

COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION

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

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1. 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, of which certain basic facts are recapitulated in Annex I.

INTRODUCTION

2. 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.

3. 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.

4. 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.

5. 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 (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) 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.

6. 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:

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

7. The Commission, recalling the European Council's deliberations on these matters in Dublin on 10-11 March, 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

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

- (i) Each product has its own characteristics, to which any solutions that can be envisaged must be adopted;
- (ii) With the exception of certain products, in particular tropical agricultural products, raw materials are not produced and exported principally by the developing countries¹. However, the export of raw materials is vitally important for most producer developing countries;
- (iii) The degree to which prices fluctuate is considerably from product to product.

¹ See Annex II.

- (iv) The risk of scarcity is relative, particularly because there are substitute products;
- (v) The Community, more particularly, depends on external sources of supply and will continue to be dependent on them.

9. 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:

- (i) 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;
- (ii) 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;
- (iii) Special attention must be paid to the poorest countries;
- (iv) The need for the consumer countries to know that the stability of their supplies is guaranteed must be taken into account.

10. 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 IMF in particular, could accept a share of these costs, particularly by adopting certain of their present mechanisms. In addition, in certain cases the producer countries themselves could play a part.

PROPOSED ACTION

11. 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:

- (i) repeated and substantial reductions in the tariff duties on raw materials exported by the developing countries;
- (ii) 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);
- (iii) 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);
- (iv) measures to stabilize the export earnings from certain raw materials provided for in the Lomé Convention.

12. 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.

(a) Trade cooperation

13. 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 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.

(b) Industrial cooperation

14. In this 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:

- (i) 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);
- (ii) The search for a coherent approach to investment, making it possible to avoid both bottlenecks and production over-capacity;
- (iii) The encouragement of long-term contracts involving reciprocal commitments to supply and take delivery of products;
- (iv) Measures to promote the transfer of technology.

(c) Production of supplies

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

(d) Information and consultation

16. 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.

(e) Measures to limit excessive price fluctuations

17. 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.

(i) 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 system¹; the practical arrangements should be examined on a case-by-case basis.

- (ii) 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.

(f) Stabilization of export earnings

18. Parallel to the agreements-by-product approach referred to in point (e), 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 under point (e) in that they do not directly influence the operation of market forces and do not introduce barriers to trade.

¹ See the Commission's proposal on the joint financing of the buffer stock in the context of the renewal of the International Tin Agreement Doc. COM(75) 116.

19. 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.

20. 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

21. The mechanism should cover a wider range of products than the Lomé Convention system and should benefit the least developed countries, to which the resources to be made available for this purpose should be allocated as a matter of priority.

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

23. 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).

24. 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

25. 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:

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

26. 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.

27. 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.

28. 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

29. 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.

30. 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.

31. 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.

ANNEX I

Supplying the Community with raw materials.

The preceding document provides the Council with the Commission's initial proposals regarding the problems of commodities seen in the context of relations with the developing countries and mainly by reference to those countries' interests.

The introduction to the document emphasizes how equally important it is to examine the same problems from the point of view of the Community's own interests. The complexity of such an examination arises from the fact that it must to a large extent be broken down by product and category of product. The operational solutions, of which an extremely wide range has been proposed, must be selected and adapted by reference to the economic and technical characteristics of those products.

Studies on this matter are in progress and the Council will be informed of the results. The Commission considers it useful to provide at this early stage an initial classification of the chief products by reference to its own interests together with an indication, in certain cases, of solutions which might be considered.

The list of the nineteen main products suitable for stockpiling, drawn up by UNCTAD in its overall programme¹ (see note 2 page 3), has been taken as a basis for this purpose; to these have been added eight products which are important for various reasons, namely fats, wood, pulp, hides and skins, manganese, phosphates, platinum and tungsten.

