

3. The Community and the Developing Countries: New Moves

Community and Development

1301. Two important moves were made in March by the Commission with respect to aid for the developing countries. In Communications submitted to the Council, the Commission proposed that a World Fund for Exceptional Aid be set up for the developing countries hardest hit by the recent price increases on the world markets. It also proposed that the Community adopt a new food aid policy.

World Fund for Exceptional Aid

1302. The Community is asking all the wealthy countries to help towards setting up a World Fund of 3 000 million dollars for the countries most affected. The Community itself could put in about 500 million dollars. This was the proposal made in the Communication of 21 March 1974 from the Commission to the Council. The title of the document is: 'an attempt to neutralize certain movements of international prices for the benefit of the most affected developing countries.'

The Communication stresses that through the studies undertaken in various quarters, including the OECD, the IBRD and the Commission, a start has been made in assessing the range and force of the impact of international price movements on the developing countries.

The most spectacular and the most critical of these is obviously the movement in oil prices. The rising trend in the cost of oil since 1972 will entail an increase of some 10 000 million dollars in the import expenditure of all the developing countries.

The rising prices of oil are unfortunately by no means an isolated phenomenon: for some of the developing countries their impact is coupled to the higher prices of cereals or vital industrial products like fertilizers. In 1974 the outlay for the developing countries on imports of wheat

and fertilizers from the industrialized countries would go up by \$3 300 million and by about \$2 000 million if they kept their purchases to the 1972 level.

Thus in one year the increased prices of three basic products means for the developing countries who have no such production an extra import expenditure totaling about \$15 000 million and this sum will obviously be further swollen by the overall increase in export prices applied by the industrialized countries (19% for all the OECD countries in 1973).

In appraising these order of magnitude figures it will be appreciated that the sum of \$15 000 million dollars represents 30% of the developing countries' total exports for 1972; it also amounts to 80% of the value of all the financial in-flow, both public and private, put into the developing countries by the DAC countries in 1972 and is almost double the amount of public development aid supplied to the developing countries by the members of the DAC.

The problems of internal and external adjustment which the developing countries will have to face due to the oil price developments vary considerably but fall into three situation patterns.

In the first one the increased import prices could, at least temporarily be offset by the growth in revenue from commodity exports whose rates have been moving up strongly over the last year. Even if in most instances the situation is risky, the forecastable development in world rates one year from now would still gain time to initiate the needed adjustments.

In the second situation, some developing countries are experiencing a massive deterioration in their trade terms but do possess the resources required to cushion the impact and to stagger the adjustments over a period of time, either through loans or by dipping into their own currency

reserves. This applies to the developing countries such as South Korea, Taiwan and Singapore who export manufactured goods.

The third position involves the countries and regions who are the hardest hit by the crisis. They include India, Pakistan, Bangladesh, (and Sri-Lanka) in south-east Asia, Central America and the Caribbean, and the tropical African countries of Kenya, Burundi, the Senegal and the Sahel.

Several sources (OECD, ODC) claim that the net result of international price movements emerges as an increased burden for this third group of about \$3 000 million. Work now being done by the Commission departments will soon clarify this assessment and the proportional charge for the countries in question.

These countries are in a highly critical position for they cannot rely, as do the industrialized nations, on the reflux of capital from the oil exporting countries; moreover, their present level of debt prevents them from borrowing in order to prolong the adjustment period.

Furthermore, they are liable to suffer the consequences of a cut, albeit temporary, in external capital contributions and may have to bear a drop in export revenue owing to short-term economic developments in the industrialized countries.

Exceptional measures must be taken promptly by the international community to help these countries. Apart from the question of disruptions in their balance of payments, the problem here is one of sheer survival. The cut in their fertilizer and oil consumption due to the increased prices means that farming yields will dwindle, crops will be lost and more cereals will be imported failing which local famines are likely to occur.

