

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(78) 22 final

Brussels, 25 January 1978

FORTHCOMING INTERNATIONAL MEETINGS UNDER UNCTAD
IN CONNECTION WITH THE NORTH-SOUTH DIALOGUE - GUIDELINES

(Communication to the Council by the Commission)

1. GENERAL PROSPECTS

1.1 Since the end of the CIEC the dialogue between industrialized and developing countries has been pursued in the appropriate forums, in particular within the United Nations system.

1.2 In spite of their internal problems, which reduce their margin for manoeuvre if they wish to preserve their cohesion, the developing countries have recently demonstrated a relatively moderate attitude.

1.3 This does not mean that they have abandoned their demands and that we can adopt a wait-and-see attitude, which would be likely to involve sacrificing the promises of the future to the difficulties of the present.

It is clear that it is in the ultimate interest of the Community that progress should be made in certain areas of mutual interest, for example that of commodities¹, and that the Community must continue to play the leading role in the follow-up of the North-South Dialogue that it did in the CIEC. The Community's partners, both industrialized and developing, expect much of it; the Community must be ready to honour its commitments and undertake its responsibilities with respect to the developing countries, and try to convince its industrialized partners that they should adopt a constructive position.

The Community must therefore be ready to define an approach which demonstrates its political will to make progress. This approach must at the same time take account of its present economic difficulties and conform to its long-term cooperation policy.

1.3 There are plenty of important dates and topics of discussion for the Community in the next year or two until the special session of the United Nations General Assembly in 1980, for example the extension of the GSP and the renewal of the Lomé Convention at the same time, and before that UNCTAD V in 1979, to mention only the most obvious.

¹See below.

The decisions that will have to be taken involve a clear choice: if no progress is made on the different subjects a worsening of the climate of international relations, if not a return to confrontation, is to be feared.

1.5 This does not mean that in its present economic situation, the Community can currently envisage any progress on the taking of initiatives to deal with all problems.

The Community must, however, be ready to act on the occasion of meetings scheduled for the very near future. That is why the Commission in this communication has, in this general context, concentrated its attention on the most urgent matters facing the international community: the negotiations on the Common Fund in the more general setting of the Integrated Programme, indebtedness of developing countries, and the problem of the least developed countries. UNCTAD will be dealing with these matters at ministerial level in March 1978 and a restart of the Conference on the Common Fund could be envisaged shortly.

1.5.1 The Community considers that progress is possible and should be attempted in the field of commodities. The developing countries have largely staked their international prestige on the Integrated Programme and particularly on the Common Fund and so for them this is a test of the will of the developed countries to make their actions live up to their promises. For the developed countries, and especially for the Community, the field of commodities is the one where a positive approach is needed because of their heavy and growing dependence on the developing countries; excessive price fluctuations having a negative impact on investment and as a result on the developing countries' export earnings and on the stability of supply do not serve anyone's interests in the final analysis. In this field some progressive, carefully dosed efforts will make it possible to arrive at a general agreement with the developing countries, and the financial burden will then be reasonable in relation to the advantages which the international community may expect to derive from it.

1.5.2 On debt and the least developed countries the positions drawn up at the CIEC, together with the Community's general guidelines, show the way forward and could provide the necessary basis for negotiation.

2. The Commission would stress that a Community position only has a chance of success and that the Community will only be able to play a constructive role if it maintains its unity in the forthcoming talks and negotiations; the Community has only been able to exert its influence when united, and recent examples show that the divisions which sometimes occur have the effect of polarizing the negotiations on extreme positions and make the emergence of a consensus far more difficult.

The Commission therefore recommends that the Council adopt the guidelines in Chapter II on the Common Fund and Integrated Programme, in Chapter III on debt and in Chapter IV on the least developed countries.

