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REPORT

drawn up on behalf of the Committee on Economic and Monetary Affairs

on the recycling of Petrodollars

Rapporteur : Mr. J. PURVIS

PE 8o.462/fin

English Edition

On 12 January 1981 a motion for a resolution (Doc. 1-779/80) on the creation of a European financial instrument for recycling petrodollars to increase and diversify world energy supplies was referred to the Committee on Economic and Monetary Affairs as the committee responsible, and to the Committees on Energy and Research, and on Development and Cooperation for their opinions.

On 19 March 1981 the Committee on Economic and Monetary Affairs appointed Mr. J. Purvis as rapporteur. It considered the draft report at its meetings on 23 - 24 November, 30 November - 1 December 1982 and 24 - 25 January 1983, and adopted it on the latter date by a unanimous vote with 5 abstentions.

PARTICIPATED IN THE VOTE

Mr Moreau, chairman; Mr Hopper, vice-chairman; Mr Purvis, rapporteur; Mr Beazley; Mr von Bismarck; Mr Bonaccini; Mr Caborn; Mr Carossino (deputizing for Mr Fernandez); Mr Franz; Mr Leonardi; Mr Nordmann; Mr Nyborg; Mr Papantoniou; Mr Rogalla (deputizing for Mr Walter); Mr Rogers; Mr Seal (deputizing for Mr Schwarzenberg).

The opinions of the Committee on Energy and Research and the Committee on Development and Cooperation are attached.

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The Committee on Economic and Monetary Affairs hereby submits to the European Parliament the following Motion for a Resolution together with Explanatory Statement

MOTION FOR A RESOLUTION

on the recycling of petrodollars

The European Parliament,

- having regard to the Motion for a Resolution tabled by Mr Muller-Herman, and others (Doc. 1-799/80),
- having further regard to the Motion for a Resolution tabled by Mr Sayn-Wittgenstein (Doc. 1-498/82) and to Parliament's previously adopted resolution on trade relations between the EEC and the Gulf States,
- having regard to the report of the Committee on Economic and Monetary Affairs and the opinions of the Committee on Energy and Research and of the Committee on Development and Cooperation (Doc. 1-1197/82),

Considering that -

a) inflation in the industrialised countries and the resulting massive increases in energy costs have dealt a severe blow to growth prospects in both the developed and developing world;

b) a substantial number of the least developed countries are in a critical financial condition with dire effects on the well-being of their peoples and the stability of the world;

c) even though there has been a substantial adjustment to and recycling of financial resources, these have not reached those countries most in need and on terms they can accommodate;

d) there is an obvious need for more rational use of the world's finite energy resources through more efficient use and conservation, and the development of alternative and renewable energy sources, thus necessitating considerable investment in both the industrialised and less developed countries;

(e) a lack of adequately evaluated projects, in the less developed countries, is a major problem, and this is further exacerbated by a shortage of skilled technical and managerial people;

(f) another problem is the reduced investment capacity of the private sector in all the Member States and the excessive public sector borrowing which prevent the European Community from honouring its obligations to the developing countries;

(g) the commercial banking and financial industries world-wide have provided an effective means of recycling oil derived financial surpluses from the oil surplus countries to the industrialised, newly industrialised and the best few of the developing countries but have been unable to support the needs of the less developed countries within the parameters of normal financial prudence;

(h) the supranational organisations (IMF, IBRD, IDA, UN) have made a considerable effort to meet the problem of imbalance in world financial and investment flows but are constrained by

- the sheer scale of the problem especially in the least developed countries

- the concern they must maintain for the interests of their depositors and fund providers

- the inability of many countries to bring forward, manage and administer viable schemes

- the prime concern of the traditional fund providers (the industrialised countries of Europe and North America) to set their own economies and finances to rights, thus restricting their ability to provide adequate funding on appropriate terms

- the unwillingness of the founding controlling countries to admit newly industrialised countries and oil surplus countries to their rightful say and thus discouraging greater contributions from them;

(i) the predominant position of the US dollar in world trade and finance, exposes all development and economic policies to the full effects of American economic and monetary policy, whose prime concern is the domestic American scene and its own political and economic priorities, rather than concern for the world scene;

(j) the interests of the European Community are much more closely aligned and intertwined, than American interests, with the oil producing and developing countries;

Resolves that -

1. The European Community has a responsibility to its own inhabitants and the rest of the world to play its full part in easing the flows of necessary investment resources to mitigating the effects of energy prices on its own economy and that of the developing world.

2. The first concern must be to restore equilibrium in the European economy itself in that this could be the necessary power house in terms of trade, aid and investment to promote growth in the developing world as well.

3. The European Community, and other industrialised countries, have an obligation to continue and reinforce existing policies aimed towards reducing demand for non-renewable energies so as to ease pressure on prices for the less developed countries as well.

4. **The European Community should promote and develop close formalised relationships with (a) the oil surplus countries, and (b) the oil surplus countries and less developed countries together, with the purpose of discussing, defining and monitoring the mechanisms necessary to achieve an improved mobilisation of available resources.**

5. The conditions necessary for the introduction of the ECU as a common currency for the European Community representing the strength of the EEC's economy as a whole must be created as soon as possible.so that it can provide a credible alternative to the US dollar in trade commodity pricing (including oil) and investment flows on a world scale.

6. Such influence can be exercised in particular, in the direction of changing existing voting rights and influence in ways that ensure a better representation of the interests, of less developed countries, newly industrialised countries and the oil surplus States.

7. While welcoming the agreement in principle by the Group of Ten to increase substantially the resources of the IMF in order to help it meet the threat to the World Monetary System caused by the indebtedness of certain developing and Eastern European countries, calls on the Community, the Member States and commercial banks concerned to ensure this is followed up in concrete terms and reinforced by a firm commitment to uphold stability in the Monetary System.

8. The European Community should act as one in the councils of the IMF, IBRD, IDA and other supranational agencies, in line with its perception of the political and economic priorities in the world, and thereby exert much more positive influence than its Member States do at present.

9. Artificial, and probably counter-productive, mechanisms such as a Community oil-purchasing agency, index-linked Community guaranteed bonds to attract oil surplus funds and fixed prices for oil are unsuitable as a means of achieving the desired improvement in movements of capital and in the world financial markets.

10. The Community jointly with a grouping of oil surplus countries should consider establishing with the requisite equity capital, a jointly owned affiliate of the European Investment Bank and Arab equivalent (eg Arab Development Bank) to specialise in the financing of energy-related investments in Europe, the Middle East and the less developed countries, including in particular global loans for the support of small-scale appropriate technology schemes in non-oil-producing developing countries, and that substantial interest rate abatements should be available from the EEC budget and/or OSC country budgets where appropriate.

11. Priority should be given in the Community for -

- an integrated natural gas grid linking all Europe to supplies from the North Sea (Norwegian and British Northern sectors), North Africa, Middle East and USSR with the Southern North Sea fields (UK and Netherlands) incorporated as reservoirs
- nuclear power and uranium supply
- alternative and renewable energies
- coal-field development, infrastructure and technology
- a community electricity grid, cogeneration and CHP schemes
- research into new industrial technologies
- transport infrastructure.

12. Priority should be given in the Less Developed Countries for -

- agriculture, food production and primary crop processing
- administration and management training
- exploiting even small-scale indigenous energy resources.

13. Priority should be given in the Oil Surplus Countries for -

- energy resource maximalisation
- adding value to energy resources
- social and transport infrastructure
- investment management skills.

14. The less developed countries must be able to justify assistance and investment at least to the extent of providing the environment necessary to give a reasonable assurance of success, including -

- adequate administrative machinery at central and local government levels
- assuring reasonable returns to outside investors, lenders patent holders, etc.

- giving top priority to self-sufficiency in food, energy and provision of essential infrastructural services, especially education
- encouraging enterprise by their own inhabitants and avoiding grandiose schemes and projects which are either unnecessary for the country's development or divert available human and financial resources from other more necessary projects.

15. The Community, if possible jointly with the Oil Surplus Countries should set up a task force to identify worthwhile large scale and infrastructural projects in (a) the less developed countries (b) the oil surplus countries and (c) the EEC itself, to which resources (both human and financial) should be directed and which will most readily achieve the priority objectives.

16. The Community should promote a preliminary scientific study of potential energy resources in the seas and unexplored land areas of the world, to be followed by more detailed study where justified, the results of which can be sold to commercial exploitation companies or governments as appropriate.

17. Calls on the Commission to implement the recommendations detailed above and to report to the European Parliament and Council of Ministers within 9 months on the steps taken or proposed to be taken pursuant to this resolution.

18. Asks its President to forward this resolution to the President of the EEC Commission, President in Office of the Council of Ministers, the Joint Chairman of the EEC/ACP Parliamentary Assembly, the Council for cooperation of the Gulf States, the Presidents of OPEC, IMF and IBRD.

B

EXPLANATORY STATEMENT

I. ACKNOWLEDGEMENTS

1. The rapporteur would like to express his appreciation to the representatives of OPEC, OPEC Fund, the IMF, IBRD (World Bank), European Investment Bank, the EEC Commission, the Federal Reserve Bank in Washington, commercial international banks and other authorities, for the time and trouble they took to provide information and discuss the various options. This report would have had precious little validity without all this help and advice. If it were not for constraints of time and money, further consultations might well have been beneficial. Although in this report and the attached motion for a resolution, the case is as fully argued as possible, it is to be hoped that it will also prompt further discussion so that the EEC institutions can take what action they deem advisable on the best reasoned basis possible.

2. Opinions were sought and received from the European Parliament's Committees on Energy and Research (1), regarding the energy aspects, and on Development and Cooperation (2), regarding the particular needs and problems of the less developed countries. These opinions are most comprehensive and useful and have been taken into full account in the preparation of this explanatory statement (and the motion for resolution). The rapporteur would like to thank the draftsmen of these opinions (Mr. Muller-Herman and Mr. Fuchs) for their valuable contributions.

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(1) PE 76.961

(2) PE 77.871

II. THE PROBLEM

3. Recycling of world liquidity is not a new problem. It has existed wherever one economic entity has amassed over any significant period of time an undue proportion of the world's monetary assets. The depression of the 1930's is often ascribed to the USA's positive balance of payments and its sterilisation in the form of increasing gold reserves. The post World War II period was characterised by the Americans 'recycling' their amassed reserves first by the Marshall Plan, followed by many years of deficit financing. In this way the dollar shortage of the 1940s became the dollar glut of the 1960s and 1970s. Nevertheless the availability of these resources in the world financial markets provided the wherewithal for the growth of those decades.

4. With the Vietnam war the extent of these US dollar balances was expanded so enormously, that the convertibility of the US dollar into gold at the fixed price of $35 had to be abandoned and the purchasing power of US dollars held by foreigners was impaired by the resulting inflation.

5. This particularly affected the oil exporting countries who reacted by forming a cartel (OPEC) to safeguard their interests. The method chosen was to force increases in the export price of their oil to compensate for the devaluation of the currency they received in exchange.

6. Although this action was precipitated by the Arab-Israel war of 1973, it is quite probable that some such action would have been taken anyway for reasons of commercial interest.

7. In the era of cheap and cheapening oil supplies, the industrialised countries (ICs) had naturally became more and more

reliant on this cheap source of primary energy to the discounting of other sources of energy and energy conservation.

8. The 'first oil price shock' of 1973 therefore shook the ICs into a greater awareness of their economic and political dependence on oil and OPEC oil in particular. The process towards diversification of sources of supply and towards greater energy efficiency was set in train, though such a process involves an inevitable time lag, which is still working through 10 years later.

