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REPORT

drawn up on behalf of the Committee on Development and Cooperation

on the Community's relations with developing countries with regard to trade and raw materials

Rapporteur: Mr R. COHEN

WG(VS1)5111E PE 109.046/fin.

By letter of 6 March 1986 the Committee on Development and Cooperation requested authorization to submit a report on the Community's relations with developing countries with regard to trade and raw materials.

At the sitting of 9 June 1986 the committee was authorized to draw up a report on this subject. The Committee on External Economic Relations and the Committee on Agriculture, Fisheries and Food were asked for their opinions.

At its meeting of 19 March 1986 the committee appointed Mr COHEN rapporteur.

The committee considered the draft report at its meeting of 25 November 1986. It adopted the motion for a resolution as a whole by 28 votes with 9 abstentions on 15 December 1986.

The following took part in the vote: Mrs FOCKE, chairman; Mr BERSANI, Mr de COURCY LING, vice-chairmen; Mr COHEN, rapporteur, Mr ADAMOU (deputizing for Mr Barros Moura), Mr AVGERINOS (deputizing for Mr McGowan), Mr BARDONG (deputizing for Mr Luster), Mr BEYER DE RYKE, Mr BUENO VINCENTE (deputizing for Mr Baget Bozzo), Mr CHINAUD, Mr CRESPO (deputizing for Mrs Buchan), Mrs DALY, Mrs DE BACKER-VAN OCKEN, Mr DUARTE CENDAN (deputizing for Mrs Pery), Mr DURAN CORSANEGO, Mr ESTRELLA PEDROLA, Mrs FUILLET (deputizing for Mr Loo), Mrs GARCIA ARIAS, Mr GARCIA RAYA (deputizing for Mr Campinos), Mr GAUTHIER (deputizing for Mr Cassabel), Mr HABSBURG (deputizing for Mr Wawrzik), Mr JACKSON, Mrs LEHIDEUX, Mrs LENTZ-CORNETTE (deputizing for Mr Lemmer), Mr MALAUD, Mrs PANTAZI, Mrs RABBETHGE, Mr ROSA (deputizing for Mr Pajetta), Mr RUBERT DE VENTOS, Mr SABY, Mrs SCHMIT, Mr SCHREIBER (deputizing for Mr Fellermaier), Mr SHERLOCK (deputizing for Mr Simpson), Mrs SIMONS, Mr TRIVELLI, Mr VERGEER and Mr ZAHORKA (deputizing for Mr MICHELINI).

The opinion of the Committee on Agriculture, Fisheries and Food is attached.

The opinion of the Committee on External Economic Relations will be published separately.

The report was tabled on 19 December 1986.

The deadline for tabling amendments to this report will be indicated in the draft agenda for the part-session at which it will be debated.

CONTENTS

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

A

MOTION FOR A RESOLUTION

The European Parliament,

- having regard to the report of the Committee on Development and Cooperation and the opinions of the Committee on Agriculture, Fisheries and Food and the Committee on External Economic Relations (Doc.),

- having regard to its previous resolutions, in particular on:

  - measures to combat hunger in the world,
  - the European Community's policy towards developing countries (Memorandum from the Commission of the European Communities on Community development policy),
  - financial and technical cooperation with the non-associated developing countries,
  - the various UNCTAD Conferences,
  - the generalized tariff preferences scheme,
  - the least developed countries,
  - the effects of the CAP on the European Community's external relations,
  - renewal of the Multifibre Arrangement,
  - the new round of multilateral trade negotiations in the framework of GATT,

- having regard to the resolutions of the ACP-EEC Joint Assembly, in particular those relating to the content of this report,

A. whereas the fundamental aim of development cooperation is to eliminate hunger, poverty and social injustice so that people can satisfy their most important basic needs and lead a life consonant with human dignity,

B. whereas the measures taken in the past and the development aid given by the industrialized countries have not been sufficient to improve the poor economic and financial situation in many developing countries,

C. convinced that the protectionist barriers surrounding many markets contribute to the fact that the developing countries are unable to develop or expand their economies, pursue a liberal economic and trade policy, pay their debts and become potential markets for the industrialized countries,

D. having regard to the close interdependence of markets and the industrialized countries' responsibility for the operation of an international free-trading system with particular reference to the interests of the developing countries, whose economic development depends in part on export earnings and for which the industrialized countries' import policy is of crucial importance; whereas greater openness of markets between developing countries could also increase their development,

E. whereas the following factors in particular have an adverse effect on the economies of the developing countries:

- high levels of indebtedness,
- low raw materials prices,
- protectionism by the industrialized countries,

F. whereas all developing countries require the support, in a spirit of partnership, of the industrialized countries and the latter must therefore continue to offer benefits to the developing countries, in particular in the field of trade,

G. whereas the accusations of protectionism made by the developing countries cannot be refuted adequately by reference to trade preferences granted under Lomé III, the generalized preferences scheme or other trade agreements; convinced, on the contrary, that the industrialized countries' non-tariff barriers have caused a further deterioration in the position of the developing countries,

H. having regard to the Community's great responsibility as the largest trading bloc in the world and its obligation, therefore, to give due consideration to the legitimate interests of the developing countries in the multilateral negotiations in the framework of GATT,

I. having regard to the view put forward by the developing countries in Punta del Este that, given the disparities in economic strength and development, there can be no question of taking equality of rights, obligations and advantages as the starting-point for the forthcoming GATT negotiations,

J. whereas greater coordination of economic, trade and financial policy is needed at international level and whereas more effective cooperation between the international organizations with responsibility in these areas is therefore urgently required,

K. convinced that the efforts to bring about improved North-South cooperation in trade at international level must be intensified as soon as possible and that the Community has a particularly heavy responsibility in this area,

I. RAW MATERIALS AND THE STABILIZATION OF EXPORT EARNINGS

1. Believes that, since earnings from raw materials continue to be an important source of income for many developing countries, priority needs to be given to an international raw materials policy;

2. Takes the view that stabilization of raw materials prices is of interest not only to developing countries but also to industrialized nations, since such a policy, just as stabilization of exchange rates, will contribute to general economic stability;

3. Draws attention to the preparatory work already carried out in UNCTAD and elsewhere to bring about the conclusion of international raw materials agreements and believes that this should be the basis for further action;

4. Believes, moreover, that many ideas that once enjoyed currency have now become outmoded and that a partially new approach should be sought in which special heed is given to problems relating to supply;

5. Draws attention to developments in the field of biotechnology and takes the view that, besides the dangers they entail, they can also have positive effects on agriculture in developing countries;

6. Believes that a raw materials policy should be pursued in the form of international raw materials agreements designed to bring about a relative stabilization of prices, and thus incomes, and the maintenance of remunerative price levels;

7. Points out that the prices to be maintained must be agreed in consultation with the producers and consumers and cannot be determined without reference to an anticipated long-term market equilibrium price;

8. Does not intend to comment at present on the number and type of raw materials which would be suitable for international agreements, but believes that an agreements programme should include both raw materials produced only in developing countries and raw materials produced in both developing and industrialized countries;

9. Calls on the Community and its Member States to do everything possible to ensure that the Common Fund, the central financing instrument in UNCTAD's agreed integrated raw materials programme, can become operational; calls in particular on the Community and its Member States to urge the United States and the Soviet Union to accede to the Common Fund;

10. Assumes that the Community and its Member States will themselves develop new initiatives with a view to financing raw materials agreements if, despite all efforts, it proves impossible to secure the cooperation of the United States and the Soviet Union for the Common Fund;

11. Points out that systems to stabilize export earnings will become less urgent and will require less funding, as a policy to stabilize raw materials prices produces results;

12. Urges, on the other hand that, as long as an international raw materials policy has not been drawn up and implemented, existing systems to stabilize export earnings should be extended and improved, for example by including new products in Stabex, by resetting the reference level, by increasing the funding available or by using some other means;

13. Draws attention to the importance of consultations between the industrialized and developing countries on the spending of funds from stabilization transfers and, in particular, to the danger of an increase in supply-related problems if this money is not used correctly;

14. Believes that earnings from exports of raw materials will remain an uncertain source of income and that the ultimate aim should therefore be the diversification of the developing countries' economies and industrialization;

II. GENERALIZED TARIFF PREFERENCES SCHEME FOR DEVELOPING COUNTRIES

15. Stresses the important trade policy role which can be played by the generalized tariff preferences scheme in the framework of the Community's development policy;

16. Regrets, however, certain shortcomings apparent hitherto in its application:

- the poorest developing countries have derived hardly any benefits from the GSP,

- the strict provisions on rules of origin and other administrative obstacles often prevent countries taking advantage of the GSP and do not allow a rational international division of labour,

- the system is too complicated and too impenetrable for both importers and exporters, so that prices frequently end up being fixed as though the product was subject to normal tariffs;

17. Believes that the system could be improved by making the following changes:

- curtailment of the list of 'sensitive' products,

- no possibility of reintroducing the normal customs tariff for 'non-sensitive' products during a preference period,

- no annual revision of the system; it should be fixed for longer periods to afford importers and exporters greater security,

- increase in existing ceilings and quotas over and above the usual annual percentage increase,

- inclusion of more agricultural products and processed agricultural products in the system,

- revision of the rules of origin to make cumulation of origin possible;

18. Believes that the introduction of differentiation in the system in order to allow the poorer developing countries better access to the Community's market is acceptable and indeed desirable; warns, however, against using it negatively to restrict access to the market for products from more advanced developing countries while denying any advantage to the poorer countries,

19. Recommends that, although the generalized tariff preferences scheme is based on autonomous decisions by the Community, developing countries from whom preferences are to be removed should be informed and/or consulted beforehand;

20. Takes the view, furthermore, that the Community's aim with regard to the newly industrialized countries should not in the first place be to reduce the latter's allocation of preferences but to open up their markets to products from other developing countries and industrialized countries;

III. MULTIFIBRE ARRANGEMENT

21. Notes that the Multifibre Arrangement is at variance with existing GATT rules at the very time when, as is clear from the new GATT round, endeavours are being made to ensure that those rules are complied with;

22. Repeats its view, therefore, that the existing Multifibre Arrangement should not be extended but should be abolished in 1990;

23. Recognizes that, even after 1990, some degree of protection for the Community textiles industry may still be necessary and calls therefore for efforts to be made in the current GATT negotiations to find a new, generally acceptable interpretation of GATT Article XIX;

24. Hopes that all import restrictions will be abolished, particularly for the poorest developing countries;

25. Is not convinced that reduction, within the present MFA, of quotas for newly industrialized countries is a defensible policy; wonders whether such a policy would not lead to unnecessarily high prices for the consumer and to interest incomes in the exporting countries;

26. Stresses once again, as in its comments on the generalized tariff preferences, that any future policy in respect of the newly industrialized countries should be geared more to the opening up of their markets than to the dismantling of existing preferences;

27. Calls for everything possible to be done to preserve the unity of the Community's internal market and urges, therefore, that national quotas be transformed into Community quotas;

IV. SOUTH-SOUTH TRADE - TRADE BETWEEN DEVELOPING COUNTRIES

28. Notes that the scale of South-South trade is not yet significant by comparison with total international trade and believes that everything possible ought to be done to expand it;

29. Is convinced that, whilst South-South trade cannot replace trade relations with the industrialized countries, its expansion can make a considerable contribution to economic development;

30. Calls on the Community to support the Group of 77's efforts to increase South-South trade, even if this means accepting departures from existing GATT rules and urges the Community's negotiators in the present GATT round to make appropriate provisions to this end;

31. Believes that, if requested by the Group of 77, the Community must provide technical and financial aid so as to allow attainment of the proposed objectives; takes the view that such aid is particularly appropriate in the case of regional cooperation between developing countries;

V. NON-TARIFF BARRIERS AND THE PROBLEM OF RULES OF ORIGIN

32. Stresses that, in recent years, non-tariff barriers have had, and are still having, a greater negative effect on international trade than classic customs tariffs; is particularly critical of the increase in non-tariff barriers applied to developing countries;

33. Is concerned that World Bank figures indicate that the Community in particular uses non-tariff barriers vis-à-vis the developing countries;

34. Calls on the Community to make special efforts during the forthcoming GATT negotiations to dismantle non-tariff barriers applied to developing countries;

35. Considers the conversion into consolidated customs duties of quantitative restrictions and other non-tariff barriers applied to developing countries to be a step in the right direction, but also takes the view that further liberalization of trade with developing countries is called for;

36. Points out in this connection that existing non-tariff barriers were introduced on the basis of autonomous decisions by the Community and can thus also be dismantled without negotiations;

37. Notes that the various rules of origin systems influence trade flows and have become an important instrument of trade policy;

38. Notes that, under the various preference systems operated by the Community, only in the framework of the Lomé Convention and the agreements with the Maghreb countries is full cumulation possible;

39. Notes that, even in those cases, full cumulation does not apply if goods are imported from third countries; calls for the possibilities of greater cumulation to be examined;

40. Hopes that, in the framework of generalized tariff preferences, cumulation will be expanded so that there can be a more rational division of labour between the developing countries;

41. Believes that an improvement in the quality of goods produced in the developing countries would have a positive impact on their exports, and therefore calls on the Commission to examine in what way the Community can help in this area, giving special consideration to training opportunities;

VI. CONCLUSIONS

42. Urges the Community, in the framework of new moves towards a modern development policy, to agree with other industrialized countries to a 'trade pledge' in respect of developing countries, giving an undertaking that efforts will be made to remedy any decline in trade between them and the developing countries;

43. Considers that it would be useful to hold regular meetings between industrialized and developing countries which have concluded special agreements in order to monitor the effects of those agreements;

44. Believes that, as part of a new raw materials strategy, a genuine 'policy dialogue' should be established between the developing and industrialized countries, in particular as regards those products produced in both categories of country;

45. Calls on the Community to take steps to have an internationally accepted definition drawn up of the concept 'newly industrialized country'; believes that countries accepted by the international community as 'newly industrialized' should be involved to a greater extent than at present in the international economic decision-making process;

46. Believes that a revision of the common agricultural policy is necessary, not only for reasons of internal market management but also in the interests of the developing countries; undertakes to deal with specific agricultural problems in a separate report;

47. Instructs its President to forward this resolution to the Commission, the Council and the governments of the Member States.

