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INTERIM REPORT

drawn up on behalf of the Committee on Economic Affairs

on the Community's supplies of raw materials

Rapporteur: Mr H. SCHWÖRER

PE 41.634/fin.

English Edition

By letter of 26 March 1975 the Committee on Economic and Monetary Affairs requested authorization to draw up a report on the Community's supplies of raw materials.

Authorization was given by the President of the European Parliament in his letter of 14 April 1975. The Committee on External Economic Relations and the Committee on Development and Cooperation were asked for their opinions.

On 25 April 1975 the Committee on Economic and Monetary Affairs appointed Mr Schwörer rapporteur.

It considered the draft report at its meetings of 26 June 1975, 14 July 1975, 18 January 1977 and 25 February 1977. At the meeting of 25 February 1977 it unanimously adopted the motion for a resolution.

Present: Mr Van der Hek, chairman; Mr Notenboom, vice-chairman; Mr Schwörer, rapporteur; Mr De Keersmaeker, Mr Deschamps, Mr Lange, Mr Van der Mei, Mr Normanton, Mr Santer (deputizing for Mr Müller-Hermann), Mr Starke and Mr Tomney.

The opinions of the Committee on External Economic Relations and the Committee on Development and Cooperation are attached.

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A

The Committee on Economic and Monetary Affairs hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

on the Community's supplies of raw materials

The European Parliament,

- having regard to the communication from the Commission of the European Communities to the Council (COM(75)50);
- having regard to its resolution on the preparation, conduct and outcome of the fourth United Nations Conference on Trade and Development;
- having regard to the interim report of the Committee on Economic and Monetary Affairs and the opinions of the Committee on External Economic Relations and the Committee on Development and Cooperation (Doc.585/76);
- 1. Draws attention to the Community's marked dependence on third countries for supplies of raw materials and the risks that this involves;
- 2. Emphasizes, therefore, the need for a comprehensive common policy in this area, in regard to both the Community itself and the rest of the world;
- 3. Recommends the immediate development of a long-term Community strategy on raw material supplies;
 - A. As regards intra-Community supplies
- 4. Expects practical proposals to this effect from the Commission in order to promote at European level:
 - (a) basic and technological research into the recycling of by-products;
 - (b) the improvement of possibilities of substitution;
 - (c) savings in consumption
 - (d) longer life of products;
 - (e) the exploration for and rational exploitation of the limited resources available to the Community and also seabed resources;
 - (f) the creation of emergency stocks;

¹ OJ No. C 259, 4.11.1976, p.13 (report by Mr DESCHAMPS, Doc.333/76)

B. As regards greater cooperation with the developing countries

5. Considers it essential to increase cooperation between the countries which produce raw materials and those which consume them and in particular between the developed and developing countries;
6. Emphasizes the danger for the world economy, which is of equal importance to the producers and consumers of raw materials, inherent in the emergence of cartels of raw material producers;
7. Takes the view that the participation by the developing countries and their peoples in the capital, management and profits of companies set up on their territory and the profits of manufacturing activities dependent on them would foster solidarity between the Community and these countries;
8. Points out, however, that in order to meet the inevitable and legitimate desire of developing countries to diversify their economies and to process their raw materials locally, the Community must implement a forceful structural policy to compensate for the effects, particularly on employment in the Community, of the beginning of industrial activity in the developing countries;
9. Recalls that the harmonious progress of the Community economy is inextricably bound up with the future of cooperation between the Community and the developing countries.
10. Emphasizes that such cooperation can be achieved only on condition that the developing countries observe the principle of free access to raw materials and grant investment guarantees;
11. Awaits Commission proposals for the setting up of a European investment guarantee body;
12. Stresses the responsibility of the oil-producing countries with regard to both the future balance of payments situation of the developing countries and increased long term investment in the economies of those countries;

C. As regards the regulation of the world market in raw materials

13. Declares its support, in keeping with the spirit of the Convention of Lomé, for the development of mechanisms to stabilize raw materials prices and the export earnings of the raw materials producing developing countries and consequently provide the security of supply essential to the consumer countries;

14. Notes with satisfaction that during UNCTAD IV the principle of indexing was abandoned in favour of a procedure of suitable, though not automatic periodical review of raw materials prices;
15. Considers it, moreover, essential, if the world market in raw materials is to be suitably regulated, for certain rules of conduct to be observed under international arrangements concerning, for example:
 - import controls,
 - free access to raw materials,
 - pricing principles,
 - the coordination of competition policies,
 - the activities of multinational companies;
16. Urges the Council and the Commission to ensure that, for the future work of UNCTAD and the North-South dialogue, which it must play a major role in encouraging, the Community, acknowledging the importance of these conferences for the security and terms of its supply, should adopt a common position without delay;
17. Expects the Commission, in the light of recent developments, to present a new programme which might form the basis of a common position; instructs its Committee on Economic and Monetary Affairs to follow the progress of this work and to report on it, if necessary.
18. Instructs its President to forward this resolution and the report of its committee to the national parliaments and to the Council and Commission of the European Communities.

EXPLANATORY STATEMENTINTRODUCTION

1. According to the experts, there is only a very slight chance of an absolute world-wide shortage of mineral reserves for all essential minerals. This view, which the Commission supports in its communication, is open to criticism as being over-optimistic (see paras. 10 to 14). For Europe, however, there is the serious problem of being dependent on third countries for supplies of raw materials. For most of these, the degree to which the Community has to depend on imports from third countries ranges between 70 and 100%, and these percentages rise as industrial activity in Europe increases.

2. This lack of raw materials is partly ascribable to historical factors. Early industrialization in Europe resulted in the exhaustion of most of the continent's minerals; moreover, the density of Europe's population and industry is very high compared to all other parts of the world.

Other industrialized countries, with the exception of Japan, do not in practice have to contend with this situation.

The United States, for example, relies on imports for only 15% of its raw material needs.

3. This high level of dependence leaves Europe very vulnerable, and the dangers have grown more acute in recent years. The oil crisis, and the consequent rise in oil prices, have made the Third World aware of the real power they wield. The developing nations are trying, in emulation of OPEC, to form cartels aimed at stabilizing prices at a far higher level and breaking the power of the large private companies. Article 5 of the Charter of economic rights and obligations of States, adopted by the UN General Assembly, recognizes the right of all States to combine, as producers of raw materials, with a view to developing their economies.

4. This problem is therefore of fundamental importance for the future of the European economy. The Committee on Economic and Monetary Affairs thus decided, on 19 January 1976, to follow this matter closely and to report on major developments, as it was subsequently requested to do in the resolution adopted by the European Parliament on 12 October 1976¹.

