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European Communities Press and Information

Background Note

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The European Community and UNCTAD

At the third conference of the United Nations Committee for Trade and Development (UNCTAD III) now drawing to a close in Santiago, Chile, the European Community has presented a common position.

The essential points of this position were outlined by Gaston Thorn, Luxembourg Foreign Minister and current President of the Community's Council of Ministers.

1. The least developed countries should be given priority and a specific aid programme drawn up to help them. (Of the Community's African associates, eight come into this category).

2. Attention must be paid to the purchasing power of the developing countries, to which so much importance is attached by the developing countries themselves. The Community will be ready to consider adjustments to the terms of trade and to the price structure for the basic products which make up the bulk of the developing countries, to which so much importance is attached by the developing countries themselves. The Community will be ready to consider adjustments to the terms of trade and to the price structure for the basic products which make up the bulk of the developing countries' exports. The Community wants a world cocoa agreement and is ready to negotiate on sugar.

The Community may also make proposals on tea, jute and fats. The Community already participates in world agreements on tea, coffee, wheat, olive oil and in consultation on zinc, rubber and lead.

3. The Community will be ready to consider improving and expanding the present system of generalized preferences for imports of manufactures and semi-manufactures from developing countries.

4. World monetary policy must take account of the special needs of the developing countries.

5. If the exports of the developing countries are to be increased, it will not be enough simply to open up the markets of the developed countries.

6. The developing countries should be helped to build up economic integration between themselves on a regional basis.

The Community of the Six is the world's largest importer of basic commodities and in 1971 took over a third of the total imports of the developing countries' products. Since 1958 Community imports from the developing countries as a whole have increased by 166 per cent, from $6.8 billion to $17.7 billion in 1971. Community exports to the developing countries have risen more slowly, from $6.1 billion in 1958 to $12.9 billion in 1971, or 111 per cent. The Community's steadily increasing trade deficit with the developing countries has helped them finance their own deficit with other developed countries.

The Community has always followed liberal trade policies with regard to the developing countries. For products particularly important to the developing countries, and at their request, the Community speeded up the tariff cuts agreed in the Kennedy Round talks. Tariff concessions have been made for certain textile imports.

Since 1963 the Community has totally or in part removed import tariffs on tea, tropical woods, cashew nuts, gum, certain spices and other basic products.

The association with the Community of 17 African countries and Madagascar ("The Eighteen") has given the Community valuable experience in the field of development aid. The association, based on genuine partnership, has proved itself an effective and helpful framework for the economic development of the associated countries. The system is a highly flexible one, combining the advantages of multilateral aid, institutional cooperation in which the developing countries are on an equal footing with the rich countries, and regional cooperation among the associates. It is the most comprehensive development aid system in the world.

Community grants and "soft" loans under the original association convention (1958-63) and the first and second Yaounde conventions (1964-69 and 1971-75) totalled 2,381 million units of account (1 u/a = 1$ before the devaluation of 1971).

Table I   Financial aid provided under the EEC Treaty and the first and second Yaounde Conventions

Beneficiaries	EEC Treaty 1st European Development Fund	First Yaounde Convention				Second Yaounde Convention			
		Second European Development Fund		European Investment Bank	Total		Third European Development Fund	European Investment Bank	Total
	Grants	Grants	Special loans	Ordinary loans		Grants	Special loans	Ordinary loans	
African associates and Madagascar	......	620	46	64	730	748	80	90	918
Overseas departments	......	60	4	6	70	62	10	10	82
of which:									
French	......	30	2	3	35	30	6	5	41
Dutch	......	30	2	3	35	32	4	5	41
TOTAL	581.25	680	50	70	800	810	90	100	1.000

u/a = 1 US $ before 1971 devaluation

In 1970 the total flow of official and private aid from the Six to the developing countries and to multilateral aid agencies, including the European Development Fund, totalled $4.8 billion compared with $6.0 billion from the United States.

In 1968 the Six agreed (in addition to separate arrangements made by the member countries) to provide food aid to the developing countries worth about $66 million at world market prices over a three-year period. They agreed to supply a similar amount during a second three-year period beginning on July 1, 1971.

In 1968, the total flow of financial aid to Africa, Asia, and Latin America was $12,220 million. Of this, $11,052 million was provided by developed countries with a market economy, $843 million by multilateral institutions and $325 million by the state-economy countries of East Europe and Asia.

The Community and the least developed countries

The United Nations has identified a group of 25 countries as being in special need of development aid. These are as follows:

Africa

Community associates:

Burundi, Dahomey, Upper Volta, Mali, Niger, Rwanda, Somalia, Chad.

Commonwealth countries, potential associates

Botswana, Lesotho, Malawi.

Others

Ethiopia, Guinea, Sudan.

Asia and the Middle East

Afghanistan, Butan, Laos, Maldives, Nepal, West Samoa (Commonwealth potential associate) Sikkim and Yemen.