9. Another result of this 'shock' was the sudden accrual of financial resources to the oil exporting countries and away from the importers. It was to take time for these resources to find their way back into the world's financial arteries in the form of consumption of industrial products or investment. The time lag in the event was only about 4 years before the 'surpluses' had been redistributed, equilibrium (albeit on an altered plane) regained and the temptation for another 'shock' attempt arose.

10. The 'second oil price shock' duly occurred in 1979 and the IC economies, just having adjusted to the first, were again squeezed. The cumulative result is best evidenced in the growth of unemployment and much reduced rate of economic growth. And this in spite of significant shifts in the relationship between economic growth and the increase in energy consumption.

11. If the effect was serious for the ICs, it was all the more so for the LDCs and in particular the oil-importing LDCs. They were hit by the reduction in demand for their raw material exports by the depressed ICs and by the financial drain resulting from the massive increase in their oil import costs, which was all the more serious in that any economic growth in such basic economics required a relatively high extra demand for energy.

12. A particularly grievous effect for the LDCs arose from the world monetary situation brought on by the shift of liquid resources from the ICs to the oil surplus countries (OSCs). The ICs (and especially the USA in that the dollar is the main vehicle for international trade and investment) were forced to bid up for money in the hands of the OSCs. Interest rates paid, and therefore charged, on deposits and loans had to match the rate of inflation plus enough to provide an attractive real rate of return to investors. As the inflation rate was itself induced by large energy cost increases, the heavily indebted LDCs were hit both ways - higher energy costs and escalating costs of servicing their debt. And all this impacted them inevitably as the demand and price for their exports were reduced by recession in the ICs - a recession induced by the same forces.

13. So while the ICs could, to some degree, protect themselves from the direct consequences because of their diversified economic bases and ability to impose rectifying economic policies, the LDCs were not so able - even if politically and administratively they had been willing.

14. Even so, the OPEC countries were again net borrowers, taken as a whole, by the third quarter of 1981. The lag was less than 3 years, but within this overall picture there are certain countries (notably Saudi Arabia and Kuwait) who are still running in surplus and who have, in the meantime, amassed foreign assets amounting to about $250 billion as well as undertaking massive domestic investment programmes.

15. The weakness in early 1982 of the oil market and the current (July 1982) disarray in OPEC, if this continues for any appreciable length of time, will no doubt help to rectify the imbalances from the oil producing to the oil consuming economies. Perhaps the fundamental adjustments that have been made to energy consumption propensities in the ICs will hasten and even exaggerate such a shift. But the question remains as to whether

we will not remain exposed to volatility in the factors of production of which energy costs are now an important element, and whether the available mechanisms are sufficient to deal with such movements without burdening both the ICs and LDCs with very difficult problems of managing their economies and the resulting effects on employment, indebtedness, standards of living and development.

16. The critical problems facing the ICs are -

a) dependence on imported energy, especially oil and the need to diversify energy resources
b) restoring dynamic growth so as to satisfy aspirations regarding standard of living and employment
c) resisting tendencies to protectionism and a breakdown in the open world trading environment
d) preserving stable political and economic conditions at home and in the LDCs.

17. The critical problems facing the LDCs are -

a) dependence on imported energy and the need to develop appropriate indigenous resources
b) promoting self-sufficiency in food supplies at least
c) securing remunerative markets for basic raw material exports
d) indebtedness and its cost
e) internal political and economic stability
f) balance of payments difficulties and the resulting problem of paying for essential imports (eg spare parts, consumer goods)
g) improving administrative efficiency and effectiveness.

18. The critical problems facing OSCs are -

a) preserving cohesion of OPEC and value of oil resources
b) preserving value of financial resources
c) avoiding unwelcome political implications of international monetary system
d) no substantial alternative to US dollar for investment and trade
e) avoiding political and social complications of their citizens' sudden massive wealth.

III. SOLUTIONS

(i) Existing Mechanisms

19. The commercial banking and financial system has taken up most of the strain in recycling world liquidity. The growth in the euro-currency (and related asian-currency) markets is an indication of the scale. From beginnings in the 1950s, and increasing growth in the 1960s and 1970s, the estimated amounts involved now are about $700 billion net. This growth is closely related to the extent of the ICs (and particularly USA's) growing deficits in that they represent US dollars and other convertible currencies in the ownership of foreigners and the depreciation in real terms of those currencies.

20. This market is very flexible in that it can deal with anything from money at very short notice to long term loans.

21. It can also achieve a certain transformation of such resources from shorter to longer term and from lower to higher risk situations.

22. However, there are obviously limits in that the institutions concerned have to give their own solvency the highest priority. While seeking the extra profit available from such transformation, this has to be consistent with the principles of financial prudence.

23. Throughout the history of the euro-currency markets, there has been concern whether the whole pyramidical edifice was stable. These concerns have been accentuated more recently by the doubts over whether the ultimate debtors, often heavily borrowed LDCs are in a position to service the accumulated debt. The effect of default by any such borrower or group of borrowers and the possible 'domino' sequence that might follow are certainly worrying. But as yet no such irremedial event has occurred.

24. Being by definition extra-territorial, the euro-currency markets are not readily susceptible to effective government supervision, control or rescue. This is in fact the reason they have been so effective as they have been in the recycling process and could continue to be so. It may also be the reason that no irreversible disasters have so far taken place.

25. But it is also arguable that -

a) the situation is potentially explosive given the necessary conjuncture of circumstances and that therefore some form of international 'fire fighting force' should be in readiness

b) the recycling benefits have necessarily been restricted and, in particular, have accrued to the ICs, the newly industrialised countries (NICs) and only the strongest of the LDCs

c) that therefore the weaker LDCs are falling further and further behind with the resulting implications, not only for themselves and their inhabitants, but also for world political and economic stability.

26. In ther aftermath of World War II, certain world-wide institutions were established. Preeminent amongst these are the International Bank for Reconstruction and Development (IBRD or World Bank) and the International Monetary Fund (IMF) both based in Washington, D:C: The IBRD has now turned its attention from the highly successful 'reconstruction' of a devastated Europe to the 'development' of the third world. Directly and through specialised offshoots such as the International Development Agency (IDA), it provides grants, loans, project advice and management to LDCs. The IMF is concerned primarily with balance of payments problems. Often its financial support is accompanied by conditions on economic and monetary management which supports the political will of the country concerned to take unpalatable steps.

27. Although these bodies have undoubtedly played a major role in mitigating effects of the oil price shocks in both the ICs and LDs, criticism is levelled against them on various counts -

a) Domination of their policies by the USA by its rights as principal financial supporter.
b) Unwillingness of USA and European participants to acknowledge changed and changing facts of world financial power by permitting greater role for OSCs, especially Saudi Arabia and Kuwait.
c) Conditionality attached to financial assistance. Such conditionality may consist of economic, administrative and/or management requirements being attached to loans or grants. They may involve secondment of "experts" to monitor, supervise or even control certain aspects of the recipient country's affairs. This can therefore arouse sensitivities connected with concepts of national political and economic sovereignty.

d) The donor countries, especially the USA, are restricting the resources available to these organisations and demanding stiffer conditions as part of their own harder economic policies borne of a conservative reaction to the difficulties of their own economies. They do not seem to appreciate how much worse off are the LDCs and that such an approach can only worsen the situation and prospects of the whole world economy.

28. The responses to these criticisms are as follows -

a) The USA is by far the biggest provider of resources (75% - 80%) and can therefore expect to have the dominant say. Otherwise it would not be prepared to continue such support and her withdrawal would be disastrous for the recipient countries. The IMF and IBRD have therefore to give major consideration to their providers of resources. However, power is related to long term capital rather than shorter term deposits. The result is a lack of short term deposits which could be a way of encouraging OSCs to start using IMF as an intermediary.

b) Quotas, and the concomitant voting powers, were established in the very different circumstances of 1946. It is often countries like the UK and France who are most insistent on the status quo in order to maintain their perogatives. A qualified majority of 85% is required for critical votes, so the USA can dominate. But 4 other main quota holders (UK, Germany, France, Japan) do not let USA get isolated and these 5 countries effectively run IMF. They elect the managing director, who appoints his deputies, who in turn appoint senior staff. The IBRD also needs capital restructuring, especially to give Japan a role commensurate with its current status. The EEC countries could be determinant in improving attractiveness of both organisations to other potential creditor countries. This applies to their own attitudes and the pressure they could exert on the USA for a change (or evolution) of their capital and voting structures. Subject to basic safeguards for the principal creditors including especially the USA, the IMF and IBRD could play a continuing and expanding role in recycling. If there is no adjustment, they could well become fossilised and their role diminish. Certainly this is at the root of the OSC's antipathy.

c) The conditions imposed are strict and have certainly become even more severe in recent years. This is variously ascribed to the more straightened circumstances of the ICs, as being the main creditors, and to the not unrelated emergence of much more conservative political attitudes and economic policies in the main creditor countries (USA, UK, Germany, Japan). IMF's regulations prescribe conditionality and this can be brutal. They should not consider politics but in fact have to. The principle question must be "Can they live up to commitments - can they carry through and survive?" The IMF is basically a short term lender and has to safeguard its resources. Being an intergovernmental organisation political considerations do arise. For example, the non-status of the PLO means that Kuwait and Libya will not touch IMF. The constraints of an institutional banking organisation mean that the IMF cannot really deal with the worst cases. It ought more readily to admit where a case is impossible and cannot be turned around within their resources, but officially it will help anyone and therefore ends up taking the blame. On the other hand, the IMF is able to impose conditions on debtor governments and this in turn may improve access to funds from commercial banks who cannot impose such conditions (cf. Poland, Turkey). As a result, banks are beginning to welcome IMF involvement, which is taking on the character of auditor/merchant bank/financial policeman. This standing and repute is a vital element in co-financing with other sources. IBRD is also turning to co-financing but, rather than conditions, its special input is project assessment both in advance and during implementation. In fact, some of its expert staff have transferred to the Kuwait Fund, Asian Development Fund and European Investment Bank, who are now becoming able to lead schemes. Out of $15 billion, the IBRD finances $9 billion direct and $6 billion with private and public co-financers.

d) A common argument from creditor countries is that throwing money at problems provides no solution. It is more important to get basics right, such as administration and agriculture. This view is generally shared at the IMF and IBRD, bearing in mind that their policy outlook is dominated by the USA and European countries. It is now a fundamental tenet "to help them help themselves". It is also demanded that any loans or grants are for realistic projects that are capable of being implemented and managed subsequently. And overriding all, is the economic argument that the health of the ICs is essential to the well-being of the LDCs.

These arguments seem valid for those LDCs with apparent development potential and a reasonable base of administration and technical skill. It may even stretch to some borderline cases. But there are some 40 (?) LDCs where the situation is so bad that we are talking of little more than a life belt. The <u>IDA</u> was set up to deal with such extreme situations but it has fallen foul of American objections that it is only supporting dependence, inefficiency, corruption and impractical ideologies. No doubt carrot and stick both have their place. Sometimes one has to be hard to be kind. No creditor or donor wants to be viewed as a naive milk cow. But there is obviously great difficulty in judging the correct dividing line, and, even then, to see what to do about those below the line. There seems to be less concern nowadays for competitive assistance in these cases between the Western and Communist bloc countries. The IDA is wholly dependent on governments for funding and passes on to the worst cases all that it has. It is a channel which removes some national identification of the donor. However, the aid it gives is often conditional on the beneficiary purchasing in the donor countries concerned. The IBRD is more market based and flexible, being constrained only by its equity base, now being doubled. The USA has difficulty ideologically with IDA and has reduced its allocation of funding. The EEC countries could either cut back proportionately or maintain their level of funding. In the latter case, they could assert greater control of IDA and/or obtain a larger share of the contracts and purchases by beneficiary countries. There is evidently an opportunity here for a concerted EEC approach.

