

COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION COMMUNICATION TO THE COUNCIL

ON THE COMMUNITY'S PARTICIPATION IN THE
UNITED NATIONS EMERGENCY OPERATION FOR
COUNTRIES MOST SERIOUSLY HIT BY RECENT
INTERNATIONAL PRICE MOVEMENT

1. At its session on 25 June 1974, the Council approved the text of the letter to be sent by the President-in-Office of the Council of the European Communities to the Secretary-General of the United Nations Organisation reaffirming the Community's readiness to contribute substantially to a special aid project for developing countries most hit by the present crisis and specifying the conditions of such participation.

The first condition laid down by the Council for its participation in the United Nations emergency operation linked the Community contribution (set at 1/6th of the total amount with a ceiling of \$500 million) with that of other industrialised countries and with that of oil-exporting countries which the Community expected to take upon themselves 2/6th and 1/2 of the total amount respectively.

For its part, the Commission had pointed out that, according to its own estimates, the total amount of short-term needs of the countries most hit would be approximately \$3,000 million.

The second condition linked the Community's participation with an agreement on the terms for this exceptional assistance and with the criteria of selection of the recipient countries.

Progress has already been achieved on these two points since the last session of the Council of Ministers.

2. ^{not} To date, /all the potential donor countries have informed the Secretary-General of the United Nations of the definitive amount they would contribute to the United Nations emergency operation.

As regards the industrialised countries, the following countries have either contributed or firmly promised so to do the amounts below:

Canada	\$100 million
Japan	\$100 million*
Sweden	\$ 20.2 million
Austria	\$ 15.0 million
Norway	\$ 11.4 million
Finland	\$ 10.34 million
<u>Iceland</u>	<u>\$ 0.04 million</u>

There will thus be a total of \$257.0 million which will in the main be provided bilaterally.

In addition, Yugoslavia, Australia and Switzerland, at a meeting of potential donor countries held at the United Nations Headquarters on 15 July, stated that they intended contributing to the emergency operation although they were not yet in a position to specify any amount.

Finally, at the same meeting, the Ambassador of the United States stated that his country would decide on the amount of its contribution, which might be supplied in the form of additional food aid, once the results of the summer harvests were known. He added that he hoped his country would make an important contribution to the needs of the countries most hit.

At a later date, during another meeting on the representatives of the eight most important potential donors which was held in New York on 16 August, the Ambassador of the United States let it be known that his country, for various reasons, would be unable to reply to the request of the Secretary-General of the United Nations before the end of September, that is to say before the ministerial meeting of potential donor countries to be held on 27 September.

* The Japanese contribution might be brought up to \$200 million.

As regards the OPEC countries, the situation is as follows:

In 1974 these countries made a considerable effort to increase their aid to developing countries. During the first six months of 1974, commitments for public aid for development by OPEC countries amounted to \$4,412 million as against \$235 million in 1972.

These commitments of the first six months already represent 5.3% of the GNP of India, 7.3% as regards Saudi Arabia, 3.76% as regards Kuwait, and 2.2% as regards Iraq.

The major part of this aid was granted to Arab countries, Egypt and Syria in particular, although certain countries, considered by the United Nations in the list of countries most hit, are also included among countries recipient of such aid.

Accounting of these new flows of aid is not easy in the absence of a notification system similar to that in existence for a long time within DAC.

That is why the Secretary-General of the United Nations has sent to all the potential donor countries, and particularly to the OPEC countries, a questionnaire. The replies to this questionnaire should make it possible to distinguish the flow of capital of all kinds from bilateral aid that might be considered as a contribution to the emergency operation. The instructions attached to the questionnaire specify that the emergency aid must

- (i) be committed for payment before 30 June 1975,
- (ii) finance the maintenance of essential imports of recipient countries,
- (iii) be granted in the form of gifts or, if need be, in the form of concessional-term loans,
- (iv) be additional to the normal aid programmes,
- (v) be granted to those countries most hit that are included in the list drawn up by the Secretary-General of the United Nations.

The replies to this questionnaire will probably not be available before the meeting of 27 September. Nevertheless, thanks to the work of the World Bank, we know the size of the effort of aid by the OPEC countries to the developing countries, particularly those to be helped by the emergency operation (see Annex).

During the first six months of 1974, the Arab countries and Iran have granted commitments of aid to the countries most hit that indeed meet the criteria laid down by the United Nations, up to an amount of \$1,057 million. This estimate does not take into account aid the terms of which are not known, nor does it take into account aid granted after the beginning of August 1974 (in particular through the Iran-India agreement of 2 September).