Since the Commission's communication, now somewhat out of date, on the Community's supplies of raw materials (Doc. COM(75) 50), some very important negotiations have been held in the raw materials sector. The UNCTAD Conference held in Nairobi in May 1976 adopted an integrated programme for commodities, which is currently being finalized by this organization. The North-South Conference, which met in Paris in December 1975, also tackled all these matters in its Raw Materials Commission. Therefore, taking into account the results already achieved at these conferences and in view of the fact that they will shortly be reconvened - UNCTAD in March 1977 in Geneva to negotiate the coordination of the common fund to finance buffer stocks of raw materials and the North-South Conference in April - the European Parliament has thought fit to make its opinion known through this report and to support the Commission's efforts to persuade the Member States that the Community must adopt a common position in this area.

5. If the Member States of the Community want to have a say in arrangements with the developing countries, they will need to speak with one voice in the international organizations and conferences where the problems of raw materials are dealt with. A common approach is all the more desirable since the situation in Europe, where raw materials are concerned, differs from that in other industrialized countries (so that Europe's interests and those of the other industrialized nations do not always coincide).

This common position of the Community on the raw materials question implies recognition of the need to implement a European supply policy within the Community and to develop close cooperation between the Community and the developing countries within the framework of a stricter regulation of the world market in raw materials.

¹ OJ No. C 259, 4.11.1976 - Deschamps report (Doc. 333/76), paragraph 11 of resolution.

6. This report, like the communication from the Commission (Doc.COM(75) 50/fin.), leaves aside the question of energy products. The Committee on Economic and Monetary Affairs is well aware of the relationship that exists between the problem of energy supplies and that of raw materials in general, but the special nature of the energy sector makes it easier to find solutions by discussing energy supplies and other raw material supplies as separate issues.

The Commission was compelled, moreover, to give priority to energy policy because of the urgency of the problems in this sector as compared to those of raw materials. Consequently, the Committee on Economic and Monetary Affairs has dealt with the economic aspects of energy policy in a separate report¹, though without losing sight of the link between energy supplies and supplies of raw materials in general.

I. A EUROPEAN SUPPLY POLICY:

A. Preparation of a long-term strategy on the basis of a careful analysis of the situation of the various raw material markets

7. Up to now the policy of the various Member States has been limited to the short term, and it is only when particular problems occur on a particular raw material market that they look for a solution, and frequently this is no more than a short-term answer. The most obvious example of this can be seen in the oil sector - it is only when supplies come to a halt that thought is given to measures to limit energy consumption and diversify energy sources.

The starting-point for ensuring continuity of supplies of raw materials lies in a thorough analysis of the present and future situation on the various raw material markets: the trends of supply and demand, the number of sources offering supplies, the known reserves, the possibilities of recycling and substitution, and so on. In doing so, account must be taken of policy on environmental protection.

a. By comparing future supply and demand, the supply problems likely to arise can be identified, and a policy worked out to forestall them; prospection for fresh deposits and a search for substitutes can be encouraged, economies can be made in the use of certain raw materials, the sources of supply can be made as varied as possible, etc.

¹ Report by Mr Guldberg on the effects of the increased price of imported primary forms of energy in the context of Community energy policy (Doc. 431/75).

9. This supposes close cooperation with industry, on both the extractive and the processing side: with the former so as to allow an estimate of what will be available, and with the latter to forecast what will be needed. Due care must, of course, be taken to safeguard freedom of competition and decision for the companies concerned.

Obviously, to work out a European policy of this kind will demand close collaboration between the different Member States. Long-term strategy calls for wider international cooperation in the exchange of information - the Community can govern only part of the demand, while it has virtually no control at all over the supply. Cooperation between producer and consumer in this sphere will make planning simpler and more precise for both parties involved.

B. Safeguarding supplies

The long-term prospects of shortages

10. The communication from the Commission is fairly optimistic on this point, asserting that 'few raw materials give rise to fears of permanent scarcity'. Aside from the matter of absolute scarcity there are other reasons, such as ecological considerations, for avoiding waste. In these cases the Commission mentions three possible lines of action - optimum recycling of waste, better opportunities for using substitutes, and cutting down on consumption and extending the life of products.

11. Both the recycling of waste and the substitution of other materials or production processes should be the subject of applied research, which can most effectively be undertaken at Community level. This would avoid duplication of cost, and offer economies of scale. Such collaboration should not be limited to basic research, but broadened to include research on the technology involved. The readiness of Member States to

work together in this field is generally limited to basic research, for as soon as industrial interests come into the picture cooperation proves impossible. The Commission document speaks of suitable projects that ought to be launched by the CREST raw materials sub-committee.

CREST's function is, however, limited to coordinating national policies in the research field and to assisting the Commission in preparing projects of interest to the Community. Coordinating national lines of policy cannot, however, offer any guarantee that the research activities will be efficient, and the Member States are, besides, probably free to take or leave the recommendations that CREST makes.

Proposals for fuller cooperation need to be worked out as soon as possible. This applies not only to recycling waste, but also to research aimed at improving substitution possibilities, where the Commission's document says nothing about cooperation between Member States. And in the other projects that are mentioned, such as the developing of new techniques for extracting and processing ores, the developing of remote sensing techniques and of exploration and exploitation of the seabed, etc., there is a need for very close collaboration, and the setting-up of joint research, with a view to economic efficiency.

12. The Commission's proposal that the life of consumer durables should be extended must be wholeheartedly endorsed, from the viewpoint both of supplies of raw materials and of consumer protection. If the extra cost attendant on this improvement in quality were to prove relatively less than the fall-off in demand that resulted, this would also help to lessen the balance of payments deficit. The deterioration in the terms of trade brought about by the oil crisis is forcing the oil-importing countries to offset the resulting short-term balance of payments deficit, in the long run, by cutting back domestic demand and stepping up exports.

With the same end in view, and to ensure that the best possible use is made of the raw materials that are available, a limit should be set to the production and consumption of consumer goods that fulfil no specific function and meet a demand that has been generated by modern sales promotion techniques.

The whole concept of packaging, too, should be examined anew in the light of the need to husband resources of raw materials, and the Committee on Economic and Monetary Affairs urges the Commission to put forward concrete proposals on this as speedily as possible, within the context of its consumer protection policy.

13. The aim to achieve a rational use of resources should not be confined to raw materials that seem likely to be in short supply in absolute terms; it should be borne in mind in dealing with all raw materials. Also in the case of raw materials where there may be no fear of an absolute scarcity but where the Community could meet with supply difficulties because, for example, the foreign deposits are not widely distributed geographically, a special effort ought to be made to achieve a rational use of these raw materials and to look for substitutes for them. Special attention should be paid to metals like bauxite, tin, manganese, tungsten, copper, iron ore and the like: these are so crucial to our industry that a drying-up of supplies could have disastrous consequences.

2. The risk of cartels where suppliers are few

14. The problems arising from Europe's dependence on third countries are aggravated by the fact that supplies of certain raw materials come from a limited number of sources. Examples of products where the market is controlled by a handful of companies or countries are wool, phosphates, chrome, manganese, platinum and tungsten. Eighty per cent of the entire world production of raw materials is in the hands of five States - the USA, Canada, Australia, the USSR and South Africa. The concentration of production in a few places is a consequence of the high capital costs of the infrastructure usually needed to open up new production areas, which are often in remote and inaccessible sites. The high investment needed means that small-scale production sites are not generally profitable.