29. The EEC's role could be determinant in the policy of IMF IBRD and IDA: It could outweigh the USA if it acted as one entity. The IBRD in particular finds the EEC's support useful especially in the case of Africa, where there seems to be greater mutual understanding than between the USA and Africa. However, it has not worked in practice as well as might have been expected. There is room for better interchange of policy, economic and technical advice. Because of certain political difficulties which arise from time to time between African and EEC countries, it would be safer for all concerned to use the IBRD as intermediary. The Europeans are more pragmatic and could also help by bringing greater pressure to bear on the USA to reach a compromise.

30. The proposed, and now rejected, idea of an energy affiliate to the IBRD is probably not worth pursuing in its original form. But the concept is a good one and, rather than responding to rejection emotionally, it is worth considering alternative ways of reaching a similar result. There are clear financing attractions for the ICs and the OSCs, who would have greater gearing up of resources by using co-financing methods with the private sector. The energy affiliate concept, whether with the IBRD, EIB or some other means, should not be considered dead.

31. The EIB, Arab Development Fund, OPEC Fund and other regionally based organisations are playing an increasing part in third world development finance. Largely their role has been that of co-financier with the international organisations - an important role nonetheless in providing funds at a time of constraint on the IMF and IBRD. But these funds are becoming more and more capable of assessing and monitoring development projects themselves, and thereby to lead co-financing syndicates with each other, and the private sector.

32. (a) Currency

The US dollar plays a pre-eminent and predominant role in international finance. Not only are most loans, grants and investments denominated in US dollars but it is also the denominator for commondities, including above all oil. Therefore the monetary and economic policies of the USA and their effect on the American currency are critical to the ICs, OSCs and LDCs. American interest rates determine the cost of servicing loans. American inflation determines the real return on OSC investments and influences investment decisions, particularly by the private sector. Growth rates in the American economy have an important effect on growth rates in other ICs and on demand for raw material exports of LDCs.

(b) The Middle Eastern OSCs are especially concerned at the political implications of their dependence on the US dollar as a means of exchange and store of value. The freezing of Iranian assets at the time of the American hostage crisis caused alarm on this score.

(c) There is undoubtedly a need for an alternative to the US dollar. The SDRs (Special Drawing Rights) available via the IMF are only a partial alternative as they contain a substantial US dollar component (42% in January 1981). Also they do not represent any identifiable economy with potential for returns other than interest and have not achieved satisfactory levels of acceptability. The ECU (European Currency Unit) is attractive in that it contains no US dollar component. Although it might be construed to represent the sum of the EEC economies, its technical construction as a basket and, as yet, minimal use in trade, commerce and investment, makes it of minor practical utility.

(d) On the other hand, OPEC sees Europe as having the potential for a much enhanced role. They feel Europe has a perception, closer to their own, in the politics of the Middle East and the developing countries of Asia, Africa and Latin America. The stability and development of the Mediterranean basin is a shared concern. In their eyes, Europe has a better record than the USA in separating commercial and financial functions from political concerns (such as embargoes, freezes, confiscations, imposed to achieve political ends). As the individual European economies and currencies are too small to satisfy requirements, they find much attraction in a more integrated European economy and the development of a single currency of world status to represent it. They have no doubt that if this occurred, oil and other commodities could be denominated in that currency.

(g) The development of the ECU and its proper management are probably the things that could have the most beneficial effect for -

- Stabilising oil and other commodity prices for Europe and those LDCs particularly dependent on exports of commodities to Europe.

- Providing an alternative and potentially more attractive means of exchange and store of value for surplus countries.

- Providing substantial investment resources for the European economy and thus helping LDCs with both investment and demand for their produce.

- Insulating Europe, OSCs and LDCs to a considerable extent from American economic and monetary policies.

- Boosting the role of the EIB and other European agencies in their development roles.

- Enhancing still further the role of Europe in world political and economic terms.

33. Other mechanisms have been proposed as possible solutions. These include index-linked investment outlets, long-term agreements on oil prices and inflation protection, a European oil purchasing agency. All these after much consideration by your rapporteur, seem to have one overriding defect. They try to counteract natural forces. The experience of other experiments with centralised state control of economic and commercial forces does not encourage any great confidence that such expedients would be any more effective. It is questionable if they could even be imposed while still accepting the fundamentals of the largely free and open market system on which European (and world) growth has depended in the past.

34. <u>A New Financial Instrument</u>? New institutions? There is of course a wide range of financial instruments available for investment in the EEC economy ranging from equity shares in companies, fixed and flexible interest rate bonds in companies and issued by utilities, public corporations and national governments through to bonds issued by community financial organisations such as the EIB. Some of the latter have interest rates abated from the EEC budget (the New Community instrument or Ortoli Facility). One can only conclude that there is no shortage of finance or of types of investment instrument; the shortage is in the projects

often restrained because of government policies regarding prudent levels of public sector borrowing.

The less developed countries also have access to borrowing on the euro-currency markets either from consortia of banks or publicly placed bonds. The IMF and IBRD raise funds effectively on their behalf in the international markets. Although the credit-standing of the ultimate borrower is vital to ability to borrow, there is also in the LDCs a major shortage of potentially viable projects coming forward. In the worst cases it would be difficult to justify any form of credit, even on highly advantageous interest cost terms, and outright grants are the only credible means of transferring resources. Although such grants can never be sufficient to meet demand, there is still considerable difficulty finding justifiable uses.

35. Thus your rapporteur concludes that -

(a) The most useful innovation the European Community could make is to provide a common currency as a means of easing the flows of international funds - the ECU.

(b) Existing mechanisms are adequate for any desired level of financing for projects in the industrialised countries.

(c) There is a crying need for more projects which will, at least in the long run, enhance the competitivity of European industry - eg transport projects, energy projects, etc.

(d) Interest rates can be subsidised if desired out of government or EEC budgets, but care must be taken not to distort recipient economies either by providing unfair competition to existing enterprises or preempting scarce human resources.

(e) Grant aid to LDCs is in many cases the only plausible method and it might be worth seeing if the OSCs would join with the EEC to finance a kind of joint IDA, which would fund projects in these countries. Perhaps the provision of human skills could be quantified as part of the EEC's contribution, as developing viable plans and monitoring implementation as important as the funding. This EEC/OSC agency could also work with and/or through the IDA itself.

(f) A jointly owned and financed energy affiliate of the EIB and OSC equivalent institution could have justification in that energy supply and cost are at the root of the current economic problems in both the developed and less developed world. The only question is whether it should be confined to energy but be broadened into such areas as transport in the ICs and agriculture/crop processing in the LDCs. As a credit institution it would have to have regard for those providing funds and therefore would be confined to financially self-liquidating projects, although one might envisage close cooperation with the type of grant aid agency described in (e) above.

(g) The only new elements that could be contrived (as in the justification for (e) and (f) above) is in the sharing of risks jointly.

36. Reciprocal guarantees oil price/investment values?

Commercial contracts for oil, and other energy products, can be made on a term basis. The agreement is probably worth as much as the willingness of the parties concerned to stick by the terms. If prices move dramatically one way or the other on the world markets, there is bound to be pressure to safeguard immediate interests. One doubts if such agreements could withstand such pressures regardless. Investment can see its return in the form of fixed interest rates over any period from one to tens of years, or in appreciation of the underlying asset in terms of earning power or scarcity (ie capital gain). Thus both aspects are inevitably part of a dynamic scenario. Predictions of inflation trends and supply/demand relationships must inevitably be part of any such decision. Being predictions they are by definition uncertain. Only governments are in a position to underta the open-ended commitments involved in this proposition and even they will be, and should be chary of the extent to which they can gc Indeed they could only meet such commitments by foregoing benefits or resorting to the printing press to meet obligations. The burden (or advantage) is therefore indirectly transmitted to their economies and populations through the fiscal or price mechanisms. It is vital to understand that the advantage of one party will be the burden of the other party. There is, if at all, likely to be only a very marginal aspect of mutual advantage The strains of self-interest are likely to break up a system in a very disturbing manner just when it is most needed by one or other party.

Your rapporteur therefore concludes that smoother adjustment to changing situations will be achieved by permitting the natural forces of the market to work through. There is perhaps scope for governments (including the EEC institutions) to smooth such processes by counter-trend action, by ensuring adequate buffer stocks, by encouraging diversification of supply sources and mutual support in a short term crisis. Above all they should work towards economic stability as circumstances change - in that this entails combating the dangers of inflationary and deflationary spirals, this will in turn be the best protection for those investing in their economies.

IV. RECOMMENDATIONS

Your rapporteur therefore concludes that -

37. It is pointless, and could well be counter-productive, to fly in the face of natural forces that determine supply and demand, investment and development. Encouraging, restraining or directing such forces is the most we can expect to succeed.

38. The EEC could and should, however, be prepared to provide the means and mechanisms in its financial structure which will facilitate flows.

39. In this regard, effort should be concentrated on the ECU, EIB, ERDF, Special Community investment instruments, coordination of EEC energy, infrastructure and development policies.

40. The EEC should operate as a single entity in its policies towards and management of supranational bodies such as IMF, IBRD and IDA.

41. A formalised mechanism should be established for policy discussion and development between -

1. EEC and OPEC (or perhaps more particularly the OSCs)
2. EEC, OSCs and LDCs
3. EEC and supranational agencies (IMF, IBRD, IDA, UN agencies)

On the EEC side this should encompass, either jointly or separately the Commission, European Parliament, and Council of Ministers.

42. It is above all vital that the EEC should work as a unit in this whole area, rather than as 10 individual countries.

43. The health and vigour of the EEC is of vital concern to all other countries which have trade and aid relationships with it. It is

therefore very much part of this world-wide responsibility as much as in our own self-interest, that the European Community be achieved in all its economic, political and industrial aspects. Any procrastination or back-sliding will severely reduce any ability of European countries to determine their own well-being and contribute to the well-being of the rest of the world.