II. INTEGRATED PROGRAMME: COMMON FUND

3. At the second session of the Negotiating Conference on the Common Fund (Geneva, 7 November - 1 December 1977) no express provision was made for the resumption of the Conference. However, the United Nations General Assembly - at its 32nd Session - requested "... the Secretary-General of the UNCTAD to undertake consultations with a view to reconvening the Conference early in 1978"; and the ministerial meeting of the Trade and Development Board may decide to review the Common Fund question in the general context of the Integrated Programme. Urgent consideration should, therefore, be given to the completion of the Community's opening position¹: the points outstanding are precisely those on which the Group of 77 put forward specific demands at the second session of the Negotiating Conference. They were points on which the Group B countries were careful not to take up positions in advance and on which the Community should now define its stance more precisely:

3.1 In the first place, the Community must emphasize the need to consider the Integrated Programme as a whole and - in this context - to take account of the fundamental link between the negotiations on the individual commodities and those on the Common Fund. Without solid progress on the former, no Common Fund can have a useful role to play. The Community should, therefore, redouble its efforts to bring the preparatory work on a number of commodities to the negotiating phase. Precise commitments should now be entered into as regards the commodities on which agreements should be sought as a matter of priority. The Commission believes it to be of capital importance to make progress towards agreements on the basis of the proposals which it has made on two commodities, namely copper (COM(77) 618) and rubber (COM(77) 616). Furthermore it believes that proposals should be put forward on two further commodities on which the preparatory discussions have been constructive (jute and hard fibres). It would point out, in this context, that the negotiations on the Common Fund - and the type of fund eventually agreed - will have an important influence on the shape and outcome of individual commodity negotiations.

3.2 The Commission proposes that, for the coming phases of consultation and negotiation, the Community construct its position on the Common Fund, round the following five points: a "first window" for buffer stocks, a "second window" for other measures, information, management and general review procedure. These

¹As adopted by the Council on 18 October: T/845/77 (PR. INT).

points not only cover those left open in the Community's October position, and relate to the demands of the Group of 77 which led to the suspension of the November session of the Conference, but constitute the heart of the debate. In the Commission's view, moreover, these proposals constitute a coherent, indivisible whole and represent the basic minimum for a successful resumption of the Conference.

4. Buffer stocks. The Common Fund's main task should be to ensure that such stocks are financed in a reliable, economical and equitable manner. The Commission is convinced that the concept which the industrialized countries have advanced constitutes a sound basis for achieving this - namely the pooling of an adequate proportion of the funds made available for stock purchases within international commodity agreements (ICAs), on the understanding that the consumers and producers participating in these agreements share in providing the finance required. The central pool thus created, to be called the "first window", would provide each ICA with a guaranteed drawing right up to 100% of its needs. The Commission proposes that the concept so far advanced should be refined in the following ways:

(i) At present ICA deposits of 75%, and thus drawing rights of 25%, have been proposed. However it is apparent that the pooling system could function viably on the basis of substantially lower ICA deposits and substantially higher ICA drawing rights. It is undesirable for the Fund, or pool, to be overcapitalized. The Community must thus now propose that the required level of deposits should be one-third, with ICA drawing rights of two-thirds, on the clear understanding that:

the drawing rights can be adequately covered by market borrowing, with this borrowing being guaranteed in roughly equal parts by stock warrants and capital on call from ICA members; and

any pre-financing necessary in the case of levy-based stocking schemes is provided by ICA members according to the joint financing principle.

(ii) Applications of the principle of joint consumer/producer financing within ICAs should take due account of the need to avoid placing

excessive burdens on developing country producers, especially where internationally financed, but nationally held stocks are concerned.

- iii Whilst the pooling system would not require direct contributions from governments that are members of the Common Fund in order to ensure its normal operations, the possible need for a direct contribution in the form of a small amount of capital on call should be allowed in respect of investment, exchange, or other risks arising from the operations of the Common Fund itself.

5. Other measures: (trade promotion, research and development, storage facilities, productivity improvement, processing, the provision of essential infrastructure). This is a subject of the utmost importance to the Group of 77 (developing countries). The Community should recognize that measures other than buffer stocks may prove essential to the stabilization of the prices and markets of a large number of commodities covered by the Integrated Programme. Whilst the Commission remains doubtful about the contribution which a new, inexperienced and relatively small agency might make, it is, however, prepared to recommend acceptance of a role for the Common Fund in this area, provided that it is carefully defined with reference to the actual or likely needs of individual commodities and to the role played by other agencies in meeting them.

5.1 It is clear that the financing of other measures would not infrequently require concessional and non-recoverable monies. The Commission stresses that the pooling mechanism, operating essentially with revolving funds, would not be appropriate to their needs. At the present time the finance for other measures is largely, and should continue in the main to be, provided on the one hand by the members of ICAs for such measures as may be decided within international agreements and arrangements and on the other hand by international financial institutions (IFIs) and other donors for measures aimed more at development in the broader sense of the term.