15. This concentration of raw materials in a small number of production areas can, however, give rise to supply problems for the Community. The fewer suppliers there are, the greater the risk of their forming a cartel that would unilaterally impose conditions on continuing supplies that made bargaining - on quantities or prices - difficult. In addition, political instability in some countries puts regularity of supply in jeopardy. The risks inherent in this situation should be minimized by making sensible use of the auxiliary sources available to the Community, by profiting from the resources to be found in the sea-bed, and by ensuring a 'spread' of foreign sources of supply.

3. Utilizing the Community's limited resources

16. A policy of self-sufficiency is, bearing in mind the limited reserves of raw materials available, out of the question for Europe; there is no alternative to obtaining supplies from elsewhere. Yet this does not mean that sensible use ought not to be made of the limited quantities of raw materials the Community does have at its disposal.

The rise in raw material prices today makes it worthwhile to work various sites that were ignored in the past because of the high extraction costs; and with the need for assured supplies to the Community in mind, it may be sound to lend assistance to exploration and exploitation within the EEC itself. Such support would, however, have to be approved at Community level and not nationally, lest competition be distorted within the common market.

17. Re-examining the territory of the EEC countries for the raw materials it can yield may produce interesting results. Expansion of the Community has enlarged the land area of the EEC, and taken in some regions that - like Ireland and Greenland, in particular - have been scarcely exploited at all up till now. In updating the EEC map of mineral deposits, use must be made of modern prospecting techniques such as remote sensing. National boundaries constitute too narrow a framework for such prospecting and exploration; the proper solution would be to establish a prospection organization operating on a Europe-wide scale (see para. 11).

4. Exploitation of the sea-bed

18. Extracting mineral wealth from the sea-bed will call for heavy investment and large-scale research; so here again activity needs to be organized on a Community, rather than a national level (see paras. 11 and 16). It is, moreover, important for the protection of the Community's interests that it should speak with one voice at international conferences on the law of the sea. There is a very real danger that, if member countries press their own, individual points of view, no attention will be paid to them at all.

5. Emergency stocks

19. In a limited number of cases there is a genuine risk of supplies being interrupted or of unduly harsh conditions being imposed. Caution is indicated particularly where supplies are concentrated in the hands of a few undertakings or countries.

Reasons of domestic or foreign policy sometimes prompt countries to take such measures. An eminent example is the action taken by the oil-producing countries. And the success of such action can only encourage further action of the same nature.

An oligopoly position can be exploited by imposing sales conditions which it is difficult to meet. A sudden increase in demand can also lead to unduly harsh price conditions.

To limit the adverse consequences of supplies being interrupted or of unreasonable conditions of sale being imposed, it might well be desirable to build up emergency stocks at Community level.

In the Commission's view, this would be especially advisable in the case of tungsten and platinum.

II. COOPERATION BETWEEN THE COMMUNITY AND THE DEVELOPING COUNTRIES

20. If the leading raw materials producers succeeded, by forming cartels, in fixing their prices at exorbitant levels, world trade as a whole would be affected and the world economic current crisis would worsen. Problems such as inflation, balance of payments deficits and employment, with which we are already familiar and which the oil crisis has exacerbated, would become more serious. Europe, where all production is geared to the processing of imported raw materials, would be hardest hit by the effects of this crisis.

21. The raw materials problem can be solved only in the context of international cooperation between industrialized and developing countries. The two sides are interdependent. The industrialized countries are dependent on the developing countries for their supplies of raw materials and as purchasers of their exports. On the other hand, the aid of the industrialized countries is essential for the developing countries if their economies are to get off the ground. Neither side would benefit from a confrontation between raw materials producers and consumers; cooperation alone can lead to a satisfactory solution.

This cooperation, however, is acceptable to the industrialized countries only if certain conditions are met.

A. The conditions governing cooperation between the Community and the developing countries

22. Sources of supply in the developed countries are certainly more reliable than equivalent sources in the developing countries. As a rule, however, most of the raw materials extracted in the developed countries are processed locally into finished products, and these countries generally have no interest in exhausting their own reserves in order to sell to Europe. Caution is also called for, in that turning more to the industrialized world for supplies may arouse distrust among the underdeveloped nations, and widen still further the gulf between the industrialized and developing countries.

1. Guarantees against the risks of nationalization

23. To keep the risk of cartels to a minimum and ensure the long term continuity of raw material supplies, new areas will need to be explored and developed. In the long run there is, admittedly, not likely to be a scarcity of most raw materials - but only if the investment needed for exploration and working is forthcoming. This, too, presents problems: because of the risk of nationalization, mining companies are increasingly reluctant to undertake fresh investment in the developing countries. Very

few countries are now considered 'reliable' enough for investment to be worth while. Mining companies do, on the other hand, appear ready to invest in countries where there is practically no risk, such as the United States. Willingness to invest capital elsewhere is becoming more and more confined to cases where the prospects are very good for prices and profits that will offset the risk.

24. Participation by developing countries in the ownership, management and profits of mining installations and processing plant on their own territory, and even in manufacturing activities in Europe, should lessen the dangers of nationalization and improve the climate of confidence. This aspect of the problem is discussed in greater detail in paras. 32-34.

25. With long-term supplies in mind there is, therefore, an urgent need for measures to bring about the necessary investment. These efforts can be grouped in three categories: action to improve confidence, measures to encourage direct investment, and the use of investment techniques other than direct investment.

26. An improvement in the climate of confidence is to a large extent dependent on agreement being reached between the developing countries and the industrialized nations at the current international conferences. The developing countries should, for example, be able to offer foreign investors guarantees in exchange for help from the industrialized countries in moving towards the processing of raw materials in the developing countries themselves.

The developing countries could offer such a guarantee without relinquishing their legitimate demand for sovereign control over their own raw materials and mineral resources, provided that they can themselves decide where foreign investment is wanted and where it is not. In the Lomé Convention, however, the developing countries were not willing to give a guarantee of this kind.

If a favourable investment climate is to be created in developing countries it is not enough for an agreement to be signed with the responsible authorities in these countries: what is needed is a change of attitude on the part of the people of the developing countries towards the industrialized nations. Undertakings entered into by a developing country in connection with foreign investment may be swept aside if there is a coup d'état and the new government, taking a different political line from its predecessor, ceases to honour previous agreements. This change in the attitudes of the developing countries is, however, a long-term goal, and will depend to a large extent on the nature of the development cooperation policy pursued by the industrialized countries in the future.

