studied from the angle of the beneficiary countries and the products concerned. Such action would be in addition to the aid currently granted to developing countries.

## International trade

The commercial policy field is one of the sectors in which the Community can make a positive contribution to the work of the Seventh Special Session of the General Assembly. Generally speaking, the developing countries' desiderata are especially concentrated on the principle of access to markets; freer access should progressively be given to imports of raw materials, and industrial semi-manufactures and manufactures from developing countries.

In this field the Community can adopt a positive attitude by basing itself on the one hand on measures to be taken under the multilateral GATT negotiations, and on the other hand, on application of the generalized system of preferences.

### *Generalized tariff preferences*

In accordance with the Resolution adopted by the Council on 3 March 1975<sup>2</sup> the Community is able to reaffirm its desire to maintain and improve its generalized scheme of preferences.

With regard to maintaining the scheme, the Community can state that it considers it necessary for the preferences scheme to be extended beyond 1980. This positive attitude may be reinforced by action to convince other donor

<sup>1</sup> Pages 25 to 31 of this Supplement.

<sup>2</sup> Bull. EC 3-1975, point 2318.

countries also to consider the possibility of extending their scheme beyond that date.

With regard to improvement of the scheme three broad lines may be taken into consideration:

- increased utilization of the present Community scheme, particularly by means of measures aimed at simplifying it;
- better administration of the scheme;
- improvement and appropriate adjustment of the Community scheme in the light of the developing countries' expansion potential and the Community's economic potential.

According to the avowed intention of the Council such improvement will have to take particular account of the interests of the least developed countries.

#### *Multilateral trade negotiations*

The directives approved by the Council on 11 February 1975<sup>1</sup> already constitute a complete series of lines of action, *vis-à-vis* both developed and developing countries, regarding the multilateral trade negotiations under GATT which opened officially in September 1973 in Tokyo but did not actually start until February 1975. It is therefore not so much a matter of adding to these guidelines as replacing them, if necessary, with a view to trade cooperation in this field. While emphasizing that this is a specific case of trade negotiations based on the principle of reciprocity of concessions and the balancing of mutual advantages the Community can confirm the intention already expressed in the Tokyo Declaration<sup>2</sup> to take particular account of the developing countries' interests by considering their needs and their specific economic situations.

Taking into consideration developing countries' interests should in particular mean:

- priority treatment (tariff and non-tariff) for tropical products;
- a common search for appropriate tariff solutions, on the basis of the general formula to

emerge from the negotiations, aimed at adapting the extent of tariff reductions or the phasing of such reductions and the detailed rules for applying any solutions regarding non-tariff barriers to the specific needs of the developing countries;

- a special effort to bring about, at tariff level, a significant reduction in the protection of value added for products of first-stage processing, for instance each time that the latter results in a high rate of effective protection;
- taking into account developing countries' interests and problems by means of food aid measures and the beneficial effects of the stabilization of markets.

#### *Promotion of trade relations*

Experience has proved that progress which can be made in the specific field of import arrangements is not by itself enough to increase developing countries' exports to the industrialized countries' markets. It seems necessary, in view of those countries' economic structure in the trade field, to accompany measures affecting import arrangements by trade cooperation.

In particular this is a question of measures to be taken in the trade promotion field. The Community has already indicated, in the Council Resolution of July 1974<sup>3</sup> the importance it attaches to this problem and its intention to aid developing countries which are not members of the ACP. Action already taken to improve the structures relating to the promotion of trade and to encourage developing countries' participation in fairs and exhibitions should be reinforced by new measures for training trade promotion experts and carrying out market research and surveys.

In the light of experience gained in all these fields under the Yaoundé Convention and in line with what is intended in the Lomé Convention, progress could also be made on improving cooper-

<sup>1</sup> Bull. EC 2-1975, points 2301 and 2433.

<sup>2</sup> Bull. EC 9-1973, point 1106.

<sup>3</sup> Bull. EC 7/8-1974, points 1201 to 1222.

ation between the Community's business firms and developing countries in the trade field by establishing firmer and closer relations to provide importers and exporters with a better understanding of the problems involved. Other measures to promote cooperation between certain industrial sectors of the developing countries and the Community's firms should be taken into consideration, making allowances for the special characteristics of the various developing countries.

Trade cooperation measures could be organized on the one hand within the framework of bilateral relations with the various developing countries and, on the other, within the framework of the Community's relations with the regional integration areas established among developing countries. Agreement could be sought with other industrialized countries on improving understanding and providing an exchange of information in this particular field.

### **Industrial cooperation and transfer of technology**

#### *Extension of Lima*

In the field of industrial cooperation the Seventh Special Session will be the direct extension of the Second General Conference of UNIDO, which was held in Lima from 12 to 27 March 1975.<sup>1</sup>

This Conference marked an important stage in the definition of new guidelines for industrial cooperation. The vital need for developing countries to increase the pace of their industrial development was recognized more clearly than ever and here an extremely ambitious quantified target was set (25% share of world industrial production for the developing countries in the year 2000). The need for the redeployment of industries, for a new distribution of industrial activities in the world, for on-the-spot processing of raw materials was clearly acknowledged. The principle of a certain framework for the operations of multinational companies has been accepted. The question of the consequences which industrial cooperation will

undoubtedly have for the industrialized countries' internal structures has not been evaded.

#### *Putting an end to the ambiguity of the Community's attitude*

The Member States' attitude at the final vote on the Lima Declaration gave the impression of a lack of Community cohesion and gave rise to great ambiguity as to the real position; the votes of certain Member States must have seemed to contradict the constructive attitude proclaimed by the Community.

It should, however, be remembered that the vote was on ten paragraphs only, covering not more than five major problems which were virtually all outside the industrial field proper.

The Commission proposes that the Community and its Member States take the opportunity offered by the Seventh Special Session to indentify themselves more clearly with the results achieved in Lima in the industrial field proper and recognize that this Conference has provided a positive sectoral contribution to the establishment of a 'new international economic order'.<sup>2</sup>

#### *The role of firms*

Industrial cooperation is clearly distinguishable from cooperation in other sectors—infrastructure, health measures, training, agriculture—in that close assistance from foreign firms is vital.

The Commission believes that here it must raise the point of a fundamental inconsistency in the conclusions arrived at in Lima: the industrial development ambitions expressed at Lima seem difficult to reconcile with the developing coun-

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<sup>1</sup> Bull. EC 3-1975, point 2317.

<sup>2</sup> See the Resolution on action to be taken following the decisions and recommendations of the Second General Conference of UNIDO adopted, with the approval of the Member States, by the Industrial Development Board of UNIDO in Vienna (21 April—2 May 1975).

tries' attitude of caution—almost of systematic suspicion—as regards private foreign firms in particular.

Here it is not enough to appeal to the developing countries to create a climate of confidence. Instead the question should be examined with them of what measures can be taken on both sides to bring the developing countries' requirements and the firms' legitimate interests into line with one another.

This is the subject on which the Commission proposes to base its considerations.<sup>1</sup>

#### *Strengthening of cooperation between governments*

The Commission considers that the Community and the Member States should show that they are prepared to cooperate with the developing countries' governments on industrialization and that they are not simply going to leave firms a clear field.

Such cooperation would first deal with the traditional fields which come under financial and technical cooperation (infrastructure linked with industrialization, training, studies, etc.) and trade cooperation (access to the Community market, trade promotion). It must systematically support efforts aimed at regional cooperation among developing countries, which is especially vital for industrial development.

Beyond that, the developing countries attach great importance to cooperation in the matter of a framework for the operations of firms, particularly transnational companies.

It must be realized that developing countries are generally ill-prepared to deal with big firms and that they often find themselves exposed to quasi-monopolistic situations. It would therefore be appropriate to help developing countries prevent dominant positions being abused, as industrialized countries do at home under rules guaranteeing the free play of competition.

The Commission therefore considers that developing countries should be able to rely on the

Community to help them find a reasonable balance between their interests and those of foreign firms.

#### *Development of industrial promotion and cooperation*

With such a general cooperative attitude a wide field would be opened for industrial promotion measures aimed at studying concrete opportunities for industrialization and industrial cooperation, for organizing the flow of information and for facilitating all kinds of contact between promoters, firms and those responsible for industrial development.

To carry out these functions, the Lomé Convention has provided an original mechanism involving the establishment of a Centre for Industrial Development, managed jointly by the ACP States and the Community.

The Commission considers that this new initiative will be valuable in providing a source of information on the conditions governing the effectiveness of this kind of action; when a certain amount of experience has been gained, it will permit assessment of whether, and under what conditions, it would be possible and desirable to extend this form of cooperation to other developing countries. Certain trade cooperation agreements might here provide a favourable framework for such additional activity.

In the Commission's opinion, apart from information and promotion aimed at specific points it would be advisable to improve the system for reciprocal information on foreseeable trends at least in some major industrial sectors so that the risk of overcapacity or bottlenecks can be detected.

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<sup>1</sup> Although in the Communication presented here the Commission is concentrating on this specific subject, it would also like to point to the other guidelines which it suggested in its Communication to the Council in preparation for Lima and which, since they still hold good, can continue to serve as a reference for Community positions on industrial cooperation. See Bull. EC 2-1975, point 2306.



ted in time. Such an attempt at flexible cooperation must, however, take account of the limits set by our market-economy system.

The Commission considers that UNIDO could play a useful role in providing information on industrial developments at world level. However, it will be difficult, at least in the short term, to achieve real agreement within such a wide framework. Regional arrangements (such as the Community has concluded or is concluding, particularly with Black Africa and the mediterranean region) may be more appropriate.