Of these twenty-seven products:

- (1) the five temperate mixed products (wheat, maize, rice, sugar and fats) should be considered separately: the Community market in them is largely determined by internal production since they are governed by the common agricultural policy. In its overall approach to the GATT multilateral negotiations the Community has considered the conclusion of appropriate international arrangements.
- (2) The three tropical agricultural products (coffee, cocoa, _____) or probably will be, governed by world agreements which should enable the Community to assert its interests.
- (3) Of the seven non-mineral raw materials, rubber, jute, hard fibres and hides and skins are products with which synthetics compete strongly and they do not present the Community with a serious supply problem.

Wood and wood products on the other hand present the Community with very difficult problems, the solution to which would appear to lie primarily in internal measures (reafforestation, recycling and substitution).

For cotton and wool, see below.

- (4) With regard to the twelve mineral raw materials:
 - (i) tin is governed by a world agreement;
 - (ii) as regards iron, alumina (and bauxite), manganese and phosphates, above all a policy in favour of investments and long-term contracts would appear to be desirable, given the wide distribution of sources of these ores and the low level of Community participation in exploiting them outside its frontiers;

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(iii) for tungsten, chromium and platinum, which might present problems as regards the securing of supplies, reserve stocks could be built up¹.

(5) There remain three mineral raw materials: copper, lead and zinc, and two non-minerals: cotton and wool.

The extent of the Community's dependence as regards these products is considerable and their prices fluctuate widely. The quantities involved are substantial, representing 54% of Community imports of the nineteen products. It seems that it is these products that must be concentrated upon in the study to devise appropriate solutions, be they industrial, commercial or financial.

¹Total value of Community imports: approximately \$100 million, almost all of it in respect of platinum.

Relative importance of the principal exporting and importing areas of the world
in trade in the 18 products

Products	Exports fob				Imports cif			
	World	OECD countries	Eastern European countries	Developing countries	World	OECD countries	Eastern European countries	Developing countries
Temperate and mixed food products (wheat, maize, rice, sugar)	100%	65	7	28	100%	51	18	31
Tropical food products (coffee, cocoa, tea)	100%	2	1	97	100%	85	7	8
Non-mineral raw materials (cotton, jute, wool ¹ , hard fibres, rubber)	100%	31	9	60	100%	64	22	14
Mineral raw materials (copper, lead, zinc, tin, bauxite/alumina, iron) ¹	100%	40	10	50	100%	85	10	4
Total	100%	41	8	51	100%	69	15	16

Source: FAO, Trade Yearbook 1972, and national statistics.

¹ 1970-72 figures.

20 May 1975

ANNEX II

WORLD EXPORTS AND DEVELOPING COUNTRIES'
EXPORTS OF 28 PRODUCTS*

Products	Exports in 1972	
	World	Developing countries
	§ 000 000	
<u>Temperate and mixed food products</u>		
* Wheat	4366	160
* Maize	2298	331
* Rice	1120	440
* Sugar	3334	2235
Oleaginous (oil seeds and oils)	4756	1635
	<u>15874</u>	<u>4801</u>
<u>Tropical food products</u>		
* Coffee	3049	3049
* Cocoa	723	723
* Tea	745	609
	<u>4517</u>	<u>4381</u>
<u>Non-mineral raw materials</u>		
* Cotton	2828	1757
* Jute (including manufactured)	762	670
* Wool	1346	161
* Hard fibres	87	84
* Rubber	904	904
Wood (in the rough and sawn)***	3583	1121
Pulp***	2529	45
Hides and skins***	1155	233
	<u>13194</u>	<u>4975</u>
<u>Mineral raw materials</u>		
* Copper	4113	2395
* Lead	418	116
* Zinc	862	194
* Tin	730	632
* Bauxite and * alumina	914	516
* Iron ore	2608	992
** Chromium	44	15
** Manganese	190	100
Platinum	not spec.	not spec.
** Tungsten	78	51
** Phosphates	558	240
	<u>10515</u>	<u>5251</u>
TOTALS	44100	19408

* The 19 products suitable for stockpiling studied by UNCTAD are preceded by a single asterisk.

** Estimates.

*** 1970.

Source: FAO, Trade Yearbook 1972, and national statistics.