2. A European investment guarantee body

27. The only possibility for stimulating direct investment in the developing countries, in the absence of any guarantee by them of the security of investments is the provision of an investment guarantee by a body specially set up for the purpose. In America the 'Overseas Private Investment Cooperation' has been formed to provide guarantees for investors against political risks. Where possible, this organization re-insures. The guarantee is limited to 25% of the total invested, on payment of an insurance premium. Some countries where the political risk is too high are, however, excluded. The argument against this system - namely that the provision of an investment guarantee of this kind encourages the developing countries to nationalize, because the investing companies will not then resist such a move - is a false one. The claim on the country concerned arising out of nationalization is taken over by the guarantee body which may also use the threat of refusing further insurance for that particular country (leading to an immediate fall in direct investment there).

The mining companies are showing great interest in the investment guarantees provided, but they seem to be prepared to make further investments only if there is a 100% guarantee. The full insurance of investments would, however, call for vast sums of money, and is difficult to envisage. The creation of a European guarantee organization to guarantee a certain proportion of foreign investments would, however, encourage investors (see also section 30); but efforts must still be made to obtain an investment guarantee from the developing countries.

3. Aid to investment in the developing countries

28. Vast investment is needed to ensure supplies of raw materials - 15,000 million units of account for the free world, and 4,000 million u.a. for the Community. Achieving this level of investment will require (in addition to the provision of investment guarantees essential to cover political risks) further assistance from the authorities. At present, for example, the willingness to invest in certain raw materials sectors is very slight because of an unstable situation in which falling demand and falling prices are accompanied by rising costs, so that profits are declining.

As in the case of support for investment in the Community (see para. 16), there is a need for coordination at Community level of the assistance given to exports, because of the distortion that will occur on the foreign market if such coordination is lacking.

29. Cooperation between companies in the form of joint ventures allows them to spread the risk, and appropriate measures to encourage the formation of joint ventures would have a beneficial effect on investment. The first step in this direction would need to be the removal of legal and fiscal obstacles to cooperation, both between companies inside the EEC and between Community and outside concerns.

30. Despite the measures, discussed in the foregoing paragraphs, that might be possible as an encouragement to direct investment in the developing countries, direct investment will probably not be sufficient to safeguard raw materials supplies; in addition to such direct investment, increasing use must therefore be made of other financing techniques to raise the capital needed in this sector. Japan, for instance, offers long-term loans and technology in exchange for long-term supply contracts.

Loans could be provided by a finance and guarantee body which, besides making loans available, would guarantee foreign investments, finance participation by the developing countries in the investments of European companies, and so on. Centralizing in one organization the various financial measures aimed at stimulating investment would make it possible to achieve the fullest coordination of assistance measures (see also para. 28).

B. Participation by the developing countries in the capital, management and profits of companies set up on their territory and the profits of manufacturing activities dependent on them

31. An increasing participation by local public or private interests in mining companies and processing plants set up in their own country, and in manufacturing firms in Europe, would undoubtedly foster solidarity between the developing countries and Europe, and help to reduce tensions. If the countries producing the raw materials are involved in manufacturing activities using their raw materials in Europe, this should give the company in question the certainty of continuing supplies. Participation by the producer countries in companies set up locally would, on the other hand, lessen the risk of nationalization. Interruption of supplies, or nationalization, would cancel their share in the capital and profits (this assumes that the shares allotted are registered shares, not bearer shares).

The need for a clear policy on participation by countries producing raw materials in Community undertakings has been evident for some time. It would be well, in order not to increase Europe's dependence on other countries, to set limits on the share producer countries can take in the various industrial sectors. The problem calls for careful study, especially in those sectors where substitutes for certain raw materials are processed; in these cases, it may be better, where there is a dearth of other investors, to have government participation rather than that of certain raw materials producer countries. Substantial shareholding by the oil-producing countries in nuclear energy firms would, for example, be unacceptable for Europe.

This last comment applies in particular to participation by raw-material producer countries in manufacturing that uses materials other than those they themselves produce; participation by producer countries in European firms that handle their raw materials can, however, be valuable.

32. This participation may, of course, be financed entirely by the developing countries, but in this case only the richer countries would be involved. The other producer countries desperately need the income from selling their raw materials, so that if it were a question of exchanging raw materials for shares, participation would be impossible for most developing nations. A second possibility is for participation to be financed by the companies concerned, who then get in exchange greater security for their investments or greater certainty of supplies. Companies are prepared to accept this arrangement only if the investments will - despite this extra investment burden - still offer sufficient prospects of profitability, and if they feel that the risk covered in this way is really worth the price which has to be paid. Usually, however, the profitability outlook is not good enough to persuade companies to shoulder additional costs of this kind. In certain cases, therefore, there is a need for specific political measures to enable the shares in local (or even European) firms to be paid for by Community companies. In agreements signed between the authorities or companies in Europe and those in the developing countries, a certain percentage of the investments might be funded by raising a loan on the money market. Shares obtained in this way would then be made over to the producer countries in return for certain commitments entered into by them. Part of the cost of this operation could, for example, be met on the basis of paid-out profits that might be passed to the producer countries only after a certain period (say, twenty years). This work of providing finance could be undertaken by a finance and guarantee organization set up for the purpose (see para. 30).

33. The high cost of such an operation means that a choice must be made between the various investment projects that can be considered for financing of this kind. Bearing in mind the economic development of the developing countries and their desire to process their raw materials locally, the limited resources available can perhaps best be used for investment projects in the developing countries themselves.

C. Processing raw materials in the developing countries

34. The economic activity of the countries that produce raw materials has up to now been confined principally to extracting the materials which have then generally been processed in other, industrialized countries. The developing countries want, however, to diversify their economies, and to process more of their raw materials inside their own borders. If they can build up a processing industry of their own, this will give their economy a broader, and hence less vulnerable, base and create fresh employment.

Moving the initial stage of processing into the countries actually producing the raw materials would, undoubtedly, lead to a more rational distribution of labour throughout the world; besides, cooperation with the developing countries will be impossible if their ambition to process their own raw materials locally is disregarded. Europe will therefore have to respond positively to this desire on the part of the developing countries.

35. Attempts to set up a processing industry in the developing countries are, from the outset, greatly hampered by the government aid enjoyed by many of the sectors concerned within the Community; this makes it extremely difficult to market the same products at a competitive price. The support measures for these sectors of European industry must, therefore, be dismantled as rapidly as possible. A progressive closing-down of certain industrial activities in Europe will, however, create problems of unemployment. These processing industries which ought increasingly to be transferred to the developing countries today provide jobs for a great many people in Europe; shifting them to the developing countries is therefore possible only if there is an active structural policy for ensuring investment in sectors of industry that have future potential, and can absorb labour released from the other sectors. The appreciable movement of workers between branches of industry or occupational groups will cause a good deal of friction and structural unemployment; adjustment to the new circumstances will have to be made easier by accompanying social measures. The new investment will, furthermore, need to be steered towards the areas most hit by unemployment through the run-down of the processing industries, by operating a forceful regional policy.

36. At the same time as the first processing activities are being gradually phased out in Europe, investment in these sectors will have to be stimulated in the developing countries. Reference should be made in this connection to the section of this report dealing with investment in mining in the developing countries (see paras. 25-31), which poses the same problems and can be overcome by the same measures of encouragement.