#### *From traditional investments to new forms of cooperation with firms*

Although a number of developing countries—those producing oil and sought-after raw materials—are now able to finance their industrial development from their national resources, this is not so for many others. For the latter, foreign investment, whether public or private, should continue to be encouraged.

With regard to incentives to attract private investments the Commission suggests that the Member States organize, within the Community framework, an exchange of experiences on the effectiveness of the instruments—fiscal measures and guarantees—which they have used to improve the real impact. It still believes that the creation of a Community guarantee system would now more than ever be what industrial cooperation needs, particularly in the case of transnational investments by firms from a number of Member States.

The appearance of surplus financial resources in certain developing countries should bring the Community and its Member States to promote to a greater extent triangular operations, combining these financial surpluses with the European countries' contributions of technology, management resources and training opportunities and with the raw materials and manpower resources of the developing countries which will act as host to the new industrial ventures.

For developing countries which are able to do without foreign capital for their industrial development a new problem has arisen (or an old problem has taken on a new dimension) resulting from the disappointing experiences of certain developing countries regarding turnkey projects: who will provide a guarantee against the risk of industrial plant not living up to expectations.

Of course the governments of the industrialized countries will not be able to guarantee—as an Algerian-inspired resolution put forward at Lima asks them to—the quality and smooth operation of industrial schemes undertaken with the assistance of their nationals in developing countries. However, the Commission considers that the Community should at least acknowledge that the problem raised by Algeria is a real one when the foreign firm is no longer financially committed through a contribution of its own. It should state that it is prepared to help the developing countries identify the risks with which they are confronted.

The Commission suggests that the possibility be explored of setting up a system of insurance to enable European firms to assume additional responsibilities imposed upon them by developing countries.

As regards verifying the quality of services rendered competent bodies exist whose objectivity is undisputed and which might be used more systematically. Certain forms of official technical assistance (*ad hoc* expertise, temporary provision of advisers, accelerated training programmes, etc.) might prove useful where help is needed. In the case of firms which might prove to consist of unscrupulous businessmen, the pressures which the governments of the industrialized countries' can exercise, even if only through guarantee systems for instance, should be fully recognized.

#### *Improving the terms for the transfer of technology*

Although any industrial cooperation scheme involves a transfer of technology so that it is not

always easy to distinguish one from the other, the transfer of technology presents certain specific aspects which could be dealt with by special action.

The Community and the Member States are taking part in preparing within the framework of UNCTAD, an international code of conduct on technological transfer. The Commission feels that the Community and the Member States should state at the Seventh Special Session that they will actively pursue the efforts to achieve such a code and do their best to ensure that its rules—although they cannot be binding—are observed.

The Community could also announce that it intends to provide assistance to ensure better transparency of the industrial property market and to facilitate developing countries' technological choices: information and documentation on available technology, advice on choosing and developing adapted techniques, establishment of contact between those requiring and those supplying techniques, specialist training in industrial property, etc. Some of these measures presuppose the existence of financial resources, even if only very modest resources.

By thus aiding the developing countries to get a clearer idea of the very complex problems involved in the transfer of technology, the Community would contribute to restoring the free play of market forces in a field where competition is often lacking.

*The developing countries' contribution:  
the welcome they provide*

If the Community were prepared to offer these various forms of help in order to integrate its firms in industrial cooperation in a way which respects the developing countries' sovereignty and takes maximum account of their interests it would be entitled to insist on a requirement from them in return: the welcome and the stability of the working conditions to be offered to foreign firms. Rather than granting them privileges, the developing country should clearly inform them

of the rules and undertake to stick to them. By doing this, they can keep their political options wide open, as well as the possibility of nationalization provided that the latter is carried out with the necessary fairness.

It should be emphasized to the developing countries that the climate of uncertainty is often the cause of a lack of dynamic commitment by foreign firms and—when they do commit themselves—the reason for excessive profits. The restoration of a climate of confidence, however, would attract industrial projects of normal profitability which, because they would not have to be amortized over a very short period, would not be carried out in an atmosphere of uncertainty.

*Consequences for the internal structures*

The implementation of a substantial industrial cooperation policy implies a number of choices involving the search for a new industrial balance in the EEC countries. These policies of adjustment require that account be taken of major trends, of the location of activities by sector in view of certain constraints, such as the technological level of the industry considered or of the labour market.

The extent of industrial cooperation and of its corollary, the redeployment of certain Community industries in the developing countries, will primarily depend upon making firms aware of this need and minimizing the foreseeable social upheavals by avoiding the necessary readaptation of industrialization being carried out at the expense of sacrifices imposed solely upon the working classes in the industrialized countries: (the European Social Fund is already in a position to make a substantial contribution to retraining workers without waiting for them to become unemployed; action by the European Investment Bank, the EAGGF and the European Regional Development Fund can enable the foreseeable imbalances to be minimized). The capacity for redeployment will also depend upon the EEC's ability to master an adequate technological dimension in strategically important fields

(nuclear, informatics, aerospace) and to be competitive on an international scale.

The reluctance to invest abroad has so far been due, among other things, to the fear that such investment would involve a reduction in the investor countries' internal growth. The extent to which the Community will be able to participate actively in the redeployment of industry—which, moreover, will be realized by the transfer of the growth of such and such an industrial sector and not of entire sectors—will depend on whether there is prolonged economic stability.

### **Transfer of financial resources and international monetary system**

#### *Confirmation of the objective of official development assistance*

An increased flow of financial resources is an important factor for the success of the second half of the Development Decade. The Commission considers that the Member States should reconfirm publicly their desire, expressed jointly in the Resolution adopted in July 1974 by the Council,<sup>1</sup> to attain as soon as possible the objective of 0.7% laid down in the Strategy, progressing towards this objective at a rate determined by the distance at present separating them from it.<sup>2</sup> At the same time the Member States should emphasize their resolve to insulate in so far as possible the development of their official development assistance from any budgetary or balance of payments difficulties in order to ensure that the flow of aid remains continuous, as recommended by the Strategy.

In support of their desire, the Member States and the Community will also be able to point to (besides intentions regarding the future development of each of the Member States' bilateral aid) the considerable increase in Community aid which will come about as a result of the financial provisions of the Lomé Convention and the agreements to be concluded with the Mediterranean countries.

In the same context the Community should reaffirm the principle of granting financial and technical assistance to non-associated developing countries and announce that the terms under which this principle is to be implemented in the near future are currently being examined by the Community authorities. Here it could be emphasized that the technical assistance granted since 1974 to non-associated developing countries in trade promotion and regional integration matters, and in particular the Community contribution to the United Nations emergency action, already constitute the first steps in this direction.

On the other hand, the Commission considers that it is premature to discuss any requests which might be made by the developing countries for reformulation of the official development assistance objective—either by taking into account interest payment or by excluding certain types of financial flows—as long as the objectives set previously have not been attained.

#### *Reorientation of aid*

Since it is mainly the poorest of the developing countries which suffered most from the inadequacy of the flow of aid during the early years of the Development Decade, it is important that, side by side with the increase in volume, the flow of official development assistance be redirected towards those countries. The Commission considers that the Member States and the Community will have to gear their respective aid programmes to this need and announce their intention to do so before the General Assembly.

Furthermore, to give greater weight to such a declaration, the Member States and the Community could take the initiative of proposing that a specific international objective be set in this field. Such an objective, with regard to which a number of practical formulae are possible (and are currently being examined by Develop-

<sup>1</sup> Bull. EC 7/8-1974, point 1216.

<sup>2</sup> An exception being made for certain Member States which find themselves in a special situation.

Development Assistance Committee of the OECD), should aim at achieving a better correlation between the share of official development assistance intended for the least developed countries and the size of their population relative to the total population of the developing countries. The work on defining the detailed rules to be adopted for this objective could be carried out as part of the work on updating the Strategy for the Second Decade.

#### *Aid to specific sectors*

With regard to the sectoral allocation of aid, greater attention will have to be paid in the future to the developing countries' food requirements and, in general, to the development of rural regions. The main objective in this field should be to improve the standard of living of the worst off sections of the population by a wide variety of measures dealing with all aspects of rural life. The Commission considers that the Member States of the Community should use their endeavours to see that a greater effort is made here by the international community. As regards their own aid programmes, the Member States should stress that they are willing to increase the share of aid devoted directly or indirectly to these objective should the recipient countries so wish. In addition, it would be desirable if the Community could now state that current thinking on the extension of financial aid to non-associated developing countries was also tending in that direction.

At the same time the Community and the Member States should state that they intend to continue their food aid programmes—where local production remains structurally inadequate, and in emergency situations—and to increase both the volume and range of products supplied.

In the same context it should be possible to state that the Community authorities are studying whether and under what conditions the Community could contribute to the International Fund for Agricultural Development should that Fund, which was proposed at the recent World Food Conference, be set up.

#### *The debt problem*

Greater attention will have to be paid in the future to the increasingly disturbing indebtedness of the developing countries. In particular, methods should be devised for assisting countries threatened by crises arising from indebtedness before such crises actually occur. However, the Commission considers that international measures to deal with this problem, in which the Member States should participate fully, cannot be undertaken in accordance with generalized rules applied automatically, as the developing countries would like. Instead, each individual case should be studied and dealt with by reference to the particular circumstances of that case, bearing in mind the need to preserve the international creditworthiness of the country concerned and—above all—to avoid discouraging the pursuit of prudent financial policies.