European Communities ANNEX

EUROPEAN PARLIAMENT

Working Documents

1980 - 1981

12 January 1981 DOCUMENT 1-779/80

MOTION FOR A RESOLUTION

Tabled by Mr MÜLLER-HERMANN, Mr KLEPSCH, Mr TINDEMANS, Mr VERGEER, Mrs CASSANMAGNAGO CERRETTI, Mr D'ORMESSON, Mr O'DONNELL, Mr ESTGEN, Mrs WALZ, Mr JANSSEN VAN RAAY, Mr LANGES, Mr NOTENBOOM, Mr BERSANI, Mr WAWRZIK, Mr von BISMARCK, Mr BEUMER, Mr MACARIO, Mr van AERSSEN, Mr JONKER, Mr ALBER, Mr RINSCHE, Mr MICHEL, Mr BLUMENFELD, Mr SASSANO, Mr HOFFMANN, Mrs MAIJ-WEGGEN, Mr HERMAN, Mr SÄLZER, Mr VANDEWIELE, Mr HELMS, Mr SIMONNET and Mr BROK

on behalf of the Group of the European People's Party

pursuant to Rule 25 of the Rules of Procedure

on the creation of a European financial instrument for recycling petrodollars to increase and diversify world energy supplies

English Edition

The European Parliament,

- recognizing that it has become vital to increase and diversify world energy supplies,
- convinced that the partnership between the highly industrialized states in the Community and the underdeveloped ACP states which are dependent on support creates a need for additional efforts to direct capital into channels which will improve the economic development and standard of living of the associated states,
- faced with the growing surpluses on current account in the oil-producing countries and the worrying deficits on the current account of the industrialized states and in particular of the developing countries which are already deeply in debt,
- concerned at the monetary problems created as a result which are certain to lead to ever greater economic and political instability,
- believing that the industrialized nations and the oil-producing countries bear a special responsibility in this respect and that tripartite talks must take place between the industrialized countries, the oil-producing countries and the developing countries in order to start reducing the excessive economic disequilibria in the world by means of worldwide economic growth, the guaranteed supply of energy which this necessarily involves and a rational international division of labour with the ultimate aim of placing world peace on a more secure footing,
- recognizing firstly that the private banking system cannot cope in the long term with the task of channelling the petro-dollars in circulation and the risks which are often attached to loans to developing countries and secondly, that the oil-producing countries do not provide capital aid to developing countries on as wide a basis as might be hoped,
- convinced that the European Community, without prejudice to the deliberations currently taking place within the World Bank and the International Monetary Fund, should develop new ways of recycling petro-dollars, because as one of the economically strongest parts of the world it bears a particular responsibility for seeking a rational solution to this difficult problem and playing a part in such a solution, but also because it has a specific interest in safeguarding employment and providing an opportunity for Community undertakings to participate in international exploration and infrastructure projects related to energy supply,

Calls on the Commission to examine the possibility of creating a European financial instrument with the following aims:

1. The European Community and those oil-producing countries willing to cooperate would provide the capital for the new financial instrument which might take the form of a fund or an agency.

2. The capital provided in this way should primarily be used to increase worldwide supplies of energy in the long term. To this end finance should be granted to appropriate infra-structure and exploiation projects.

   (a) In the developing countries, particularly in the countries associated with the Community by the Lomé Convention, the development of mining and infrastructure is a vital contribution towards both self-sufficiency in the energy sector and general economic development.

   (b) Considerable resources of energy can be exploited in the offshore areas of the European Community.

   (c) More sophisticated technological exploitation of existing and new oil resources in the oil-producing countries is a task which will become extremely important in future.

   (d) Exploitation of the considerable energy resources of many different kinds both on the ocean bed and in remote and inaccessible parts of the world needs to be envisaged.

3. The European Investment Bank should supervise potential projects and examine their economic feasibility. As the European Investment Bank has already acquired valuable experience in this respect, its involvement appears particularly worthwhile. Administrative costs could also be kept to a minimum in this way.

4. The funds contributed by the Community should as far as possible be raised on the capital market and if necessary be supplemented by the Community's development fund.

5. Decisions on the use of the funds contributed by the Community and the oil-producing countries should be entrusted to a board in which both parties are represented in proportion to their financial contribution
   There will be certain initial expenses known as 'transfer costs'. The experience of the World Bank shows that all other risks are minimal.

6. If these projects are to make a genuine contribution to recycling petro-dollars to the benefit of the world economy,

particularly in the states belonging to the Lomé Convention, the Commission will have to make every effort to intensify the dialogue with the oil-producing countries and to extend this to a three-cornered exchange including the Third World. When recycling oil surpluses it should be made clear to all concerned that in the necessary efforts to achieve maximum economic efficiency from the immense sums invested, it is even more important to make concrete progress towards reducing the economic and political imbalances in the world, which have already reached dangerous proportions, than to produce profits.

7. The European Parliament expects the Commission to submit an opinion on this proposal to the European Parliament no later than 31 May 1981.

OPINION OF THE COMMITTEE ON ENERGY AND RESEARCH

Draftsman: Mr E. Muller-Hermann

On 23 April 1981 the Committee on Energy and Research appointed Mr Müller-Hermann draftsman of an opinion.

The committee considered the draft opinion at the meetings of 17 March and 29 April 1982. It adopted the draft opinion unanimously on 29 April 1982.

The following took part in the vote: Mrs WALZ, chairman; Mr GALLAGHER and Mr NORMANTON, vice-chairmen; Mr BEAZLEY, Mr BOMBARD (deputizing for Mrs LIZIN), Mr FLANAGAN, Mr FUCHS, Mr HERMAN (deputizing for Mr MÜLLER-HERMANN, Mr KELLETT-BOWMAN (deputizing for Sir Peter VANNECK), Mr LINKOHR, Mr MARKOPOULOS, Mr MORELAND, Mr PERCHERON, Mr PINTAT, Mr ROGALLA, Mr SASSANO, Mr SCHMID, Mr VERONESI and Mrs VIEHOFF (deputizing for Mrs THEOBALD-PAOLI).

CONTENTS

Petrodollar recycling[1]

I. Introduction: General survey

The fresh surge in oil prices in 1979 has led to larger balance of payments deficits than ever before in all the oil-importing countries. Fears are often expressed that the international monetary system and the international capital markets will be unable to cope with the task of financing these deficits, particularly in the long term. Last year (1981) the estimated balance of payments deficit of the industrialized countries was US $ 29,000 m and that of the non-oil developing countries (non-oil DCs) US $ 97,000 m, while the oil-exporting countries achieved balance of payments surpluses of approximately US $ 96,000 m[2].

Although petro dollar recycling (PDR) from the oil-exporting countries with a balance of payments surplus to the oil-importing countries with a balance of payments deficit has posed relatively few problems so far, many of the oil-importing countries now fear that PDR will become more and more difficult and the risks attaching to such transactions are being assessed at an increasingly higher level. Some observers believe that debt ceilings are being reached particularly in some of the smaller industrial countries and the majority of the non-oil developing countries.

The alarming growth in unemployment in most industrialized countries in conjunction with the extremely high balance of payments deficits, largely due to oil prices, has led to a dangerous and potentially explosive economic situation which is increasingly,and justifiably, giving rise to concern that following initial, usually covert, measures in this direction, protectionist proposals could gain more and more acceptance in future as various countries seek to escape the international structural upheavals triggered by the boom in oil prices by trying to seal off their countries from the outside world and thus use protectionism to reduce the pressure on the balance of payments and the labour market. A solution to the PDR problem must be sought to counter these threats to a more or less liberal (world) economic order.

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[1] Compiled in collaboration with the Directorate-General for Research and Documentation of the European Parliament

[2] Such estimates may vary considerably from source to source because of different methods of calculation, compilation and accounting, (those above are from the IMF).

It is both striking and surprising in this context that, despite considerable differences in national inflation rates and balance of payments deficits recycling has so far had relatively little impact on exchange rates. This does not however preclude serious risks of this kind in future which could at least be considerably diminished if a long-term solution could be found to the recycling problem.

Although there has been a clear trend in recent years towards lower surpluses in the oil-exporting countries and small deficits in the oil-importing countries, chiefly as a result of lower oil imports by the oil-importing countries and minimal increases in oil import prices compared with the two previous years, the present situation is nonetheless unstable particularly as it seems likely that once the world-wide recession has been overcome in the oil-importing countries, their oil imports will again expand and/or the stability of oil prices will prove to be only temporary so that in future there will again be a marked imbalance between oil-importing countries in deficit and oil exporting countries in surplus.

The first section below looks at the general problems and obstacles connected with PDR and the second section deals with the specific problems of the non-oil developing countries.

II. PRD - problems and obstacles

It is often maintained[1] that the events following the first boom in oil prices in 1973/74 strengthened confidence in the viability of the international capital markets. It is, however, important to recognize that at this time PDR was also less problematic.

- Following the increase in oil prices in 1973/74, the OPEC countries drastically increased their imports; in both 1974 and 1975 the volume of imports rose by almost 40% and continued to rise in 1976 and 1977 by approximately 15% each year.

- In real terms the oil price fell back slightly after the abrupt increase.

- The recession in 1974 and 1975 led to a sharp fall in imports into the industrialized countries; the volume of OECD imports fell by approximately 8% in 1975 and the volume of oil imports by 9%.

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[1] See Annual Reports by the German Government's economic advisers ('Sachverständigenrat') 1980/81 Report, para. 18 et seq., and 1981/82 Report, para. 49 et seq.

A major part of the remaining OPEC surplus was swiftly transmitted to borrowers by the international banking system, in particular the Euromarkets. In 1974 this accounted for half and subsequently a third of the OPEC surplus available for investment. The remainder was invested directly by the oil producers. There was little pressure on international financial institutions such as the International Monetary Fund and the World Bank.

The world economy must now adjust to the fact that balance of payments deficits and surpluses in the oil-importing and oil-exporting countries respectively are likely to persist at a high level for some time to come. This problem is however mitigated by a number of other developments:

- As in 1974/75 there is a marked trend towards greater absorption (demand pull) on the part of the OPEC countries.

- The most recent OPEC decisions on price and production policy provide some grounds for hope that, in real terms, oil prices are unlikely to rise substantially in the foreseeable future.

- In most industrialized countries progress towards finding alternatives to oil, and to a greater extent, the marked recession have exerted a downward pressure on oil demand and prices and thus eased the balance of payments situation of the oil-importing countries.

The effect of these developments has been that in 1981 (according to the Bank of England) the OPEC balance of payments surplus fell to US$ 77,000m; a reduction to US$ 52,000m is forecast for 1982. The main corollary of this reduction in OPEC surpluses has been smaller deficits in the major industrial nations; however, most observers expect the deficits of the non-oil developing countries to increase, or at least not become any smaller, in 1981 and 1982.

Thus the easing of pressure referred to above is clearly either too weak or only temporary and from the point of view of the world economy an undesirable means (recession) of providing a long-term and permanent solution. In fact it is generally assumed that the international capital markets will not be able to cope with PDR in the long term following the second boom in oil prices in 1979/80. There are therefore urgent grounds for adopting new approaches in economic policy and for intervention by national and international organizations. The main arguments are as follows[1]:

- the scale of PDR
- the low level of OPEC absorption
- increasing risks in international investment transactions
- the rescheduling problem

[1] See: Kieler Diskussionsbeiträge (KD) No. 76, 1981

The scale of PDR

Community expenditure on oil (i.e. of the Nine) increased as a result of the oil price increases in 1973/74 and 1979/80 from US $ 12,600 m in 1973 to approximately US $ 106,000 m in 1981 (estimated). The growth of the oil import bill over this period shows that the sharp rises largely corresponded to movements in oil prices, i.e. that the increase was solely due to price rises rather than increases in volume: indeed the volume of oil imports fell from 586 m tonnes in 1973 to 389 m tonnes in 1981.

This sharp rise in the Community's oil bill has been the main cause of the marked deterioration in the balance on current account, or balance of payments, from virtual equilibrium in 1975 to a deficit of approximately US $ 40,000 m in 1980 for the Nine.

The balance of payments in all industrialized states and the non-oil DCs has deteriorated in a similar manner to that of the Nine. Conversely, the balance of payments surplus of OPEC (the oil-exporting countries) has grown from approximately US$ 7,000m in 1973 to approximately US$ 100,000m.

Following the oil price boom in 1979/80, there was a sharp turnaround in the terms of trade. Whereas in the period 1975 to 1978, the terms of trade deteriorated slightly for the oil-exporting countries and improved overall for the industrialized countries or non-oil developing countries, this trend was sharply reversed following the second oil price crisis in 1979/80. As this trend is unlikely to change direction yet again in the near future, it would be unrealistic to expect any easing of pressure on the countries suffering from a balance of payments deficit from this source.