III. REGULATION OF THE WORLD MARKET IN RAW MATERIALS

The search for a compromise between the desire of the raw materials producing developing countries to stabilize their export earnings and the desire of the raw materials consuming countries to secure regular supplies at reasonable, stable prices should lead to the world market being regulated on the following terms and conditions:

1. Stabilizing the raw materials prices and the export earnings of the raw materials producing developing countries

37. Fluctuations of raw material prices are more pronounced than those of processed products. The reason for this is to be found in the actual exploitation of raw materials. A relatively long period of time is required to adapt production capacity to demand. In addition, raw material production is not elastic particularly when prices are falling. And even demand does not vary much in the short-term. Price fluctuations resulting from the very nature of the raw material market are further aggravated by market reactions. The activities of professional speculators and the reactions of raw material buyers who increase or liquidate their stocks of raw materials are responsible for a further increase in prices.

38. Such fluctuating prices have a destabilizing effect on our economy which is based on the processing of raw materials. It is therefore of the utmost importance for our economy to stabilize raw material prices at a level acceptable to both raw material producers and consumers. It is not, however, in the interest of consumer countries to keep raw material prices at a very low level since this discourages investment in the raw material sector and in the long run jeopardizes our supplies of raw materials. Raw material producers will only be prepared to re-invest if, after the rise in production costs has been covered, there remains the prospect of sufficient profit.

Raw material producing and consuming developing countries are also seriously affected by fluctuations in price and quantity. The effect of these fluctuations on the level of their export earnings and import expenditure gives rise to problems in development planning, is highly detrimental to the internal balance of public finances and positively disastrous as far as their balance of payments is concerned.

39. Thus stable raw material prices are equally important to both industrialized and developing countries. These prices can be stabilized by promoting long-term contracts and concluding agreements for individual products. A further possibility would be the indexing of prices, designed to guarantee the export earnings of raw material

producers; however, such a measure would have a negative rather than positive effect as far as stability was concerned because of the resulting rise in inflation. The surest way of guaranteeing the export earnings of raw material producing developing countries is to stabilize these earnings. Obviously such a system would not solve all the developing countries' export revenue problems; complementary measures could, however, be taken within the framework of the IMF

In this connection the integrated programme for commodities adopted by UNCTAD in Nairobi in May 1976 provides for the introduction of an international system of commodity stockpiling. This system is currently being perfected by UNCTAD as part of its preparatory work in Geneva.

(a) Conclusion of long-term contracts

40. The stabilizing effect of long-term contracts has already been demonstrated in the past. Undertakings should therefore be encouraged to conclude long-term contracts rather than purchase their raw materials on the open market.

(b) Conclusion of agreements by product¹

41. Until now, international product agreements were designed above all to regulate the market in the interest of producers. Developments on the raw materials market, characterised by a growing awareness on the part of raw material producers of their power, have resulted in a new interpretation being given to these agreements which now serve not only the traditional aim of regulating the market, but also that of regulating supplies.

42. If a product is to form the object of an international agreement, it must satisfy certain conditions. The most important of these conditions are: as independent a price as possible, a high degree of homogeneity and representativity of the data published on price trends. Both the main buyers and suppliers must have a positive approach to such contracts. The offer must be reasonably concentrated if international agreements are to be concluded. Excessive diversification is not conducive to the conclusion of product agreements. The volume of trade to be stabilized determines to a large extent the amount of financing required. On the basis of these criteria, the Commission concludes that the following products are the most suitable for international agreements: copper, zinc, lead, cotton and wool. The possibility of concluding international agreements in respect of these products requires further study.

¹ See Commission communication to the Council on product agreements designed to limit excessive price fluctuations of 11 June 1975 (COM(75)290 final).

43. Agreements can take various forms. After investigating the various types of agreements, the Commission recommends on the one hand the conclusion of agreements with buffer stocks, administered jointly by the exporting and consumer countries, with or without fixed maximum and minimum prices, and on the other hand the conclusion of agreements which are based on a financial mechanism and can be combined with other systems. However, the Commission expressly adds that:

'In any event it is necessary to carry out thorough technical and economic studies in cooperation with private firms before definitive conclusions can be reached'.

In view of the results of the various international conferences which have been held on these problems, it is important that the Community determine a Community position as soon as possible.

(c) Price indexing

44. Raw material producing developing countries have repeatedly called for the indexing of their raw material prices, in other words for a price guarantee for their products designed to protect the purchasing power of the earnings derived from the sale of their raw materials. Thus their aim is to establish a fixed ratio between export and import prices. Such an indexing, however, would be incompatible with a free-market system and would disturb the balance of the market: for example, falling prices which in a free-market economy would bring about a reduction in supply, would not have the same result if such a price guarantee existed since the producer would in any case be paid the difference between the market price and the guarantee price. With such a system production is kept as high as possible since there is no longer the threat of falling prices in the event of overproduction. Moreover, the introduction of such a price guarantee would aggravate inflation at world level, which would not be in the interests of either the developing or the industrialized countries.

45. The problems are further aggravated by the fact that many developed countries export the same raw materials as the developing countries. Leaving aside oil, the developed countries exported nearly 87 thousand million dollars' worth of raw materials in 1973 as opposed to 42 thousand million dollars' worth exported by the developed countries.

In these circumstances, price indexing would benefit the developed far more than the developing countries. An additional factor to be borne in mind is that raw materials account for a considerable proportion of the developing countries' imports.

Fortunately, in the integrated programme for commodities adopted by UNCTAD in Nairobi in 1976 the idea of indexing, which would have ruinous effects on the world economy, was abandoned in favour of a procedure of periodical, though not automatic review leading to suitable price adjustments, taking into account 'movements in prices of imported manufactured goods, exchange rates, production costs, and world inflation, and levels of production and consumption'¹.

(d) Stabilization of export earnings²

46. With the system of stabilization of export earnings, most of the problems arising from price indexing can be avoided: the free market economy operates normally and only the developed countries finance the system, not the developing countries. Preference should therefore be given to stabilization of export earnings rather than price indexing. This question was discussed on various occasions during the negotiations with the ACP countries, and the Lomé Convention provides for implementation of such a system. The problem of the developing countries' export earnings can only be finally settled at international level. The main factors on which international agreement must be reached are the field of application, i.e. the products and the countries to benefit under the system, and the mode of implementation.

A list of favoured products and countries can only be compiled on the basis of international consultation. The products considered suitable at international level to stabilize export earnings need not be the same as those falling under the Lomé Convention.

In calculating the Community's contribution to the financing of a more extensive system, its contribution under the Lomé Convention should be taken into account. This means, however, that if the products of the extended system differ from those of the Lomé Convention, the Community must be able to deduct its costs for products listed under the Lomé Convention but not under the extended

¹ Doc. 333/76, Part III, Article 2(c), Annex.