More important than curative measures, however, is the prevention of crises arising from indebtedness by a suitable policy on the terms and geographical allocation of aid. The Commission therefore believes that the Member States and the Community should, on the basis the Resolutions adopted by the Council in 1974,<sup>1</sup> confirm before the General Assembly their willingness to improve further the terms of their aid, in particular by increasing the overall proportion of grants, and to adapt those terms to the individual circumstances of each recipient country, special attention being paid to those developing countries which are or risk becoming heavily indebted.

On the other hand, the attention of the developing countries should be drawn to the need for sound management of their external debts, which implies *inter alia* an effective system for recording and monitoring indebtedness, particularly in the private sector. The Member States and the Community should offer increased technical assistance in this field to all countries which so desire.

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<sup>1</sup> Bull. EC 7/8-1974, points 1201 to 1222.

### *Triangular cooperation*

As a result mainly of the increased price of oil, certain developing countries now have substantial surplus financial resources, part of which can and must be devoted to the development of the Third World. This situation makes it possible to have new forms of cooperation, bringing together the surplus capital of the oil countries and the know-how of the developed countries, plus where appropriate, additional financial support from the latter.

Some Member States have already taken steps in this direction. It is important now to develop this incipient triangular cooperation—beyond what is already being done bilaterally and multilaterally—and to devise structures to provide a more systematic basis for this new form of cooperation. The Commission considers that the two sessions of the General Assembly in the autumn could provide an opportunity for the Member States and the Community to launch such an initiative.

### *'Third window' and 'oil facility'*

The Commission suggests that the Member States adopt a positive attitude to the ideas put forward by the International Bank for Reconstruction and Development (IBRD) on establishing an intermediate financing mechanism, to fit in between loans from the Bank and those from the International Development Association (the 'third window').

In addition, the Commission considers that it would be desirable for the Member States to confirm that they are prepared to make appropriate contributions to the special fund set up by the International Monetary Fund in order to reduce the burden of interest which the most seriously affected countries will have to bear under the 'oil facility'.

### *Linking SDRs and development aid*

At the Third Session of the United Nations Conference on Trade and Development

(UNCTAD) at Santiago in 1972, the Commission declared itself in favour of a link between special drawing rights (SDRs) and the financing of development, while emphasizing that this procedure should not involve the creation of excessive additional international liquidity.<sup>1</sup> In the meantime the question has been extensively studied and discussed, particularly by the Group of Twenty responsible for drawing up an outline for the reform of the international monetary system. The question of a link is one of the points of the reform which must be settled during the interim period.

The Commission considers that the Member States of the Community should endeavour to speed up any decision on this matter. Such a decision will have to be compatible with the range of measures currently under discussion by the International Monetary Fund for improving the functioning of the international monetary system in the immediate future.

### *Quotas and voting rights in the International Monetary Fund*

In accordance with the conclusions reached by the Council on 20 May 1975, the Community will assert its view that the IMF quotas of the developing countries which are net exporters of oil must be doubled as a percentage and those of the other developing countries maintained (at the same percentage level). The result would be to reduce the developed countries' quotas. By this procedure the voting rights of the developing countries as a whole would be quite considerably increased.

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<sup>1</sup> See Bull. EC 6-1972, Part 2, point 82.

**Commission Communication to the Council  
on raw materials in relations  
with the developing countries  
which export raw materials**

The purpose of this communication is to provide for requirements arising from the programme of forthcoming international discussions and, in this context, it refers especially to the problems facing the developing countries which export raw materials. Other aspects of the very broad questions connected with raw materials are and will be dealt with elsewhere. These include questions concerning the developing countries' own supply in commodities, particularly food products, and the Community's own supply in raw materials, a problem discussed in a Commission communication to the Council of 5 February 1975.<sup>1</sup>

## Introduction

World economic events in recent years and recent political trends underline the need for a thorough reexamination of international economic relations. These events have revealed the extent to which the economic development of all categories of countries depends on a continued and balanced growth of international trade. In view of this interdependence, it is essential that relations of solidarity and co-responsibility are established in a climate of cooperation in which the developing countries will no longer simply appear as the suppliers of a limited range of goods required by the industrialized countries, but as partners in the world's economic growth, in which a larger and fairer share should fall to them.

More particularly, this reexamination should cover two major questions which are closely connected: the conditions in which raw materials produced by the developing countries are developed and marketed and, as far as is possible, the acceleration in the growth of the developing countries.

These questions are vital for all countries which are consumers of raw materials, whether they are non-producer developing countries or industrialized countries whose industrial activity depends on the regular supply of raw materials in the broad sense, including products of first-stage processing. They are of particular importance

to industrialized countries which, like the Community, depend to a large extent on external sources for their raw materials. These countries are dependent on a stable supply at reasonable prices. These questions are also vital for the producer countries, and first and foremost those whose export earnings depend mainly on their sales of raw materials. This is the case with a large number of developing countries, which are therefore dependent for their economic development on the protection of these earnings.

These questions concerning raw materials have been the subject of special attention in international discussions for a year or so. The discussions which have been held in various international forums<sup>2</sup> have clearly pointed up the developing countries' claims in the matter of raw materials and their united front, despite their sometimes diverging interests, *vis-à-vis* the developed countries.

These claims are not new but they have loomed particularly large since the recent economic events. They can be summarized under the following five headings:

- Free access to the markets of the industrialized countries;
- Increased opportunities for processing raw materials in the developing countries;
- Exercise of full sovereignty over mineral resources;
- Stabilization of earnings from raw materials exported by the developing countries;
- Index-linking of raw material prices to those of manufactured products.

The Commission, recalling the European Council's deliberations on these matters in Dublin on

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<sup>1</sup> Supplement 1/75—Bull. EC.

<sup>2</sup> Sixth Special Session of the General Assembly of the United Nations—UNCTAD—GATT—Second UNIDO General Conference at Lima—Conference of the non-aligned countries at Dakar—negotiations for the Lomé Convention—Algiers Conference—Paris preparatory Conference—United Nations Conference on the Law of the Sea—Commonwealth Prime Ministers Conference at Kingston.

10-11 March,<sup>1</sup> considers that the Community must adopt a clear and constructive policy towards these claims, especially as the dates of the forthcoming international meetings will oblige the international community to adopt a position on raw materials in the coming months. Its present communication is intended to serve as an initial basis for discussions within the Community for this purpose. In it the Commission outlines the possible nature of an overall approach to the problems facing the developing countries which export raw materials, and the broad lines of action to be envisaged.

### Overall approach

The Community's overall approach must take into account the following considerations:

— Each product has its own characteristics, to which any solutions that can be envisaged must be adopted;

— With the exception of certain products, in particular tropical agricultural products, raw materials are not produced and exported principally by the developing countries. However, the export of raw materials is vitally important for most producer developing countries;

— The degree to which prices fluctuate varies considerably from product to product.

— The risk of scarcity is relative, particularly because there are substitute products;

— The Community, more particularly, depends on external sources of supply and will continue to be dependent on them.

It is however possible—and desirable—to define a few general principles which the Community might adopt as an overall approach to the question of its relations with the developing countries which are raw material exporters. It must aim to seek fair and equitable solutions in the appropriate international forums:

— Prices of raw materials must be equitable and remunerative; they must avoid excessive, sharp fluctuations; and they must be fixed at a

level which encourages a long-term balance between production and consumption;

— The economic development of the developing countries must be encouraged by the diversification of their products, the development of local processing of raw materials and the stability of their export earnings;

— Special attention must be paid to the poorest countries;

— The need for the consumer countries to know that the stability of their supplies is guaranteed must be taken into account.

The purpose of such an approach is to introduce fairer mechanisms for the developing countries which export raw materials and to create sure and stable conditions of supply for the consumer countries. The implementation of such an approach will necessarily involve financial costs. These will have to be borne by all the industrialized countries, including the State-trading countries, and other countries with sufficient resources. Certain financial institutions, the International Monetary Fund in particular, could accept a share of these costs, particularly by adapting certain of their present mechanisms. In addition, in certain cases the producer countries themselves could play a part.

### Proposed action

The Community has already adopted important measures to help the developing countries better to resolve the problems facing them in the raw materials sector. Four types of measure should be mentioned:

— repeated and substantial reductions in the tariff duties on raw materials exported by the developing countries;

— the wide degree of encouragement given to the processing of raw materials in the developing countries through the abolition of customs duties on semi-finished and manufactured products (generalized preferences);

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<sup>1</sup> Bull. EC 3-1975, point 1502.



— the considerable support that the Community has given to the efforts made to stabilize the prices of products covered by world agreements (cocoa, coffee, tin);

— measures to stabilize the export earnings from certain raw materials provided for in the Lomé Convention.

The various measures already adopted by the Community are significant. The present situation, however, makes it necessary to search for new types of action in addition to continuing the action already undertaken, and all these lines of action must be included in an overall approach which corresponds both to the interests of the Community and to the aspirations of the developing countries. These overall approaches should be based on the following broad lines of action, which cover both the action already in hand and new measures.

#### *Trade cooperation*

In this field, the measures should aim at the elimination of the tariff and non-tariff barriers which hinder access to the markets of the industrialized countries by raw materials from the developing countries, and particular attention should be given to reducing the protection on the added value of the products of first-stage processing. Mention should also be made of the negotiation directives adopted by the Council for the GATT multilateral negotiations and, as regards agricultural products, the terms of the Tokyo Declaration<sup>1</sup> concerning the specific nature of the problems in this sector and the need to treat tropical products as a special, priority sector. Equitable solutions should also be found to the problem of monitoring export restrictions.