B

EXPLANATORY STATEMENT

I. INTRODUCTION

1. Trade, and trade in raw materials in particular, occupy an extremely important position in relations between the industrialized world and the developing countries.

Indeed 'trade relations' or rather the underlying issue of the foreign currency earnings of developing countries, largely determine the scope for development.

2. Foreign currency earnings are not equally important for all developing countries since some have more to export than others, but the majority depend to a large extent on income from exports of raw materials, semi-manufactures and finished products. Although this does not apply in every case, in general 5-10% of foreign currency earnings derive from state transfers of funds from the industrialized world to developing countries and 90-95% from trade, direct investments or other commercial activities such as tourism and service industries. These general figures show that development aid is only supplementary and that, if the economic development of developing countries is to be promoted effectively, efforts must concentrate on the optimum utilization of the means of production in those countries and the dismantling of the barriers erected by the industrialized world, in particular in the field of trade.

These general observations are not intended to suggest that development aid in the form of state transfers of funds is no longer important. Indeed the reverse is the case. When dealing with trade and raw materials, one is all too aware of the limitations of a liberal trade policy or a raw materials policy designed to benefit developing countries. The very best policy is useless if there is no trade and if no raw materials are being produced. A policy of positive discrimination can only benefit developing countries if they have reached a certain level of development, have the capacity to trade and are producing raw materials. Thus, even the best trade policy will only be of minor importance for many of the poorest developing countries. Development aid and development cooperation, in their traditional sense, therefore retain their full validity and are essential if the poorest groups in society, both in the relatively richer developing countries and in the poorest countries themselves are to be reached. The objectives of 0.7% of gross national product for general development aid and 0.15% specifically for the poorest countries, which have been accepted by all countries but have not yet been put into effect, should still be pursued. Indeed it is high time to reiterate that these percentages were never intended as a maximum but as a minimum. If extra financial resources prove necessary to achieve even a limited number of objectives in the field of trade and in specific aid programmes for raw materials, these percentages will assume a renewed importance.

3. It is always said proudly that the European Community is the largest trading partner in the world and such a position gives it obligations as well as rights. Its strong position means that it can exert considerable influence on various world markets, for example agricultural markets, which has consequences not least for developing countries. Developing countries are more important in terms of world import demand than 'gross world product'. If the oil-exporting countries are included, developing countries import about 32% of total world imports, whilst they produce only 23% of the total gross world product. The growth of world trade is thus to a large extent determined by the demand in developing countries and, with the growth in population in these countries, this trend can only increase in future The current and growing importance of developing countries as market outlets gives a new dimension to 'trade relations and raw materials', interdependence and solidarity being two sides of the same coin. Generally speaking, the interests of the industrialized world and the developing countries run parallel; however, in specific cases, for certain countries and products and at certain times, these interests do not always converge.

4. This subject is particularly important as the Community has the resources and technology to improve trade relations. Whilst the European Community has not yet completed its internal market, there is still a partial common market. The Community has a common customs tariff, operates common rules of origin, has concluded trade agreements with third countries and has its own budget. The Community has also proved, with the resources available to it, that it is capable of having a positive policy towards the developing countries, as shown by the Lomé agreement, the generalized tariff preferences scheme and the system for the stabilization of export earnings, which applies to virtually all the poorest developing countries. Less felicitous examples of Community policy towards developing countries are the Multifibre Arrangement, the proliferation of non-tariff barriers and parts of the Common Agricultural Policy. It will not be possible to consider all aspects in this report and the problems relating to the common agricultural policy will only be dealt with in passing. In view of the far-reaching, global implications of agricultural policy, an exhaustive treatment of agricultural problems would require a separate report.

5. After a general introductory chapter on the position of the developing countries in the current political and economic situation, various specific aspects of trade and raw materials will be considered. Among the subjects discussed will be the desirability and possibility of concluding raw materials agreements, the opportunities for improving and expanding the existing systems for stabilization of export earnings, the importance of the generalized tariff preferences scheme, the importance of South-South trade, and a number of other trade-related matters which are of interest to developing countries. The twofold purpose of this report is to outline the most important present and future problems relating to trade between the Community and the developing countries and to suggest a number of possible solutions. The report will also advocate greater international cooperation in general, based on the conviction that the economic problems of the late 20th century can only be dealt with at international level.

II. THE POSITION OF THE DEVELOPING COUNTRIES IN THE CURRENT POLITICAL AND ECONOMIC SITUATION

6. In a recent speech, the Commonwealth Secretary-General described relations between the industrialized countries and the developing countries at present as a 'denial of dialogue'. He was referring to problems relating to trade and indebtedness but the lack of dialogue is a characteristic of many more areas.

7. Within the industrialized world, consultation between the major industrial countries is increasing. The only world economic conferences which are still held with any regularity are the meetings of the Group of Ten, Five or Seven, so called because of the number of participants. These groups mostly include the United States, Japan, the United Kingdom, the Federal Republic, France, Canada and Italy. However, the number of meetings with and of developing countries is declining. Whilst there were special meetings of the United Nations General Assembly a decade ago and UNCTAD meetings took place at shorter intervals, the rhythm is now slowing down. The next UNCTAD meeting will only take place in the second half of 1987 and the special United Nations meeting on Africa concentrated on only one particular problem.

8. The declining interest in the problems of the Third World is reflected in the subjects discussed in the various international negotiating bodies. It is no secret that, in the forthcoming GATT tariff negotiations, the United States is not interested in 'the problems of the past', as it calls them, but only in the problems of the future, such as services and trade-related investments. The problems of 'standstill' and 'rollback' in the field of tariff policy, which are so important for developing countries, are of far less interest to the US. The European Community has also given its full support to the view that liberalization of services must be an important aspect of future negotiations, whilst its willingness to accept 'standstill' and 'rollback', as demanded by the Third World, is less clear. Nor is it clear whether and in what way the two most important trading partners, the US and the EEC, are prepared to include trade in agricultural products, which is a matter of great importance for the developing countries, in the negotiations.

9. Another new development is that the industrialized countries place questions such as trade in counterfeit goods, dumping and problems of low-wage exports high on the agenda, as though such problems and their solution were crucial to overcoming the economic problems of the industrialized world. The fundamental issue underlying these technical problems, is the definition of fair trade? In a world in which export subsidies, patents, copyrights, labour standards, human rights and trade unions exist, anyone involved in the world trade system who feels at a disadvantage will be able to discover some unfairness in it. An escalation of protectionism against 'unfair trade' could only be avoided if 'unfair practices' could be defined in a multilateral context, i.e. by the industrialized world and the developing countries together, but we are a long way from such a multilateral approach.

10. A further manifestation of the industrialized world's exclusive self-interest is the emphasis placed on the 'diversity' of the Third World. It is argued that it is pointless to talk about the 'Third World', since it is hard to find the common link between countries such as India or Brazil and a small island in the Pacific Ocean. Whilst it is true that there is considerable diversity between Third World countries and it would be absurd to

try to deny this, there are factors common to the developing countries deriving from their economies and the industrialized world's attitudes to them. The fact that, despite various differences, the Third World itself considers it important to preserve the unity of the Group of 77 indicates that the developing countries are aware of their links. However, as well as this expression of political will there are various objective factors.

11. There are a number of factors which enhance the unity of the developing countries and also create links between them:

- As the economies of Third World countries are still not integrated to any great degree into the international economic system, international measures to stimulate or regulate the economy do not have the same potential for them as for the industrialized countries.

- The vast majority of Third World countries do not belong to any economic bloc, whether OECD or COMECON. They are not represented in the Group of Ten, Seven or Five and they are not consulted on, and often not even informed of, important decisions relating to the world economy.

- Although all Third World countries benefit from preferential trade relations with the industrialized world, because of the system of generalized tariff preferences, they are also the chief victims of the non-tariff barriers set up by the industrialized world.

It is these various forms of exclusion, more than economic or geographical factors, which determine the real unity and community of the Third World and make a global development strategy for them desirable, possible and necessary.

12. The desirability and necessity become more obvious when some of the basic characteristics of the current economic situation and trends are considered. Because of the Third World's indebtedness to the industrialized world, it is at present paying more in interest and repayments than it is receiving in development funds. The perverse nature of the debt crisis means that the North is no longer helping the South to develop, but the South the North. Apart from the existing IMF adjustment policy, the North's only reaction so far to the crisis has been the Baker Plan, the 'Programme for Sustained Growth' launched at the annual meeting of the Bretton Woods institutions in October 1985. Despite the fine-sounding name, which apparently implies a scheme for growth, the programme only involves the transfer of $40 billion over the next three years to about fifteen developing countries which have a total debt burden of about $430 billion, on which the interest payments already amount to $40 billion a year. Although the plan was basically favourably received, it is clear that at most it offers only a partial solution to existing problems and that much more must be done.

13. According to the IMF annual report (World Economic Outlook), the prospects for the developing countries, and not only the oil-exporting countries, are at present somewhat less favourable than they were a few years ago. For the oil-exporting countries a 0.6% fall in gross national product is expected, instead of the 3.8% growth being predicted last year. For the oil-importing developing countries, somewhat slower growth than was expected is predicted : the contraction of world trade and the halt on new bank loans have completely wiped out the advantages of cheaper oil and lower interest rates.

14. Economic and monetary policy in the industrialized world following the 1979 oil price increases led to a rise in interest rates at a time when export prices for products from developing countries were falling. In 1982 the oil-importing developing countries paid a nominal 13% interest on bank loans, whilst their export prices fell by 5% and, as a result, their creditworthiness was reduced. Between 1980 and 1982 the ratio of debt to GNP increased from 21.1% to 26.8% and of debt to exports from 90.1% to 116.4%. The debt service ratio (interest payments plus repayments, expressed as a percentage of exports) increased from 16.1% to 20.7%. Although the ratio of debt to exports improved slightly in 1984, their creditworthiness nevertheless fell in 1985 because the fall in export earnings was greater than the benefits gained from the lower burden of interest.+

15. In the medium term the financial and economic position of developing countries depends, apart from their own internal economic policies, on four important factors over which the countries themselves have no influence: the price of crude oil, the dollar price, interest rates and the demand in, and export opportunities to, the markets of the industrialized world. It is very difficult to give substantiated and reliable figures for the effects of a fall in the oil price or the dollar price, but the following comments would seem fairly close to the mark:

- in principle a fall in the oil price will increase growth in the industrialized world and may therefore go hand in hand with higher imports from developing countries

- a fall in the price of the dollar has a favourable effect in those developing countries which have borrowed in dollars (and the same applies to falls in interest rates), but an adverse effect on earnings from raw materials exports expressed in dollars.

16. The main beneficiaries of the situation since oil prices fell have been those developing countries which are net importers of oil and have a high level of indebtedness (mainly some countries in Asia and Latin America where industrialization is fairly advanced). For the poorer countries which import little oil or are self-sufficient in energy, especially those which are in debt mainly to multilateral institutions (interest on their loans does not automatically fall with market interest rates), the situation is far less promising.

17. Generally speaking, the savings of the net oil-importing developing countries are less than the loss of earnings of the oil-producing countries. A $1 fall in the price of crude oil represents a loss of $7.3 billion for the oil producers compared with a saving of $1.8 billion for the importing developing countries.