² See supplementary Commission communication to the Council on international action on stabilization of export earnings of 11 June 1975 (COM(75) 294 final).

system from the costs for products benefiting under both systems. This is necessary in order to determine the Community's financial contribution to the extended system.

(e) Measures within the framework of the IMF

47. The system of stabilizing export earnings derived from raw material deliveries does not of course solve all the developing countries' problems in connection with export earnings. Only a certain number of countries and products can benefit under such a system and the funds available would probably also be limited.

So far, the following three systems whose implementation is determined by raw material price trends have been elaborated within the framework of the IMF: compensatory financing, the extended fund facility and the oil facility. These three systems are in fact nothing more than credit facilities granted in the event of balance of payment difficulties caused by the trends in certain raw material prices. These credit facilities could be further extended and the interest rate reduced. The oil facility could be replaced by a raw material facility and those developing countries which did not benefit under the export earning stabilization system would be the first to benefit from these facilities.

The stabilization of raw materials prices and export earnings is undoubtedly a fundamental aspect of the regulation of the raw materials market. For the raw materials market to be effectively regulated, however, certain rules of conduct need to be observed within the framework of international agreements.

2. Conditions for the effective regulation of the world market in raw materials

(a) Introduction of an international code of conduct in the field of export restrictions

48. Firstly, the GATT rules on export restrictions should be observed. To ensure that the prohibition of quantitative export restrictions is respected, a new notification and consultation procedure should be introduced. A code of conduct as regards export restrictions should be established within the framework of GATT so that these restrictions become subject to international rules and international supervision.

(b) A code of conduct for multinational undertakings

49. To limit the risks inherent in the emergence of oligopolies and the exercise of dominant positions by mining companies, the opportunities for abuse open to the multinationals should be reduced by the adoption of a series of measures. The European Parliament adopted a report on this subject in 1974, in which its point of view on the various aspects of this problem was set out¹, and has recently reaffirmed its position².

(c) Closer coordination of competition policies

50. Relatively close coordination of competition policies should be arranged between the relevant authorities in the United States, Japan and the Community; this has not been the case up to now. Appropriate measures are needed to bring about an international dialogue on competition policy, with a view to achieving cooperation in this field.

¹ Doc. 292/74 of 24.10.1974 - Leenhardt report

² Doc. 574/76 of 4.2.1977 - Lange report

OPINION OF THE COMMITTEE ON EXTERNAL ECONOMIC RELATIONS

Draftsman : Mr E. MULLER

On 17 April 1975 the Committee on External Economic Relations appointed Mr Muller draftsman. It considered the draft opinion at its meetings of 18 November 1975 and 13 April 1976 (at this meeting, Mr Pintat presented the opinion on behalf of the draftsman) and adopted it with two abstentions on 20 April.

Present: Mr Schmidt, vice-chairman; Mr Bayerl, Mr Brégégère, Lord Castle, Mr d'Angelosante, Mr Delmotte (deputizing for Mr Barnett), Mr Didier, Mr Dykes, Mr Klepsch, Mr Laban, Mr Maigaard, Mr Nyborg, Mr Pintat, Mr Radoux, Mr Schwörer, Mr Vandewiele and Lord Walston.

1. The economic developments and problems created by the energy crisis have, in the last few years, drawn attention throughout the world and in the countries of the Community, to the importance of raw materials and interdependence in the matter of raw material supplies. Although in its Communication which is the subject of this opinion, the Commission reaches the conclusion that the raw material situation in the Community gives no immediate cause for concern, it is evident from the document that the partial solutions listed in it must be incorporated into a comprehensive Community strategy. Consequently the future guidelines must encompass all the policies affected by Community raw material supplies, including foreign policy, external economic policy, cooperation policy, industrial policy, regional policy, social policy, research policy, environment policy and consumer policy.

2. The Commission summarizes the Community's main raw material supply problems as follows:

- the impossibility of guaranteeing the desired economic development because of the Community's limited raw material resources;
- the need to maintain the Community's access to sources of supply in third countries on conditions offering long-term satisfaction to both sides;
- the need for constant adaptation and maintenance of the essential processing industries as a cornerstone of the Community's economic and social structure.

The Commission proposes specific common actions to solve these problems. It considers that European undertakings are reluctant to make private investments in the developing countries, because the risk of nationalization is too high. It would therefore be desirable, for example, to effect investments in the form of joint ventures with the developing countries, in order to give the local interests a greater share in the capital, profits and management of operations.

The Commission accordingly also recommends transferring certain processing activities to the raw material producing countries, if they can be performed more economically there. In the long term Europe cannot afford to pursue a policy of autarky; it must seek cooperation with the raw material producing countries.

To prevent temporary supply bottlenecks and excessive price fluctuations, the Commission recommends the conclusion of long-term agreements for various raw materials, the setting up of 'buffer' stocks, international information and study centres, and a good conduct code. For this purpose the Community should draw up outline objectives, in particular for the conclusion of long-term agreements, the setting up of joint purchasing groups, stockpiling, research into prospecting schemes, recycling of raw materials and the necessary grant aid, tax concessions, credits and guarantee facilities.

In the first instance the Commission's study covers some twenty raw materials including aluminium, chromium, copper, tin, iron ore, platinum, tungsten, zinc, phosphates, cotton, vegetable oils, paper, wool, skins and hides, and proteins; a number of serious supply problems are liable to arise for most of these products. According to the Commission, the supply of cobalt, magnesium, mercury, molybdenum, nickel, lead, titanium and vanadium does not present any great difficulties.

3. As already pointed out, the European Community, which is a major economic and trading force in the world, cannot respond adequately to the problems of interlocking economies and strong interdependence in the matter of raw material supplies by merely taking uncoordinated isolated measures in individual areas. On the contrary, a comprehensive global strategy for the long-term security of raw material supplies should be adopted by all the Member States. The main points here would be:

- the creation of an effective information system;
- measures to help stabilize the raw material markets;
- the exploration of all possible means of multilateral and bilateral cooperation.

4. Basically, the Community's future strategy must take account of the special problems of the developing countries, particularly those which export raw materials. (The EEC has submitted relevant proposals at the seventh special session of the UN on 1.9.75.) Furthermore, because of their vast raw material resources the state-trading nations must be included in these moves and their supply potential utilized, taking due account of the security risk. Direct links with the other raw material producing industrial nations can be of only limited significance in the long term because of their own high level of demand.

One important requirement in connection with the Community's raw material supplies is to establish a comprehensive information system both within the Community and worldwide, in order to keep the parties concerned constantly informed of developments with regard to supply and demand and the market situation generally. A system of this kind would not only ensure better economic planning, but also, above all, promote mutual understanding of the economic needs of the parties concerned and strengthen the mutual trust on which all else depends.

5. Central to the discussions between the producer and consumer countries is the problem of stabilizing the markets for individual products, which the Community must help actively to solve. With particular regard to the developing countries concerned there are two main alternatives, viz.