#### *Industrial cooperation*

In the field, the aim of the Community should be to promote the development and processing *in situ* of raw materials in the light of the employment problems both in the developing countries

and in the industrialized countries. Industrial cooperation is essentially a matter for business firms; a contractual framework should therefore be established to encourage their action and to permit the discussion of problems of mutual interest, for instance the supply of raw materials. A number of types of action which are of special interest can be mentioned here:

— Measures intended to promote investment in the developing countries (increased sources of finance whether from the private sector or from international bodies, protection of investments, guaranteed transfer of profits, encouragement of joint ventures);

— The search for a coherent approach to investment, making it possible to avoid both bottlenecks and production over-capacity;

— The encouragement of long-term contracts involving reciprocal commitments to supply and take delivery of products;

— Measures to promote the transfer of technology.

#### *Production and supplies*

Search for financial mechanisms permitting production and supplies of raw materials to be fostered in a spirit of cooperation.

#### *Information and consultation*

It is clearly important that the exchanges of information on the supply and demand situation of products should be improved. With this aim in view, various information and consultation measures at world level will have to be considered, both in the context of consumer producer associations or in any other appropriate body.

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<sup>1</sup> Bull. EC 9-1973, point 1106.

### *Measures to limit excessive price fluctuations*

Such measures are in the interests of both producer and consumer countries in as much as they serve to eliminate the excessive and sudden fluctuations which can seriously disrupt investment and production cycles. They should be examined on a product-by-product basis.

— For certain products the Community already participates in world agreements: coffee, cocoa, tin. Furthermore, it has indicated that it favours an agreement-by-product approach for agricultural products such as sugar, wheat, rice and maize. The other cases which lend themselves to this kind of approach will have to be examined.

On this point it should be remembered here that in the case of a number of raw materials the majority of exports come from the industrialized countries. Thus, if it is the intention that the developing countries should be the main beneficiaries of such measures, it will be necessary to examine in the first instance the main products which they export and which are subject to marked fluctuations. The relationship between the cost of such measures and the effect they have, particularly with respect to the developing countries, will have to be taken into consideration.

Elimination of excessive price fluctuations may, in certain cases, involve the necessity of stock-building and stock-reducing measures. The working of certain world agreements could be improved by the participation of the consumer countries in the financing of stocks and thus in the management of the system;<sup>1</sup> the practical arrangements should be examined on a case-by-case basis.

— The question of indexing the prices of raw materials will no doubt be the subject of thorough discussions in the international bodies. The difficult nature of the problems to be faced in this field, particularly if it is intended that such a system should ensure an equitable balance between the producer countries themselves and between producer and consumer

countries, should be stressed from the outset. Hence it would be wrong to see indexing as a panacea offering a solution to all the problems in a simple formula. The Commission reserves the right to return to this subject.

### *Stabilization of export earnings*

Parallel to the agreements-by-product approach referred to in the preceding section, the Commission considers it necessary to contemplate international action aiming at the stabilization of certain export earnings with joint financing by all the industrialized countries, including the State-trading countries and other countries with sufficient resources. This action should represent an effort in addition to the aid currently being granted to the developing countries. Actions of this type are distinguished from those referred to in the preceding section in that they do not directly influence the operation of market forces and do not introduce barriers to trade.

The Community was the originator of a system of this kind for certain products in the context of the Lomé Convention. However, the Commission does not recommend a simple transposition to the world scale of the Lomé machinery as this is adapted to the specific nature of the Convention.

The choice of the mechanism which could be proposed by the Community raises from the point of view of methods of application two major problems as regards the recipient countries and the products to be covered. The choices to be made are illustrated by the two alternative approaches set out below.

#### **First alternative**

The mechanism should cover a wider range of products than the Lomé Convention system and should benefit the least developed countries, to

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<sup>1</sup> See the Commission's proposal on the joint financing of the buffer stock in the context of the renewal of the International Tin Agreement. See Bull. EC 3-1975, point 2325.

which the resources to be made available for this purpose should be allocated as a matter of priority.

The criterion to be used to identify the recipient countries should be their *per capita* gross national product, a clear and objective criterion, which would be used to establish a list of about fifty countries.

The products selected should be those subject to marked price fluctuations and of particular importance for the recipient countries. The UNCTAD list of nineteen products could form a basis of reference here in the dialogue to be held with the developing countries (though it must be borne in mind that not all of these nineteen products are primarily of importance for the developing countries and that there are others which are ill-suited to the application of UNCTAD's integrated programme but are suitable for inclusion in the system proposed here).

The selective approach outlined above has the double advantage of maximizing the benefits for the developing countries which are in the greatest need, while limiting, by its very selectiveness, the indirect effects on the functioning of the market economy and, consequently, the distortions in the allocation of resources.

#### Second alternative

In an initial phase, action in respect of the earnings which the developing countries derive from the export of raw materials could suitably deal with:

- earnings subject to marked fluctuations as a result of variations in prices and quantities;
- earnings derived from agricultural products for food or industrial purposes the export of which is of particular importance for the producer countries;
- earnings derived from products which are vital for the level of employment in producer countries.

The mechanism should aim to cover all the developing countries that are exporters of raw materials. In addition, it should include arrangements to give special consideration to the interests of the least developed countries and the most seriously affected countries.

This mechanism would have the advantage of not causing any distortion of the market since all the producer developing countries would be concerned. In addition, it would be consistent with the Lomé Convention system. It is important to emphasize, in particular, that this system is not an aid measure but a guarantee of earnings.

The Commission considers it essential that a comparative study of these alternatives be made as a first stage in the work of the Council.

#### Conclusions

It is clear that the Community cannot on its own provide a solution to all the problems raised by the developing countries in the raw materials sector. It must, however, be in a position to play its full role in the international discussions to be held in the near future with the developing countries and the other industrialized countries. It must aim to give an open and constructive answer to the preoccupations of the developing countries as set out in the integrated programme proposed by the UNCTAD Secretariat.

It is important that the Council should decide as speedily as possible on the broad lines of this communication. Firstly, the time available for discussions in the international forums is very short. Secondly, it is important that the Community be able to hold discussions with the various groups of its partners in advance of the official deliberations of the international bodies. It is vital that far more attention be devoted to this kind of informal preparatory discussion than has been the case in the past.

The Commission proposes to supplement this communication by transmitting to the Council before 20 June communications dealing in detail with the principal problems mentioned above.<sup>1</sup>

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<sup>1</sup> *Product agreements designed to limit excessive price fluctuations* (Commission Communication to the Council, forwarded on 13 June 1975); *International action on stabilization of export earnings* (Supplementary Commission Communication to the Council, forwarded on 13 June 1975).

**Product agreements designed to limit  
excessive price fluctuations**

## Introduction and objectives

In its 'Communication to the Council of 22 May 1975 on raw materials in relations with the developing countries which export raw materials' the Commission gave an overall picture of the various measures which might be envisaged in this context.

The Commission proposed to forward more detailed communications to the Council on some of the aspects dealt with in the overall communication of 21 May.

This communication deals with the question of product<sup>2</sup> agreements designed to limit excessive price fluctuations. The problem of the security of supplies of the consumer countries, which is closely connected with product agreements, is not covered here. Moreover, this problem is also linked with the producer countries' export policies, in particular the export restrictions dealt with in the context of the multilateral negotiations under GATT and therefore not touched upon here.

Within the meaning of this communication 'product agreements' are agreements concluded between countries producing and consuming commodities, the aim generally being to stabilize the prices of the products in question in international trade. According to the arrangements established since the Havana Charter (1947-48) such agreements must normally be concluded between producers and consumers.

## The products: conditions and characteristics

This suggests the main conditions which must be met if a product agreement is to have the greatest possible chances of success.

Table 1<sup>1</sup> summarizes a number of data relating to these conditions.

1. Essentially, the harmonious development of prices must be ensured.

In order to achieve this, the product in question:

- (a) Must have a price or a set of prices which is as independent as possible, that is the market for the product must not be dominated by a rival product (for instance, by synthetics in the case of jute or rubber); it must not be a by-product or part of a group of products in respect of which the prices and earnings may be manipulated arbitrarily, as is the case with chemical products;<sup>2</sup>
- (b) Must be sufficiently homogeneous to enable a price—or a 'close' family of prices—to reflect the economic trend of the product over a period of time.

This is not the case for various animal products.<sup>3</sup>

(c) Lastly, the data published on the trend of prices must be representative of the market as a whole. Thus the prices of minerals do not meet these conditions, most of the mines being 'captive' (iron and bauxite for example).<sup>4</sup>

2. For a product agreement to play the role it is assigned effectively, it is important that it bring together the main producers and consumers.

(a) The developed *consumer* countries, for their part, have up till now had mixed views on these agreements.

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<sup>1</sup> This table, like most of the product data given in this text, relates to the eighteen UNCTAD products suitable for stockpiling, accounting for 55-60% of world trade in commodities.

<sup>2</sup> See column 6 of Table 1 in this connection.

<sup>3</sup> See column 5 of Table 1.

<sup>4</sup> It is also desirable that the share of world production in international trade should be substantial. This is not the case with rice, for example.

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<sup>1</sup> Pages 25 to 31 of this Supplement.

<sup>2</sup> Throughout this communication the term 'products' or 'commodities' has been used since it has a wider meaning than 'raw materials'.

The attitude of the developed producer countries—namely Canada, Australia (virtually at all times) and a few smaller countries such as Sweden—towards product agreements is naturally determined by their interests as exporters.