In addition, Venezuela and Algeria have officially announced to the Secretary-General of the United Nations that they would contribute to the emergency operation for amounts of up to \$100 million and \$20 million respectively. Venezuela has already paid \$30 million to the special United Nations account which receives the multilateral contributions to the emergency operation.

At the restricted meeting of the main donors on 16 August, the delegate of Iran stated that his country was prepared to follow Venezuela's example by contributing to the special account subject to the industrialised countries doing the same. He then asked what were the European Community's intentions in this matter.

To sum up, the contributions of the OPEC countries to the emergency operation and the equivalent bilateral aid exceed \$1,100 million (1,180), if they are considered in the same light as contributions from the industrialised countries referred to above.

3. The Council had subjected the implementation of the Community contribution to an agreement on the methods for granting such aid and on the criteria of selection of the recipient countries.

In this connection, the Secretary-General of the United Nations carried out an assessment of the minimum requirements of the countries most hit with the help of the technical services placed at his disposal by FAO, the IMF, UNCTAD, PNUD and World Bank.

The criteria for identifying the countries concerned are very close to those that had been proposed by the Commission in its communication of 29 May. The list published by the United Nations on 9 September includes some 30 countries whose income per capita is generally below \$200 and, in any case, always below \$400.

For each one of these countries, estimates have been made of the loss in terms of trade due to price movements that had occurred between 1972 and 1974 as well as of the residual deficit in the balance of payments expected for 1974 and 1975. These projections may be considered as a measure of the additional financing requirements as against the normal and regular supplying of external capital of which these countries benefit and which these projections take into account (see Annex).

The total amount of the loss in terms of trade suffered in 1974 by these countries is estimated by the United Nations at \$3,600 million, while their uncovered deficits, after the intervention of various compensatory factors with regard to their current balances and capital, are estimated at \$2,250 million in 1974 and \$2,300 million in 1975.

The list published by the United Nations only differs from that which would have fully met the criteria proposed by the Commission in as much that it includes a few countries whose critical position can be explained by other factors rather than by the recent development of international prices (such as drought, diminishing of exportable quantities).

4. On the basis of this report on information that it has been able to glean, the Commission considers that the condition laid down by the Council with regard to the selection criteria of recipient countries and to the method of distribution among them of emergency aid may be deemed to be met. On the other hand, it would seem that not all the conditions laid down by the Council as regards participation of other potential donor countries have been met as yet. Certainly, the effort of the oil-producing countries is an important one although less than ^{by} about 1/3rd than the maximum amount considered. Moreover, several industrial countries have stated that they would provide substantial contributions, and some of these countries have not excluded the possibility that these contributions

might be increased. Nevertheless, the abstention of the United States is the real problem in as much as the Council debates had clearly shown that, in the mind of certain of its members, it was understood that 1/6th of the emergency operation would be borne by the United States.

Should all Community action therefore be suspended dependent on a decision of the United States? On the contrary, in the expectation of such a decision, would it not be better to allocate to the emergency operation a first Community tranche which would correspond to the contributions already made by the other industrial donor countries and oil-producing countries?

For its part, the Commission considers that another postponement of the initiating of Community action within the framework of the emergency operation is not conceivable, in view of the increased urgency of the most pressing requirements (sometimes, as in the case of Bangladesh, aggravated by new catastrophe), and in view of the vital role played up to now in this matter by the Community, and finally in view of the chain effects of all countries asked to contribute which might be expected from the beginning of the world's action set in motion by the Community's decision to set its own action in motion, if only partially.

After the statement made by the Ambassador of Iran in New York on 16 August, it would indeed seem clear that, not only Iran but also several Arab countries of OPEC, expect either practical proof of the Community's intention to contribute directly to the special account of the United Nations, or the Community's avoidance to act in order to use this as a pretext for their own abstention. It would indeed seem clear that the oil-producing countries of the Middle East do not wish to give the impression, by preceding the industrial countries in this matter, that they are the countries most responsible for the difficult situation of the developing countries most hit.

5. Consequently, the Commission proposes that the Council:

- (1) recall and confirm the decision of principle taken on 25 June 1974 as well as the distribution criteria indicated in particular in the Commission communication for the Council (COM(74)815) of 29 May 1974 (p. 4),
- (2) take note of those contributions already committed, coming in particular from the OPEC countries, and, at the meeting of 27 September, solemnly invite all the potential donor countries that had not already done so to make known the definitive amount of their contributions,
- (3) decide the implementation of the procedure to include in the 1974 budget an expenditure of \$150 million (as indicated in Annex I, this sum may be included in the 1974 Budget without increasing the national contributions as laid down at the moment of the adoption of this Budget by the Council. Moreover, an amount of 210 million units of account has been provided for in the preliminary draft budget for 1975 to cover the balance of the operation to be adopted by the Council in January 1975) as an advance on the final Community contribution to the emergency operation, it being understood that the latter's definitive amount would be determined not later than in January 1975 within the framework of the decision of 25 June 1974 and in proportion with the total amount of contributions of the other potential donors that will be known by then.