A second window might, however, have a useful supplementary role: it should not itself enter into the field of project preparation and management, but it could contribute to the financing of other measures by making loans or grants alongside the relevant executive agencies (ICAs, IFIs, or other) in respect of:

- i. trade promotion, research and development, storage costs, and similar measures agreed within ICAs; and
- ii measures of direct relevance to the production and marketing of commodities (productivity improvement, processing, the provision of essential infrastructure) which may nevertheless be financed outside the specific orbit of ICAs.

The Fund second window should normally operate on the basis of the joint financing of projects put forward on the initiative of ICAs or other consumer/producer forums, or on the initiative of the relevant financial institutions with the support of ICAs or other consumer/producer forums, with terms being adjusted to the needs of the beneficiary countries.

5.2 The Commission believes that the second window should be financed on a voluntary basis by participating countries; that all those countries which are in a financial position to do so should play their full part; and that - if these conditions are met - the Community should at an appropriate moment announce its intention to contribute. All member countries should be free to:

- i determine the level of their contributions; and
- ii specify criteria for the use of their contributions in respect of any measures not explicitly provided for within ICAs.

5.3 Information. In discharging the financial roles set out above in the areas of buffer stocks and other measures the Common Fund could play a useful information role. Since it would not have a coordinating role, it would in no way prejudice the autonomy of the ICAs or the other international institutions.

6. Management. A Common Fund of this type, containing separate windows for buffer stocking and other measures, must not be the political instrument of any given group of countries but - rather - an engine of effective action in the interest of all participating governments. Decisions on general policy issues - such as the admission or withdrawal of ICAs, investment policy, interest rate policy, should so far as possible

be determined by consensus; but where a vote becomes necessary, those decisions should be the subject of one or other of the blocking mechanisms suggested in COM(77) 365 final (Part VII, paragraph 3).

Mutatis mutandis, control over buffer stock operations and the second window should be the subject of rules to be established along the following lines:

- i Relations between the IGAs and the buffer stocking window should so far as possible be made subject to automatic rules (e.g. governing deposit obligations, drawing rights, interest rates, protection of commercial confidentiality).
- ii Decisions on the operation of the second window should normally be taken by consensus; otherwise they should be subject to a simple majority system on the basis of a close correlation between voting rights and financial contributions.

7. Review procedure. The Common Fund should be established for an initial period of five years. Within twelve months of the end of this initial period it should be reviewed at an Extraordinary Meeting of its Council, with a view to deciding whether and in what form it should be continued.

III. The indebtedness of the developing countries

8. The developing countries' debt problem will be a central item on the agenda for the ministerial session of the Trade and Development Board. Since the two meetings of an Intergovernmental Group of Experts held in July and December 1977 to prepare the work of the ministerial session on this point were unable to resolve the basic differences already noted at the CIEC between the various proposals, the discussions of the ministerial session on debt will doubtless be very difficult.

8.1 The Group of 77 is demanding essentially the general cancellation as an exceptional measure of the bilateral official debts of certain categories of developing countries and the establishment of "features" for the guidance of future debt rescheduling operations. These demands are the same as those already put forward by the developing countries at the CIEC, which were quite simply transformed into the Group of 77 position at the meeting of the Group of experts in July 1977.

Although the basic position of the developing countries has not changed since the CIEC it seems, as far as the March discussions are concerned, that they are giving clear priority to the cancellation of official debts, since, as they see it, only a decision at ministerial level could launch such an action, while the drafting of the "features" could be conducted at expert level.

The demand for debt cancellation is based on the idea that the servicing of this debt constitutes a general handicap for all poor developing countries and that cancellation would in effect merely amount to retroactive adjustment to the present oda situation of aid granted in the past. In addition, the Group of 77 considers that it is necessary to eliminate this "legacy from the past" before establishing standards for the handling of future situations.

This demand of the Group of 77 has been encouraged by Sweden, which has presented a memorandum to UNCTAD (to be transformed into a draft resolution at the appropriate time) advocating the cancellation of the oda debts of a number of poor developing countries to be specified, or an increase in the oda allocated to them. The Group of 77 will doubtless use Sweden's position as a lever to try to make the other industrialised countries give way. In addition, some industrialised countries have cancelled certain debts.