+Percentages in: World Development Report 1986

18. The problem is that all these figures can change relatively quickly. At all events, it seems certain that the price of oil will rise again as a result of the increasing demand generated by economic growth. Economic growth will cause the demand for energy to increase not only in the industrialized world but also in developing countries. Intentional intervention can also lead to price increases. An agreement within OPEC on production and/or marketing policy could lead to stabilization or even increases in the price of oil; agreements within the Group of Ten, Seven or Five can have some effect on the value of the dollar, as has been shown in the past. Intervention is and will remain a policy option, despite declarations concerning deregulation and the free play of social forces.

19. If intervention is to be effective it must basically take place on a world-wide scale, at least as far as stability of exchange rates or raw materials prices are concerned. In the field of trade policy, worldwide measures to liberalize trade would seem to be most appropriate but separate action is also possible, for example by the European Community. One of the consequences of the debt crisis, with the subsequent adjustment process by Third World countries, is the reduction in exports from the industrialized world to developing countries. The industrialized world itself, as an exporter, is thus interested in the economic recovery of the developing countries.

According to ILO figures, the fall in exports to developing countries has caused the loss of 7 million 'work-years' in the Western European job market and almost 1 million in the North American job market, i.e. a total loss of 2 to 3 million jobs. The North's interests are thus directly affected by the adverse economic situation in the South, and the reverse is also true.

20. The South is affected by the economic crisis in the North, mainly through the restrictive trade measures against imports from developing countries. These measures are increasingly of a non-tariff nature and according to UNCTAD figures, a good 23% of all imports from developing countries (excluding energy imports) were affected by non-tariff barriers in 1984. Estimates suggest that the reductions of customs tariffs as a result of the various GATT rounds have been completely cancelled out by the scale of non-tariff barriers introduced since the mid-1970s. It is virtually impossible to keep track of the rapid growth of barriers, which have a wide variety of names: voluntary export restrictions, anti-dumping measures, minimum prices, quotas, ceilings, etc.

Whatever the new protectionist techniques are called, their common characteristic is that they are all far harsher and stricter than tariff policies. Tariffs are visible, they are published, their effect can be calculated on an ad valorem basis and they are in principle negotiable, as has been shown in the GATT rounds. This applies to a far lesser degree, if at all, to the new forms of protectionism. They also introduce an element which, for want of a better word, could be called 'agriculturalization' of protectionism. Minimum import prices, for example, can be compared technically with the variable levies found in agricultural policy and they are far harder to discuss in international negotiations than normal customs tariffs.

21. In the past, non-tariff barriers in respect of developing countries mainly related to exports of clothing, textiles and footwear, i.e. the traditional exports of these countries. More recently, however, barriers have also been raised against exports of steel and electrical products. Whilst on the one hand developing countries are encouraged to industrialize and to open their economies up to world trade, on the other hand they are denied access to the markets of the industrialized world.

22. It is therefore not surprising that world trade is stagnating as a result of lower economic growth and the trade barriers. The increase in world exports of less than 1% in 1985 by comparison with 1984 was the result of a small rise in exports of industrial products. In absolute terms there was a fall in the value of imports and exports from the developing countries as a result of the reduced trade between developing countries and industrialized countries and between the developing countries themselves, the most severely affected countries being in South-East Asia. In countries such as Indonesia, Malaysia, the Philippines and Thailand, both imports and exports declined, by 5% to 13% and 10% to 24% respectively.[+]

23. These figures and trends show that the position of developing countries in the current political and economic situation is far from satisfactory. The situation is more or less summarized in the following observations:

- Interest in the problems of the industrial countries is increasing whilst interest in the problems of the developing countries is decreasing.

- Developing countries are inadequately involved in the international decision-making system.

- The burden of indebtedness of developing countries is greater than it has ever been since the 1950s.

- There is a downward trend in raw materials prices.

- The industrialized countries are increasing their protectionism in respect of exports from developing countries.

Later chapters will consider in greater detail the conclusions which should be drawn from this situation as regards those aspects covered by this report - raw materials and trade.

[+]GATT: Assessment of World Trade, 1985/86

III. RAW MATERIALS AND THE STABILIZATION OF EXPORT EARNINGS

24. In the discussion of the developing countries' position in the international economic system, the importance given to the question of raw materials reflects the fact that developing countries export large quantities of raw materials and that raw materials prices fluctuate more than prices of industrial products. These two factors, the quantities involved and the insecurity as a result of price fluctuations, affect the growth of earnings in developing countries and thus their potential development. Dependence on raw materials exports has hardly diminished during the past decade. About 40 developing countries depend on exports of raw materials for almost 90% of their export earnings and the figure exceeds 50% for more than 50 countries. On the other hand, not only the developing countries are producers and exporters of raw materials. The industrialized countries are also involved and are the most important producers and exporters of agricultural products from the temperate zone. They also produce such raw materials as iron ore (USSR and USA), copper (USA, USSR and Canada), zinc (Canada, USSR, Australia), lead (USA, USSR, Australia and Canada) and cotton (USA and USSR). However, the industrialized countries are much less dependent on export earnings from these products, indeed many of them consume more raw materials than they produce and thus import them from developing countries, whilst the developing countries produce a considerable quantity but only consume a small amount.

25. A developing country's dependence on exports of one (or more) raw material(s) can only be reduced in the long term. Attempts to diversify the economy take time and money but are increasingly essential as the relative importance of a number of raw materials declines. Demand for such traditional raw materials as steel, copper and aluminium will decrease as a result of the development of energy-saving materials. It can generally be assumed that modern technology will provide lighter and stronger materials which will reduce friction, wear and tear and consumption of energy in general. As regards basic agricultural products, biotechnology will doubtless increase agricultural productivity but it will also provide replacement products for traditional agricultural products (sugar versus. sweeteners). As long as the price of replacement or synthetic raw materials is higher than the price of the actual raw material, that price could in principle still rise, but the price of the replacement product acts as a ceiling and thus limits possible earnings.

26. The extent to which prices of important commodities have fallen in recent years is shown by the figures below:

Indexes of Primary Commodity Prices

(1980 = 100, US dollars)

	1979	1980	1981	1982	1983	1984	1985
All commodities	92.3	100.0	84.8	74.3	80.1	82.0	72.3
Food	76.9	100.0	86.4	68.4	74.6	73.6	62.9
Beverages	113.9	100.0	77.7	79.7	85.7	98.4	87.6
Agricultural raw materials	96.0	100.0	90.3	77.9	85.4	88.8	75.7
Metals	91.9	100.0	83.4	74.7	78.0	72.5	68.9

Source: IMF

These figures not only indicate that the incomes of developing countries have fallen, but also give some idea of the significance of that fall for the industrialized world. The fall in the price of agricultural and mineral raw materials in recent years has contributed 0.7% to the gross national product of OECD countries. In other words, the industrialized world has gained almost twice as much benefit from the fall than it has provided in official development aid to the developing countries (approx. 0.35%).

27. It is unlikely that this general trend towards falling raw materials prices will stop. The demand for raw materials, with the exception of oil and other possible sources of energy, will not only continue to decline because of new technological developments such as those described above, but will also fall because of more deep-seated economic causes. For some years now there has been a shift in the structure of the world economy towards an expansion of the services sector and development of those industrial sectors which use fewer raw materials. Both trends are at the root of the depressed market in raw materials for industrial use. In the case of basic agricultural products, the artificially high production levels in the industrialized world as a result of price support programmes has reduced demand for imports. In addition, the subsidized sales of surpluses on the world market have further reduced prices. The possibility cannot of course be ruled out that, in a future upturn of the world economy, raw materials prices might also increase again. However, if recent developments are any indication, the prospects for

trade in and earnings from raw materials are less hopeful than for activities in the field of services and specific industries. In terms of policy, these developments demonstrate the need to eliminate the barriers, in both importing and exporting countries, which hamper efforts to diversify the developing countries' economies to include activities which produce a higher added value.

Although diversification of the economy is ultimately the only way of dealing with the problem of dependence and price fluctuations, the aim in the shorter term must be to maintain prices at a reasonable level in order to guarantee a minimum level of development.

28. Although recent developments have made the problem of raw materials prices more acute, consideration of and concern for stabilization of raw materials prices is nothing new. The first attempts to maintain some balance in the market were made towards the end of the 19th century and these took the form of producer cartels with some government involvement. Similar attempts were also made, with varying degrees of success, in the period between the two world wars. Thinking on this subject was stimulated about 20 years after the Second World War when, at the first UNCTAD conference in 1964, the idea of the relative deterioration of terms of trade for the raw materials-exporting developing countries was introduced into international discussion. During UNCTAD II in 1968 a proposal was put forward for an 'integrated commodity policy' but agreement in principle was only reached on a 'commodity-by-commodity approach', which produced very little by way of results. However, the idea began to gain ground that, in order to be able to pay for imports, developing countries should also have earnings from exports and the idea of interdependence started to enter international discussion. At the special session of the United Nations General Assembly in 1974 the action programme for the establishment of a new international economic order was adopted, which also paid particular attention to the problem of raw materials. The first rise in oil prices and the fear that other production cartels could also result in price increases were doubtless the reasons for the accommodating attitude of the industrialized world. During UNCTAD IV in 1976 an Integrated Programme for Commodities (IPC) was adopted and in 1980, as a rider thereto, the Common Fund agreement was concluded.

29. A large number of basic principles were agreed in the IPC and under it efforts were to be made to achieve:

- the establishment of internationally-owned stocks covering a wide range of commodities;

- the establishment of a common financing fund that would make resources available for the acquisition of stocks;

- the institution, in circumstances which justified it, of a system of medium-term to long-term commitments to purchase and sell commodities at agreed prices;

- the institution of more adequate measures than were at the time available to provide compensatory financing to producers to cover shortfalls in export earnings;

- the initiation of an extensive programme of measures to further the processing of commodities by the producing countries themselves.

The Common Fund, the central financing instrument, should be the centrepiece of this integrated commodities programme. This fund, consisting of two windows, should initially have resources of more than $750 million. The buffer stocks of the individual commodity agreements should be financed from the first window and the second window should finance measures in areas such as research and development, increased productivity and improved marketing. The fund itself should not intervene in the markets, such activity being reserved for the individual product agreements. The purpose of the fund is to act as a type of adjustment fund. Each individual commodity agreement pays a certain amount into the fund and can rely on support from it for financing buffer stocks. If the fund is to operate effectively it is essential that sufficient viable commodity agreements exist or are concluded.

30. Thus although there has been agreement since 1976 on a number of basic principles, and the agreement on the Common Fund has also been signed, the fund has never become operational. A sufficient number of countries have ratified the fund but the initial two-thirds of the financial contributions, which are needed for the Fund to start to operate, have not yet been received. If either the United States or the Soviet Union, or better still both, would ratify the Fund and pay their contributions it would be possible for it to start functioning. Unfortunately the Government of the United States has stated repeatedly that it does not intend to ratify and it does not seem likely that the Soviet Union will be prepared to do so in the near future.

31. Even if the Fund were to become operational in the near future, it is unlikely that all the basic principles from 1976 would be resuscitated. Since 1976 there has been a change in thinking, not least because a fall followed the oil price rise and rises in the prices of other raw materials have not occurred. For a time the dominant view was that commodity agreements were a thing of the past, that the future belonged to the free markets and that there should be as little intervention as possible in the operation of the free market systems. This extreme position now seems to have been abandoned again and been replaced by the view that perhaps the industrialized world would also benefit from price stabilization, in particular for those products which are produced in the industrialized world, for example oil or sugar. In other words the idea is once again gaining ground that, while the market is indispensable, it is there to answer our needs, not to rigidly dictate our actions.

32. Raw materials agreements can basically be divided into two categories: those which have the specific objective of influencing, stabilizing or regulating the international market price (e.g. cocoa, coffee, tin, rubber) and those which do not have a price regulatory mechanism. Examples of the latter type are the agreements on cereals, olive oil, jute and tropical timber. Such agreements may contain more specific provisions on the research and development of the product to which the agreement refers and provisions on processing, marketing, transport and similar areas. Such provisions can, of course, also be found in agreements which are primarily concerned with price regulation. Insofar as these measures relate to one or more of the underlying factors which destabilize export earnings, they can in principle, and in the somewhat longer term, help to achieve greater price stability. However, some measures, particularly those aimed at expanding supplies, may have the opposite effect and increase the instability of export earnings.

33. Most agreements based on price regulation have not been able to withstand the force of circumstances when they attempted to maintain an artificially high price despite underlying market trends. The most recent example was the collapse of the tin agreement. In the light of this and other failures and abortive attempts in the past, the rather exclusive emphasis in the IPC on price support measures becomes questionable. It also seems illusory to think that international management and ownership of commodity resources can be achieved, nor is this really necessary in order to bring about a degree of stability in prices and export earnings. Although it is cumbrous and costly to maintain and manage any necessary stocks, it does not seem sufficient to trust solely to compensatory financing to provide stability of export earnings. It is also unrealistic to act as though a free market would be the alternative if there were no product agreement. This is certainly not the case for sugar, for example, which is traded in a residual world market characterized by bilateral contracts, nor does it apply to other products where trade is concentrated in the hands of a small number of (multinational) undertakings. Moreover, stability of raw materials prices - just like stability of exchange rates - is a desirable goal for both producers and consumers.