The Commission is therefore proposing to the Council that the Community take the initiative of appealing to all the wealthy countries to join

it in an effort of exceptional aid for the poor countries whose financial situation has been seriously worsened by the trends of international prices in order to help them deal with the problems of adjustment.

The Community made proposals to this end during the extraordinary session of the United Nations General Assembly dealing with the problems of raw materials and development.

New Food Aid Policy of the Community

1303. In another Communication on the 'food crisis and the Community's responsibilities towards the developing countries,' sent to the Council on 11 March 1974, the Commission submitted the blueprint for a new policy and put forward a detailed programme for it.

The developing countries are confronted with a food crisis of seriousness unequalled since the years immediately following the Second World War. The general scarcity of basic foodstuffs and their high prices give rise to grave concern, even alarm, in many places, and the outline of the future is uncertain. In those circumstances, Europe must show its awareness of the sudden dramatic deterioration in the situation of the poorest countries, and must rise to its responsibilities towards the victims of the crisis.

The Nature of the Crisis

Recent Symptoms

1304. During the last two years, there have been serious food shortages, occasionally reaching famine proportions in such places as the Sahel zone of Africa including Ethiopia, Bangladesh, and some other countries in Asia and Latin America. Related to these localized shortages, there have been exceptionally steep rises in prices

of most basic foodstuffs throughout the world, which have accentuated the difficulties of meeting basic food needs in developing countries.

While some developing countries may have derived an advantage from higher prices of a few export commodities, the benefits to these countries have been very unevenly spread and, except in the case of such special commodities as oil and some other minerals in permanent shortage, these benefits are precarious and minimal in comparison with the general disadvantages caused by price increases in basic food imports.

Short-term Causes

1305. The main immediate cause of the crisis has been recurrent drought and other unfavourable weather conditions in many parts of the world, resulting in extensive production cuts, sharp rise in import demand, immensely heavy purchases of grains by the Soviet Union last year, and a heavy drawing down of carryover stocks throughout the world.

Natural hazards alone can not, however, account in full for this situation. In addition, there has been a series of monetary crises, coupled with fierce inflationary pressures in much of the world, and with extremely strong speculative tendencies, originating primarily in foreign exchange fluctuations and, in turn, reinforcing the physical shortages of many food products. Moreover, there is now a growing energy crisis, whose full consequences cannot as yet be foreseen, but which is putting new pressures also on the economies of many developing countries.¹

Long-term Causes

1306. The catastrophic effects of recent shortages of basic food products on the economies of developing countries have been superim-

posed on the long-term problems of their food production failing to catch up with their food demand. In the last few years, the developing countries as a whole have not been making the advances in their agriculture which they need to make, and which—in the quite recent past—were regarded as being within relatively close reach as a result of technological progress, like the development of high yielding varieties of cereals.

Certainly, in the first two years of the United Nations' Second Development Decade, agricultural production in developing countries has fallen short of the annual production targets set for this period. Some of the reasons for the so far limited progress of 'Green Revolution' in these countries may turn out to be comparatively short-term in character, such as the recent problem of world fertilizer prices and supplies.

Unfortunately, there exist other, longer-term impediments, such as the rapidly growing population, the existing rigidities in their institutional and social systems, and the growing dependence of their agriculture on scarce capital and technology for rising yields. These suggest that major increases in *per capita* food production may not be easy to achieve in many developing countries in the short and medium-term.

Consequences for the Developing Countries

1307. In general, the recent food shortages and steep increases in food prices have caused not only economic dislocation but also serious social, and political unrest in many developing countries, where higher food prices usually mean higher risks of hunger or malnutrition for the bulk of the population. Many food deficit

¹ From three directions: through the higher cost of oil imports themselves, through lower export earnings following a possible downturn in economic activity of the industrialized world, and through resulting rises in prices of non-oil imports from the developed countries.

developing countries have simply been priced out of world markets at a time when food aid levels have been cut, in some cases drastically, and there remains the serious doubt whether sufficient supplies are available at the world level to meet any major emergencies which might arise in the near future.