As far as solving the PDR problem is concerned, one favourable feature is that over one third of the total balance of payments deficit of the OECD countries is accounted for by West Germany and Japan. This is 'favourable' inasmuch as, particularly from the point of view of the world economic cycle, a major part of the total deficit is being borne by those countries which are best able to withstand the strain, whilst countries with greater internal problems are less affected.

Absolute figures are, however, less important than the ratio of imbalance in foreign trade to the economic potential of the country as a whole, i.e. to GNP. Looked at in this way it is apparent that several of the Community or OECD countries and, particularly, many oil-importing developing countries have much more severe balance of payments problems. Whereas the deficits of Japan and West Germany which are high in absolute terms represent less than 2% of GNP, the proportion is between 5 to 8% in the case of Greece, Denmark and Ireland, for example.

Although concern is often expressed simply at the high balance of payments deficits in the oil-importing countries, it is not the fact that oil is being bought on credit which is crucial but the question of how the resources which would otherwise have to be transferred to OPEC immediately are being used in the meantime. The reluctance to become too heavily indebted is motivated by a fear, which at least in the case of many developing countries is thoroughly well-founded, that loan servicing costs could escalate beyond the ability to pay and thus damage international credit ratings. Such fears are, however, only justified if loans are simply used to finance consumption and not when they are used for investment.

Basically, the opportunities for investing petrodollars in the oil-importing countries are favourable. Particularly since an improvement of the terms of trade of the oil-importing countries is unlikely, there is a strong incentive to produce in a more energy-efficient manner, to switch between the different sources of energy and replace capital assets which have depreciated as a result of oil price increases. Although profitability has in fact increased markedly in these areas, this is often masked by short-term economic trends and interest rate developments. If the oil-exporting countries make their high surpluses available for the necessary enormous investments in the oil-importing countries they could themselves help to alleviate the effects of the oil price increases in the importing countries.

Given a current surplus in the oil-exporting countries of approximately US $ 60-90,000 m, which is likely to persist, the international capital markets are confronted by a need to carry out financing operations and other transactions on an unprecedented scale. These recycling operations are problematic when there is a lack of sound borrowers, i.e. when the capital markets are not offered sufficient attractive investment opportunities. A lack of sound borrowers basically reflects a lack of profitable and secure investment opportunities. Essentially, there is no lack of investment projects in the industrial and developing countries[1]. But a solution to the recycling problem requires not only sufficient investment funds but also an acceptable adaptation of investment conditions. The world economy is, however, still a long way from this goal. Capital investors still regard the risks for longer-term commitments as too high. International banks are reluctant to lend out short-term deposits for long periods. They complain that there is a lack of original risk capital. In the final analysis all this means is that the banks' potential suppliers of capital regard the investment risks as too high.

[1] In the Member States of the Community alone, demand for the necessary energy investments in the period 1981 to 1990 is put at 500,000 m ECU (= 2.2% of GNP)(see Commission of the European Communities, Annual Economic Review 1981-1982). Similarly, the World Bank (Annual Report 1981) estimates the absolutely essential investment requirements in the developing countries over the same period, 1981-1990, at US $ 450,000 m (at 1980 prices).

Countries which offer secure, high-yield investment opportunities need have no great worries as regards their balance of payments deficit. The OPEC countries will be willing to place their capital with them. To a certain extent this would solve the recycling problem. It would reduce the risk for the world economy of the OPEC states cutting oil production simply because of a lack of sufficiently attractive investment opportunities for their surplus earnings. The oil-importing countries will have to accept that for a certain period some of their growth will have to be financed by capital imports. Given the enormous demand for capital in the underdeveloped regions in the world this may appear contradictory. But for the time being oil price developments have created an entirely new world economic balance. The oil-dependent industrialised states will only be in a position to export capital again once they have succeeded in breaking away from their dependence on the OPEC cartel by using less oil and employing other sources of energy.

The smooth operation of the recycling process depends on two requirements, the need for which has frequently been expressed:

- free access to the international capital markets must be assured;
- the interest rate mechanism must remain unaffected.

A low level of absorption by the oil-exporting countries

There are clear signs that the oil-exporting countries' balance of payments surpluses will remain this time, because in contrast to the situation after 1974, these countries are likely to experience:

- domestic policy restrictions,
- infrastructure bottlenecks and
- no deterioration in terms of trade.

Disruption of the international capital markets

The international capital markets are 'disrupted' inasmuch as the banks' balance sheets now generally reflect the pattern of financing operations as it was in the 70s:

- Concentration of loans, often on a few debtor countries (developing countries) with low credit ratings.
- Legislative or self-imposed limits reached on the ratio between equity capital and lending (sound banking principles).
- Equity capital development did not keep pace with the expansion of business in the 70s.

- No fundamental improvement in the equity capital basis is likely in future given the deterioration in debtor risk.
- The low credit rating of the debtor countries often involves 'spreads' (graduated interest rates) the negative repercussions of which create a downward spiral of recession.
- Demands are often made for the creation of new financing institutions.

Re-scheduling

- State institutions are often being urged to intervene in the recycling process because of the oil-producing countries' preference for greater liquidity.
- The periods for loans (particularly Euro-loans) have become much shorter - a clear sign that the market is nervous.
- The borrowers, particularly the developing countries, however, need long-term loans.
- However, if the growing preference for liquidity is largely due to the existence of information and transaction costs, as is often maintained, then it is likely that the re-scheduling problem will take care of itself in time.
- It should be possible to find a solution to the re-scheduling problem, at least in the medium-term, given free access to the market and a flexible interest rate mechanism.

There are signs that the re-scheduling problem is becoming less acute, as the fears that the OPEC countries would increasingly prefer short-term investments have not been confirmed recently[1]. In fact the trend observed over the last two years towards more long-term investments has continued and this has helped to reduce instability on the international capital markets. Whereas just over a quarter of the OPEC surplus available for investment was tied up for longer periods in 1979, the proportion in 1980 was a half and an even higher figure is expected in 1981. This is combined with a clear trend towards a greater diversification of investments in industrialised countries, in which Japan and West Germany have been the main beneficiaries.

III. The situation in the non-oil developing countries following the second round of oil price increases

1. Balance of payments and indebtedness

After the second round of oil price increases in 1979/80, the non-oil developing countries are now in a far worse position than after the

[1] See 1981/82 Report by the German Government's economic advisers, paragraph 51

first round in 1973/74:

- Whereas the balance of payments surplus of the oil-exporting developing countries (NB : countries with oil exports in excess of 2/3 of total exports and greater than 1% of total world oil exports; see International Financial Statistics definition) of only US$ 6,600m in 1973 shot up as a result of the price boom, finally amounting in 1981 to approximately US$ 96,000m, the balance of payments deficits in the non-oil developing countries rose from the still fairly acceptable level of US$ 11,500m in 1973 equally rapidly - almost in inverse proportion - finally reaching US$ 97,000m in 1981.

- The regional breakdown shows that this massive increase in balance of payments deficits in the non-oil developing countries - apart from in the Middle East (NB see definition of non-oil developing countries) - was basically on the same scale in all parts of the world, although the developing countries on the American continent (with US$ 40,000m in 1981) accounted for almost half of the total deficit of this entire group of countries.

- Taking the financing of balance of payments deficits in the non-oil developing countries since 1973 individually, it can be seen that, following the increase in deficits, the percentage financed by foreign loans and from currency reserves has grown steadily (to 75% in 1980). Credit facilities from private and public sources, apparently widely available for this group of countries as a whole, enabled them not only to finance their balance of payments deficits but, with the exception of 1975, also to keep their currency reserves stocked up. This stocking-up of currency reserves showed a marked decline for the first time in 1980 after the second oil price boom in 1979 and was accompanied by a substantial increase in short-term financing on an unprecedented scale, with all the subsequent economic and political hazards.

- This annual rise in the volume of foreign loans to finance balance of payments deficits drastically increased the overall level of foreign indebtedness among the non-oil countries in the wake of the oil price increases, from US$ 97,300m in 1973 to US$ 370,100m in 1980.

- When assessing current account or balance of payments deficits or the level of foreign indebtedness as a whole, however, absolute figures are less important than the ratio of foreign trade imbalances or foreign indebtedness to the economic potential of the country as a whole. A comparison of the amount of foreign loans outstanding with the volume of goods and services exported, (or GDP), for the non-oil developing countries shows a slight gradual rise in the wake of the 1973 oil price increases until 1978, followed by a small reduction despite a continuing increase in foreign indebtedness. This small reduction is, however, attributable not to an improvement in economic performance (exports or GDP) in real terms in these countries but mainly to the accelerating rate of inflation after 1978, because in such comparisons (foreign indebtedness/exports or GDP) the export and GDP figures take full account of inflation whereas only the <u>increase</u> in the volume of foreign loans fully reflects the effects of inflation and the earlier loans have a lower value in real terms[1].

- This global assessment of the foreign indebtedness of non-oil developing countries, however, does not take sufficient account of the structural differences in this heterogeneous group of countries. Many countries in this group, particularly the low-income countries, find their financial options far more restricted because of the increase in the price of oil and the international debts incurred in the past; even now some countries are having to spend more than half of their export earnings to pay their oil bill and service loans. The developing countries in particular are affected by the sharp rise in interest rates on the international capital markets, particularly since interest rates have risen considerably for both old and new loans. This is largely due to the fact that over the last decade many of these countries have relied less and less on the International Monetary Fund and the World Bank for loans, since these institutions make their loans conditional on economic policy commitments and have moved towards private banks which of course normally only grant loans at adjustable rates of interest. This is one major reason why the developing countries' costs simply for servicing loans more than doubled from US $ 14,000 m in 1978 to over US $ 30,000 m in 1980 and are likely to have become considerably higher following the further rise in interest rates in 1981.

- Although it has hitherto proved relatively simple to finance the non-oil developing countries' balance of payments deficits, signs are now emerging of clear debt limits. As this group of countries is likely to continue to be heavily reliant on foreign loans in the foreseeable future this will be an important starting-point for dealing with the recycling problem, particularly as the potential creditors often complain with some justification that interest and capital repayments could exceed the countries' ability to pay and thus impair their international creditworthiness. It is the resulting wait-and-see approach which has such serious effects on economic policy which has to be overcome.

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[1] For more details see IMF Annual Report 1981, pp.34 et seq., World Bank, World Development Report 1981, pp. 49 et seq., World Bank, Annual Report 1981, pp. 24 et seq.

2. Implications and effects for economic policy

In the medium term, i.e. until the middle of the 80s, average growth rates, according to the more recent UN and World Bank forecasts, are likely to be between 3% for the industrialized countries and 4-4½% for the non-oil developing countries, with considerable differences according to region and level of development. Even such a modest increase, which, for example, implies zero growth in per capita GNP for the African developing countries, presupposes[1] that

- the level of investment in the industrial and developing countries is maintained. Adequate investment is essential firstly because of its effect on demand and earnings which stimulate the economy and secondly because of its crucial medium-term contribution to the adjustment process in the economy as a whole: both the adjustment of the pattern of supply to shifts in demand - replacing domestic demand by purchases from the oil-exporting countries - and the adjustment of production to the shift in the relative price of oil and all the prices directly or indirectly influenced by this, call for major investments;

- the problem of recycling is solved. Assuming that the industrialized nations manage to finance their balance of payments deficits, the main task will be to provide the developing countries with sufficient capital at least to maintain their level of imports in real terms and to finance the investments needed to adapt to the new world economic situation. This is important not only in the interests of the developing countries themselves but also in the (employment) interests of the (exporting) industrialized countries[2];

- world trade remains as free as possible from import restrictions; this applies not least to restrictions on imports from developing countries;

- the world economy is spared further economic and political upheavals.