34. Recently there has been a growing conviction that instability in supplies of raw materials - and in particular surplus supply - is one of the main reasons for instability of prices, and thus earnings. A new approach to the problem of raw materials would therefore seem necessary, combining elements from the old raw materials agreements with forms of compensatory financing.

35. Future agreements should not claim to stabilize prices in the long term at a level higher than the market value when the agreement is concluded. The aim should be, rather, to guarantee relative stability by achieving market prices which do not fluctuate, for example, by more than 10% above or below a long-term equilibrium price. In order to maintain prices in this band around the equilibrium price, buffer stocks will have to be purchased or sold and these stocks must be managed centrally. Insofar as price instability is actually caused by factors on the supply side, a supply restriction policy must necessarily be part of future raw materials agreements. Depending on the product concerned, various forms of restriction could be considered. Export quotas or export levies could be operated, but actual production control could also be used. Where agreements concern products produced in developing countries and the industrialized world, the industrialized world must naturally cooperate. It is hard to imagine an international agreement on oils and fats which contains restrictions on the production of palm oil, for example, but none on dairy products. Agreements on sugar, cereals and meat also require a high degree of convergence in the positions of the industrialized world and the developing countries. It should not be assumed that both parties cannot have a common interest in such agreements. A stable guaranteed world market price would eliminate the need for high export subsidies in the industrialized world and developing countries could obtain additional income by instituting export levies.

36. In principle, more intervention is needed with these agreements than those which are designed solely to influence price levels directly, for example by manipulating buffer stocks. An international policy to improve production structures is needed and this should be discussed and implemented through consultation in a 'policy dialogue' between developing countries and the industrialized world. Although such a policy can certainly not be realized in the short term, this approach is probably more realistic than resorting to other ideas such as indexing of raw materials prices.

37. Indexing is intended to stabilize the real purchasing power of raw materials exports and to prevent worldwide inflation having an adverse effect on developing countries. The technical problem with indexing is to decide the index, i.e. the group of imports to which raw materials prices should actually be related. There are also a number of other unsolved problems - such an approach assumes that transactions are concluded between governments, that no multinationals are operating in the market and that there is no free market - and indexing has therefore never been applied. There is also the question of whether indexing would in fact encourage inflation and whether any protection is possible against extreme fluctuations of exchange rates. The monetary instability which characterizes the world economy at present raises another question as regards price stabilization: what price should actually be stabilized and in what currency should it be measured? The problem of exchange rate fluctuations could be avoided by no longer expressing prices in one of the actual currency units but in a created unit such as the Special Drawing Rights (SDR) or the European Currency Unit (ECU). The ECU plays virtually no role in international trade, but in the recently concluded international cocoa agreement prices were expressed in SDRs. The SDR gives some protection against falls in the value of the dollar, but this is limited since the dollar component is 33% of each SDR. The ECU could perhaps play a more important role in future negotiations on raw materials agreements if the Community succeeded in gaining greater international standing for it.

38. However, it will not be possible in future either for a global raw materials policy to be restricted to raw materials agreements alone. Other mechanisms will be needed to stabilize export earnings, since fluctuations in earnings are the result not just of supply problems, but also of problems in relation to demand. Existing schemes, such as the IMF compensatory financing facility, the STABEX system under Lomé and the proposed STABEX system for the other poorest developing countries, will certainly have to be maintained and possibly even improved and expanded. The compensatory financing facility is not linked specifically to raw materials. It provides for (partial) compensation in the event of a fall in total export earnings where this is linked to balance of payments difficulties, which must be of a temporary nature and attributable to factors outside the country's control. The STABEX system is a specific compensation mechanism for a number of raw materials. It provides (partial) compensation for a fall in export earnings from certain basic agricultural products, regardless of the balance of payments situation. In addition to these two compensatory systems there are also special World Bank loans for specific basic product projects. However, the aim of these loans is not to stabilize earnings but to improve the production structure of the sector concerned or to increase production for domestic consumption. Under the Lomé Convention there is also a special financing facility, the SYSMIN system, to support minerals. The purpose of this facility is to protect the economies of the ACP countries against an erosion of their export capacity for mineral products to the Community and the subsequent drop in their export earnings. This system too is thus not geared directly towards stabilizing export earnings, but it can assist where the cause for the drop in earnings actually relates to production. The main characteristics of the compensation schemes are as follows:

ITEM	C.F.F.	STABEX
Year of initiation	1963	1975
Eligibility	Members of IMF (137)	66 ACP States
Drawings 1977-1982		
Number of transactions	112	171
Amount	7.3 billion dollars	0.8 billion dollars
Shortfall	11.9 billion dollars	1.3 billion dollars
Compensation rate	62%	59%
Coverage	Total exports (may include services and exclude cereal imports)	48 commodities
Shortfall	Net	Gross (sum of individual shortfalls)
Reference level	Five-year moving average, centred on shortfall year	Four-year moving average, centred two and a half years previous to shortfall year
Limits	Country-specific quotas	Overall budget limit
Interest rate	IMF standard (7.8% currently)	None
Repayment schedule	3 to 5 years after loan	2 to 7 years after loan
Repayment obligation	In full	None for low-income economies, conditional for other countries
Grant element	Around 20%	More than 80%

Source: World Bank, World Development Report 1986

39. Thus, at the level of the international community and at the more restricted level of the European Community (including Lomé), there are measures, schemes, mechanisms and techniques which are geared to finding a solution both to the problem of raw materials as such and to the problem of the instability of export earnings. At Community level a number of these techniques have been improved and refined but the fundamental problem of unstable raw materials prices can naturally not be dealt with by the Community alone. In its contacts with developing countries, the Community is oriented particularly towards Africa, and raw materials are produced not only there but also in Asia and Latin America. Because raw materials occur throughout the world and are traded at international level, a raw materials policy needs to be international if it is to be effective.

40. The first requirement for such an international policy is that the Common Fund should become operational or that additional financial resources should be made available in some other way. The Common Fund, or whatever new financial facility is decided upon, should certainly not operate according to the principles of some years ago. The new insights into the supply aspects of the problem should be given greater attention. It would seem essential to start to collect capital from governments, as provided for in the Common Fund. If sufficient raw materials agreements could be concluded and the Common Fund could actually fulfil its function as a clearing institute, this type of financing might be adequate. If not, consideration could be given to loans on the international capital market with government security. Nor is it absolutely necessary to keep to the ambitious programme originally drawn up by UNCTAD, with raw materials agreements for a large number of products. The new

approach should be even more pragmatic, i.e. 'commodity-specific' and 'country-specific', particularly as regards any measures to be applied to production structures. The existing financial programmes to cover loss of export earnings should be included in such a global policy and consultations should be held with beneficiary governments on the spending of funds to ensure that it does not conflict with the general objectives of the policy as a whole. If such a global policy were successful and it was actually possible to stabilize raw materials prices, compensatory provisions would become less important and thus fewer financial resources would have to be made available.

41. Such a policy is only conceivable if the industrialized world and the developing countries are prepared to cooperate to a considerable degree in the conviction that the policy is based on a common interest. As long as developing countries are largely dependent on their export earnings from raw materials, their import capacity will also depend on these earnings. The industrialized world in its turn is interested in this import capacity. Full stabilization of raw materials prices will certainly not be possible, nor should we strive to achieve the impossible. In a world characterized by greater instability than ever before, by technological progress and by the development of an international capital market more or less divorced from international trade, the desire to achieve greater stability in a limited but important sector would seem to be in the interests of both the developing countries and the industrial nations.

IV. GENERALIZED TARIFF PREFERENCES SCHEME FOR DEVELOPING COUNTRIES

42. The generalized tariff preferences scheme for developing countries (GSP) is basically a way of stimulating development in developing countries by promoting their trade. The GSP has three objectives:

- to increase export earnings of developing countries
- to promote their industrialization
- to accelerate their economic growth.

The tariff preferences in the scheme are for industrial and agricultural semi-manufactures or finished products. The underlying implication of the GSP is thus that it is desirable to reduce the developing countries' dependence on exports of raw materials and the scheme specifically attempts to promote exports of semi-manufactures and finished products.

43. The idea of a generalized tariff preferences scheme was first discussed at UNCTAD meetings. Prompted by recommendations adopted at UNCTAD I in 1964, part IV of GATT was adopted in 1965, which made it legally possible to introduce special tariff preferences for developing countries.

GSP now consists of about 16 separate schemes involving 20 industrialized countries with market economies and 6 state trading countries. The European Community put its scheme into operation in 1971 and most other countries followed a year later. Canada, however, only introduced the system in 1974 and the United States in 1976.

Although the name of the scheme, generalized tariff preferences, implies that the scheme grants tariff preferences for most products, this is not the case. For a large number of products such as textiles, clothing, footwear, leather goods and processed agricultural products, the scheme applies in some but not all cases. There are many exceptions and the system is thus not as general as the name implies and is extremely complicated. For some, mostly industrial, products, imports are duty-free but for most agricultural products there is only a reduction in the tariff. Preferential imports into the European Community and Japan are often subject to safeguard mechanisms such as tariff quotas, ceilings and maximum quantities for each exporting country. In the

United States, preferential imports are restricted to those products for which the developing countries are not competitors and the same system applies in Australia, in conjunction with tariff quotas. All these schemes have origin rules for goods, which further limit their effectiveness.

44. Despite the possible criticisms of the European Community's scheme, it should be borne in mind that, by comparison with many other industrialized countries, the scope offered by the Community is far more comprehensive in terms of number of products and beneficiary countries. Nor should it be forgotten that the system, which was a revolutionary idea in the 1960s, has been eroded by the dismantling of tariffs during the various GATT rounds. The extent of the restrictions which, despite the basically liberal starting point, are inherent in the European Community's system because of the various safeguard mechanisms is apparent, for example, from the fact that, out of the

total imports from Singapore basically eligible for tariff preferences, only 27% actually received tariff preference in 1980, 27% in 1981, 28% in 1982 and 26% in 1983. For a country such as Sri Lanka the percentages were 42%, 32%, 35% and 37%+. Only in the case of some countries, for example Pakistan, Romania and Colombia, do more than half the imports eligible for preference actually receive preferential treatment.

45. Given that it is a trade preferences scheme, it should not be surprising that the main beneficiaries are those countries which already have products to trade in. Although efforts have been made to improve the system, so that in particular the least developed countries benefit from preferences, they have not yet been successful. Since 1977 the Community has improved its system to assist the least developed countries. Agricultural products have been included for these countries alone and there are virtually no quantitative restrictions on preferential imports of their industrial products. Nevertheless, only a small number of countries actually profit to any considerable degree from the scheme. The names Brazil, Romania, India, Hong Kong, South Korea and Malaysia keep recurring among the top ten GSP beneficiaries from 1979 to 1983.

46. Although the Community's existing scheme is fairly satisfactory by comparison with other schemes, it could be improved. Without giving an exhaustive list of possible technical and organizational improvements, it should be possible to implement the following changes in the system without too much difficulty:

- a reduction of the list of sensitive products
- a drastic increase in existing ceilings and quotas over and above the usual annual percentage increase
- an end to the system whereby the normal customs tariff is reimposed immediately an import quota has been filled and the introduction of prior consultations between Member States
- an end to annual adjustment of the system; tariff preferences should be fixed for a longer period so that the system provides greater continuity and security for importers and exporters
- revision of the rules of origin, in particular to allow cumulation of origin
- inclusion of more agricultural products in the scheme.

47. At present it does not seem likely that these changes will be incorporated into the system, indeed, the changes currently under discussion are very different.

+Figures from the Commission of the European Communities, 'Review of the European Community's Generalized Tariff Preferences Scheme', Doc. COM(85) 203 final

It should be remembered that in legal terms the Community's decision to introduce the GSP scheme was an autonomous one. It can thus introduce changes or even abolish the system autonomously, but this is not a likely option, since the GSP has gradually become a classic part of development policy and its abolition would doubtless be viewed by the developing countries as an unfriendly act. When the system was developed in the 1960s, and when it was implemented at the beginning of the 1970s, it was not customary to differentiate between developing countries and no distinctions were therefore made when applying the GSP. Over the fifteen years of implementation, however, differentiation has been incorporated into the system. The first form of differentiation or graduation concerned the introduction of country-specific quotas as opposed to a general quota for all developing countries. Since 1985 further differentiation by country has been advocated, taking into account such factors as the volume of a product eligible for preference exported to the Community and the general economic situation of the developing country concerned in terms of per capita GNP. By introducing such criteria the Community's system starts to resemble that of the United States, which has only included products in its system for which the developing countries are not competitors. The European Community has not yet reached that stage, as the proposed amendments have not yet become general policy although the first steps have been taken.