Even more important, such food production increases as seem to be feasible in many developing countries in the medium term are not likely to be sufficient to cover the expected increases in food demand by their populations. As a result, the food import requirements of developing countries as a whole are likely to increase significantly in the next 5-10 years, as indicated in FAO commodity projections up to 1980.

The Community's Responsibilities

1308. It would be highly inequitable, as well as dangerously short-sighted on the part the industrialized countries, and more particularly of Europe, to allow a situation in which the weaker members of the world community of nations should consistently be those that are forced to bear the additional burdens caused by rapid changes on the world economic scene. It must therefore be hoped that the near future will mark a decisive step forward in the world's sense of responsibility for dealing with such anomalies.

Since food products in question are produced largely in the developed countries of the temperate zone, it is essential for the latter countries to take account of the rising food import needs of the Third World to prevent its populations from suffering a further reduction in the already inadequate nutritional standards. It must be hoped in particular that the international community will be moving towards a more rational policy of management of food supplies on a world wide basis, including the world food security policy (as proposed by the FAO), and some degree of international coordination of

national production policies. In this context, the Community cannot remain passive, and must be ready to set an example and take appropriate policy action, consistent with its obligations towards developing countries, imposed on the enlarged Community by its immense economic power. This is all the more important in the present period when we deplore the impact of sudden increases in oil prices on the economies of the poorest developing countries, while seemingly ignoring comparable effects on such countries of steep price increases in their vital food imports. If ever, the present is the time for Europe to affirm its concern with this situation.

Greater Stability of Commodity Markets

1309. And, it is very much to be desired that the forthcoming negotiations in GATT and possibly in other bodies should lead to a formulation of more rational trade policies, resulting in greater degree of market stability for basic food products throughout the world. A larger number, and a more effective character of international commodity arrangements is one obvious means of promoting this objective. There is no doubt that the Community has an essential role to play in the processes which ensure a greater degree of stability in international markets; several statements have already been made in this respect, and proposals to this effect will be forthcoming shortly.

Availability of Supplies

1310. It is to be hoped that in the long run food production in developing countries will grow sufficiently, though there remains a problem of meeting their food deficit in the short- and medium-term. There is no doubt that the agriculture of western Europe has a technical capacity for meeting at least part of that deficit. Western Europe is a large producer of basic

foodstuffs, some of which (like dairy products) are a valuable source of much needed proteins in the developing countries.¹

Financial Assistance

1311. Without any question, part of the prospective food deficit of the developing countries can, and will continue to be, met through commercial purchases, provided that food is available at reasonable prices in the world markets. However, even under most optimistic assumption concerning future export earnings of the developing countries, these are not likely to be large enough to pay for the required food imports in their entirety. Consequently, a large, and possibly growing part of their food deficit will have to be met through foreign assistance.

The Community is required at the present time to adopt wide-ranging decisions on financial assistance to the developing countries. The Commission is aware that its proposals on food aid fit into the broader framework of this assistance, and must be in conformity with the overall objectives of the Community towards the third world. It may be observed in the present context that a part of the Community's financial aid to the developing countries could usefully be spent on structural improvements in their food production sector, since such improvements alone can provide a satisfactory long-term answer to the critical food problem which faces them.

Food Aid Policy of the Community

1312. In order to live up to its responsibilities, the Community must, therefore, have recourse to a food aid policy, at least during the next 5-10 years. In fact, if one agrees with the FAO's view of the future, one finds it difficult to see how the Community could refuse to mobilize

development resources in the form of a substantial and coherent food aid policy, bearing in mind the existing productive capacity of European agriculture in commodities that could assure a suitable food aid basket for a guaranteed number of years.