As regards the method of using this amount of \$150 million, the Commission proposes that the Council:

- (1) pay \$30 million to the special account of the United Nations since it would appear that the existence of a multilateral component in the Community's contribution
 - (a) gives more flexibility to the international coordination of emergency aid by the United Nations (as shown recently by the aid granted to Bangladesh thanks to the payment made by Venezuela to cover the cost of transport of food aid supplied by the EEC),

- (b) will have an obvious effect on certain oil exporting countries who will then decide (this is proved by a number of statements) also to contribute by this method, a method which has until now only been validly used by Venezuela and Algeria (Iceland has also paid \$40,000 to the special account),
- (c) would make it possible to ensure the presence of the Community as such in the supervision of the emergency operation at United Nations level and guarantee its rights to have a say on the administration of the operation.

- (2) Allocate directly the balance, i.e. \$120 million to the countries most hit within the framework of the operation of the United Nations. This means that this amount of \$120 million would be distributed among those countries fully meeting the criteria proposed by the Commission in its communication to the Council of 29 May 1974 (COM(74)815 p. 4).

The exact amount and the nature of the emergency aid will be determined within the framework of the list drawn up by the UN Secretary-General and that drawn up by the Community, in relation to the information forwarded by the United Nations on these countries' main requirements and on emergency aid already received by them or promised to them.

The operations will be examined and approved by the Council, on a proposal of the Commission, in the usual way.

ANNEX I

STATEMENT OF THE 1974 BUDGET

A. The statement of the use made of appropriations as at 31 August and the estimated additional expenditure resulting from the latest Commission's Proposals to the Council show that the Commission's expenditure certainly remains to a great extent within the limits of the expenditure approved by the Council. Although there might even be a probability of some savings, it is nevertheless unreasonable to take these into account four months from the end of the financial year.

As regards expenditure, the Commission therefore proposes to increase the budget approved for 1974 by 124 million u.a. falling under Title IX, Chapter 94, corresponding to the 150 million dollars proposed in the document to which must be added 14 million u.a. for refunds to the States for this additional contribution falling under Title II Chapter 29.

B. In a previous communication (29 May), the Commission had pointed out that the Community's customs revenue during the financial year 1974 would exceed the estimates agreed upon when the budget was adopted, because of the general inflation noted in all the national budgets.

At the beginning of September, this estimate can be more detailed. In view of the precise results communicated by the Governments for the first six months of the year, and of the foreseeable development to the end of the financial year, an increase in revenue of about 290 million u.a. is to be estimated under customs duties (+).

(+) This increase only corresponds to the revenue in seven of the Member States, the own resources paid by the United Kingdom and Ireland being related to expenditure.

On the other hand, the estimates of agricultural revenue (levies and sugar quota contributions) must be reviewed and lowered by about 140 million u.a.

Overall, it would therefore appear that the foreseeable revenue for the financial year 1974, if the national contributions of the seven countries other than the United Kingdom and Ireland are maintained at the levels recorded in the 1974 budget, will be in surplus by some 140 million u.a. (+).

As regards revenue, the Commission therefore proposes that the 1974 budget be amended by showing an additional amount of revenue of 138 million u.a. corresponding to the above expenditure, without altering the national contributions of the seven countries other than Ireland and the United Kingdom.

C/ Details of these operations are shown below. More specifically, an additional preliminary draft budget will be forwarded to the Council a few days after this communication. It will include a detailed table of farm levy estimates, of sugar quota contributions and of customs duties for the seven countries concerned.

(+) Figure worked out by taking into account reference amounts and the increase of contribution from Ireland and the United Kingdom.

Overall, the additional budget might be financed as follows:

<u>Revenue</u>		<u>Million u.a.</u>
Own resources	The Six plus Denmark	+ 123
	Ireland plus the UK	+ 15
		+ 138

Expenditure

Contribution to the emergency operation in respect of developing countries most hit	+ 124
10% refund of own resources	+ 14
	<hr/>
total	+ 138

Bilateral financial aid of oil-exporting countries to the developing countries in 1974

(as at 5 August 1974)

Table I. Public development aid per donor country.

