COMMISSION OF THE EUROPEAN COMMUNITIES

COM(75) 294 final
Brussels, 11 June 1975

INTERNATIONAL ACTION ON STABILIZATION OF EXPORT EARNINGS

(Supplementary Commission Communication to the Council)

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Introduction

1. In its Communication of 21 May 1975 on raw materials in relations with the developing countries (COM(75)226) 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.

2. 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 IMF is also discussed.

I. System of stabilization of export earnings

A. General aims

3. 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.

4. 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.

5. 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.

6. To help tackle these problems, the Commission considers it necessary that the measures to be taken should include the rapid adoption, internationall 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

(i) interfere with the free play of market forces;

(ii) erect international trade barriers;

(iii) impede the functioning of existing international agreements nor the negotiation of new ones.

B. Coverage

7. 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.

8. The two annexed tables contain certain basic elements:

Table 1 summarizes the distribution of the developing countries' exports according by continents and by group of commodities which can be stocked;

Table 2 is a list of developing countries and their main commodity exports.

Recipient countries

9. 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 GNP league should be considered so that the various arrangements benefit the least developed countries; and special advantages could be envisaged for countries handicapped by geographical factors.

10. 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[1].

Products concerned

11. Four basic criteria could be used for selecting the products:

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[1] 1971 statistics.

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.

12. 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.

13. 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[1], 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.

[1]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).

14. 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[1]. 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.

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

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

17. 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 Community 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.

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

19. Subject to the foregoing, the Commission suggests as an initial guideline for coverage a system applying to the poorest developing countries and the

[1] 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.

products of special interest to those countries.

C. PRACTICAL ARRANGEMENTS

20. 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:

i. the system could be set up for renewable five-year periods;

ii. the total sum of each five years could be divided into yearly instalments;

iii. 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.

iv. the system could include minimum dependence and fluctuation thresholds fixed at a meaningful level.

v. 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.

vi. 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.

II. Recourse to compensatory financing by the IMF

21. 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.

22. The International Monetary Fund (IMF) 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.

23. 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.

24. 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.

25. 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.

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

27. At 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.

28. It is therefore only fair, and indeed necessary, that above and beyond a system for stabilising 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 I

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) Temperate and mixed products (wheat, maize, rice, sugar)	3.7	68.7	24.9	2.7	100
(2) Tropical food products (coffee, cocoa, tea)	36.7	48.6	14.7	-	100
(3) Non-mineral raw materials (cotton, jute, wool, hard fibres, rubber)	12.6	15.4	49.9	22.1	100
(4) Mineral raw materials (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

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

TABLE II

MAIN COMMODITIES EXPORTED BY DEVELOPING COUNTRIES[1]

Country[2]	Par capita GNP in $	Population (million)	Commodities exported
Rwanda	60	3,4	coffee, tin
Burundi	60	3,6	coffee, 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
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 (A.R.)	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 (Dem.)	100	18,8	
Dahomey	100	2,8	palm oil, cotton, cocoa

Country[2]	Per capita GNP in $	Population (million)	Commodities exported
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 (P.D.R.)	120	1.5	
Laos	120	3	tin, wood
Khmer Republic	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
Liberia	210	1.6	iron, rubber, diamonds
Sierra Leone	210	2.7	diamonds, iron, palm nuts and kernels
Thaïland	210	37.3	rice, rubber, maize, tapioca
Egypt	220	34	cotton, rice
Nigeria	230	70	cocoa, wood, tin, oleaginous products, rubber

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Country[2]	Per capita GNP in $	Population (million)	Commodities exported
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	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

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Country[2]	Per capita GNP in $	Population (million)	Commodities exported
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
Malaysia	400	11.2	rubber, tin, wood
Dominican Republic	430	4.1	sugar, coffee, cocoa
Taïwan	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

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Country[2]	Per capita GNP in $	Population (million)	Commodities exported
Jamaica	720	1.9	bauxite and alumina, sugar
Panama	820	1.5	bananas, fish

[1]Countries with a per capita GNP of more than $900 are not included in this list.

[2]The complete list includes very small countries such as Bhutan, Sikkim, Samoa, Lesotho, Maldives, Botswana, and Swaziland.

Sources:

"Fresco"

World Bank Atlas

FAO - UNCTAD records