The Community has the possibilities for undertaking a more ambitious food aid policy of its own which would provide for:

- (a) a continuity of food aid supplies from one year to another by means of a three-year *target* programme to be implemented by annual commitments, both expressed in quantitative terms;
- (b) a diversified food aid basket, selected in relation to the nutritional requirements of developing countries and the Community's normal product availabilities; and
- (c) an increase in its present size.

The main principles along which a desirable food aid policy of the Community could be formulated and implemented, include:

- (i) open market sales of the Community's food aid, except in emergencies, and in cases of aid aimed at raising nutritional standards of specific population groups;
- (ii) the utilization of the resulting counterpart funds not only in the context of specific development projects, but also in support of easily identifiable sectors or sub-sectors of well functioning development plans or programmes;
- (iii) the channeling of the bulk of the Community's food aid directly to developing countries, while passing substantial, and possibly increasing, quantities through multilateral agencies, notably the WFP and the Red Cross; and

¹ In fact, Western Europe is in the process of becoming net exporter of dairy products, at a time when some of the major traditional exporters among the developed countries (e.g. the United States) are shifting to a net import basis.

(iv) the authority to be given to the Commission to take executive decisions, if necessary with the assistance of government experts on development and cooperation matters.

Up to now, the Community's food aid has, in the case of cereals, taken the form partly of projects by the Community itself, and partly of those by the States. Food aid in other products has been implemented through Community projects alone. To go further in developing the role of the Community, it would seem desirable also to adopt a principle that all future food aid, including that in cereals, should take the form of Community projects. The reasons are those of coherence, efficacy, and close relation between the food aid policy of the Community, and its commercial and agricultural policies which are of a Community character.

However, since national projects amount at present to about 700 000 tons, some Member

States—while favouring a progressive communitarization of food aid—may not be prepared for an immediate drastic cut in their national actions. Should that be the case, the bilateral projects of Member States would in the transitory stage fall within the limits of the target programmes (i.e. between 1 700 000 and 2 500 000 tons).

Commission Proposals

1313. Quantitative proposals for the first target three-year programme to be carried out through Community projects alone, are shown in the Table below. The firm supply commitments would be determined annually within the indicated limits, in the light of circumstances prevailing in a particular year.

Target Programme (1974/75—1976/77)
(Range of Annual Commitments)

| Product | Minimum Commitment (Tons) | Maximum Commitment (Tons) | Quantities under 1973/74 Programmes |
|-----------------------------|--|--|--|
| Cereals | 1 700 000 ⁶ (1 000 000) ⁷ | 1 800 000 ⁶ 2 500 000 ⁷ | 580 000 ¹ 1 287 000 ¹ |
| Skim Milk Powder | 80 000 | 120 000 | 80 000 ⁴ |
| Butter-Oil | 45 000 | 65 000 | 45 000 ⁴ |
| Sugar ¹ | 10 000 | 40 000 | 6 000 ⁵ |
| Other Products ² | — | — | — |

¹ The Community's food aid in sugar would be directed to the poorest among the developing countries, and would be used mainly in furthering nutritional objectives, such as those underlying UNRWA operations.

² A cash component for their acquisition (to balance the 'basket' from a nutritional point of view) which would range between a minimum of 20 000 000 u.a. and a maximum of 30 000 000 u.a.

³ I.e. 45% of 1 287 000 tons which represents total EEC commitment under International Food Aid Convention.

⁴ Quantities proposed by the Commission but not yet approved by the Council.

⁵ Approved by the Council.

⁶ Existence assumed of national projects (700 000 tons) added to the sum of Community projects.

⁷ Assumed absence of national projects.

In conclusion, the Council is requested to approve:

- (a) the principle of the medium-term target programme of 3 years within which food aid commitments of the Community will be determined on an annual basis;
- (b) the size of the first target programme (1974/75—1976/77), shown in the 'Table' on page 34;
- (c) the size of the annual programme 1974/75, representing the lower limits of the target programme;
- (d) the general principles for implementing the Community's food aid policy as described above.