

COMMUNITY POLICY FOR THE NORTH/SOUTH DIALOGUE

- Second report

441.2(4)

I. INTRODUCTION

1. The seriousness of the economic and financial difficulties facing both Third World and industrialized countries makes it essential, in addition to taking the necessary steps to ensure internal economic recovery and adjustment, to devise concerted international solutions to the most pressing problems: energy, finance, food problems, trade and raw materials. The extent and durability of these problems threaten international political stability. The interrelation between the various areas and the increased interdependence between industrialized and developing countries make the North/South Dialogue an essential component of this collective endeavour.
2. The aims in view are, on the one hand, world economic recovery and, on the other hand, a better integration of the developing countries into the international economic system in terms of both rights and responsibilities, together with a speeding up of their development.
3. With this in mind, the Community reaffirms the importance it attaches to the North/South Dialogue in all its forms and its desire to take part as soon as possible in renewed efforts to reach basic general agreement which would enable the global negotiations to begin.

4. With a view to the active continuation of the Dialogue which the Community desires and to which it intends to contribute, the European Council in Luxembourg (29 and 30 June 1981) agreed on the basic guidelines for Community action set out in the report submitted by the Foreign Affairs Council (7711/81). Since then, the Community authorities and the Member States have endeavoured to develop certain aspects of their North/South policy more fully, thus clarifying and broadening some points in the basic guidelines for Community action.

II. THE ENERGY SITUATION

1. The current easing of the situation on the international oil market should not be allowed to conceal the precariousness of the medium and long-term equilibrium between energy supply and demand, nor should it lead one to underestimate the scale of the economic adjustments to be made in both industrialized and developing countries to meet this situation and particularly the high cost of energy. Therefore:
 - at internal level, the consumer countries, and particularly the industrialized countries, must reduce the ratio between economic growth and overall demand for energy and the proportion of their energy consumption represented by oil;
 - internationally, the main objective is to create conditions for a smooth transition to a world economy less dependent on oil. In this connection it remains essential, despite the difficulties encountered in recent years, to establish a constructive dialogue between energy producers and consumers.

2. Energy problems should therefore have an important place in the North/South Dialogue; the global negotiations offer an opportunity for this.

3. The Community sets the following as its prime objectives in this dialogue:

- (a) to create the conditions for a joint analysis of the world energy situation by producers and consumers with a view to facing up to market prospects and encouraging more predictable behaviour.

Since there is at present no institutional framework for this at multilateral level, it would be necessary to create a forum for energy matters within the United Nations or another appropriate framework;

- (b) to accelerate and encourage the development of energy sources in non-oil countries and particularly in oil-importing developing countries.

The method of achieving this must meet two main criteria:

- it must significantly increase the financial resources currently available to developing countries at multilateral level, thereby also increasing the flow of private investment;
- it must involve oil-producing countries in joint action with industrialized countries so that they can be progressively integrated into a system of co-responsibility vis-à-vis other developing countries.

Although it should not exclude other forms of intervention, the establishment of an energy affiliate of the World Bank could meet these criteria and contribute to the attainment of the objective.

4. It should be noted that the adoption by the United Nations Conference on New and Renewable Energy Sources (Nairobi, August 1981) of a programme of action is an initial but very important contribution to energy development in oil-importing developing countries. The Community played an active and constructive part throughout the Conference and also intends to take part with vigour and determination to achieve results in the proceedings of the Interim Committee and the 37th session of the United Nations General Assembly which are to endeavour to reach agreement on the questions which remained unresolved in Nairobi.

III. BALANCE-OF-PAYMENTS AND DEVELOPMENT FINANCING

1. Non-oil developing countries' external finance requirements in the 1980s will be very high. The negative effect of the recession in the industrialized countries on their exports and on commodity prices, the need for structural adjustment of their economies resulting from the increase in energy prices, and food-supply constraints, will cause the developing countries to resort increasingly to external finance. In addition to official transfers, the banking system contributes in large measure to the mobilization of the necessary capital, particularly by recycling a large part of the oil-producing countries' surpluses to developing countries. This mobilization - which has been of little benefit to the poorest countries, which are hardly in a position to contract loans on market terms - has not prevented a slow-down in growth in most other developing countries. Moreover, growth has been maintained at the expense of considerable, and in some cases excessive, increases in foreign debts. The present escalation of interest rates also has an unfavourable effect on developing countries' opportunities for development.