The current balance of payments shifts in and between the various countries or groups of countries reflect the combined effects of the direct repercussions of the second increase in oil prices and the processes of

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[1] See also H.E. Scharrer 'Die Weltwirtschaft nach dem zweiten Ölpreisschub', in: Hamburger Jahrbuch für Wirtschafts und Gesellschaftspolitik, Vol. 26 (1981), pp. 59-78

[2] The fact that in the years following the first oil price increase the developing countries succeeded in breaking away to a certain extent from the recession in the industrialized countries and continuing their development programmes with the aid of external financing helped to stabilize exports and employment in the industrial nations.

adjustment to the (real) exchange rate fluctuations since the beginning of the 70s (USA, West Germany), the reactions affecting supply and demand among state and private economic operators to changes in the terms of trade, and the effects on trade and production of the disrupted economic cycle.

From the developments outlined above it can be seen that the first and most important requirement for the future organization of international monetary relations is effective economic and monetary coordination:

- For the relationship between the oil-exporting and oil-consuming countries it is particularly important to regulate oil price increases, organize as predictably as possible the adjustment process in the consumer and producer countries and provide a more stable long-term basis for recycling, in the interests of capital investors, deficit countries and (state and private) intermediaries and in the interests of stability in the international economic system. The International Monetary Fund in particular could assume greater responsibility for the second and third of these tasks.

- As part of the relationship between industrialized countries and developing countries, the industrialized countries must be prepared to accept the developing countries' adjustment policies, even if they have negative effects on certain sectors of the economy and/or the balance of payments. This means extending the industrial states' doctrine of the market economy and, in this particular case, recognition of the fact that constantly growing deficits in the developing countries above and beyond their present level would of necessity jeopardize the stability of the international financial and economic system. Recognition of this principle does not preclude a bilaterally or multilaterally coordinated policy to control the rate of increase of 'sensitive' imports from the developing countries; on the contrary, such coordination can provide the necessary precondition for domestic acceptance of a liberalization of trade.

The world economy is at a crossroads. The question is whether it can discover a 'dynamic' and cooperative response to the major challenges of oil price increases and international structural changes or whether it chooses the path of 'adaptation through recession' with ever more protectionism.

3. Direct loans by OPEC to non-oil developing countries

In the light of the developments described above, namely the high persistent balance of payments surpluses in the OPEC countries on the one hand and the overwhelming balance of payments deficits in non-oil developing countries on the other, there is the question of the opportunities and scope for direct aid from OPEC to the non-oil developing countries. Before considering this, it is necessary to analyze briefly the investment policy of the OPEC surplus countries[1].

The total balance of payments surplus of the oil-exporting countries shot up from just over US$ 2,000m in 1968 to US$ 68,000m in 1979 and to approximately US$ 96,000m in 1981. These high balance of payments surpluses will persist over the next few years, i.e. the oil producing countries' expenditure on imports will not catch up in the medium term with rising foreign currency earnings from oil exports and investments. The OPEC countries, particularly those with low capacity to absorb foreign goods and services, are obliged to seek secure and profitable investment opportunities for their financial surpluses.

The development between 1973 and 1980 clearly shows the quantitive, regional and chronological dimensions of the problem:

- The total net foreign assets of the OPEC countries rose from US$ 7,000m in 1973 to US$ 160,000m in 1978 and have since more than doubled within two years (to US$ 343,000m at the end of 1980).

- Only seven countries - Saudi Arabia, Kuwait, Iraq, the United Arab Emirates, Iran, Libya and Qatar - have permanently high and growing surpluses. Their aggregate net assets abroad in 1979 were higher than those of OPEC as a whole (because of the debts of other OPEC countries). Since the end of the war, Iran has been producing less oil than during the Shah's time and its foreign assets are declining rather than increasing; with US$ 11,000m, Qatar lags clearly behind the other countries in this category. On the other hand, Saudi Arabia, with almost US$ 120,000m, alone accounts for over one-third of the total net assets of all OPEC states (1978: 42%).

- Of the other six countries, only Gabon has constantly increased its foreign assets. In the period 1974 to 1978, all the other states recorded a balance of payments deficit. The surplus earnings accruing to Nigeria, Indonesia and Venezuela since the second round of oil price increases and the improvement of their net foreign position as a result, are likely to be short-lived even if oil prices continue to rise. Ecuador and Algeria increased their net indebtedness to foreign countries during this period.

Thus there are only five countries which are capable of producing and exporting more oil in the medium term than they need to finance their imports of goods and services and which at the same time are important to the functioning of the international financial and economic system because of the scale of their investments. Moreover, given their low internal absorption

[1] See also: H.E. Scharrer, Op. cit., pp. 62 et seq.

capacity, these countries are also those best able to cut back oil production without suffering direct growth losses.

The different absorption patterns in the OPEC States affect their investment objectives and behaviour[1]. One investment aim is to protect the countries' international liquidity against fluctuations in foreign currency earnings and expenditure. This is a standard objective for which all states maintain currency reserves. The investment periods are short, normally three months, and the investment instruments are treasury bills and time deposits in national and Euro-commercial banks. In the case of high absorbers, this is usually the only investment aim; in the case of low absorbers, only part of the total financial surplus is regularly transferred to the currency reserves and thus earmarked to cover a possible short-term lack of foreign currency.

In these countries there are two other major investment objectives irrespective of the level of surpluses: maintaining reserves to finance future imports and permanent investments to ensure earnings in the long term, given the finite nature of oil deposits. In the case of these countries, the use of resources is determined by the choice of development strategy. The development of the domestic economy always enjoys priority. This is reflected clearly in the first investment objective cited above. Thus several countries, particularly Saudi Arabia, regard their foreign assets as deferred development expenditure. Such investments are generally geared to the medium term. Given this time scale, there is a preference for fixed interest investments.

Investments to compensate for the gradual depletion of oil reserves, on the other hand, are clearly long term. Many Gulf states have acquired holdings in companies to protect the real value of their financial resources over a long period of time. Investments are also made in long-term fixed interest securities, where more importance is attached to yield than liquidity and in other, non-financial assets such as real estate or precious metals.

As far as foreign assets are concerned, the remarks by the Vice-President of the Saudi Arabian Monetary Authority (SAMA), Sheik Ahmed Abdullatif, clearly show that such investments are not made simply for their own sake. On the contrary, permanent balance of payments surpluses and foreign assets are acceptable on economic and political grounds only as long as the gap between the expected yields on oil investments (production restraint) and on investments in foreign assets does not become too large. The predominant factor here is the fact that oil is a scarce, finite raw material which will tend to become more and more valuable as time goes by. In addition to 'purely' economic considerations (comparative yields from oil reserves

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[1] See: Sheik Ahmed Abdullatif, A Strategy for Investing the OPEC Surplus, in EUROMONEY, August 1980, pp. 23 et seq.

and financial investments)[1], the representatives of the Arab surplus countries are also motivated by a sense of responsibility towards future generations, and the need to leave them assets comparable with the oil from which the present generation is profiting. This means among other things that they wish to minimize investment risks in a similar manner, as Sheik Abdullatif puts it, to insurance companies and pension funds, etc. in the industrialized countries: only first-class investments are chosen, as a matter of principle.

This means firstly that the OPEC (surplus) countries are only willing to grant direct loans to finance the balance of payments deficits of developing countries to a limited extent. They prefer to provide loans for the Third World via the international banking system for two reasons: the debtor countries are far more cautious with regard to servicing commercial loans than they are about merely giving commitments to a government, and, secondly, the banking community is better equipped and has more commercial expertise when it comes to assessing risks. There is also the tacit expectation that the industrialized countries' monetary authorities, as the commercial banks' 'lenders of last resort', will provide a 'de facto' guarantee for such investments. Some effort is also made to diversify financial investments in terms not only of instruments but also of currencies.

This has the following implications for PDR:

- The balance of payments surpluses and surplus resources of the high absorbers can be dealt with by the existing system as they are generally short-term in nature. They pose no major adjustment problems.

- Only five or six countries are 'structural' surplus countries. Most of these account for a significant proportion of world oil production. Priority should be given to talks with these countries on oil production, recycling and adjustment. The main interest of the consumer countries is security of oil supplies without abrupt price increases; for the majority of developing countries there is the additional problem of financing their balance of payments deficit (as a prerequisite for continuing economic growth). The interests of the OPEC surplus countries are, as set out above, to ensure the security of their investments, safeguard their value in real terms and to obtain a proper return on their assets.

4. Aspects of energy policy strategy for non-oil developing countries

As, for the reasons set out above, the non-oil DCs are unlikely to receive sufficient direct aid from the OPEC surplus countries, other solutions will have to be sought. As the problems of the non-oil DCs

[1] Given the likely increase in oil prices in real terms, such a comparison tends to favour oil, particularly the more production is cut back.

are largely connected with energy policy, it is important to develop an energy policy strategy for this group of countries. Various aspects of such a strategy are discussed below.

As explained above, the developing countries succeeded until about 1978 (before the second round of oil price increases in 1979/80) in absorbing the price rises without any major disruptions. But since the oil price boom in 1979/80, these countries have been suffering from almost crippling balance of payments deficits. In 1980 their oil import bill amounted to 5.3% of GNP (compared with 2.8% in 1978). For 1990, the World Bank[1] forecasts an increase to 6.2%.

In some countries (e.g. Brazil, Turkey, India) oil imports now absorb more than 50% of total export earnings. Although trade and capital transactions can make some contribution towards reducing or financing these deficits, greater adjustments will have to be made in the energy sector itself.

Energy consumption in the non-oil DCs is currently extremely low; the 'energy intensity' (ratio of energy input to output) is far lower in these countries than in the industrialized countries; apart from other factors, this is mainly due to 'traditional' sources of energy which are not included in the statistics and the low proportion of total output accounted for by industry.

Given the continuing population explosion in the developing countries (estimated growth from 3,260 m in 1980 to 4,100 m in 1990 as opposed to a growth in the world population from 4,460 m to 5,440 m) and the relative backwardness of the developing countries as regards industrialization and economic growth, the World Bank forecasts an inevitable increase in energy consumption in the non-oil DCs from 13.7 mbdoe (mbdoe = millions of barrels a day oil equivalent) in 1980 to 24.3 mbdoe in 1990. Although this increase in energy consumption may be offset to a certain extent by price trends, the scope for the developing countries to circumvent increased energy prices is once again extremely limited because of the lower level of price elasticity compared with industrialized countries.

In its World Development Report 1981 (pp. 43 et seq.) the World Bank emphasises that even in future the non-oil DCs will only have a marginal influence on the situation on the world energy market which will continue to be dominated by the heavy consumers (i.e. the industrialized states) and the oil-exporting countries with surpluses. The non-oil DCs must therefore of necessity adapt their policy to the new trends on the world energy market. In the energy sector this implies the following adjustment strategy:

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[1] See: World Development Report 1981, p. 42

- Planning and development of the energy market must be fully integrated into the respective national development projects.

- A comprehensive substitution programme needs to be developed to replace imported oil by domestic sources of energy (hydroelectric power, coal, wood and domestic oil and gas). It has been estimated that total domestic energy production could be doubled in the non-oil DCs between 1980 and 1990.