- stabilizing raw material prices by appropriate worldwide product agreements, or
- stabilizing export earnings by setting up funds, stockpiling, credit measures etc.

6. The Community already subscribes to international agreements on coffee, cocoa and tin and has also, within the framework of the current GATT negotiations, advocated similar agreements on wheat, maize, sorghum, barley, rice, sugar, milk powder, butter and butter fats. Moreover, a decision is awaited on a list of 18 other products proposed by UNCTAD. The experts disagree as to the value of international raw material agreements. Against the claim that they help to stabilize the markets and offer guarantees to the consumer countries, it is maintained that they stand in the way of a new, and more equitable world economic order. Thus, they generally favour the industrial nations, which, like the USA, the USSR or Canada and Australia are themselves major producers of raw materials; at the same time they not only do not benefit the poorest developing countries, but even impose additional burdens on them. They produce inflexible structures and high costs.

Furthermore, a network of such international raw material agreements would require a mass of new administrative institutions and machinery, resulting in a bureaucratization of the market at variance with the principles of a free market economy.

7. For these reasons the second solution, that of stabilizing export earnings - in particular those of the raw material exporting developing countries - is gaining increasing support among the Member States of the Community. Even if it cannot guarantee supplies of all the Community's raw materials,

it offers one way of boosting considerably the economic growth of the developing countries and helping to create a world economic order.

On principle, the stabilization of export earnings should not be achieved exclusively by a system of subsidies, but also by granting credit facilities. A general balancing of earning losses by subsidies would not encourage producers to make structural improvements - especially by moving away from monostructures - and turn over to products bringing higher earnings on the world market. Safeguard systems of this kind not only result in featherbedding of the recipients, but could hardly be workable in the present financial situation.

8. If the Community's raw material supplies are to be safeguarded, all possibilities of multi- and bilateral cooperation should be explored fully. These include

- multinational projects carried out by the Community, other industrial nations and developing countries;
- combining the technological know-how of the Western industrialized countries with the financial resources of the oil-producing countries in order to open up new raw material sources;
- setting up a financing and guarantee system for the necessary investments;
- intensifying trade policy cooperation and improving access to the individual markets.

9. Although, in the Commission's view, the Community's raw material requirements seem assured for the medium-term, it should - as the Commission stresses in the conclusions to its Communication - take advantage of the absence of immediate pressure in this area to set up the machinery needed to work out a comprehensive Community policy.

10. The points mentioned in this opinion are also to be discussed in detail by the 'Conference on International Economic Cooperation' (the North-South dialogue) in the four committees it set up - energy, raw materials, development and finance - where the European Community, represented by the Council and Commission, can work out the required solutions in a world-wide context. In this opinion, the Committee on External Economic Relations simply wishes to draw attention to this Conference. At its meeting of 20 January 1976, after an initial exchange of views on the opening meeting of the 'North-South dialogue', it decided to follow the progress of these talks closely and to take action at a later date.

In conclusion, however, it should be stressed that the 'North-South dialogue' consists only of talks and not negotiations. The Community has no ready-made policy, but prefers to take ad hoc decisions depending on how the talks progress, particularly in the Committee of Permanent Representatives. It should thus be clear that this international dialogue cannot be a substitute for continuing efforts to evolve the overall plan the Community needs for its supplies of raw materials and energy.

OPINION OF THE COMMITTEE ON DEVELOPMENT AND COOPERATION

Draftsman : Mr K H Walkhoff

The Committee on Development and Cooperation appointed Mr WALKHOFF draftsman of the opinion on 14 May 1975.

It discussed the draft opinion at its meeting of 4 June 1975 and adopted it unanimously.

Present: Miss Flesch, chairman; Mr Deschamps, vice-chairman; Mr Walkhoff, draftsman; Mr Bersani, Mr Jacobsen, Mrs Kellett-Bowman, Mr Lagorce, Mr Ligios, Mr Brøndlund Nielsen, Mr Nolan, Mr Radoux (deputizing for Mr Seefeld) and Mr Schuijt.

1. As the Commission points out in its communication, although there is no cause for alarm as regards the supply of raw materials to the Community, it is a political and economic problem which will gain in importance in the coming years. Furthermore, there can be no doubt that a direct connection exists between development policy and raw materials policy since many developing countries are major suppliers of such commodities.

2. Development policy is a more recent phenomenon than raw materials policy. The term 'development policy' has really been used only since the Second World War, initially in connection with the reconstruction of devastated areas and then with the attainment of political sovereignty by countries previously ruled by others. In contrast, there has always been a raw materials policy, although it has changed in character, especially since the 6th special session of the United Nations on raw materials and development. Raw materials policy has since been the focal point of world-wide political and economic disputes.

3. In this connection, the question arises as to the power that raw materials give to the developing countries and the tangible effects of that power on the industrialized nations. It is not true that the developing countries alone have all the raw materials that are essential to production in the industrial countries; this applies only to tin, cobalt, bauxite and phosphates. Some of the leading industrial nations are also among the principal producers of raw materials in the world: e.g. the USA, the USSR, Australia and Canada. However, their production figures in absolute terms usually conceal the fact that, in some cases, and this is particularly true of the USA, consumption of raw materials generally exceeds production owing to the high level of industrialization. Moreover, it should be remembered that the European Community is far more dependent on imported raw materials than the super powers and other countries because some raw materials do not occur in Europe at all or, as a result of the early industrialization of the continent, are now almost exhausted.

4. The industrial countries are economically vulnerable because they are dependent on the raw materials which are found in the developing countries and which are essential to industrial production and consequently to our prosperity. Since the fourth Arab-Israeli war, the Yom Kippur war, which broke out on 6 October 1973, and the resulting oil crisis, developing countries with raw materials have realized that they can force the industrial countries to the negotiating table with the aid of a concerted raw materials policy.

5. The hardening of the respective attitudes of the industrial and developing countries as regards raw materials policy was preceded by the following:

- (a) Approval of the strategy for the Second Development Decade by the 25th General Assembly of the United Nations on 24 October 1970,
- (b) Decisions Nos. 82 and 84 by the 3rd World Trade Conference (13 April to 21 May 1972, in Santiago, Chile),
- (c) Approval of the 'declaration' and 'programme of action' by the sixth UN special session on raw materials and development (9 April to 1 May 1974, in New York),
- (d) Adoption of the UN Charter of economic rights and duties of the nations.

While it was still possible for the industrial and developing countries to adopt a common position on the first three of the above, the transition to confrontation became clearer with the approval of the UN Charter on the rights and duties of the nations. On 12 December 1974, the developing countries demonstrated their overwhelming majority in the General Assembly. As a result of their unfavourable experience on many occasions in the past, they were determined to be involved from then on in any future negotiations on monetary questions, international trade and international financial matters.

6. A practical example of this new self-confidence is that international conferences and meetings are no longer initiated only by the industrial nations of the West and East, but also by the developing countries, e.g.