In the United States the situation as regards the main commodities is more or less balanced—though slightly weighted in favour of imports; the country is a major exporter of a number of commodities, such as cotton and phosphates, paper pulp, wood, leather, hides and skins and certain metals. Its situation is therefore basically different from the Community's. The country's attitude towards product agreements would seem to be under review.

The State-trading consumer countries have shown a changeable attitude depending on the products in question.<sup>1</sup> Their participation is desirable to ensure that the agreements function properly.

It is important to stress the point that a number of developing countries are big importers of commodities.

(b) The situation regarding the *producers* is much more diversified.

For each product the list of producers varies—particularly widely in the case of minerals. Certain products—such as sugar, coffee, cotton, iron ore and bauxite—are exported by several dozen countries, whereas others are exported only by half a dozen or so.

Column 3 of Table 1 gives a simple index of this spread: the number of countries providing 75% of world exports. Here the figures vary widely.

3. Column 4 of the same table gives another indication which is important when examining a price stabilization system: the intensity of price fluctuations, reflected by the Gini index.<sup>2</sup> It can be seen for example that the prices of mineral products fluctuate more than others, especially where the minerals are not extracted from 'captive' mines, as iron and bauxite are.

4. Another characteristic, contained in column 2, is the actual volume of trade to be stabilized; it is this which largely determines the amount of

financing which might be needed to achieve stabilization.

There is a clear distinction here between the 'major' products—wheat, copper, sugar, coffee, cotton, iron ore, maize, wool, rice—and the others.

5. Also included in Table 1 are two sets of structural data which, though not a determining factor in a world context as regards the possibility of concluding agreements, must be taken into consideration by the Community as a potential partner.

These are:

- the Community's degree of dependence on external imports for its supplies<sup>3</sup> and
- the extent to which the products in question are exported by developing countries.<sup>4</sup>

6. Although each of the columns in Table 1 enables an order of preference to be established between the products as regards their suitability for the conclusion of a product agreement, the order varies widely from column to column and it is difficult to analyse these data as a whole, especially as the various conditions or characteristics are not of equal importance and are not all quantifiable.

(a) However, if the list of 18 products is examined, it can be seen that:

- for wheat, maize, rice and sugar, proposals for product agreements have already been made in the context of the Multilateral Trade Negotiations;
- agreements exist on tin, cocoa and coffee (to be renegotiated soon) and, unofficially, tea;
- jute, hard fibres and rubber are too dominated by rival products to enable meaningful agreements to be concluded;
- iron ore and bauxite supplies are largely captive and the free market is not representative.

<sup>1</sup> See Table 2.

<sup>2</sup> Average of the absolute values for the annual variations.

<sup>3</sup> Column 7.

<sup>4</sup> Column 8.

Consequently, in studying the possible creation of new product agreements attention must be focused on the following among the 18 products: *Copper, zinc, lead, cotton, wool.*

Imports of these five products into the Community amount to \$4500 million per annum, that is 40% of total imports of the 18 products.

The following reservations should also be noted:

— the two textile fibres' low degree of homogeneity and their dependence with regard to substitutes;

— the relatively slight importance of lead and zinc, and particularly of wool, to the developing countries;

— low or average concentration of producers, especially as regards cotton.

(b) If certain products other than the 18 listed but often referred to in international discussions are examined, it will be noted that:

— bananas and oleaginous products are extremely heterogeneous;

— the same applies to wood and wood products, and leather, hides and skins—the latter being subject to keen competition from synthetics;

— world manganese and phosphate reserves are very high and, in part, relatively secure;

— chromium, tungsten and platinum present specific problems of security of supplies; the solution here would be to establish reserve stocks of a non-buffer nature.

The provisional conclusion stated under (i) above with regard to the five products therefore remains valid if the analysis is extended beyond the 18 commodities.

## Methods

The aim is to stabilize markets which are marked by frequent and substantial disparities between supply and demand, resulting in particularly sharp price rises and falls.<sup>1</sup>

Numerous methods are employed to achieve such stabilization and ten or so have been studied. The main features of their operation are analysed below. Details of existing agreements are supplied in Table 2.

## Quotas

This is a method derived from producers' cartels: if supply exceeds demand—which is the typical case since the agreements have so far generally been devised with the primary aim of resolving the problems of producers<sup>2</sup>—a system of export quotas (or possibly production quotas) is applied.

*Example:* Agreements on sugar and coffee:

Advantage: Costs are limited to administrative expenses.

Disadvantage: No severe or automatic penalty.

Both agreements are at present in abeyance following operational difficulties:

— the sugar agreement applied only to the world market, to the exclusion of the markets covered by the special arrangements of the USA, the USSR and the United Kingdom;

— in the case of coffee, the very large number of producers, the administration of the quotas and the relevant controls, plus disagreements between producers and consumers as to price levels, have resulted in serious difficulties.

<sup>1</sup> This instability of the commodity markets is noticeably more marked than that of the market in manufactured products.

<sup>2</sup> In the reverse situation, import quotas might be considered. The effectiveness of such machinery is questionable.



## Buffer stocks

An undoubtedly more effective, but also more costly method than quotas consists of setting up buffer stocks.

### *Traditional buffer stocks*

These involve going against the customary trend of business operations since firms tend normally to stock when prices are rising and to run down stocks when prices are falling. Such stocks lie heavily on the market and intensify the fluctuations.

So here the strategy has to be reversed and a stabilizing effect produced by buying when prices fall, which helps to bring prices up, and selling when they rise, which helps to moderate the rise.

It is obvious that a practical effect will be obtained:

— only if the stocks are administered jointly by all the parties concerned and there is sufficient agreement among them, in particular as regards maximum and minimum prices;

— and if the financial resources or the actual stocks at the disposal of the stock-building authorities are sufficient to influence the market.

For the purpose of determining the extent of these resources; there has been a tendency to follow until now the long-standing but rather simplistic rule, formulated by Keynes in 1942, according to which a buffer stock should be made up of the equivalent of three months' world exports of the products in question.<sup>1</sup>

This question of the size of stocks is most important since the sums involved are very large. According to an UNCTAD estimate, the 18 products suitable for stock-piling on which it concentrated, involve a total of \$11000-13000 million. To the cost of acquiring the stocks must be added the annual interest charges, warehousing, the cost of placing goods in stocks and taking them out again, and the costs arising from the deterioration of products, which is difficult to avoid. On the other hand any stocks

which have been acquired—normally at times of slack market activity—should produce capital gains. Calculations comparing the advantages and costs arising from application of the system must be made very carefully in the various possible cases before any decision is taken in favour of this method, or any of the others for that matter.

### *'Cyclical' stock-building*

It is possibly not essential, however, to resolve in advance the problem of the size of stocks provided one does not adopt as a rigid rule—which in any case would not be observed effectively—the maintenance of prices within a predetermined 'tunnel' and the prevention at all costs of speculation at either extreme,<sup>2</sup> but is content to moderate the fluctuations by smoothing out the price curve.

One could invert the picture and suppose that the world community is ready to allot a certain sum for the purpose of helping to stabilize the price of a given product, the sum probably being calculated on the basis of the amount of annual trade and in the light of experience of the functioning of the market for the product in question.

This kind of stock-building, which might be described conventionally as 'cyclical' stock-building, would perhaps produce a relatively better

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<sup>1</sup> Keynes subsequently suggested that it would perhaps be preferable to establish the size of stocks at six months' exports. In practice the tin stock corresponds to one and a half months' exports and the one being considered for cocoa represents exports over two and a half months. No conclusions can be drawn from the cocoa agreement since no stocks have yet been built up; the tin agreement works well when prices are falling but does not enable ceilings to be maintained satisfactorily.

<sup>2</sup> To do this, various rules have been devised and applied, particularly in the case of the tin agreement. The latest provides for the tunnel to be divided into three parallel bands: the upper and lower ones entail an obligation on the part of the stock authorities to sell or buy until funds or stocks are used up; more flexible rules apply in respect of the middle band.

result for a given amount of capital expenditure than a buffer stock pure and simple, of the tin agreement type.

A simple calculation shows that, apart from the capital input necessary to build up the stock, the operation could be financed by a 3% levy on imports of the products concerned.

### *Coordinated national stocks*

Another variant would consist not of centrally administered stocks, but of national stocks coordinated with a view to achieving stabilization.

It is this variant that the Community has proposed at GATT, in the context of the multilateral negotiations, for cereals, sugar and rice.

From the cost angle, if the costs borne by the various participants<sup>1</sup> are added together this variant must appear comparable to the centralized stocks variant; its effectiveness depends entirely on the cohesion of the stock-building countries. The stock-building systems referred to above, especially the first one, may give rise to frequently difficult negotiations on terms and above all on minimum and maximum prices.

### **Long-term contracts**

Another method of ensuring stability on the market of a product consists in concluding as many long-term contracts as possible which take account of forecast supply and demand.

But,

— on the one hand, errors, in forecasts and unforeseen factors are inevitable.

For this reason it is advisable to make provision for a 'safety net' stock. This is what UNCTAD proposes in its integrated programme. It is probable that such a stock, being of an ancillary nature rather than the main stock, could be less costly than those referred to above;

— on the other hand, the essential difficulty lies above all in the fact that although the socialist countries and most of the developing countries conduct their foreign trade in primary

products through centralized bodies and can easily conclude the contracts in question, this is only partially so or not so at all in the case of the liberal developed countries.

Moreover, the UNCTAD document acknowledges this major difficulty, which, in present circumstances, makes recourse to systems of this kind extremely uncertain. The difficulty is increased by the recent tendency in international trade to abandon observance of the principle that agreements are to be honoured (*pacta servanda sunt*).