48. If such a shift in policy could be justified because it was intended to benefit the poorest developing countries at the expense of the others, it is more difficult to justify when the measures only restrict the preferential access of products from richer developing countries. The future will show what the Community's real intentions are. The first initiative in 1985, which weakened the preferential position of Hong Kong, South Korea, Singapore and Brazil without really improving the position of other countries, raises doubts concerning motivation. However, even if differentiation were acceptable, questions still arise concerning implementation. Should the Community decide independently what preferences should be taken from which countries for which products? Should the Community alone determine which factors are important when decisions are taken, or should there be some form of consultation with the countries concerned? Should not discussions also be held on existing import restrictions in respect of richer developing countries, for example non-tariff trade barriers?

49. For the moment, differentiation is the way forward, as can be seen from developments in South-South trade. However, there are numerous pitfalls and it would seem appropriate to consider how this differentiation is to be applied.

V. MULTIFIBRE ARRANGEMENT

50. The Multifibre Arrangement has a dismal history. Although all agreements on textiles and clothing were intended as transitional provisions, with the ultimate aim of liberalizing trade, in practice an increasingly detailed system of trade restrictions has been created since 1959. As a result, the textile and clothing sector, together with agriculture, is one of the best-protected economic sectors in the industrialized world.

51. International agreements on the textiles and clothing sector have existed since 1959 and initially talks were only held on cotton. Cotton substitutes were included in 1962 and wool and man-made fibres were covered after 1973. A comprehensive control and quota system was first introduced in 1978. Since then the Multifibre Arrangement, which is basically intended to limit quantitative increases in exports of clothing and textiles from a number of developing countries, has expanded into a very comprehensive system of quotas and voluntary export restraints.

52. The underlying reasons for this development are well-known. The textile and clothing industry has moved quickly into a large number of developing countries. Many production processes in this industry are relatively simple, labour-intensive and do not demand highly skilled labour and are thus extremely appropriate for use in developing countries. Much of the new production was intended for export, in particular from the production units based in a number of countries in South-East Asia, the Mediterranean area and China. At the same time, these countries' new branch of industry was protected against imports by high import duties and import licences and exports were promoted by means of production subsidies and direct or indirect export subsidies.

53. The rapid increase in exports to the industrialized world has made itself felt: more than 1 million jobs have been lost in the textile and clothing sector in the European Community in the past ten years. Calls for import protection increased and various Member States developed national aid programmes for the industry, in particular France, Belgium, Italy and the United Kingdom. It has also been suggested that, in the general international division of labour the textile industry in Europe had been written off, that this type of industry would in future be better suited to developing countries, and that in any case the industry had to adapt itself to new international conditions. The industry has in fact adjusted and this is demonstrated by the loss of jobs and the technological renewal. In some Member States adjustment has been less pronounced than in others - it has been most marked in the Federal Republic and the Netherlands - but the combination of technological progress, competitive imports and stagnating demand have had an effect. It is of course very difficult, if not impossible, to determine which factor was initially responsible and to what extent for the loss of jobs: increased imports or technological renewal. However, the threat of additional imports perhaps accelerated the decision to replace labour by capital to a greater extent than might otherwise have been the case, and thus contributed indirectly to the loss of employment. However, precise figures are not available. A large proportion of the Community's textile and clothing industry is now no longer labour-intensive, it produces high-quality products for a fashion-conscious public and is experimenting in the new market area of chemical fibres for industrial use. Despite this development, the industry called for an extension of the Multifibre Arrangement, which was up for renewal in 1986.

54. As with previous arrangements, the extension of the Multifibre Arrangement concluded in 1986 is basically a framework agreement. The bilateral agreements concluded with individual exporting countries on the basis of the Multifibre Arrangement determine the quantity of a product which may be imported into the Community. Under these voluntary restraint agreements, countries undertake to place specific limits on increases of exports of certain products to the European Community. The increases depend partly on the expected demand in the Community, i.e. efforts are made to stabilize or maintain the status quo for the market shares of products from within the Community and imported products. During the 1986 renegotiations the Community adopted a more liberal attitude than, for example, in 1982. In general, efforts were made to achieve better treatment for the poorest developing countries and to increase quotas, with the exception of those for the newly industrialized countries. The importance of a number of restrictive clauses introduced in 1982 was reduced and the whole system was made more flexible, which was in line with the hopes expressed by the European Parliament.

55. It is difficult to defend the Multifibre Arrangement even though it was a step in the right direction. In the Tokyo GATT round, tariffs on textiles and clothing were reduced by about one-fifth, but the level of protection is still higher than for other economic sectors. That level of protection, together with control on quantities of imports, the safeguard measures and the generally discriminatory management of the Multifibre Arrangement, remain a cause for concern. Moreover, although the European Community's attitude has become more flexible, this does not apply to the United States which wishes, for the first time in the history of the agreement, to include a large number of new fibres, for example jute, sisal, silk, flax and ramie. Ramie, which is a natural fibre similar to flax, is produced mainly in China and it is thus not surprising that China and Pakistan (jute) have already made strong protests.

56. The Community is in almost unanimous agreement, as in the case of implementation of the generalized tariff preferences scheme, on the introduction of graduation or differentiation in the treatment of developing countries. Thus, since 1982 the Community has tried to limit imports from countries such as Hong Kong, Macao, South Korea and Taiwan by systematically lowering their quotas. The fact that, in the case of generalized tariff preferences, the Community acts autonomously and in the case of the Multifibre Arrangement negotiations with the countries concerned determine the outcome, makes little difference and the result is the same in economic terms. Graduation or differentiation basically relates to a limitation of the preferential market access of developing countries, possibly in conjunction with a reduction of protection in the developing countries themselves. If agreement could be reached on the countries concerned and the desired objectives, negotiations could perhaps be held in GATT on the basis of a wider range of products than just textiles and clothing. However, what is happening at present under the Multifibre Arrangement has little to do with such a form of graduation or differentiation. In the final analysis, the Multifibre Arrangement does not provide for preferential access to the market and the arrangement does not meet GATT obligations but rather evades them.

57. One argument used to defend the Multifibre Arrangement is that it provides the developing countries with at least some security of access to the market, which might not exist if there were no aggreements. It must be admitted that if the Multifibre Arrangement did not exist there would probably be unilateral, unlimited and uncontrollable use of Article XIX of GATT to restrict imports. The developing countries therefore accept the current situation because they are afraid of a still worse situation developing. Apart from the fact that the developing countries do not have the power to make changes in the situation even if they wanted to, another reason for their acceptance may be that the quota system allows some countries to obtain higher prices for their products than would be possible with completely free competition. This may apply in particular to the newly industrialized countries whose quota has been reduced which is why they are not among those calling most vigorously for the abolition of the Multifibre Arrangement. Calls for abolition are coming from a number of other developing countries, for example India and Pakistan, who consider that they are being discriminated against in their export policy, despite the graduation which, according to Community experts, is used to benefit the poorer developing countries.

58. In its opinion for the Committee on External Economic Relations, the European Parliament's Committee on Development and Cooperation recommended that the 1986 extension of the Multifibre Arrangement should be the last and that, for trade in textiles and clothing, there should be a return to the normal GATT rules in 1990. The normal rules could also provide protection against market disruption, which was the real purpose of Article XIX of GATT. At present 'disruption of the market' as a concept is virtually synonymous with 'imports from developing countries' and a description of this concept must be found which is acceptable to all parties and a satisfactory monitoring system for the agreed provisions must be established. However, what is unacceptable in the long term is the extension of the Multifibre Arrangement, as it contains no provisions on restructuring of the industry and no automatic reduction of protection and does not subscribe to the ultimate objective of a return to normal GATT rules. It is true that the current Article XIX of GATT needs revision. However, revision, or in other words defining a multilateral system of selective safeguard measures with penalties in the event of non-compliance with agreed rules, is only possible in the same multilateral GATT framework i.e. in cooperation with the developing countries themselves. This task goes far beyond the problems of the Multifibre Arrangement as such, but as long as the Multifibre Arrangement symbolizes the obstinacy with which non-tariff barriers persist and are repeatedly reintroduced, trade in products covered by the Multifibre Arrangement must also be included in this process.

VI. SOUTH-SOUTH TRADE - TRADE BETWEEN DEVELOPING COUNTRIES

59. Trade between developing countries is known as South-South trade, as distinct from North-South trade which is trade between the industrialized world and the developing countries. South-South trade has been increasing since the 1970s but it is still very limited. Trade with the industrialized world remains very important for the developing countries, as is shown by the figures below:

developing countries'	)	1970	19.4% South; 80.6% to other countries
exports	)	1980	29.9% South; 70.1% to other countries
developing countries'	)	1970	13.5% South; 86.5% from other countries
imports	)	1980	16.8% South; 83.2% from other countries

60. Although South-South exports increased between 1970 and 1980, not all developing countries were involved. Trade was mainly concentrated in the countries of the Middle East and South-East Asia. In Latin America, Brazil and Venezuela are the main countries involved, and in Africa Nigeria and the Ivory Coast. For the continent of Africa and the ACP countries in general, South-South trade is less important than for other developing countries. The proportion of South-South trade in total international trade is already larger than might be expected, bearing in mind the South's share of gross world income. The conclusion could be drawn that South-South trade has already reached its maximum level, but also, however, that there are basically still opportunities for improvement. This is the conclusion drawn by the developing countries themselves, although it is recognized that there are numerous obstacles to the expansion of South-South trade.

61. The structural difficulties of expanding South-South trade lie in the nature of the economies of most developing countries. Production in a large number of countries is concentrated on the production of raw materials, basic agricultural products, of semi-manufactures and a number of finished products, but the range is limited. The trading partners of such countries must almost inevitably be countries with a diversified industrial production system, i.e. the countries of the North, or developing countries which have already undergone a certain level of industrial development. In addition, the transport and banking systems in developing countries are not as advanced as in the industrialized countries and there is often no internal distribution network and little know-how as regards foreign trade.

62. Other factors which hamper the expansion of trade are the actual policies of developing countries. On average their customs tariffs are three times as high as those in the industrialized world, and there are also many non-tariff barriers. National currencies are not convertible and are often held at an arbitrary rate of exchange, which overvalues the national currency against strong world currencies such as the dollar and deutsch mark. There are reasons for such a policy and it does fulfil a purpose. Trade policy in developing countries is always dominated by two basic facts: the lack of foreign exchange, and thus the need to restrict imports to essential goods, and the need to protect newly established, and thus insecure, industries. As a result of such a policy, North-South trade increases almost automatically (the need to import capital goods) and less emphasis is placed on South-South trade, not least because the industries requiring protection are the same in many developing countries.

63. It would be dangerous to react against past policy by encouraging South-South trade as the only possible alternative at the expense of North-South trade. Such a policy would mean an end to competition with the North, and the continuation of protection measures, which would be uneconomic and expensive in the long term, in order to maintain inefficient operations in the South.

However, there is room for expansion of South-South trade, not as a reaction to past policy but in response to new economic conditions. The differences between developing countries have increased and thus also the comparative advantages as between them.

64. There are in fact long-established regional and interregional cooperation links between developing countries. About 70 countries in Latin America, Asia and Africa are members of one or other cooperation group, the objectives of which are not always the same, but which almost always have elimination of trade barriers as one of the most important goals. Since 1973 the Protocol on Trade Negotiations among Developing Countries has existed in GATT, and it has been signed by about 16 developing countries. The tariff preferences granted on the basis of this protocol, however, only relate to a fraction of the total trade between these countries.

65. The idea of a global system of trade preferences between the developing countries themselves was first clearly formulated at a conference of the Group of 77 in Mexico in 1976. The recommendations of the conference were officially adopted in 1982 and negotiations on mutual concessions should have started in 1983. Unforeseen circumstances and a large number of technical difficulties meant that the negotiations were postponed, but a decision was taken in Brasilia in May 1986 to start the first round of negotiations on this global system of trade preferences. According to the 1982 recommendations, the underlying principles were that the system was:

- to be negotiated step by step

- to be improved and extended in successive stages

- to be based on the principle of mutuality of advantages to benefit equitably all participants, taking into account their various levels of economic and industrial development, the pattern of their external trade and their trade policies and systems

- not to replace but to reinforce and supplement present and future regional, subregional and interregional groupings

and that:

- the disadvantageous position of the least developed countries should be clearly recognized and concrete preferential measures should be taken in their favour; these countries would not be asked to make concessions on a reciprocal basis

- all product categories (manufactures and commodities in raw and processed form) would be covered in the negotiations, as would both tariff and non-tariff barriers.