2. (a) It is therefore important that developing countries' balance-of-payments deficits should be financed over the next few years in such a way as to encourage better channelling of capital flows and effectively to promote the process of structural adjustment in the countries concerned. This requires an intensification of the developing countries' own endeavours and a suitable combination of private and official aid.

- (b) With regard to official development assistance, the Community and the Member States remain committed to the target of 0.7% of GNP, despite the present budgetary difficulties. ODA remains a prerequisite for the desired improvement in development financing, particularly in the poorest and least-developed countries.

It will be noted in this connection that at the recent Paris Conference on the LLDCs the Community representative said that as part of the effort they were making individually to reach, and if possible exceed, the target of 0.7% of GNP, the Member States of the European Community who granted aid were setting themselves the target of 0.15% of GNP in ODA to the LLDCs and certain Member States had already exceeded this target. By adopting this stance the Community made a particularly significant contribution to the success of the Paris Conference.

The Community should emphasize the need to secure a more equitable division of the aid burden between all the countries which can afford it.

- (c) With regard to private funds, the Community will encourage international initiatives designed to mobilize such funds to the advantage of developing countries. It will support operations, such as co-financing by national or multilateral official funds and private funds or by industrialized countries and OPEC countries in surplus, which will direct the funds towards projects such as energy and food development likely to improve the economic structures of developing countries.
3. The aid capacity of the multilateral institutions must be increased. In this connection, the Community stresses the need for the IMF to continue to increase its financial capacity without stepping outside the necessary conditionality governing its credits

and while retaining its powers and monetary character. In the case of the World Bank, leaving aside the idea of an energy affiliate which has already been mooted, there are two high-priority objectives: replenishment of the resources of the IDA for the sixth time and doubling of the Bank's capital.

4. It was noted that the following problems would require examination at internal Community level:

- given that multilateral financing of non-oil-producing countries' deficits must be improved, ways should be found of improving the quantity and quality of the Bank's and the Fund's means of action;
- with regard to the recycling of OPEC surpluses, consideration should be given to the problems arising in connection with the investment of those surpluses on the industrialized countries' capital markets (e.g. general **functioning of these markets, diversifying investment and ensuring greater security for it**) and with the indebtedness of borrower countries (e.g. measures to increase the solvency of borrower countries).

The Council ask the Monetary Committee to give its opinion on these matters.

IV. FOOD SECURITY

1. Despite major progress in some parts of the world, the acute food shortage in many developing countries is unacceptable in human terms.

The Community institutions have recently given particular attention to combating world hunger, particularly following the Italian Government's initiative at the Ottawa Summit.

The General Affairs Council on 26 and 27 October 1981 and the Development Council on 3 November 1981 approved a plan of action to combat world hunger. This plan consists essentially of the following four types of action: an exceptional increase in food aid to the least-developed countries; support for the preparation and implementation of developing countries' food strategies; support for regional measures to safeguard and make the best use of developing countries' agricultural potential; improving developing countries' security of supply.

2. The solution to the problem of world hunger lies first and foremost in suitable growth and in the optimum conservation of food production in developing countries. Agricultural and food strategies must be adopted and implemented in each of these countries. This is a long-term endeavour for which international financial and technical assistance must be available.

The Community is prepared to contribute both by increasing the proportion of its aid earmarked for this purpose, when this is requested, and by improving the application of this aid.

Local efforts to reduce post-harvest losses must also be supported. This involves developing the infrastructures necessary for the transport, preservation and distribution of food products in the developing countries.

An appropriate population policy could also help to combat malnutrition in some developing countries.

3. Most developing countries will have to continue to resort to international markets for a long time to come. Efforts will therefore have to be made in all international negotiations concerning these markets to devise means of ensuring greater security and predictability. The conclusion of a new wheat agreement is essential in this connection. It is also essential that all countries be in a position to contribute to a better balance between world supply and demand in agricultural products. Finally, sufficient importance must be given to providing aid in cash or in kind for the stocking policies implemented by the developing countries at national or regional level. Co-ordination of national food reserves at regional level should also be encouraged.