It should be pointed out that the functioning of systems based on long-term contracts—and indeed of quota-based systems—can be strengthened by financial mechanisms such as those dealt with below.

### **Financial mechanisms**

These are to be distinguished from the mechanisms dealt with above by the fact that they involve the payment, on the basis of quantities agreed between sellers and purchasers, of sums of money which are to be used to mitigate the effects of extreme fluctuations of prices.

The stock is in a sense replaced by a fund and does not have to be built up physically.

For example the Commission's departments are studying, in the important case of copper, a system of negotiated floor and ceiling prices with levies paid:

— by the consumers, if prices fall below the floor;

— by the producers, if prices exceed the ceiling;

— by both, if prices are between the floor and ceiling.

The attractive aspect is the simplicity of the mechanism, resulting in lower administrative costs. Furthermore, it is not necessary here to build up capital.

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<sup>1</sup> It should be noted that offsetting one national component against another—a source of savings—cannot be undertaken easily in a decentralized system.

The mechanism, like others analysed here, permits differential treatment in favour of the developing countries and the possibility of subsidiary aims.

But this newly devised mechanism has never been tested.

### Combined systems

A number of these have been proposed or put into operation:

— the cocoa agreement is based on quotas but also involves the setting up of a buffer stock should the quota arrangements not be sufficient to bring about stabilization;

— an interesting case is the proposal made by the Commission to the Council in 1970 on oleaginous products.<sup>1</sup> It is probably the most complete system so far devised:

- import levies;
- buffer stocks for the relatively homogeneous lauric oils;
- payments to the developing countries, in particular to enable single-product producers to diversify;
- food aid;

— the various wheat agreements have contained a food aid component, the importance of which has been constantly increasing;

— national stocks, particularly those of the United States, the United Kingdom and France, serve not only as buffers but also as reserve stocks, particularly where there is a risk of the supply of certain strategically important products being cut off. Such products are, however, few in number and limited in value.

### Other systems

There are a number of systems which are linked more or less closely with those mentioned above.

The following can be mentioned:

— the agreement on observance of prices for milk products proposed by the Community to GATT.

This involves maximum and minimum prices but no stockpiling. It should be possible to keep to these prices in view of the limited number of world market suppliers;

— the arrangements on whole-milk powder and skimmed-milk powder (OECD 1963, GATT 1970), which are still in force, and on butter fat and butteroil (GATT 1972);

— the unofficial agreements concluded under the aegis of FAO on tea, on jute and hard fibres and on pepper.

These are 'lightweight' agreements. They involve, in particular, the fixing of target prices and action on the part of the producers, who are few in number and (in the case of fibres) very much threatened by competition, with a view to limiting their exports;

— lastly, in an agreement such as that on olive oil a completely different objective is being pursued: that of information on and sales promotion for the product.<sup>2</sup>

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<sup>1</sup> Guidelines for an international agreement on oils and fats: Commission Communication to the Council, forwarded on 16 July 1969. Bull. EC 9/10-1969, Part 2, point 112.

<sup>2</sup> Apart from the agreements covered by the definition of product agreements, the following should be mentioned:

(a) the open international bodies concerned with a single product, in particular the study groups on lead, zinc, rubber and tungsten.

These bring together producers and consumers and have as their main function exchanging information and statistics and studying certain technical problems — for example the competition between natural and synthetic rubber;

(b) the bodies which are at least partly closed; consisting mainly of producers, these have tended to develop in 1974 and 1975. Examples are the international bauxite arrangement grouping together seven countries; CIPEC, grouping together the four non-industrialized producers of copper: Zaire, Zambia, Chile, and Peru (1967); the iron ore group (1974) which is holding negotiations and expanding; the manganese group; the mercury group (Algiers, May 1974); the phosphates group and the Union of Banana Exporting Countries.

## Factors involved in any choice between systems

It is not possible on the basis of the data in Table 1 to state that a given product should automatically lend itself to an agreement of a particular type.

The most that can be said is that:

- essential foodstuffs should be covered by agreements involving a system of minimum and maximum prices together with a stock-building policy in order to achieve the harmonious development of prices, ensure continuity of supplies and facilitate the implementation of food aid programmes;
- it is not possible in the case of perishable products to establish actual physical stocks;
- products produced over a wide geographical area would seem to need to be controlled by the system with the strictest discipline, namely the buffer stock system;
- products, the prices of which are difficult to determine, should not be controlled by a financial mechanism which presupposes a certain degree of price precision.

## Summary and conclusions

To conclude this first overall examination of the problem of product-by-product agreements, the Commission feels it is useful to sum up as follows:

1. It finds that the existing agreements have not always functioned satisfactorily.

One of the possible reasons for these operating difficulties is the fact that these agreements were designed with the particular objective of defending the producers' interests in periods of surplus and that the conception and management of the agreements has not been guided by the desire to achieve an appropriate balanced policy.

The Commission feels that, with a wider and balanced political vision, an improvement in the functioning of the agreements could be obtained, and it is in this spirit that the Commission recently put forward proposals in GATT for the conclusion of various agreements in the field of temperate agricultural products.

2. The Commission, which has often affirmed the desirability of extending product agreements to raw materials in appropriate cases, considers that the time has come to specify the studies which would enable a definitive position to be adopted on the various cases.

The Commission considers that, where the conclusion of such agreements seemed appropriate, they should be designed in such a way as to take account of the mutual interests of producers and consumers, with all that this implies from the angles of participation in the expenses, advantages and management of the agreements.

3. The Commission has carried out an initial examination of the conditions which products must fulfil if they are to be considered as possible candidates for such agreements.

These conditions are numerous and no product corresponds to them in an ideal way.

However, copper, zinc, lead, cotton and wool fulfil a number of these conditions and therefore

appear to be the products on which studies could concentrate at the present stage.

4. The methods of operation of existing and possible agreements are many and varied. In the light of past experience and of the existing structures of external trade, it seems useful however to concentrate on:

- agreements with buffer stocks administered jointly by exporters and consumers, with or without rigid maximum and minimum prices, this probably being the least hazardous solution;
- the agreements based on a financial mechanism, since this is probably the least expensive solution and is very flexible and can be combined with other mechanisms.

5. In any event, it is necessary to carry out thorough technical and economic studies in cooperation with private firms before definitive conclusions can be reached. These studies should cover both the products and operating methods under the systems, the balance of advantages and disadvantages in the various possible cases and the financing arrangements. In each case, these studies should enable the limitation of the systems to be pinpointed.

6. As far as financing is concerned, it should be noted first of all that the requirements vary widely according to the systems and operating methods chosen.

In numerous cases, however, large-scale financing will be necessary, particularly while the agreements are being started up.

Various arrangements can be considered, either in isolation or in combination, in particular:

- financing by the producers and consumers, who share the costs;
- the intervention of international financial bodies representing the general interest, in particular the International Monetary Fund;
- levies on transactions.

Table 1 — Main technical and economic characteristics of 18 commodities (1972)

1	2	3	4	5	6	7	8	9
Product	World exports <sup>1</sup>	Degree of concentration of exporters <sup>2</sup>	Price fluctuations (Gini index) 1963-1974 <sup>3</sup>	Homogeneity of product	Market independence (in relation to substitutes, related products)	Dependence of the European/EEC countries in % <sup>4</sup>	Percentage of exports from the developing countries <sup>5</sup>	Percentage of imports into the developing countries <sup>6</sup>
Wheat	4 366	4	19.1	average	high	3 } <sup>9</sup>	4	39
Maize	2 298	4	12.5	average	average	42 } <sup>9</sup>	14.5	9
Rice	1 120	6	19.7	average	high	33 } <sup>9</sup>	39	79
Sugar <sup>5</sup>	3 334	12	17.9	high	high	0.8 } <sup>9</sup>	67	18
	11 118						28	31
Coffee <sup>5</sup>	3 049	10	12.9	low	high	100 } <sup>7</sup>	100	4
Cocoa <sup>5</sup>	723	4	35.9	average	average	100 } <sup>7</sup>	100	4
Tea <sup>5</sup>	745	4	6.6	low	high	100 } <sup>7</sup>	81	31
	4 517						97	8
Cotton	2 828	17	14.1	low	average	100 } <sup>7</sup>	62	18
Jute and manufactures	762	2	6.0	average	very low	100 } <sup>7</sup>	88	24
Wool	1 346	3	16.7	low	average	92 } <sup>9</sup>	12	6
Hard fibres	87	5	15.7	average	very low	100 } <sup>7</sup>	96.5	7
Rubber	904	2	16.3	average	low	100 } <sup>7</sup>	100	9
	5 927						60	14
Copper	4 113	8	32.3	high	fairly high	93 } <sup>8</sup>	58	5
Lead	418	10	31.3	high	fairly high	75 } <sup>8</sup>	28	7
Zinc	862	11	39.5	high	fairly high	61 } <sup>8</sup>	22	13
Tin	730	4	22.9	high	fairly high	96 } <sup>8</sup>	86.5	12
Bauxite	305 } <sup>4</sup>	10	8.7 <sup>4</sup>	average	fairly high	51 } <sup>8</sup>	56.4	6
Alumina	609 } <sup>4</sup>	7	5.7	average	fairly high	37 } <sup>8</sup>	38	6
Iron ore	2 608		3.5	average	fairly high			
	9 645						50	5
	31 207						51	16
Total								

<sup>1</sup> Sources: FAO, Trade Yearbook 1972 and national statistics.