66. These general principles show that the Group of 77 was very realistic in formulating the objectives and was aware from the outset that there are major differences within the group itself and that practical progress can only be made gradually. The objective is not to formulate a general trade liberalization programme but to create a framework within which individual countries or groups of countries can negotiate trade concessions in accordance with agreed rules and procedures. The effective participation of individual countries in the liberalization process will depend on their ability to offer useful trade promotion concessions to partner countries.

67. It is impossible to predict the outcome of the negotiations, should they ever really begin. However, no more should be expected than preferential agreements and liberalization of trade in certain areas. The objective is certainly not complete liberalization of trade or the establishment of a customs union or free trade area.

The industrialized world cannot do a great deal to ensure that these modest objectives are realized. If developing countries request financial or technical aid in order to achieve certain objectives, such a request should be considered sympathetically. Apart from that, the industrialized world should not raise any obstacles to the development of trade between the developing countries, even where this would have detrimental effects on certain branches of industry or agriculture in the industrialized world. Preferences between developing countries amount to a derogation of existing GATT rules, so long as a customs union or free trade area is not intended, which the industrialized world must accept.

68. The renewed interest in establishing mutual trade preferences follows on from the idea that free trade is possible for developing countries, in particular where countries are at more or less the same economic level. A far less acceptable idea to them is global free trade, which the industrialized world is demanding to an increasing degree, especially in respect of the newly industrialized countries. Liberalization of imports on a world scale would cause considerable problems for developing countries and for the newly industrialized countries. The new industries in these countries are often vulnerable and unable to cope with foreign competition. Invested capital is scarce and there is limited mobility of the factors of production, all of which makes the economic base extremely weak.

The consequence of this renewed interest is, however, that there is a gradual movement towards a much more differentiated trade policy than has existed over the past 40 years. The industrialized world had itself already introduced differentiation through the scheme of generalized preferences for developing countries. The developing countries now wish to introduce differentiation between themselves. It is not yet absolutely clear what effect this differentiation will have in the future.

VII. NON-TARIFF BARRIERS AND THE PROBLEMS OF RULES OF ORIGIN

69. Almost all trade policy experts agree that non-tariff barriers are now greater obstacles to international trade than classic customs tariffs. It is impossible to draw up a comprehensive list of non-tariff barriers as human ingenuity in this area is boundless. Non-tariff barriers include such longstanding measures as quotas, voluntary export restraints or exchange controls and newer devices such as anti-dumping and countervailing duties, minimum import prices, compensatory duties, subsidies to national industries, provisions concerning the composition of products, variable levies and aspects of national industrial policies. Non-tariff barriers exist both in trade between the industrialized countries and in trade between industrialized and developing countries. The table below shows the unprecedented scale of non-tariff barriers in trade between the industrialized and developing countries.

Percentage of imports subject to non-tariff barriers in the industrialized countries in 1983

	Percentage of imports from: industrialized countries	developing countries
EEC	10.2	21.8
United States	7.7	12.9
Japan	9.3	10.5
All industrialized countries	10.5	19.8

Source: World Bank: Report on world development 1985

In 1981 and 1982 GATT recorded 600 different types of non-tariff barriers and, according to OECD estimates, the percentage of imports of industrial goods subject to these barriers increased from 6% to 13% in the United States and from 11% to 15% in the EEC between 1980 and 1983.

70. Despite the availability of figures and statistics, it is hard to estimate the real importance of non-tariff barriers. It has already been pointed out that non-tariff barriers are far more difficult to deal with in international negotiations than tariffs (perhaps the new GATT round will attempt to do so) and the economic importance of such barriers cannot be expressed easily as an ad valorem value as is the case with customs tariffs. However, non-tariff barriers, like tariffs, result in distortion of trade and have a direct or indirect effect on the prices and/or quantity of goods traded.

71. A further difficulty arises as far as the European Community is concerned. The figures given above demonstrate that the Community does not set a good example as regards non-tariff barriers. In both quantitative and qualitative terms - the common agricultural policy is an obvious example - the Community has amassed a complete arsenal of protective measures. Moreover, some of the measures are applied on a national basis and have not yet been transferred to Community level. There are still national quotas for imports of cars from Japan, there is national surveillance of imports of textiles and clothing and

quotas in multinational agreements are allocated to individual Member States. The existence of non-tariff barriers not only has adverse consequences for developing countries but also hampers the completion of a real internal market in the Community. This problem occurs in particular with regard to subsidy and cartel policy. Subsidies and cartels can be protectionist measures and although, according to the Treaty, the Commission must monitor such policies, countries have a considerable degree of freedom. In the textile, clothing, leather goods and vehicles sectors, and even in the shipbuilding and aircraft industry, subsidies have probably become more important than direct protection at the frontier, but it is extremely difficult to obtain an accurate picture of the situation because national and Community policies can interact, which also makes it virtually impossible to assess the real effect of non-tariff barriers on the developing countries' export opportunities. However, the importance of these barriers is undoubtedly increasing, which is to the detriment of the developing countries. It is probably no exaggeration to say that the tariff reductions which have been made in the framework of GATT since the 1950s have been cancelled out by the increase in non-tariff barriers. Certain types of non-tariff barriers, for example anti-dumping and countervailing duties, mainly occur in trade between industrialized countries and in particular in trade between the European Community and Japan and the United States or between the European Community and countries in the Eastern Bloc. Other non-tariff barriers, of which the Multifibre Arrangement is the most striking example, are mainly applied in respect of developing countries. The direct costs to the developing countries do not tell the whole story. Perhaps more serious than the direct harm suffered as a result of such protection is the implicit message conveyed to developing countries that they should not industrialize. Whilst it is difficult to give exact figures, it is clear that the barriers which exist have a negative effect on the investment climate. Even if a subsidy is available, what private investor will be prepared to invest in a developing country when he knows in advance that it will be difficult to export the goods produced with his capital to the markets with purchasing power.

72. Despite all the information and figures which have now been collected, it is difficult to forecast exactly what will happen. The world will probably have to learn to live with some of the non-tariff barriers. It is difficult to see how to get away from a concept like 'industrial policy', with inherent non-tariff barriers such as subsidies, and the lax application of anti-cartel provisions. The application of Articles 85, 86, 92 and 93 of the EEC Treaty raise questions. The current methods of implementation are detrimental to the maintenance of the internal market and they also have consequences for international trade. The same applies to the superficial implementation of anti-trust legislation in the United States. The modern technological and industrial society leads to close links between government and industry in research and development and to cooperation between them with a view to finding technical and commercial applications for new products and production processes as quickly as possible. Given the capital-intensive nature of this development process, it is not surprising that people wish to minimize risks and do their utmost to prevent loss of capital.

73. This course cannot, however, be pursued with impunity and without far-reaching consequences for international trade. One of the Community's objectives in international trade negotiations in GATT, indeed the only possible course of action, must therefore be to strengthen GATT's multilateral structures and disciplines and to encourage their applications in new areas of international trade. This approach was first used in the Tokyo Round and the new round will have to pursue this complex and difficult path.

The outcome of the negotiations, which cannot be expected for some years, should contain the first move towards regulating existing practices in the form of international agreements, enforceable codes of conduct or other methods. Both the developing and the industrialized countries have great need of such a policy.

74. For the developing countries the approach outlined above is inadequate. Much more is at stake than merely the obstacles deriving from industrial policy considerations and for them quantitative restrictions, for example, are only the tip of the non-tariff barrier iceberg. The Community's proposals on the GATT multilateral negotiations referred specifically to quantitative restrictions and suggested that some of them could gradually be converted into consolidated customs duties. The only comment made on the other non-tariff barriers, which are recognized to be possibly of greater economic importance than quantitative restrictions, is that they should be included during the negotiations on quantitative restrictions. Whilst it is a welcome trend that dismantling non-tariff barriers is now recognized as important for developing countries, this approach is not far-reaching enough. Quantitative restrictions and other non-tariff barriers in respect of developing countries have never been the subject of negotiations in GATT but have been set up on the basis of autonomous decisions by the European Community and other industrial nations. There is therefore nothing to prevent these obstacles being dismantled by means of an autonomous decision, without any negotiations. However, GATT negotiations offer a unique opportunity to review all the existing non-tariff barriers and to attempt to arrive at a multilateral and acceptable system of control and surveillance. As was pointed out in the discussion of the Multifibre Arrangement, the negotiations would also offer the opportunity to find a new and generally acceptable interpretation of Article XIX of GATT. However, even if these attempts are unsuccessful, the Community has other ways of meeting the needs and requirements of developing countries. The conversion of quantitative restrictions and other forms of non-tariff barriers into consolidated customs duties is perhaps an initial step in the right direction. Insofar as protection was intended to offer some assistance to certain branches of industry, as was always the intention in the Multifibre Arrangement, consideration should also be given to making the duties temporary and degressive.

75. A chapter on non-tariff barriers would not seem at first sight to be the obvious place to discuss the problem of rules of origin. The primary purpose of rules of origin is to determine the customs heading under which an imported product falls, which seems to relate more to tariff than non-tariff barriers. However, it seems appropriate to consider this topic here, since the whole system of rules of origin now operates independently. It is opaque, complicated and sometimes extremely detailed and its effects are similar to those of non-tariff barriers.

76. In international trade, rules of origin are needed to determine the provenance of a product, which is important because better - preferential - import regulations apply to products from certain countries than those from other places. Preferential treatment for products with a specific provenance could be nullified if it was impossible to monitor origin. Rules of origin are thus an inevitable part of trading systems which have preferential import provisions. In trade with the European Community - which has concluded the Lomé Convention, has agreements with Mediterranean countries and operates a system of generalized tariff preferences - rules of origin play an important role.

Rules of origin are also used for statistical purposes; they are used in determining quota systems for imports and in applying Article 115 of the EEC Treaty. However, this specific use of rules of origin will not be discussed further in this report.

77. Rules of origin specify the degree of working or processing which a product must have undergone to obtain or keep the recognition of origin and thus, in certain cases, to benefit from preferential import provisions. In general, origin is determined by rules which specify the minimum added value which must accrue in a country which is eligible for preferential imports to a product imported from elsewhere. The minimum requirements for processing for all the European Community's preferential agreements and the explicit and implicit conditions associated with rules of origin are more or less identical. It is thus stated explicitly that the value of the product imported into the country where processing takes place may not amount to more than a certain percentage of the value of the finished product and implicitly that only certain types of processing are acceptable if the designation of origin is to be awarded.

In general, if the product is covered by a different tariff heading after processing, the origin is retained and the product can thus benefit from preferential import provisions but this is not always the case. The rules of origin are thus complex, technically sometimes almost incomprehensible and can only be understood by specialists. In principle they offer very effective protection, of which the layman is unaware, but it is difficult, in the abstract, to determine the full economic consequences of such protection.

78. The rules of origin operated by the European Community in its preferential trade relations can basically be divided into two categories. The first category has double or full cumulation and the second category of rules has a more limited form of cumulation. The double or full cumulation is applied in respect of countries party to the Lomé Convention and the Maghreb countries but not the remaining countries in the Mediterranean area. Under this system the added value for processing in various ACP countries can be added together. This encourages vertical specialization and also stimulates trade between ACP countries. However, the real economic importance of this concession is limited, given the low level of industrialization in the ACP states. A second aspect of the system is that goods imported from Community Member States are considered to be of ACP origin (the free trade zone principle). This provision can be important as it offers the ACP and Maghreb countries the opportunity to industrialize further where this requires the import of goods from elsewhere. However, it means that the ACP and Maghreb countries remain dependent on imports from the European Communities, regardless of the price of the imported goods, if they wish to make use of preferential import arrangements. This Community concession is thus akin to tied aid.

79. Much stricter provisions apply in the Community's other preferential trade arrangements (generalized preferences scheme and other Mediterranean countries). Briefly, cumulation in this case does not exist, or only to a very limited extent, and the criteria as regards the working or processing of goods are drawn up more strictly. Of all the rules of origin operated by the Community, those for countries benefiting from the general preferences scheme are the least liberal. They do not allow for any form of division of labour between developing countries.

80. It is difficult to advocate the abolition of rules of origin given their function: the preference system for developing countries in general and differentiation in preference could not be maintained and monitored without the rules. However, one wonders whether the rules of origin system has not long since outgrown its original function and whether it does not mask arbitrary elements of protection. The impression remains that rules of origin have been formulated for too long by those responsible for the internal markets and industrial policy and that development experts have not beensufficiently involved. Given the circumstances it is difficult to make practical recommendations. However, more extensive cumulation between the various zones with which the Community has concluded a preferential agreement and greater opportunities for cumulation between the developing countries in general, in the framework of the generalized tariff preferences scheme would seem appropriate. Consideration could also be given to more extensive cumulation for the Lomé countries, so that full cumulation would not only apply for imports from Community Member States but also for imports from other countries.