4. (a) Until the rural-development policies to be implemented by the developing countries (see 2 above) show results - and this will of necessity be a gradual process - food aid will continue to be necessary as a means of meeting the urgent needs of developing countries faced with a shortfall in supplies.

Food aid should not be permanent, should be integrated into the food strategy of the recipient country and, in order to encourage local production, should be combined with other forms of technical and financial aid, including the use of counterpart funds.

- (b) Under the new Food Aid Convention, which has been extended to June 1983, the Community raised its aid commitment from 1,200,000 to 1,650,000 tonnes of cereals, a large part of which is shipped by multilateral organizations. It stresses the need to attract new donors for the Food Aid Convention.

The Community has asked other donors to contribute to the subsequent maintenance of the international emergency food reserve at the level of 500,000 tonnes which it will have reached for the first time in 1981 as a result of the measures recently laid down by the Council.

5. The Community stresses the need to continue and intensify efforts to achieve a more secure food supply situation in the developing countries by means both of its own action and of that taken in an international context (see conclusions of the Council of 3 November on the plan of action to combat world hunger).

(a) In this connection the Community intends to observe with care the implementation of the mechanism which has just been set up under the IMF compensatory financing system to help the developing countries deal with the increased cost of their cereal imports.

(b) Moreover, the Community again confirms the importance it attaches to the continuation of IFAD activities and reiterates that speedy replenishment of its funds is essential. It calls upon the other donor countries to give the necessary undertakings - as the Community has already done.

V. TRADE AND THE RESTRUCTURING OF INDUSTRY

1. The Community continues to regard the maintenance of an open system of international trade as a fundamental principle which alone can guarantee the dissemination of technological progress and a fair distribution of resources throughout the world. It stresses the need for all countries to participate in resisting protectionist pressures.

2. The Community's policy is to open its markets to the Third World. Under the second Lomé Convention, the preferential agreements with Mediterranean countries and the GSP, most of those countries' exports have free or preferential access to the markets of the Ten.

Percentage of imports into the Community from developing countries which are duty-free or subject to preferential duties		
	Manufactured goods	Agricultural products
ACP countries	100% at zero duty	98.1% at zero duty
Mediterranean countries	100% at zero duty	15% at zero duty about 40% at preferential duty
Other developing countries	about 24% under GSP arrangements (zero or preferential duties)	33% at zero duty (Common Customs Tariff or GSP) 35 to 40% at preferential duty (GSP) or reduced under Tokyo round

The Community has thus become the developing countries' prime trading partner, both for manufactured goods (including textiles) and for agricultural products, as shown in the attached table.

Despite the mutual adjustment required, the development of trade with the developing countries has been a very positive feature of the world economic situation in recent years. The Community intends to increase and diversify such trade which has also brought considerable net profit to the EEC.

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3. At multilateral level the Community should endeavour to obtain wider adherence to and actual compliance with the codes of conduct negotiated in the MTN and to prevent any erosion of the rules governing international trade. It would also like the most industrialized countries in the Third World to bring about a gradual reduction in the obstacles to penetration of their markets in certain sectors.

The ministerial meeting which GATT intends to hold will also be of major significance for trade relations between industrialized and developing countries ⁽¹⁾.

4. The policy of opening its markets to industrial products from the Third World, which the Community intends to continue, requires constant adjustment of its industrial structures. In view of this, and bearing in mind sectoral and regional difficulties, which are particularly severe in certain areas of the Community, this issue must be dealt with very carefully in order to avoid unfavourable economic and social repercussions.

In the context of this process of structural adjustment, information and consultations should be developed.

5. The Community notes with interest the efforts being made by the developing countries to increase their economic co-operation and particularly their trade among themselves. It emphasizes that this policy should lead to a greater liberalization of world trade and should gradually be integrated into the GATT system.

(¹) The delegations stressed that, in preparation for both the Global Negotiations and the GATT ministerial meeting, it would be useful for the Commission to submit the results of its consideration of the problems raised by relations with newly industrialized countries, particularly on trade, to the Council as soon as possible.