<sup>2</sup> Number of countries supplying 75% of world exports.

<sup>3</sup> Source: UN Monthly Statistical Bulletin, March 1975; Price movements of basic commodities in international trade 1950-1970, New York, 1972.

<sup>4</sup> 1963-1972.

<sup>5</sup> Agreements existing or in the course of renewal.

<sup>6</sup> On imports from outside the region (percentage imports/consumption 1972).

<sup>7</sup> Estimates.

<sup>8</sup> Dependence of the OECD countries-Europe. Source: USA, Council on International Economic Policy, Special Report 'Critical Imported Materials', Washington, December 1974. Dependence of Western Europe.

<sup>9</sup> Dependence of the EEC. Source: SOEC Statistics, 1971-1973.

Table 2 — *International commodity agreements*

Products	Validity	Machinery of the agreement	Participants
Tin	<p>First international agreement signed in 1954. Currently fourth agreement (1 July 1971-30 June 1976). Renegotiation in progress.</p>	<p>Buffer stock (20000 t), namely approximately \$140 million and a little more than one month's consumption. Possibility of fixing export quotas (first time in January 1973). Financing of the buffer stock by contributions from the producer countries, by the proceeds of sales from the stock and by voluntary contributions from the importing countries (France, Netherlands).</p>	<p>Principal exporters except China. Principal importers except USA. All EEC Member States. EEC member (1970). USA non-member. USSR member. Japan member.</p>
Cocoa	<p>'1972' agreement: 1 October 1973 - 30 September 1976.</p>	<p>Export quotas. Buffer stock (maximum 250000 t) financed by a tax of US 1 cent per pound. Quotas and buffer stocks not functioning because of the level of world prices.</p>	<p>17 exporters = 90% of trade. 29 importers. All EEC Member States. EEC member (1972). USA non-member (26% world imports). USSR member. Japan member.</p>
Coffee	<p>First agreement in 1962. Renewed in 1968 and extended from 1973 to 30 September 1976: economic provisions (quotas, prices, diversification fund and promotion fund) frozen.</p>	<p>Export quotas to maintain prices within a certain bracket. Diversification fund } sizeable. Propaganda fund } No stock.</p>	<p>41 exporters = 99% of world exports. 21 importers = 90% of world imports. EEC observer. USA member. USSR member. Japan member.</p>
Sugar	<p>First agreement signed in 1974. Since renegotiated, although its economic clauses have not operated for a number of years.</p>	<p>1968 agreement: export quotas. 1973 agreement: does not contain any economic clauses.</p>	<p>In 1970: 34 exporters (42% of total sugar exports). 15 importers. The agreement applies only to trade other than that within the context of: the Commonwealth Sugar Agreement, the USA Preferential Agreement, the USSR-Cuba Agreement. EEC observer. UK member. USSR member. USA non-member. Japan member.</p>

Wheat	<p>1962 International Wheat Agreement.  1967 International Grains Agreement (with two conventions).  1971 International Wheat Agreement extended until 30 June 1974 with:  (i) Wheat Trade Convention,  (ii) Food Aid Convention.</p>	<p>The 1971 Wheat Trade Convention does not contain any fundamental economic provisions: exchange of information.  The Food Aid Convention involves a commitment on the part of each member to supply a fixed quantity of cereals in the form of aid to the developing countries.</p>	<p>EEC member.  USA member.  USSR member.  Japan member.  EEC member.  USA member.  USSR non-member.  Japan member.</p>
Olive oil	<p>First agreement in 1963, since renewed, extended for 5 years from 1 January 1974.</p>	<p>No economic provisions.  Exchange of information and export promotion.</p>	<p>EEC observer.  USA non-member.  Japan non-member.</p>



International action on stabilization  
of export earnings

## Introduction

In its Communication of 22 May 1975 on raw materials in relations with the developing countries,<sup>1</sup> the Commission underlined the importance it attaches to international action aiming at the stabilization of export earnings with the participation of all industrialized countries, including State-trading countries, and other countries with sufficient resources. It outlined the problems involved in defining the methods of application of such a system, which are illustrated by the two alternative approaches described, and stressed how a comparative study of these alternatives was urgently needed.

The Commission is now submitting an analysis of two aspects of such a system: its coverage and the practical arrangements. The possibility of additional financial support from the International Monetary Fund is also discussed.

## System of stabilization of export earnings

### *General aims*

The production of and trade in raw materials are traditionally characterized by sharp fluctuations in price and quantity, which considerably affect the economies of the countries dependent on them.

This phenomenon, which can be observed even in the case of products covered by international agreements, affects all the developing countries which are producer-exporters or consumer-importers of raw materials, and the poorest among them are the hardest hit. Generally speaking, it often involves:

- difficulties with development planning,
- disastrous effects for the internal equilibrium of public finances,
- adverse effects on the balance of payments.

As regards the poorest of the developing countries, any disturbance of their 'external economy'

involves them, precisely because of their poverty, in very serious economic and social difficulties.

To help tackle these problems, the Commission considers it necessary that the measures to be taken should include the rapid adoption, internationally, of the principle to take supplementary action to stabilize export earnings.

Such action, which should be so devised as to take special account of the least developed countries' interests, should not:

- interfere with the free play of market forces;
- erect international trade barriers;
- impede the functioning of existing international agreements nor the negotiation of new ones.

### *Coverage*

In its recent communication the Commission pointed to the importance of deciding, when determining coverage, which countries and which products would be covered by the system, these two aspects being closely linked.

The two annexed tables contain certain basic elements:

- Table 3 summarizes the distribution of the developing countries' exports according by continents and by group of commodities which can be stocked;
- Table 4 is a list of developing countries and their main commodity exports.

### *Recipient countries*

First approach: Selected products could be used as a criterion for identifying the recipient countries. The only recipient countries would then be those that exported the selected products. The country's position in the gross national product league should be considered so that the various arrangements benefit the least developed countries; and special advantages

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<sup>1</sup> Pages 25 to 31 of this Supplement.

could be envisaged for countries handicapped by geographical factors.

Second approach: Countries in the greatest need could be given priority in the allocation of available resources. Recipient countries would then be the poorest developing countries in terms of *per capita* GNP. A ceiling of \$ 220 or \$ 300 *per capita* GNP could be used for instance. 43 countries would be concerned in the first approach and 58 in the second.<sup>1</sup>

#### Products concerned

Four basic criteria could be used for selecting the products:

- the instability of export earnings due to fluctuations in the price and quantity of the products concerned;
- the proportion of the exporting countries' total export earnings represented by earnings from exports of the product in question;
- the direct or indirect influence of the product in question on the level of employment in the producer countries;
- the importance of the products in question for the poorest developing countries.

If the level of employment is selected for priority from among these criteria, the list of products to be drawn up would concentrate mainly on tropical agricultural products, for food or industrial use: groundnut products, cocoa, copra, coffee, cotton, palm products, leather, hides and skins, timber, bananas, tea, sisal, sugar, rubber, jute, pepper and pimentos, rice, tobacco, vanilla.

On the other hand, if priority is given to the impact of the system on the poorest developing countries, a wider range of products would have to be adopted. If one studies in this connection the list of products contained in the Integrated Programme drawn up by the UNCTAD Secretariat,<sup>2</sup> it is found that many of these are particularly important for the countries in question. For example, on the assumption of an upper limit of GNP \$ 300 some products account for over 50% of the exports of certain countries below that

limit: they include, for example, coffee, sugar, tin, tea, rice, iron, copper and jute. In some cases—jute, sugar, rice and iron in particular—their share can be more than 70%. Moreover, if the share of the market involved is considered, such countries' exports of tea and jute account for over 80% of world exports of these products, their exports of cocoa 65%, of rubber 45%, of tin and hard fibres 38% and 28% respectively.

However, the UNCTAD list was drawn up for a different purpose and can serve only as a basis for reference. Thus in the case of products likely to come under organizations of markets of the kind already proposed by the Community as part of the multilateral trade negotiations, such overall systems will have to be given priority. In addition, three products should be ruled out because their importance for the developing countries in question is minimal or nil: wool, lead and wheat.<sup>3</sup> Moreover, it is not possible to include in the projected system products of which the trading characteristics are clearly incompatible with the proper functioning of the system.

On the other hand, other products could be added mainly by applying the criteria set out above.

It will consequently be possible to make a definitive selection of products only after a complete study of the various cases.

It is therefore possible that the system will in any event concern products other than those referred to in the Lomé Convention and not extend to all those covered by it. The system for stabilizing export earnings adopted in the Lomé Convention must keep its specific character, and the Com-

<sup>1</sup> 1971 statistics.

<sup>2</sup> The products concerned number 19: cocoa, rice, wheat and flour, maize, hard fibres, copper, lead, bauxite and aluminium, tin, iron, zinc, rubber, wool, cotton, coffee, tea, sugar, jute and oleaginous products (including oilseeds).

<sup>3</sup> Maize and zinc, although in a similar situation, should be covered because they represent a substantial share of the exports of one or more of the developing countries concerned.

munity will obviously have to continue to be responsible for and to pay for the system. Any contribution from the Community towards financing the wider system will therefore have to take account of its contribution to the Lomé Convention system.

It will only be possible to adopt a definitive approach in the course of discussions to be held in the various international forums.

Subject to the foregoing, the Commission suggests as an initial guideline for coverage a system applying to the poorest developing countries and the products of special interest to those countries.