Country	Commitments 1974		Payments 1974
	Million, \$	% GNP	Million, \$
Algeria	3,5	...	
Iran	1.786,2	5,33	
Iraq	191,2	2,22	2,8
Kwait	301,7	3,76	144,4
Libya	13,7	0,18	197,6
Nigeria	0,8	...	0,4
Qatar	24,-	2,-	
Saudi Arabia	1.168,4	7,30	181,1
U.A. Emirate	922,7	...	507,5
Total	4.412,2		1.033,8

Table 2 - Main recipient countries of OPEC bilateral aid

Country	Commitments 1974.....	
	Million \$	%
Egypt	1.723,-	35,7
Syria	1.478,5	30,6
Pakistan	645,7	13,4
India	247,-	5,1
Mauritania	145,6	3,-
Zaire	101,4	2,1
Yugoslavia	100,-	2,1
Jordan	97,1	2,-
Somalia	89,4	1,9
Other developing countries	200,4	4,2
Total	4.828,1	100,-
of which PDA	4.412,2	91,4
of which PDA to countries most hit (1)	1.057,1 (2)	21,9

(1) These are the countries shown in the list published 9 September by the UN Secretary-General, which includes, among the countries mentioned above, Pakistan, India, Mauritania and Somalia.

(2) The component "gift" included in this aid amounts to an average of 35%.

ANNEX III

Selection criteria of recipient countries and assessment of their requirements

On 9 September 1974, the Secretary-General of the United Nations published a list of those countries most hit as well as an assessment of their financing requirements for 1974 and 1975.

The method adopted by the United Nations hardly differs from that which had been chosen by the Commission and used for its preparatory studies for the proposals included in the communications to the Council of 20 March and 29 May 1974.

The Commission had at that time adopted the following criteria for selecting the countries most seriously hit by the recent international price movements:

- (a) countries having suffered, between 1972 and 1974, a serious deterioration in their terms of trade
- (b) the poorest countries (annual per capita income below \$300)
- (c) countries so indebted that they are unable to consider having recourse to a loan or to the special IMF facilities.

Therefore there remained 25 to 30 countries whose net deterioration in terms of trade was estimated at about \$3,000 million for 12 months.

The Secretariat-General of the United Nations, with the help of the IMF, the IBRD, UNCTAD, PNUD and FAO, have made an estimate of the normal and foreseeable development of the main headings of the balance of payments for each country whose per capita income is below \$400.

Thus, the list of countries most seriously hit included all those countries whose balance of payments will show, in 1974/1975, a residual deficit, that is to say not covered by the normal inflow of capital corresponding to commitments or agreements made before the beginning of 1974.

Because of this, the United Nations list included a few countries whose balance of payments difficulties are not due mainly to the deleterious effect of recent international price movements on their terms of trade, but rather to other factors (drought, reduced exportable quantities, deterioration in the remaining "normal" balance of capitals) etc.).

In the other hand, the United Nations list excludes a few countries where the effect of the deterioration in terms of trade is compensated by various factors (improvement in the balance of "invisible" services for example).

The total amount of terms of trade losses suffered by the countries included in the United Nations list is estimated by that organization at \$3,600 million for 1974.

The total amount of residual deficits shown by the balance of payments of these countries is estimated by the United Nations at \$2,300 million for 1974 and at the same amount for 1975.

The difference between the estimate made by the United Nations of terms of trade losses and of residual deficits can be explained by the play of compensatory factors, either at the level of current account balance (increase in quantities exported or in services revenue) or at the level of the balance of capitals (increase foreseen as early as 1973 in the net inflow of capital into these countries).

The examples below illustrate these differences in several ways:

(1) <u>India</u>	<u>Source</u>	
	<u>United Nations</u>	<u>EEC</u>
Terms of trade losses 1972-74 (as against 1972) (million \$)	1,803	1,814
Residual deficit 1974 (million \$)	820	
1975 (million \$)	880	
1974 + 1975	1,700	

	<u>Source</u> <u>United Nations</u>	<u>EEC</u>
(2) <u>Kenia</u>		
Terms of trade losses 1974 (as against 1972) (million \$)	155	167
Residual deficit 1974 (million \$)	84	
1975 (million \$)	137	
1974 + 1975	<u>221</u>	
(3) <u>Ghana</u>		
Terms of trade <u>gains</u> (million \$)	+ 95	+ 147
Residual deficit 1974 (million \$)	- 23	
1975 (million \$)	- 82	
1974 + 1975	<u>- 105</u>	

To implement the Community contribution to the emergency operation, the Commission proposes that the selection criteria of recipient countries proposed in its communication of 29 May be retained, but that there should be an assessment of these countries' requirements on the basis of balance of payments projections worked out by the United Nations Agencies.

In these circumstances, only those countries most hit by the recent international price movements would be considered in view of the magnitude of their essential needs and of the emergency assistance already received or promised.