- It is estimated that annual resources of US $50,000 m will be necessary (at 1980 prices) for the implementation of this substitution programme.

- If such a programme is to succeed, it must be accompanied by energy-saving measures backed up by price and target price policies.

Increasing energy supplies

The World Bank stresses that the non-oil DCs must increase their efforts to develop potential domestic sources of energy (oil, gas, coal, hydroelectric power, uranium, oil shale and oilsands), which are becoming increasingly economic to exploit with higher world oil and energy prices. Given the special circumstances in the developing countries, particular importance should be attached to exploiting renewable sources of energy (solar power, wind, biomass).

Although the proven deposits of oil and gas in the non-oil DCs only amount to 2% of total world reserves, the actual deposits are likely to be far larger since exploration in the past has been largely restricted to cheap sources or those located near the main centres of consumption. It is therefore estimated that total oil production in these countries could be increased from 1.5 mbd in 1980 to 2.8 mbd in 1990 or even 4.8 mbd in 1990 with sufficient exploration work and investments (World Bank). Similarly it has been estimated that natural gas production in these countries could be trebled by 1990 to 1.6 mbdoe.

In the case of coal, deposits in the non-oil DCs are estimated at only 10% of total world deposits. But here again more extensive exploration is likely to reveal far larger reserves. It is remarkable that coal production in the non-oil DCs has not increased substantially since 1973 despite the increases in the price of oil. This is probably essentially due to the long periods between sinking a new mine to beginning production, and above all to the lack of sufficient capital to provide the necessary infrastructure and transport capacity.

The prospects for the non-oil DCs in the field of hydroelectric power are far more attractive since these countries could probably account for over half the potential world capacity.

As in the industrialized countries, the unconventional forms of renewable energy (biomass and biogas, solar energy, wind and water power) are likely to be an important source of energy for the non-oil DCs in the future, particularly given their special circumstances, but they are unlikely to be able to make any significant contribution to energy supplies before the end of the '80s.

Capital required for energy development

The World Bank estimates the capital (investments) required by the non-oil DCs to implement the energy programme outlined above at approximately US$ 50,000m (at 1980 prices). It is interesting to compare this figure with the high oil import bill of this group of countries of US$ 74,000m in 1980.

If the investments in the energy sector described above were to be implemented in the developing countries, the proportion of such investments to total investments in these countries would double from 5% to over 10%.

Given the present financial and economic situation in the non-oil DCs, it is quite evident that these countries cannot implement such energy investment programmes themselves without significant cutbacks in economic growth which is already at a minimal level. Such energy investment programmes in the non-oil DCs are, therefore, inconceivable without generous international capital aid and technical support.

The role of the industrialized nations and international organizations

The industrialized nations and international organizations will have a major part to play in assisting the non-oil DCs to implement energy programmes. One first step, and one which should not be underestimated, would be for the industrialized states to steadily cut back their oil imports to make room for the essential energy requirements of the developing countries and at the same time ease some of the pressure on prices in future so that the financial burden on the non-oil developing countries does not grow at least on this account.

Above all, however, the necessary energy investments outlined above can only be implemented with technical and financial support from the industrialized countries and, in the case of capital, from the OPEC surplus countries.

Despite major efforts, the non-oil DCs will not be able to mobilize the necessary technical and financial resources on their own. Many of these countries are severely restricted by their low credit ratings for private bank loans, their lack of resources for exploring domestic energy resources and an inadequate domestic political/institutional infrastructure.

There are also reservations on the part of the major banks and oil companies in the industrialized countries: particularly from the point of view of profits and risks, they are extremely reluctant to provide the enormous capital resources needed for infrastructure development without which it will be impossible to explore and exploit domestic energy reserves in the developing countries; in addition, the major oil companies are more interested in oil reserves which can be sold on the world market than in exploring and producing oil for consumption in the developing countries themselves. They are also looking for greater protection against political risks such as nationalization.

Since the market economy machinery alone is unable to solve the problems of developing countries, other ways and means will have to be found. The World Bank has shown itself to be one of the most important international institutions in finding solutions to these problems. Although it has considerably expanded its activities geared to solving the energy problems of the developing countries, there is nonetheless political opposition to efforts to create an 'energy branch' to tackle this problem in a more concentrated and comprehensive manner. New ways and means are also needed because, even with wider terms of reference, the World Bank will be unable to cope with a task of such dimensions.

5. Examples

The situation of the non-oil developing countries after the second round of price increases can be briefly illustrated by the situation in Tanzania and Brazil.

Although Tanzania[1] is already one of the poorest countries in the Third World, it faced a decline in real per capita GNP in 1980 of 5%. Despite an increase in foreign financial aid of 150% in real terms since 1973, the value of imports in 1980 fell below the 1973 level. But notwithstanding the lower overall level of imports and a reduction in the volume of oil imports (oil imports in 1980 were 50,000 tonnes down on 1972) the increase in oil prices meant that in 1980, 40% of total export earnings were absorbed by the oil bill (as opposed to 10% in 1972). As furthermore droughts and crop failures required food imports accounting for a further 20% and servicing of loans took another 9% of export earnings, Tanzania's financial resources were almost entirely exhausted (with negative net currency reserves at the end of 1980).

Although Tanzania's desperate economic position is also due in part to mistakes in domestic economic policy, it is quite clear that higher oil prices have been an important factor in the almost total erosion of the country's finances. Without outside aid to restructure its economy and reduce its dependence on energy, and thus reduce its oil bill, Tanzania will of necessity slide into an even more severe economic recession over the next few years.

[1] The World Bank, World Development Report 1981, Washington 1981, p.83

Brazil[1] is often regarded as the country which has succeeded in reducing its dependence on imported oil and developing its domestic energy base.

Although Brazil had little difficulty in offsetting the effects of the first round of oil price increases by substantial export successes, it was hit very hard by the second round. In 1980 oil imports accounted for almost half of total imports in terms of value and absorbed some 44% of total export earnings. With loan servicing costs taking a good 30% of export earnings, this meant that in 1980 almost three-quarters of the country's total export earnings were accounted for by the oil import bill and loan servicing.

This pressure on its balance of payments forced Brazil to make determined efforts to develop a bio-alcohol programme based on domestic sugar cane to reduce its oil imports, an unprofitable venture given the prospective structure of costs, not to mention its undesirable side-effects on the environment and food supplies.

The example of Brazil, one of the largest oil importers among the non-oil developing countries shows that balance of payments problems, caused mainly by the massive increases in oil prices, not only lead to unprofitable alternative fuel programmes but also effectively block the development of projects which offer the prospects of long-term success but require massive investment. And in Brazil, as in many other developing countries there is no lack of such projects (oil exploration, water power, renewable sources of energy).

IV. Proposals, programmes, plans to solve the PDR problem

1. Indexed loans

2. Measures by existing institutions (IMF, World Bank)

- special IMF and World Bank financing facilities (link between the creation of special drawing rights and development aid, oil facilities, structural adjustment loans)

3. European Community

Loans issued by the Community (in ECU); subscribed by the OPEC states. Taken up by Member States and possibly also developing countries (associated states, other states). Protection for the OPEC states against currency risks.

[1] The World Bank, World Development Report 1981, Washington 1981, p.70

4. Zolotas Plan

- Creation of an international loan insurance fund managed by the World Bank
- Guaranteed by the IMF, World Bank, OPEC, industrialized nations

5. Brandt North-South Commission

- More direct financial aid from OPEC for development aid via existing institutions (World Bank - IDA)
- Three-way arrangements for developing countries with OPEC finance and Western technology
- Use of IMF gold reserves as security and additional loan operations via existing international financing organizations with loan guarantees and joint financing programmes.

6. Gutowski-Roth Plan

The proposal by Gutowski and Roth[1] for a multilateral agreement between industrialized and OPEC countries on oil prices, oil production, real returns on OPEC investment and the creation of a development fund to grant subsidized loans to the developing countries is an ambitious attempt to bring together the divergent interests of the OPEC countries, the oil-importing industrialized countries and the non-oil developing countries. Briefly, the agreement would cover the following:

- The oil-exporting countries would commit themselves to supply the oil consumers with oil at standard prices with a binding formula stipulating the maximum possible increase.
- The industrialized nations would offer the oil-exporting countries securities with a guaranteed real interest rate in which balance of payments surpluses could be invested, up to a certain maximum each year.
- A proportion of the funds would be transferred to the development fund to provide loans for developing countries on special terms. The cost of the subsidized interest rates would be borne jointly by the oil-exporting countries and the industrialized countries.

The following aspects of this proposal deserve special mention:

Firstly, it is an attempt to combine the desire of the oil-importing countries for greater continuity and stability of long-term oil supplies and oil price developments with the desire of the OPEC countries, particularly those with capital surpluses, to find investment facilities for their oil revenues which offer the same return as leaving the oil in the ground and at the same time contribute to recycling funds to the developing countries. Secondly, the detailed nature of the draft

[1] See A. Gutowski and W. Roth, Vertragskonzept: OPEC-Industrieländer - Entwicklungsländer, in: Wirtschaftsdienst, 1980, No. 12, pp. 602 et seq

agreement should not be misinterpreted; it is a draft and the details can and should of course be the subject of negotiation. It could serve as a useful basis for exploring the reactions of the major oil-producing countries and the industrialized nations in more detail and providing a concrete approach to finding an acceptable solution.

The Gutowski/Roth proposals coincide in some respects with OPEC's long-term programme which, however, takes little account of the interests of the consuming countries. Competition would remain largely excluded from the world oil market, which, given the current situation need not necessarily prove a disadvantage for the consuming countries and world economic development. Hectic price rises at short intervals would be replaced by predictable annual increases in the official prices which would at the same time provide guidelines for the development of alternative sources of energy to conventional oil. The burden placed on the major industrialized nations by such an agreement would,however, be considerable.

A further question is whether, given the divergence of interests both in the industrial nations and in the OPEC countries, such an international agreement is at all feasible. In the past all international raw materials agreements have failed. To some extent the oil-producing countries are already going their own way together with some developing countries.

If a loan were to be used for an energy development programme, the term could be extended to twenty years and the rate of interest brought down to 2%. Such an agreement should be seen as a result of the UNCTAD Conference in Manila in 1979, at which the Latin American countries in particular blamed their difficulties on rising oil prices.

As regards certain criticisms of the Gutowski and Roth Plan, it is important to note that only makeshift solutions can be found to the world economy problems created by the second oil crisis in 1979/80 because of the oil-exporting countries monopoly. The OPEC countries themselves know that the pattern of supply and demand on the world energy market means that they do not have to let market forces determine oil prices.

7. Müller-Herman Plan

- Creation of a fund from the capital market resources of the oil-producing countries and the Community with the assistance of the European Investment Bank with an insurance fund backed by public finances to cover political and economic risks.