#### *Practical arrangements*

The rules of application and the arrangements for establishing and financing the system would have to be settled in a dialogue with all the countries concerned. The main elements and possible lines of action can, however, be summarized:

- the system could be set up for renewable five-year periods;
- the total sum of each five years could be divided into yearly instalments;
- the system could operate by means of the payment of transfers net of interest calculated on the basis of the difference between the sliding average of export earnings over an earlier period to be agreed and the actual earnings for each year, expressed in, for example, SDR's.

Before a transfer was decided on, it would be necessary to make sure that the drop in export earnings was unconnected with the policy of the exporter country.

- the system could include minimum dependence and fluctuation thresholds fixed at a meaningful level;
- the transfers could be repayable without interest charges. However, this principle might be waived in consideration of the particularly difficult situation of some countries. Sums repaid could be added to the funds provided for the system.

— furthermore, the following matters would need to be considered:

- the assignment of the funds transferred;
- the nature of the managing agency: it could be, given that stabilization of export earnings is such a specific matter, quite separate both from development financing and from the management of the international monetary economy, and at the same time one with such notable political implications, that it would be well to have the system run by a specific new agency.

#### *Recourse to compensatory financing by the IMF*

The combination of stabilization of earnings from the export of raw materials and international commodity agreements will not suffice to dispose of all the export earnings problems liable to arise for developing countries: to take only the impact of the system outlined above,

- in the case of many countries the operation of the dependence and fluctuation thresholds would lessen the coverage of the system;
- other countries would not qualify owing to their position in the *per capita* GNP league;
- by definition the system would apply only to earnings from the export of raw materials;
- transfers might have to be adjusted in consideration of limited funds.

The International Monetary Fund has set up in turn three arrangements with a converging purpose:

- compensatory financing;
- the extended fund facility;
- the oil facility, due to expire at the end of 1975.

Without reducing IMF credit facilities for all IMF countries faced with sharp leaps in the prices of their imports of raw materials, these arrangements could be improved by:

- increasing the scope of compensatory financing (larger amounts, easier access, lower rates, etc.);

— turning the oil facility, or even all specific assistance from the Fund, into a 'raw material facility' of benefit in particular to the developing countries whose earnings from the sale of raw materials had dropped through no fault of their own.

An arrangement of this kind would be:

- a second resort for developing countries qualifying for the international action to stabilize export earnings;
- a first resort for the other developing countries.

As compared with a stabilization system such as that described above, IMF assistance, however large, has some aspects which beneficiaries might regard as irksome:

- interest charges;
- the obligation to redeem;
- the margin of appreciation.

Inasmuch as a system for stabilizing export earnings would not involve these aspects, it would be more advantageous to its beneficiaries.

As the same time such a system could leave a balance of payments problem in being, and might not cover all problems with respect to countries, products and earnings.

It is therefore only fair, and indeed necessary, that above and beyond a system for stabilizing earnings from the export of raw materials the international community should establish a system of last resort for the precise purpose of making good these deficiencies.

Table 3 — *Distribution of the developing countries' exports by continent and groups of commodities (which can be stocked)*

Products	(%)				
	Africa	Central and South America	Asia Oceania	Mediterranean area Near and Far East	Developing countries
(1) <i>Temperate and mixed products</i> (wheat, maize, rice, sugar)	3.7	68.7	24.9	2.7	100
(2) <i>Tropical food products</i> (coffee, cocoa, tea)	36.7	48.6	14.7	—	100
(3) <i>Non-mineral raw materials</i> (cotton, jute, wool, hard fibres, rubber)	12.6	15.4	49.9	22.1	100
(4) <i>Mineral raw materials</i> (copper, lead, zinc, tin, bauxite, alumina, iron)	35.8	42.9	17.9	3.4	100
Total of the 18 products which can be stocked	24.8	43.3	25.4	6.5	100

Sources: FAO Trade Yearbook 1972 and national statistics.  
UNCTAD records.

N.B. These figures include only countries which export annually more than \$5 million of the product concerned.

Table 4 — *Main commodities exported by developing countries<sup>1</sup>*

Country <sup>2</sup>	Per capita GNP in \$	Population (million)	Commodities exported
Rwanda	60	3.4	Coffee, tin
Burundi	60	3.6	Livestock, cotton, oilcake
Mali	70	5.1	Livestock, cotton, fish
Upper Volta	70	5.5	Livestock
Bangladesh	70	72.4	Jute, Deccan hemp, tea
Somalia	70	2.9	Livestock, bananas, skins
Afghanistan	80	14.6	Fruit, cotton, wool

<sup>1</sup> Countries with a per capita GNP of more than \$900 are not included in this list.

<sup>2</sup> The complete list includes very small countries such as: Bhutan, Sikkim, Samoa, Lesotho, Maldives, Botswana, Swaziland.

Country <sup>1</sup>	Per capita GNP in \$	Population (million)	Commodities exported
Ethiopia	80	25.2	Coffee, cotton, wool
Indonesia	80	119.1	Tin, rubber, tea
Burma	80	29.6	Rice, wood
Chad	80	3.7	Cotton
Yemen (North)	90	5.9	
Nepal	90	11.3	Rice
Malawi	90	4.5	Tobacco, tea
Zaire	90	19.3	Copper, diamonds, coffee
Guinea	90	4	Bauxite and aluminium
Niger	100	4.1	Oleaginous products
Sri Lanka	100	12.8	Tea, rubber, coir
Vietnam (North)	100	18.8	
Dakomey	100	2.8	Palm oil, cotton, cocoa
Tanzania	110	13.2	Coffee, cotton, sisal
India	110	551	Tea, iron ore, leather, oleaginous products, tobacco
Haiti	120	4.3	Coffee, sugar
Sudan	120	16.1	Cotton
Yemen (South)	120	1.5	
Laos	120	3	Tin, wood
Cambodia	130	7.7	Rubber, rice, maize
Uganda	130	10.1	Coffee, cotton, copper
Pakistan	130	62.7	Jute and derivatives, cotton, rice
Madagascar	140	7.2	Coffee, vanilla
Togo	150	2	Cocoa, phosphates, coffee
Central African Republic	150	1.6	Diamonds
Kenya	160	11.7	Coffee, tea
Mauritania	170	1.2	Iron
Bolivia	190	5.1	Tin, tungsten
Cameroon	200	5.8	Cocoa, coffee, aluminium

<sup>1</sup> The complete list includes very small countries such as: Bhutan, Sikkim, Samoa, Lesotho, Maldives, Botswana, Swaziland.

Country <sup>1</sup>	Per capita GNP in \$	Population (million)	Commodities exported
Liberia	210	1.6	Iron, rubber, diamonds
Sierra Leone	210	2.7	Diamonds, iron, palm nuts and kernels
Thailand	210	37.3	Rice, rubber, maize, tapioca
Egypt	220	34	Cotton, rice
Nigeria	230	70	Cocoa, wood, tin, oleaginous products, rubber
Philippines	240	37.9	Sugar, oleaginous products, iron, bananas, copper, hard fibres
Ghana	250	9	Cocoa, bauxite, aluminium, wood
Senegal	250	4	Oilseeds, cotton
Guinea Bissau	250	0.5	Cocoa
Morocco	260	15.4	Phosphates, oleaginous products, fruit and vegetables
Jordan	260	2.4	Phosphates
Congo (People's Republic)	270	1.1	Wood, sugar
Mauritius	280	0.8	Sugar, tea
Paraguay	280	0.8	Oleaginous products, livestock
Mozambique	280	7.8	Tea, oleaginous products, wood
Syria	290	6.5	Cotton
Korea (South)	290	31.8	
Honduras	300	2.6	Coffee, bananas
Ecuador	310	6.3	Bananas, coffee, cocoa
Korea (North)	310	14.3	
Rhodesia	320	5.5	Chromium, manganese
Tunisia	320	5.2	Phosphates, oleaginous products
Papua-New Guinea	320	2.5	
El Salvador	320	3.7	Coffee, textiles
Ivory Coast	330	5.2	Coffee, wood, cocoa
Colombia	370	22.3	Coffee, fibres
Angola	370	5.6	Coffee
Mongolia	380	1.3	
Zambia	380	4.2	Copper
Guatemala	390	5.4	Coffee, textiles, meat
Guyana	390	0.7	Bauxite, sugar, rice

<sup>1</sup> The complete list includes very small countries such as: Bhutan, Sikkim, Samoa, Lesotho, Maldives, Botswana, Swaziland.



Country <sup>1</sup>	Per capita GNP in \$	Population (million)	Commodities exported
Malaysia	400	11.2	Rubber, tin, wood
Dominican Republic	430	4.1	Sugar, coffee, cocoa
Taiwan	430	14.9	
Nicaragua	450	2.1	Textiles, coffee, meat
Brazil	460	95.4	Coffee, textiles, iron
Peru	480	14	Copper, cast iron, fish, sugar
Cuba	510	8.6	
Algeria	530	14.4	Wine, fruit, iron
Costa Rica	590	1.8	Coffee, bananas, meat
Lebanon	660	2.8	Fruit, textiles
Barbados	670	0.2	Sugar, bananas
Mexico	750	52.4	Textile fibres, sugar, fruit
Uruguay	750	2.9	Meat, wool, textiles
Chile	760	10	Copper, iron
Jamaica	720	1.9	Bauxite and alumina, sugar
Panama	820	1.5	Bananas, fish

<sup>1</sup> The complete list includes very small countries such as: Bhutan, Sikkim, Samoa, Lesotho, Maldives, Botswana, Swaziland.

Sources: *Development aid—Fresco of Community action tomorrow*. Supplement 8/74—Bull. EC.

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