8.2 In the view of the Commission, the Community should continue to reject the demand for debt cancellation put forward by the Group of 77, since the thesis of a general debt problem can hardly be defended - even if it is limited to certain categories of developing countries - as has been demonstrated by various studies, in particular those carried out by the DAC/OECD¹ and the World Bank. Where there is an indebtedness problem, its scale and origin vary so much from one country to another that differentiated measures are called for. A generalized cancellation measure - that is, covering all the developing countries in a given group - which is triggered automatically by the simple fact of membership of that group, is therefore unjustified.

Moreover, such generalized measures would be prejudicial to the creditworthiness of the developing countries concerned and the proper functioning of the international capital markets, as is moreover recognized (see the work of the IBRD/IMF Development Committee) by certain developing countries.

Lastly, given the constraints facing the donor countries, it is practically impossible to provide future oda to the poorest developing countries entirely in grant form². The cancellation of existing debt would thus necessarily be inconsistent or incomplete because debt would inevitably continue to exist in future, prompting further requests from the developing countries for cancellation.

¹ Presented to UNCTAD in the form of a Group B document in December 1977 during the preparatory work for the ministerial session.

² The developed donor countries agreed at the CIEC to provide oda to the least-developed countries essentially in grant form.

8.3 The Community should, therefore, concentrate its efforts on the adoption of features for the guidance of future operations in the debt field, endeavouring to convince the developing countries that the procedure contained in the joint Community-United States text constitutes a new and positive contribution in the debt field which can solve both the immediate problems (i.e. the legacy of the past) and the more long-term problems. An additional argument in favour of this procedure is the priority it gives to the least developed countries (LLDCs) and the most seriously affected countries (MSAs), two groups referred to in particular in the debt cancellation demand¹.

The Commission therefore feels that the Community-United States text, presented at the CIEC, should be tabled officially in UNCTAD as a draft resolution. This draft should include a reference to paragraphs 10(d), 10(e), and 10(f) of UNCTAD Resolution 98(IV), which concern the indebtedness of the least developed countries, as did Resolution 94(IV), for the question of indebtedness needs to be dealt with under a single procedure.

The chances of the Community-United States text being adopted, as it stands or amended without any basic change, will depend on any thoughts the Group of 77 might have had since the end of the CIEC regarding the merits of this proposal and in particular on what certain of them might stand to gain from the implementation of such a procedure.

8.4 The tabling of this draft resolution naturally implies that we are ready to negotiate with the Group of 77, it being understood that the basic principles of the Community-United States approach should be preserved whatever happens. It should, however, be equally clear

¹ Furthermore, the Community should continue to lay stress on its contribution to the CIEC special action, presenting it as the means it chose at a certain moment in time to respond to a type of development problem to which the Group of 77 sees no solution other than by debt cancellation.

that the Community's margin of manoeuvre is extremely limited. With this in mind, the Council should adopt the principle that Community co-ordination will determine on the spot any decision that are necessary.

IV. Measures taken by the EC and its Member States in accordance with Resolution 98(IV) concerning debt and related development and financial problems of the least developed (LLDCs), island developing (IDCs) and landlocked developing countries (LLs).

9. In addition to commodities and debt, the problems of the least-developed will continue to be prominent in the ongoing North-South Dialogue. Discussion under this heading is very wide-ranging, embracing almost the entire spectrum of sectoral North-South Dialogue topics. It is in the interests of the Community to demonstrate from the outset the extent and scope of the action it is already undertaking.
10. The Community should first of all draw attention to the statement it made on LLDCs, LLs and IDCs at the CIEC in June 1976. This covered all the major items of UNCTAD Resolution 98(IV)¹, with which it largely concurred, though going further on some points.

In this statement the Community laid stress on the "hard-core" LLDC category² recognized by the Trade and Development Board (TDB) as a genuinely poor group of countries, "whose members face acute long-term problems requiring long-term solutions" and supported "wholeheartedly the principle of special measures for the least developed and specific actions for the landlocked, island and other disadvantaged categories of developing countries".

¹The issue of indebtedness of LLDCs is dealt with under the general heading of debt (Ch.III).

²This list does, however, need periodic revision at international level (see the Community's CIEC statement).

11. The Community will wish to mention its record in cooperation with LLDCs and other disadvantaged developing countries, in particular since the entry into force of the Lomé Convention.

Bilateral commitments of official development assistance (oda) by Community Member States to LLDCs trebled in value between 1970 and 1974 (US \$ 514 million in 1974). The share of LLDCs in such bilateral oda rose from 11.7% to 14% from 1969-71 to 1972-74. Their share in gross disbursements of Community aid as such rose from 28.7% to 44.3% over the same period.