VIII. CONCLUSIONS

81. It is not surprising that, when discussing the current economic situation, some pessimists draw a parallel with the crisis in the 1930s, when there was also an accumulation of debts (war debts among the Allies and German reparation payments) and attempts to bring institutional order into the international trading system failed. The real crisis began when the United States introduced strongly protectionist legislation in 1930 and other countries followed its example. As a result many debts could no longer be repaid since even at that time the capacity to repay debts was related to earnings from trade. The protectionism of that period led indirectly to a lack of international liquidity and the same danger is inherent in today's deflationary policies.

82. There are therefore good reasons for maintaining that trade, debts and exchange rate stability are closely linked problems. It seems alarmist to say that we are living with borrowed money on borrowed time, but we must act quickly if the problems are not to swamp us. The international community must take joint action to ensure an upturn in world trade by abolishing or reducing trade barriers. Because the industrialized countries are responsible for such a large proportion of total trade and world prosperity, it is vital that they should be involved. They must reach agreement on what the ultimate objective of the current GATT negotiations should be and must also create the necessary conditions for greater stability of exchange rates.

83. It should also be borne in mind that it is the changes which have occurred in the developing countries which have undermined the international system. The general economic growth in the 1970s mainly occurred in the developing countries, which already account for more than 20% of total international trade. However, under current circumstances they are unable to consolidate their growth. For the richer countries this is because their exports are blocked by the protectionist policies of the industrialized world and for the poorer countries because they are unable to import goods and pay off debts at the same time and because raw materials prices have fallen too sharply. If the international system is ever to function at optimum levels again, consideration must be given to the problems of the developing countries.

84. It is gratifying to note that, in its communication to the Council and to the European Parliament on Development Problems in Africa,+ the Commission of the European Communities appears to share these views. As indicated by the title, this document deals with the problems of African countries but a large number of the observations also apply to other, mainly poorer, developing countries. The Commission states plainly that the central problem for these countries is the fall in value, in terms of purchasing power, of their exports. It therefore advocates a policy geared towards maintaining, consolidating or even increasing export earnings, diversifying production and promoting a (realistic) stabilization of raw materials prices. It again considers the function of the Common Fund, and in particular the significance of the second window, and does not gloss over the need for STABEX and compensatory financing. It also advocates free and stable access for exports to the markets of the industrialized world.

+See Commission communication to the Council and to the European Parliament on Development Problems in Africa: A medium- and long-term view, COM(86) 179 final, 16 April 1986

85. One can only welcome such statements by the Commission, but it is regrettable that they are only made in the form of a communication to the Council and Parliament and not as practical proposals for the development of a Community international economic policy. The real question is whether the Community has sufficient courage, creativity and interest to transform its words into actions and to advocate the establishment of such a policy within GATT, UNCTAD and anywhere else where this is useful and possible. Suggestions for such a policy are contained in the earlier chapters of this report and in the Commission's document on Africa. The European Community is in a unique position to translate its words into action. The Lomé Convention and its efforts to ensure that Nicaragua is included in a policy on Central America have proved that the Community wishes to honour the Third World's political choices. It has also stated that it wishes to respect agreed rules and to work towards a 'standstill' and 'rollback' in the non-tariff barriers and tariff policies detrimental to the developing countries.

86. Although the European Community cannot be expected to take exclusive responsibility for the developing countries, it does have a special role because of its position as the largest trading bloc in the world. The Community has already shouldered its responsibility to a certain extent through the agreements with the Mediterranean countries and the Lomé Convention. The recent decision to extend the STABEX system to non-Lomé countries shows that it feels a responsibility for developing countries in Asia and Latin America, as had already been indicated by the generalized tariff preferences scheme.

87. As progress can only be made in trade policy relating to developing countries if the industrialized countries share the burden, all these countries should jointly make a 'trade pledge' in respect of the developing countries. The purpose of such a pledge would be to ensure that if trade with developing countries had declined over a certain reference period discussions would be held with a view to remedying the situation. A regular meeting between industrialized countries and those developing countries with special agreements could also be considered, to ensure regular monitoring of the effects of these agreements.

It is obvious that such initiatives can only be effective if many countries are involved, but this does not prevent the European Community from being the first to introduce such proposals into international discussion.

88. In the general area of raw materials policy, efforts must be made to ensure that either the Common Fund or another financing system which can assume the role of general guardian of international raw materials agreements becomes operational. When such agreements are concluded in future particular attention should be paid to factors relating to supply which are responsible for instability in prices and earnings. Agreements on products produced in both the North and the South can naturally only be effective if a 'policy dialogue' produces consensus on the policy with regard to these products.

The European Community should indicate its willingness to take part in a policy dialogue in the knowledge that international consultation is essential for the success of such an approach. As regards an international raw materials policy, further consideration should be given to whether compensatory financing, either in the form of STABEX provisions or in any other form, should be extended, adjusted and/or reviewed. The developing countries' own responsibility to deal with questions arising from supply problems should be stressed and extra financing either for the second window of the Common Fund or other instruments must be secured. Once again the European Community cannot act by itself, but this does not prevent it from taking the initiative.

89. As far as the Multifibre Arrangement is concerned, a final decision should now be made not to extend it after expiry of the current term. However, measures should already be taken to permit such a decision. Existing national quotas should be converted as quickly as possible into Community quotas and efforts should be made to ensure that trade policy in the textiles and clothing sector is on a Community basis. It is interesting to note that more than 20 years after the establishment of the common market, in 80% of cases appeals on the basis of Article 115 of the EEC Treaty relate to this sector. During the current GATT negotiations, efforts must be made to arrive at a new interpretation of Article XIX of GATT, in cooperation with other importers of textiles and clothing from developing countries. The interpretation should ensure that some degree of protection remains possible for sensitive products after expiry of the MFA. Protection should however be temporary and degressive and linked to a Community plan for further restructuring of the industry, with reduced subsidies for specific Member States. New initiatives are also needed in the field of generalized tariff preferences for developing countries. Improvements could be made to the system in respect of processed agricultural products and clothing. The Community should also indicate its willingness to make the rules of origin more flexible to enable the least developed countries to derive greater benefit from the system. The more advanced developing countries or newly industrialized countries are chiefly concerned to maintain existing advantages. They are afraid that they will be adversely affected by graduation and differentiation without being able to match the competition from the industrialized world. An assessment should therefore be made of how much graduation and differentiation is possible, especially whilst non-tariff barriers still affect the newly industrialized countries in particular. In the process of further differentiation, the efforts to expand and increase South-South trade should also be supported, and the industrialized world should be prepared to participate financially if the developing countries should decide to set up a special bank to promote trade. The industrialized world should strive to break down non-tariff barriers in exchange for concessions by the newly industrialized countries. The conversion of existing quantitative restrictions within GATT into binding customs tariffs and the reduction of some absurdly high tariffs could be considered. Such measures, designed to open up the market of the newly industrialized countries for products from the industrialized world rather than impede access for products from these countries to markets in the industrialized world, should shape future policy.

90. It is also the moment to bring some order into the various categories of developing countries. There is absolutely no reason to do anything to affect the political links between Third World countries, as expressed in the Group of 77, even if this were possible. Nonetheless, it would seem useful to make some economic differentiation, in consultation with the developing countries, as happened previously when agreement was reached on the composition of a group of 'poorest developing countries'. In the industrialized world it has

become customary to speak of newly industrialized countries, but that term has not been accepted by the developing countries, and indeed nobody knows which the newly industrialized countries are. The degree of confusion is shown by the various groupings of countries operated, for example by the World Bank and UNCTAD.

91. In its World Development Report 1986, the World Bank has two categories of developing countries: 'low-income economies' with a per capita gross national product of less than $400 and 'middle-income economies' with a per capita gross national product of over $400. Further gradations divide the 'middle-income economies' into oil-exporting and oil-importing countries and there is also a group of major borrowers. It would appear that not all OECD members belong to the industrialized world, since Greece, Portugal and Turkey belong to the middle-income developing countries. However, according to UNCTAD in the Trade and Development Report 1986, there is a completely different division. Greece and Portugal are once more part of the industrialized world, although Turkey is not, and in addition to the industrialized world there is the bloc of Socialist countries in Europe and Asia (China, North Korea and Mongolia). All other countries in the world are developing countries with no further differentiation.

92. Such a division is perhaps useful for the World Bank in diversifying its loans policy, and for UNCTAD to allow for existing political realities, but neither system seems particularly suited to the formulation of a trade policy for the future based on existing diversity. There seems little disagreement that countries such as South Korea, Taiwan, Singapore, Hong Kong and Malaysia should be counted as newly industrialized countries. Over the past decade the average real income in those countries has increased annually by 5.5% to 7.5%, whilst real incomes in the United States and Europe fell. Wage competition from this group of countries has become less intense and at the same time their export markets have been threatened by new suppliers from their own region (Philippines, Thailand, Sri Lanka, Indonesia, India and China), where wage costs are still much lower. Some people consider that some of these countries, and a number of Latin-American countries, are also newly industrialized countries, but there is no consensus. Which specific countries should be placed in the 'newly industrialized' category is not the most important problem, as the list will doubtless change in the course of time. What is important, however, is that there should be international agreement on a classification and on the content of a policy with respect to these countries. As already noted, the opening up of these countries' markets should be a more important aspect of any new policy than abolition of existing preferences or maintaining non-tariff barriers. If these countries were to lose their export opportunities on the markets of the industrialized world, and as a result no longer be able to attract capital from it, there would be a great danger that they would lose their newly industrialized status within the foreseeable future. In order to prevent such a decline, and for psychological reasons, it would seem desirable to offer membership of the OECD to countries which have been recognized internationally as newly industrialized. Such an approach could halt the trend whereby the OECD is a club of mainly Western countries and the newly industrialized countries could become involved in the activities of the Development Assistance Committee.

93. As was pointed out in the introductory chapter of this report, trade policy is not a panacea for all the problems of every developing country. Trade policy, in particular where it is related to current situations and

needs, can help to provide a solution to a number of smaller problems. At present, the developing countries are playing an increasingly important role in international trade and future markets for a large number of products are to be found in these countries. At the same time, a large number of developing countries still have specific problems as regards trade, and less than 10 years ago the industrialized world was prepared to take these into account. The main purpose of this report is to advocate that the specific situation of a large number of developing countries should once again be taken into account and that there should be greater integration of developing countries into the international economic system where this is possible.

Many questions which have some bearing on trade are not covered in this report, for instance: debt problems, the instability of exchange rates, interest rates and other monetary matters. Nor have such new developments as trade-related investments, barter trade and the influence of multinationals by transfer pricing on the international markets been touched on. Although these are important, they are all matters on which the Community cannot have a direct influence with the resources available to it. However, it can influence the areas covered by this report. It is now the task and the responsibility of the Community's institutions, together with the Member States, to introduce a revised trade policy and a raw materials policy geared to modern requirements.

OPINION OF THE COMMITTEE ON AGRICULTURE, FISHERIES AND FOOD

Letter from the chairman of the committee to Mrs Katherina FOCKE;
chairman of the Committee on Development and Cooperation

Brussels,

Subject: The Community's relations with developing countries with regard to trade and raw materials

Dear Madam Chairman,

At its meeting of 17/18 December 1986[1], the Committee on Agriculture, Fisheries and Food discussed this subject on which your committee is preparing a report.

Our committee is aware of many failings in the relationship between the developed and developing countries (even the long accepted target of 0.7% of GNP as public development aid has not been achieved). Great problems also exist in the development of trade.

The development of trade between the EEC and the developing countries is of key importance, since trade generates far more revenue for most developing countries than aid. It is well known that the developing world feels that they are not given proper access to markets, and that industrialized countries regard the exports of LDCs as in some way 'unfair', with a consequent tendency to increase protectionism.

With regard to agricultural trade, the effect of heavy subsidization of sales by the EEC and the US is driving down prices to the point where farmers in Africa, Asia and South America will soon find it no longer worth while to produce. The developed countries urge increased self-sufficiency on the one hand, but make it impossible on the other!

Trends for the next few years' production and consumption show that the over-supply is likely to increase. Cereals, sugar and beef are all affected. Subsidized sugar sales by the US and EEC are resulting in the closure of Caribbean countries' sugar farms.

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1 The following took part in the vote: Mr TOLMAN, chairman; Mr MOUCHEL, vice-chairman; Mr CHIABRANDO (deputizing for Mr N. Pisoni), Mr CLINTON, Mr DALSASS, Mr FRUH, Mr GAIBISSO (deputizing for Mr Borgo), Mr GARCIA, Mr HAPPART, Mr F. PISONI, Mr ROSSI, Mrs ROTHE, Mr SIERRA BARDAJI, Mr SIMMONDS, Mr STAVROU and Mr THAREAU

It is, of course, not just subsidies that are to blame. The EC has rightly rejected all attempts to make the CAP the scapegoat, and in the final declaration of Punte del Este, attention was drawn to 'direct and indirect subsidies and other measures affecting directly or indirectly agricultural trade' (thus including such things as the US loan rate).