Latin America

Haiti

The Community believes that this group of 25 countries should be given priority. In the two-year period 1968-70 the Community of Ten was by far the most important single source of aid to these countries, directly or indirectly supplying well over half the total. Of the multilateral aid given to underdeveloped countries as a whole by the Community 21 per cent went to the least developed. The corresponding percentage for other international aid was 10 per cent and for all aid only six per cent.

Table II Public aid to the 25 least developed countries

	Average per year 1960-67	Average per year 1968-70
	Total $ million	Total $ million
Bilateral aid		
1. European Community:		
Belgium	10.9	18.5
West Germany	23.4	35.2
France	27.1	59.7
Italy	15.3	25.2
Netherlands	0.2	1.2
Total EEC	76.9	139.8
II. Applicants:		
UK	77.7	51.6
Denmark	0.3	5.2
Norway	0.6	1.9
III. Community of Ten	155.5	198.5
IV. Other donors:		
United States	145.3	101.7
Japan	2.2	4.7
V. Total bilateral aid	309.5	334.1
Multilateral aid:		
I. World Banks	14.9	43.2
II. Regional Banks	- 3.2	- 2.7
III. United Nations agencies	17.8	43.7
IV. European Community	21.0	39.3
V. Total multilateral aid	50.5	123.5
Total general	360.0	457.6

Aid represents declining share of rich countries' wealth

In 1970, the Community of Ten provided 41 per cent of all aid to developing countries, the United States 37 per cent and Japan 12 per cent. From 1960 to 1970 the Ten's aid increased by 68 per cent, and United States aid by only 41 per cent. Japanese aid increased by 640 per cent but at the starting point in 1960 was very small.

But as a percentage of gross national product, public aid declined sharply between 1960 and 1970 from 1.1 to 0.42 per cent for the Community of Six, from 0.56 to 0.37 per cent for Britain and from 0.45 to 0.31 per cent for the United States.

Moreover, the total aid given to the developing countries does not even cover their current payments deficit. In 1969, the developing countries had a trade deficit of $5,800 million. In addition, there was an outflow of $6,800 in the form of interest and dividends on capital, making a total deficit of $12,600 million. Total aid of all kinds for 1969 was only about $12,000 million. And as Commission President Sicco Mansholt has pointed out, the public debts of the developing countries amount to $60 billion and are increasing twice as fast as exports.

Structural problems

Many developing countries are very dependent on the export of one or two agricultural products such as coffee, sugar, cocoa, cotton and rubber. Agricultural exports of this kind account for a little less than a third of the developing countries' total exports. Their value has barely risen since 1955. There are many reasons for this, including saturation of the rich countries' markets, price fluctuations, competition from synthetic products, import barriers and farming aids in the developed countries.

Diversification of the developing countries' economies is therefore an urgent need. Experience has shown that it cannot be effectively achieved by taking isolated measures under the pressure of events and without a coherent plan. A global approach is needed.

The developed countries should in the management of their own economies be ready to take account of the economic problems of the developing countries and their need to diversify their economies.

President Mansholt's proposals

On April 17, 1972, Dr. Mansholt told the conference he expected growing public pressure in the Community of Ten to push governments to do more for the developing world and do it more quickly.

He pointed out that world monetary difficulties have increased the pressure on commodity prices and further reduced the purchasing power of the developing countries' foreign exchange reserves. The tendency for real aid flows to stagnate has been increased.

One way to help the developing countries, Dr. Mansholt suggested, would be to give them an allocation of special drawing rights (SDRs) when these are next augmented. Even the proposed increased target for public aid to the developing countries (a doubling of the present 0.35 per cent of gross national product (GNP) used for this purpose to 0.7 per cent by 1975) might not prove enough. If aid is given on unreasonably hard terms or merely to compensate for worsening terms of trade, aid can even be a burden, Dr. Mansholt said. The $60-billion public debts of the developing countries are increasing twice as fast as export earnings.

An objective of the Second Development decade is to achieve a 15 per cent annual growth rate in the developing countries' exports of manufactured goods. This would not be easy since it involved quadrupling the present level of these exports, from $7 billion to $28 billion, by 1980, Dr. Mansholt said. However, the increase was equivalent to only seven per cent of total world imports and to only one per cent of the developed countries' GNP. It could be achieved if aid were stepped up and commercial policy as well as trade were liberalized. Tariff reform should favour the transformation of primary products into manufactured goods in the developing countries, and a larger part of the developed countries' market should be made available for the import of these goods.

Dr. Mansholt said that the farm reforms planned would allow the Community to be less protective, and would involve public aid of up to $5 billion in the next few years. This should make possible an increase of imports of products for which the developing countries are competitive, e.g. sugar, cereals, fats and oils. A series of agreements should be negotiated for the stabilization of commodity prices, he suggested.