The Community's performance has been equally good as regards the conditions under which assistance is granted, including the partial untying of aid, local cost financing and aid programming, in particular under the Lomé Convention. In 1972-74, the grant element of oda was 96% for the Member States and 100% for the Community as such, i.e., well above world and DAC averages.

As regards its most recent achievements, the Community should point to the way in which the Lomé Convention enables additional assistance to be redistributed in favour of those developing countries which are in greatest need of it, in particular the LLDCs, but also the LLs and IDCs.

The Community should point out that the Convention provides for a wide range of special measures to be applied to a group of disadvantaged developing countries including 19 LLDCs¹, 13 of the 20 LLs and about one-third of the island countries on the UN list.

¹The 10 LLDCs that are not Lomé Convention signatories are: Haiti, Yemen Arab Republic, People's Democratic Republic of Yemen, Afghanistan, Bangladesh, Bhutan, Sikkim, Nepal, Laos, Maldives.

Among the Lomé partners, the LLDCs, LLs and IDCs¹ enjoy more favourable treatment under the Stabex arrangement. The former have also been granted more favourable aid volumes and terms and are expected to receive about two-thirds of the European Development Fund.

Moreover, other development aid programmes of the Community as such and the Member States' programmes are attaching increasing priority to the needs of the most disadvantaged developing partners, primarily the LLDCs. This is the case with Community assistance:

to non-associated countries, which between 1975 and 1978 rose to 70 million u.a. per annum;

for cofinancing microprojects with non-governmental organizations (NGOs), which rose from nil to 12 million EUA over the same period;

in the provision of food aid.

12. The Community should make particular reference to more recent initiatives and actions which it has undertaken or pledged to undertake and which are relevant to the implementation of Resolution 98(IV). These are:

- (i) the contribution of US \$ 385 million (nearly 4/10 of the total to the "Special Action", which was the result of a Community initiative.

The Community is the only contributor so far to marshal this additional aid through the International Development Association (IDA), which, among international financial institutions, is of particular importance to the LLDCs.

¹The Lomé LLDC list (28 countries) expands upon the UN LLDC list in that it includes a further 9 countries judged to be least developed for Lomé Convention purposes. In addition, the Lomé Convention embraces 39 countries which are either LLs or IDCs.

- (ii) the contribution of the Community Member States to the US \$ 1000 million International Fund for Agricultural Development (IFAD), which concerns developing countries with an annual per capita income of less than US \$ 500;
- (iii) the contribution of the Community Member States to the IDA replenishment, raising that body's resources from US \$ 4500 million to 76000 million, the Community's contribution being 36.8%;
- (iv) the Community statement and proposal on infrastructures at the CIEC, and support for a Decade for African Transport and Communications aimed at coordinating the various initiatives in this context which are particularly relevant to LLs and IDCs;
- (v) the strengthening of the Community's financial capacity for development cooperation with disadvantaged non-associated countries, the bulk of which goes to the poorest countries.

13. Against this background the Community should continue to be on its guard against pressures to extend blanket concessions over the whole range of economic relations. Such blanket concessions on paper may rapidly appear unrealizable in practice, may be inappropriate to real needs in many cases, and may distract LLDCs' attention from more viable approaches.

All too frequently the LLDC problem is reduced oversimply to one of money and inadequate aid flows. Almost by definition, in the case of the LLDCs and other disadvantaged categories of developing countries, there arises the question of their ability to use increased aid effectively. Emphasis should be laid on technical, managerial and administrative assistance and on adaptation in assistance terms and conditions that will enable LLDCs to improve their absorptive capacity and thus get better value from the aid that is available to them.

In the area of trade renewed efforts should be made to help LLDCs to profit more from the potential made available to them through the GSP and in other ways. (It should be pointed out here that the last Council decision on the GSP accorded important concessions to the LLDCs by abolishing the maximum country amounts ("butoirs") and ceilings for products of interest to them.) A deliberate examination of these efforts would be necessary first, however, in order to pinpoint the genuine and specific trade opportunities that may potentially exist.

14. In the trade field, as in the area of financial and technical cooperation with the LLDCs, the Community approach will continue to be based on its readiness to seek clearly identifiable measures which genuinely serve the particular needs of these countries, whose viability is precarious.