VI. COMMODITIES

1. There are two main problems in connection with commodities: price trends and the flow of investments.

The continuing instability of prices is a matter of concern to the developing countries in terms of both their purchasing power and their export earnings and is not in the general interest. The inadequate flow of investment, particularly in mining, may well mean that exploitable resources will not meet the future needs of the world economy in all cases.

2. A Community policy on commodities should be based on a set of mutually complementary objectives and instruments.

(a) Stabilizing commodity prices

It is important to proceed with the implementation of the UNCTAD Integrated Programme for Commodities by continuing to negotiate international commodity agreements in appropriate cases wherever economic conditions permit ⁽¹⁾; moreover, the speediest possible implementation of the Agreement on the Common Fund (which the Community and its Member States signed in 1981) is of paramount importance. The financial prospects thereby opened up should be used to promote the raw-materials economy in the interests of the developing countries.

⁽¹⁾ The text of the statement made by the Netherlands delegation on this matter is given in the minutes of the Council meeting of 7 and 8 December 1981.

(b) Stabilizing export earnings

Further to UNCTAD Resolution 125 (V), the UNCTAD Secretariat will shortly be circulating a study of the various existing and proposed systems. At the Paris Conference on LLDCs in August 1981 it was agreed to **study means of compensating the LLDCs for export revenue losses on commodities.**

It is only in the light of the UNCTAD document and of the conclusions of the study **undertaken after the Paris Conference that the Community will be able to assess the precise value and cost of the various suggestions made.**

(c) Developing on-the-spot processing and diversifying production in developing countries

The Community should approach the problem of on-the-spot processing in a constructive spirit based on the principle of comparative **advantages.** ⁽¹⁾

In terms of commercial policy this approach should lead to a more open attitude to imports of some products resulting from on-the-spot initial processing of developing countries' raw materials.

The Community should also facilitate the diversification of production in the developing countries and increase scientific and technical co-operation with these countries with a view to making economic use of their natural resources.

To achieve this, European industry should be encouraged to take an active part in development in developing countries, **mainly by transferring technology but also by taking holdings and perhaps even reciprocal holdings, which would consolidate the interdependence, and therefore the security, of the parties concerned.**

⁽¹⁾ In this connection the Irish delegation pointed out that the principle of comparative advantages could not be interpreted as including measures such as taxes on the export of raw materials or non-tariff trade barriers aimed at giving producers of processed goods in the developing countries an advantage over producers of the same goods in the Community.

(d) Development of the natural resources of developing countries

World supplies to industry of certain commodities are threatened by insufficient investment. In order to ensure supplies in future, it is a matter of common interest and increasing urgency that the world's natural resources be economically exploited, particularly by means of investment in the developing countries, with the aim of achieving increasing interdependence of economies, the recovery of the world economy and the greater prosperity of the less developed countries.

The Community should initiate a dialogue with the developing countries in which it should attempt to convince them

- that their chances of achieving their industrialization targets depend at least as much on their ability to increase the profitable exploitation of their natural resources as on market access to be granted by industrialized countries;
- that, insofar as external assistance is necessary, the magnitude of the financial flows involved will be out of all proportion to what ODA and the international financial institutions can offer and that it must therefore be accepted that the Third World can be industrialized as quickly as is desirable only with considerable private financial and technological assistance, which will only materialize in a suitable investment climate.

In conclusion, the Community considers it necessary to encourage increased participation by multilateral financial institutions in mining projects.

I. IMPORTS INTO THE COMMUNITY, THE UNITED STATES AND JAPAN FROM DEVELOPING COUNTRIES ⁽¹⁾ - 1979

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	Community	United States	Japan
<u>Manufactured goods</u>			
. imports in US \$1,000 million	31.41	25.69	6.27
. imports as a % of GDP in each area	1.31	1.09	0.63
<u>including</u>			
Textiles and clothing			
. imports in US \$1,000 million	9.36	5.76	2.27
. imports as a % of GDP in each area	0.39	0.25	0.23
<u>Agricultural products and foodstuffs</u>			
. imports in US \$1,000 million	24.55	11.55	5.62
. imports as a % of GDP in each area	1.02	0.49	0.56

har/SMS/sgd

⁽¹⁾ From the list adopted by the World Bank and the DAC.

Source: GATT