In the argument between the EEC and the US about what is 'fair' competition, it is the developing countries that lose out, but because of their continuing poverty and lack of purchasing power, they are unable to purchase from the developed countries. The agricultural trade policies of the EEC and US lead to a self-defeating policy which is in nobody's interest. This problem must be tackled in the forthcoming 'Uruguay Round'.

Yours sincerely,

Teun TOLMAN

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European Communities

EUROPEAN PARLIAMENT

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ANNEX

to the report drawn up by Mr Cohen
on behalf of the Committee on Development and Cooperation

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OPINION of the Committee on External Economic Relations

WG(VS1)5432E

PE 109/046/fin./Ann.

OPINION

(Rule 101 of the Rules of Procedure)

of the Committee on External Economic Relations

Draftsman: Mr BLUMENFELD

At its meeting of 12 November 1986 the Committee on External Economic Relations appointed Mr Blumenfeld draftsman of the opinion.

The committee considered the draft opinion at its meeting of 17 December 1986. It adopted the conclusions on 29 January 1987 by 13 votes to 0 with 1 abstention.

The following were present for the vote: Mr MALLET, chairman; Mr SEELER, vice-chairman; Mr TOUSSAINT, vice-chairman; Mr BLUMENFELD, rapporteur; Mr CANO PINTO (deputizing for Mr PONS GRAU), Mr ESCUDER CROFT, Mr GRIMALDOS, Mr HINDLEY, Mr LEMMER, Mrs LENZ (deputizing for Mr COSTANZO), Mr MOORHOUSE, Mr ROSSETTI, Mr SILVA DOMINGOS, Mr TRIDENTE, Mr ZAHORKA and Mr ZARGES.

I. Introduction

Over the last thirty years, development aid policy has generally not come up to expectations. The industrialized countries made funds available to the developing countries in the form of subsidies or cheap loans, some global and some linked to specific projects, with the aim of establishing the conditions for industrial development in the developing countries. With a few exceptions the developing countries have hardly made any further progress towards industrialization, especially since the start of the oil crisis in the mid-seventies. Many are now deeply in debt which they are unable to service or pay off. There has therefore been pressure for a reappraisal of development aid policy, stressing the importance of including the developing countries in the world trading system. World trade on fairer terms would help the developing countries to earn by their exports, mainly of raw materials, the funds they require to pay for the import of the goods they need for their industrialization, and to pay off their debts. This raises the questions of international trade in raw materials, of customs preferences granted by the industrial countries to the developing countries, and of non-tariff barriers used by the industrialized countries, but also by developing countries amongst themselves, to protect their markets against imports. The trade in textiles and clothing, which are of strategic importance to the industrialization process in the developing countries, must also be taken into account.

II. Trade in raw materials

Raw materials are the traditional exports of many developing countries. They tend to be dependent on the export of a small range of raw materials, the prices of which often fluctuate widely. Furthermore, for some time export prices for raw materials have tended to rise less steeply than prices for industrial goods, which are the developing countries' main imports. The latter's terms of trade have therefore considerably worsened, although there has been a certain easing of the situation in the oil sector.

A number of international raw material agreements have been concluded to compensate for such fluctutations in export prices and hence of the developing countries' export earnings. Those which are not purely administrative agreements lay down a specified bracket within which the market price for the raw material in question is kept. This is usually attempted by intervention by buffer stocks.

Experience with raw materials arrangements of this kind has not been very encouraging, as evidenced by the latest example of the International Tin Agreement. For one thing, the agreements often do not cover all main producers and consumers. In addition, longer term price trends are often not taken sufficiently into account, with the result that the buffer stocks pile up and become impossible to finance. In short, while the market price fluctuates within the target range, i.e. when a raw material agreement is not necessary, it will work, but when the price goes beyond that range, when the agreement is needed, it usually does not work.

STABEX, the system set up under the Lomé Agreement to stabilize export earnings, differs from the normal run of raw material agreements. It provides interest-free loans to the 66 ACP states in compensation for above-average loss of export earnings on over 80 commodities. The system therefore has no influence on price trends. Moreover, the amounts of compensation are limited by the budget. If legitimate claims exceed the funds available, as happened in 1981 and 1982, compensation paid over is reduced proportionately.

The main advantage of the STABEX system over the international raw materials agreements is that prices are left to perform their regulatory function and no buffer stocks are necessary. By taking a mean value over four years as the datum for determining export earnings, account is also taken of market trends. The argument against applying the STABEX system to all major export commodities of all developing countries is that huge funds would be required which would have to be diverted from other forms of development aid, especially those related to individual projects.

Trade in agricultural raw materials is a special case. While important exports of many developing countries, they are also plentiful in most of the industrialized countries. The result is that the developing and the industrialized countries are in competition on world markets. The industrialized countries often use their economic strength to subsidize their agricultural raw material exports. The developing countries, which are often climatically better suited to agriculture, lose substantial opportunities for export sales and earnings.

III. The Generalized System of Preferences (GSP)

Under this system the industrialized countries, and thus also the EEC, grant the developing countries autonomous tariff advantages. The latter, often zero rates, are linked to import quotas per commodity and per exporting country. The aim of the GSP is to give the developing countries easier access to the industrialized countries' markets and to promote industrialization in the Third World.

The Committee on External Economic Relations delivered its views most recently on 26.9.1986 in an opinion for a report on the GSP by the Committee on Development and Cooperation. The committee confirms the position it took on that occasion. The GSP can assume an important role especially in respect of the poorer developing countries. However it needs to be made more comprehensible and simplified. There must be more generous import quotas for the poorer developing countries, while those for the newly-industrialized countries could be cut back, as they are often already in a position to compete on world markets.

IV. The Multifibre Arrangement

In July this year the Multifibre Arrangement was again extended for five years. Since then the Commission has negotiated a sufficient number of bilateral agreements to propose putting MFA IV into force to the Council. In the new negotiations the main demands made by the European Parliament in a resolution on the renewal of the Multifibre Arrangement tabled by the Committee on External Economic Relations were taken into account. Development policy considerations were met by raising the import quotas for the poorer developing countries by more than the average figure. Fully competitive countries are being pressed to open their markets more to textile imports from the Community. In the long term, international trade in textiles and clothing should again be subject to the general GATT rules.

The arguments for large-scale liberalization of foreign trade in textiles are based on external economic rather than development considerations. Removal of the quantitative restrictions would mainly favour the most competitive exporters. These are for the most part newly-industrialized countries. They would be in a position to increase their exports, especially at the expense of the poorer developing countries.

V. Non-tariff barriers to trade

After the clear reductions in customs duties achieved over several GATT rounds, non-tariff barriers have come to the fore as means of protection against unwanted imports. In addition to a wealth of administrative regulations to make life difficult for exporters there are the 'voluntary' self-restraint agreements imposed by the industrialized countries on the developing countries in respect of sensitive products. Such agreements do not comply with the GATT rules, especially of Article XIX on safeguard clauses. These 'grey area' measures are being dealt with in the new GATT round. The export chances of the developing countries would be considerably improved if the industrialized countries put into effect the undertaking they gave at Punta del Este to invoke safeguard clauses in future only on a non-discriminatory and temporary basis on the terms set out in Article XIX of the GATT.

VI. South/South trade

The chances of developing independent industries in the developing countries may also be improved by intensifying the trade in goods between them, the 'South/South trade'. The developing countries have usually set up high tariff walls to protect their fledgling industries which considerably hamper that trade. There is also a wealth of administrative regulations which differ from country to country. One chance of improving South/South trade lies in the establishment of regional free trade areas, customs unions and economic communities. Incipient forms of this cooperation can be seen in South East Asia (ASEAN) and in Latin and Central America. The Community must do everything in its power to encourage such initiatives.

VII. The EEC Member States' development policies

It is essential that the development policies independently conducted by all Member governments be coordinated with Community development policy and operations. The question of subsidiarity must be raised. Development aid by the Member States encouraging industrial or commercial development for example in the developing countries, without any obligation to open their own markets to the exports they have promoted, puts the Community in an increasingly impossible position.

VIII. Conclusions

The Committee on External Economic Relations requests the Committee on Development and Cooperation to incorporate the following paragraphs in its motion for a resolution:

The European Parliament,

1. Ascribes great importance to the improvement of the developing countries' export opportunities as a way of encouraging independent economic development in the Third World which demands general and specific coordination between Community and the Member States development aid. This can be done on a complementary basis or by subsidiarity;

2. Points out that the developing countries can pay off their international debts only if they are able to earn the foreign currency required for the purpose in international trade;

3. Calls upon the Community and the other industrialized countries to take the external economic interests of the developing countries especially into account in the new round of GATT negotiations; considers it to be especially important in this connection to put rapidly into effect the commitment to rolling back protectionist measures and measures not complying with the GATT, which particularly affect the foreign trade of the developing countries;

4. Considers that excessive reliance on the export of a small number of raw materials is a great obstacle to stable development of the foreign trade of the developing countries;

5. Warns against regarding the international raw material agreements as a panacea for the developing countries' export problems, especially when those agreements attempt to maintain exaggeratedly high prices over the long term;

6. Calls upon the Community and the other industrial nations to reorganize their customs tariffs so as to give the developing countries better export opportunities for processed products;

7. Regards the industrialized countries' subsidized exports and restricted imports of agricultural products as a considerable obstacle to the export opportunities of some developing countries;

8. Considers the Generalized System of Preferences to be an important contribution to the development of independent industries in the developing countries, but hopes that this system will be simplified, made more comprehensible and oriented more to the needs of the poorest developing countries; believes in particular that for this purpose the quotas for these countries' main export commodities should be substantially increased;

9. Realizes the importance of the textile and clothing industry as the basis for independent industrial development in the Third World and therefore welcomes the fact that the newly-negotiated Multifibre Arrangement improves export opportunities especially for poorer developing countries;

10. Points out however that early liberalization of international trade in textiles and clothing would be of less benefit to the latter countries than to the newly-industrialized countries, as the main suppliers of textile and clothing products;

11. Considers the improvement of trade between the developing countries to offer an important opportunity for development, of which insufficient use has been made in the past;

12. Holds the high protectionist barriers in the developing countries especially responsible for this;

13. Advocates therefore increased regional cooperation between the developing countries.

QXW0768/86EN
Written Question No. 768/86
by Mr Pierre Lataillade (RDE - I)
to the Commission of the European Communities

Subject: Community aid for Africa

A priority aid programme for Africa was adopted unanimously on 1 June 1986 at the special session of the United Nations General Assembly.

On the basis of a five year plan the African countries have undertaken to implement economic reforms, giving priority to the revival of agriculture, and the developed countries have promised to support their efforts.

However, the debate appears to have concentrated on general concepts without any precise financial undertakings being given. Such an approach has disappointed some high-ranking Africans who have even described the session as a futile exercise.

On what scale and in what form - without indicating the precise amounts promised - does the Commission intend to provide practical aid from Europe to the African continent which is seeking a reduction of its foreign debt burden?

QXW0768/86EN
Answer given by Mr Natali
on behalf of the Commission
(17 October 1986)

The reality of the political and moral commitments made by the developed countries as regards increasing aid to Africa and adopting a more flexible approach to debt servicing, will come under scrutiny when concrete decisions are taken in the appropriate context, for example: IDA VIII, Paris Club, IFAD Special Programme for Africa, increase in the World Bank's capital and, especially, the overall trend of bilateral aid budgets.

The Commission's own aid effort is two-pronged and involves Lomé III and food aid, the implementation of which is geared to the new African realities: support for sectoral policy reforms, priority for agriculture and the food strategies in particular, rapid-disbursement non-project aid, etc.

The Commission is also seeking to encourage the Member States to coordinate their bilateral cooperation policies around these focal objectives and persuade them to support the positions set out in its communication of 10 April 1986 to the Council and Parliament entitled "Development Problems in Africa".

The Honourable Member is requested to refer also to the answer to Written Question No 639/86 by Mr Beyer de Ryke (1).

The Commission communication to the Council and Parliament prior to the UN General Assembly's special session on Africa (2) contains a number of practical proposals on finance and debt problems.

With regard to an increase in official development assistance (ODA), the Community position went no further than a reaffirmation of the undertakings previously given by the Member States regarding the ODA objective. The Community nevertheless endorsed the principle that no individual bilateral donor should, over the next five years, become a net recipient of official financial flows from African countries undertaking adjustment programmes. The Community, moreover, reaffirmed in New York its support for a USD 12 000 million replenishment of IDA resources.

Certain Member States also announced new measures to assist African countries.

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(1) OJ C
(2) COM(86) 179 final.