- the sixth UN special session on raw materials and development,
- the World Conference on the Law of the Sea in Caracas,
- the World Population Conference in Bucharest, and
- the World Food Conference in Rome.

At all these conferences, problems facing the Third World were discussed, the main objective being to achieve a change in the international economic order. These meetings and other factors prove that not only are the developing countries, concerned about their future prosperity, asking the industrial nations for assistance, the latter are also attempting to ensure safe supplies of raw materials, the basis of their industrial production, from the developing countries. The interdependence of developed and developing countries has thus increased, and it would seem that the Third World is determined to use the lever of interdependence to its own ends. The oil crisis and subsequent rise in raw materials prices have for the first time given the Third World the feeling of real power, and the international system has changed. The Third World has become a new power factor in world politics.

7. The real power held by a large part of the Third World lies in its control over raw materials. The focal point of the demands by the developing countries for a new economic order is, therefore, the reversal of the 'terms of trade' in the world, i.e. 'buy cheap, sell dear', a formula that has favoured the industrialized countries in the past. The developing countries are being shown how to achieve this objective by OPEC, and one of the milestones along the route may be raw materials cartels. Article 5 of the Charter of economic rights and duties of the nations approved by the UN General Assembly states that all nations having raw materials are entitled to form associations in order to develop their national economies.

The success of the oil cartel has already had a domino effect in that it has resulted in new cartels or strengthened existing ones: bauxite, iron ore, copper, phosphate, mercury, tin, wood and coffee. Some cartels have already proved successful: phosphate prices have tripled, Jamaica's revenue from bauxite has increased sixfold. At the conference of raw materials producing countries held in Dakar from 3 to 8 February, most of the participating countries followed the example of the OPEC countries and advocated assuming control over their resources and increasing the prices charged for them.

8. The European Community and the other industrial countries have basically no reason to begrudge the raw materials producing countries their new wealth. For it is a fact that the export of raw materials is for most Third World countries the main source of foreign currency, and the raw materials sector therefore plays a key role as regards the growth, employment, regional and structural goals of these countries. Price stabilization or increases form the basis of the financing of projects and programmes essential to growth and of all development plans. The situation becomes problematical when the developing countries achieve their success through raw materials cartels, i.e. by means of prices raised to an excessive level by those in a monopolistic position. A policy of this kind would disturb world trade generally and aggravate the present crisis in the world economy. Above all, it would increase the penury of the poorest countries which have no raw materials. The oil crisis is a good example of this, since it has intensified inflation and recession in many industrial countries. For developing countries with few raw materials this means a slighter increase than hitherto or even a decrease in exports, higher prices for imported fertilizers, capital goods, etc., and reduced development aid from the industrial countries due to flagging efficiency.

9. This is not the place to discuss whether and to what extent OPEC can be taken as a suitable model as regards the introduction of raw materials cartels. In judging the conduct of the raw-material-producing countries it must be observed quite soberly that they are doing no more than emulate the practices long employed without scruple by the industrial countries in the capitalist system. As a result of the operations of the multinational concerns, the law of the free market under which the price of industrial goods is determined by the relationship between supply and demand has on the whole ceased to apply. The developing countries were the first victims of excessive prices. It is hardly surprising then that the Third World countries should have used the sixth special session of the United Nations on raw materials and development as a forum to criticize the world economic system or even fundamentally question its viability. The result was a document entitled 'Declaration on the establishment of a new international economic order', the fundamental principle of which is that the present world economic system cannot solve the problems now facing the developing countries. It cannot in fact be disputed that the oil price crisis, food crisis, fertilizer crisis, balance of trade deficits, inflation, recession and unemployment are symptoms of an imbalance unparalleled in the world since 1945. However, it should also be pointed out that the present difficulties cannot be eliminated with the aid of emotional resolutions in the UN. Nor can the threat of force be any more effective. What is needed are new and practical rules to improve international cooperation.

10. A solution to the difficult economic situation in the world, particularly with regard to raw materials, will be found not through confrontation, but cooperation between the developing and industrial countries. The industrial nations need the developing countries as suppliers of raw materials and buyers of exported goods, and the developing countries need the industrial nations to improve their economic position. An economic and political world order that is satisfactory to all parties can only be established if both sides cooperate constructively and respect each other's special requirements and priorities. Moderation and rationality are needed on both sides. A confrontation between producers and consumers of raw materials and excessive demands by one side and inflexible status quo thinking by the other would reduce the world economy to a situation in which both are the losers.

11. In this situation, it is the Community's task to do everything to prevent a conflict between the industrial countries, the countries with raw materials and the developing countries without. It is essential, therefore, for forms of cooperation to be developed which create an operable and permanent balance of interests and by which a determined attempt can be made on the basis of our multilateral economic system to establish joint objectives, strategies and solutions with the developing countries.

12. The following focal points should be borne in mind:

- Although the developing countries, more than one hundred in number, are far more heterogeneous as regards race, religion, culture, economic order and forms of government than the Member States of the European Community, they have succeeded in forming a common front in the UN. When the Lomé Convention was being drawn up, they also spoke with one voice. It is therefore a matter of urgent necessity for the EEC countries to reach agreement on their raw materials interests and to adopt a common position at international conferences; this is the only way in which realistic objectives can be achieved. The basis of development policy must be the concept of an integrated raw materials policy which covers supply, demand and prices and takes equal account of the interests of producers and consumers. Only a genuine partnership, not raw materials cartels, will produce a solution;
- The concept of an integrated raw materials policy must be held in the forefront of development policy, covering demand, supply and prices and taking into account the interests of producers and consumers alike; only a true partnership and not a raw materials cartel can provide a solution;
- The possibilities open to the developing countries must be improved;
- Consideration must be given to achieving some kind of stabilizing effect so as to narrow the margin within which the prices of raw materials fluctuate. Agreements on raw materials of the conventional type have proved incapable of solving the many and varied problems facing the producing and importing countries. The revenue stabilizing system incorporated in the Lomé Convention might be a beginning;
- Redistribution of industrial activities and greater participation by the developing countries in the process of industrialization might bring about a better balance. A satisfactory solution might therefore be found in attaining a synthesis between our requirements of raw materials and the demand by the developing countries for more processing where the raw materials are produced. An acceptable compromise must be found which, on the one hand, assures us of supplies of raw materials and, on the other hand, frees the developing countries from their almost total dependence on raw materials and places their economies on a broader and thus less vulnerable footing. It should further be considered how far the problem of raw materials can be discussed within the framework of the development committee of the IMF, the World Bank and the OECD;
- As the possibility of political and social risks in the supplying countries can never be excluded, the Community would be well advised to protect itself against the hazards of unilateral dependence by concluding agreements with more than one country able to supply raw materials;
- It is also important for the Community to come to an agreement with the other major industrial countries on the raw materials question. Firstly, however, the Community must create the necessary instruments without which a long-term raw materials policy cannot be coordinated or conceived.