V. CONCLUSIONS

The Committee on Energy and Research recommends the committee responsible to include the following items in its motion for a resolution:

Recitals:

- having regard to a likely population increase of approximately 2,000m by the year 2000, almost exclusively in the countries of the Third World;
- whereas the goals for economic growth in the Third World require a major expansion and diversification of energy supplies at the lowest possible cost;
- having regard to the alarming balance of payments deficits in the developing countries which are already deeply in debt because, in the wake of the oil price rises, their inevitable energy requirements have led to increased oil bills with which they cannot cope;
- having regard to the immense demand for capital in the Third World, to pay oil bills and to exploit domestic energy resources;
- whereas the industrialized countries and the oil-producing countries have special responsibility in this respect and whereas there must be three-way talks between industrialized nations, oil-producing countries and developing countries to lead to a reduction in the enormous economic imbalances in the world by means of world-wide economic growth which in turn requires security of energy supplies, and a rational international division of labour;
- convinced that the Community has the appropriate capacity for Community undertakings to participate in world-wide exploration and infrastructure projects in the energy field;
- having regard to its report on trade relations between the EEC and the Gulf States (WIECAOREK-ZEUL report (Doc. 1-866/80))[1];
- having regard to the first UN Conference on new and renewable sources of energy in Nairobi;

Motion for a resolution:

- Calls on the industrialized nations to assist the countries of the Third World not least by substantially reducing their consumption of traditional sources of energy thus making a correspondingly larger quantity of oil and natural gas available for the poorer countries. The more the industrialized nations make use of conventional sources of energy, the greater the pressure on prices to the detriment of the poorer countries;
- Recalls that the Community has a particular responsibility towards those states with which it is associated;
- Urges that the expertise available in the Community (e.g. 'alternative energy systems such as solar, wind, tidal, geothermal and biomass energy) by deployed if necessary as an export commodity and, in competition with other industrialized nations, but the benefit of the economy and employment in the Community;

[1] OJ No. C 260, 12.10.1981, p.28

- Urges that OPEC funds together with Community capital market resources should be brought together in a fund specializing in energy projects;

- Recommends that the capital accruing from PDR should be used to increase long-term international energy supplies and facilitate alternative energy processes. To this end appropriate infrastructure and exploration projects should be financed;

  (a) particularly the Islamic states and in the ACP states associated with the Community, the development of mining, infrastructure and exploration in the energy sector has a crucial role to play in improving domestic supplies of energy and general economic development;

  (b) further major resources of energy could be exploited in the offshore territories, including those of the Community;

  (c) a promising project for the future is the more sophisticated technical exploitation of new and old oil and gas resources in the producer countries;

  (d) consideration should also be given to exploiting the rich reserves of energy of all kinds which are to be found both on the seabed and in remote and inaccessible parts of the world;

- Calls on the Commission to make a particular effort to achieve progress with the above projects to recycle petrodollars to the benefit of the world economy, especially in the ACP states and developing countries in the Islamic world, and to this end in particular to step up talks with the oil-producing countries in the Gulf region as a first stage towards a three-way consultation with the Third World;

- Also calls on the Commission, together with the oil-producing countries in the Gulf region, but if necessary as an independent Community measure, to find a way of covering the inevitable political and economic risks attaching to the projects described, particularly in countries in the Third World, by a special fund endowed with budget resources;

- Considers that this is all the more essential as energy policy projects which may be very reasonable and vital for the economic development of an impoverished region will often only produce profits after unusually long periods of time, if at all;

- Assumes that measures taken by the Community and its partners among the oil-producing countries will be seen from the outset as being complementary to, rather than in competition with, efforts by the World Bank and the International Monetary Fund and deplores the fact that such arguments have hitherto prevented progress towards the creation of an energy bank as a subsidiary of the World Bank.

OPINION OF THE COMMITTEE ON DEVELOPMENT AND COOPERATION

Draftsman: Mr Gérard FUCHS

On 24 November 1981 the Committee on Development and Cooperation appointed Mr Gerard Fuchs draftsman.

The committee held an initial exchange of views at its meeting of 17 and 18 March 1982.

At its meeting of 26 April 1982 the committee considered the draft opinion and approved it by 10 votes with 2 abstentions.

The following took part in the vote: Mr Fellermaier, oldest member and acting chairman, Mr Fuchs, draftsman, Mr Cohen, Mr Ferrero, Mr Irmer, Mr C. Jackson, Mr Lezzi, Mr Lomas (deputizing for Mr Kühn), Mr Michel, Mr Narducci, Mr Papantoniou (deputizing for Mr Loo), Mrs Pruvot (deputizing for Mr Sablé), Mr Wawrzik.

1. OPINION OF THE COMMITTEE ON DEVELOPMENT AND COOPERATION

The Committee on Development and Cooperation requests the Committee on Economic and Monetary Affairs to incorporate the following points in its motion for a resolution:

- a policy of saving energy and developing energy sources other than oil - pursued in the industrialized and developing countries - is a key element in any strategy for reducing present imbalances;
- the industrialized countries must encourage medium and long-term investment opportunities for oil surpluses; the increased stability thus attained should favour the achievement of international public development aid objectives;
- the creation of financial facilities such as already exist in the Caribbean region should be encouraged, especially where they benefit the poorest developing countries;
- efforts should be made to encourage in the non-oil-producing developing countries the creation of special accounts to be funded either by foreign currency loans or by price reductions granted by the oil-producing countries, the money to be used to attain a higher level of self-sufficiency in energy;
- the development of co-financing offering a form of indirect guarantee to encourage the providers of oil capital to invest in development projects where immediate profitability is not assured should be encouraged as much as possible; the development of joint co-financing should be preferred to parallel co-financing and instruments should be fashioned to make it more effective;
- efforts directed towards the creation of an 'energy affiliate' of the World Bank must be pursued;
- at all events the creation of a common 'energy affiliate' of the European Investment Bank and certain Arab Funds must be envisaged;
- the possibility of changing the existing voting rights in certain international institutions, in particular the International Monetary Fund, should be given favourable consideration in the interests of creating new international relations;
- the Community should ensure that account is taken of the effects on the poorest developing countries of any proposal relating to the recycling of petrodollars.

II. EXPLANATORY STATEMENT

RECYCLING OF SURPLUS PETRODOLLARS and DEVELOPMENT PROBLEMS

I. Origin of the problem

1. The nominal price of oil quadrupled on the first oil shock in 1973/74; after a period of stagnation in 1975/78, it then more than doubled over a period of eighteen months in 1979/80 (Table 1). In 1981, the price sometimes exceeded 34 dollars per barrel before falling partly for technical reasons in recent months.

2. These two shocks, taken together, have produced in the oil-producing countries fluctuating, but considerable (Table 2) balance of payments surpluses, totalling over the last eight years some 350,000 million dollars (the latestrevised estimate for 1981 is 70,000 million dollars).

3. At the same time, the industrial countries, especially the non-oil-producing developing countries, have experienced and accumulated deficits, the former in the region of 30,000 million dollars and the latter in excess of the considerable amount of 400,000 million dollars (Table 2). For the latter countries, the annual balance of payments deficit multiplied by 7 between 1973 and 1980, seriously compromising their prospects of growth and development.

4. The hope of a drop in the real price of oil, expressed again in the light of the most recent trends, (the oil-producing countries' balance of payments surplus may not exceed 30,000 million dollars in 1982), should not be considered as favourable: a lasting drop in prices could only come from a lasting fall in consumption, which itself would mean even today an exacerbation of the world crisis.

II. The basic phenomenon: a world-wide redistribution of income

5. Beyond the financial phenomenon which we have just considered, the basic phenomenon is a world-wide redistribution of income, brought about via the new money flows set up by the oil bills themselves. The volume of these bills for the industrialized countries (253,000 million dollars in 1980, Table 3) and of the non-oil-producing developing countries (68,000 million dollars, Table 4) shows, better than the payments deficits, the extent of the levies involved.

6. However, it is important to note that for the non-oil-producing developing countries, the extent of these levies - calculated as a percentage of imports or of GNP - is particularly high for the newly industrialized countries (37% and 5.7% respectively) but remains more modest for the poorest countries, (17% and 3.1% respectively, Table 4), as their energy consumption remains limited for the time being.

7. Finally, we must also bear in mind the increase in the number of producer countries, in particular in Africa south of the Sahara (Nigeria, Gabon, Angola, Cameroon, Congo, Zaire, Ivory Coast), which are to be added to the list of countries of the Middle East which have been the beneficiaries of the levies mentioned (Table 5).

8. The oil levies paid by the non-oil-producing developing countries take the form of growing indebtedness and a debt burden which represents an increasingly high percentage of exports or GNP (Table 6). The levels attained today raise the problem of the solvency of many countries and, consequently, that of the security of the international financial system.

III. <u>The risks of the world economy and what is at stake</u>

9. Industrialized countries have reacted to the disequilibria thus created by restrictive measures and aimed at restoring their external balances (cutting public expenditure, credit squeezes, restricting pay rises and, as a result, holding back private consumption), which have led to a substantial slow-down in their growth.

10. The non-oil producing developing countries have, for their part, often found themselves strangled: coming on top of a food bill which is itself increasing fast (the value of which increased threefold between 1970 and 1978), the new oil bill has in most cases led to a substantial cut-back in imports (in particular of capital goods) and thus in the pace of development.

11. The danger facing the world economy as a whole is a spiral of depression and unemployment (competition between the industrialized countries to improve their trade balance by export subsidies and import controls; a fall in imports by the non-oil-producing developing countries and thus of exports by the industrialized countries at a time when the markets of the oil-producing countries are becoming saturated; disequilibria are therefore maintained and the cut-back on growth accentuated).

12. More specifically, the danger facing the non-oil producing developing countries is that of a reversal of the feeble positive results recorded until 1973 in the growth of real GNP per capita. For certain African countries (18 out of 53), this rate of 'growth' is now negative.

13. The problem of the recycling of petrodollar surpluses - the ability of the world banking system to ensure a satisfactory balance of supply and demand on the various capital markets - has therefore clearly two aspects:

- the level at which the balance will be struck, which determines the level of world economic activity;
- the chances of development of the non oil-producing developing countries, particularly as, whatever the development model chosen, their energy consumption can only increase.

IV. Unsatisfactory solutions to the recycling problem

14. The first response to the shock of 1973/74 was a race to export as much as possible to the oil-producing countries. And, in effect, the first financial surpluses accumulated by the OPEC countries disappeared more rapidly than expected, partly because of the drop in demand for oil owing to the crisis, but above all because of the very steep increase in imports: between 1974 and 1978, imports of goods by the OPEC countries increased at the rate of 30% per year; between 1974 and 1980, imports of goods and services increased nearly fourfold.

15. However, this increase in imports has gradually slowed down, in particular because of the level of saturation reached by the low-population countries, particularly those on the Persian Gulf, a level which could not be exceeded without greater use being made of foreign labour (which already exceeds 50% of the working population in certain countries). The Iranian revolution also revealed the social and political obstacles that forced Westernization could come up against.

16. Finally, increasing exports is not a possibility for most of the non-oil-producing developing countries, whose raw materials or simple manufactures have scarcely any outlets in the OPEC countries.

17. A second response to the problem of recycling petrodollars has been, on the contrary, to use the short-term money markets (simple deposits or taking over various types of debts), mainly in Great Britain and the United States, then in Japan, the Federal Republic and France. This recycling hides the basic problem by giving the newly industrialized countries the false impression that, as their balance of payments is all right, they can maintain their standard of living.

18. The impression is false because the accumulation of very volatile capital is unstable and dangerous; this is a matter of concern for the investors themselves, who are seeking legitimate assurances against monetary fluctuations which are increasingly uncontrolled. Moreover, it forces the countries in which the money is invested to adopt restrictive monetary policies which have an additional negative effect on growth.

19. Such a 'short-term' approach to recycling concerns the non-oil-producing developing countries very little, except indirectly by increasing the ability of a certain number of monetary institutions, usually private ones, to give loans. Private financing covers more than 50% of the total deficit of the non-oil-producing developing countries. Commitments from this source have increased so much that the failure of certain borrowers to pay could lead to a dangerous series of payments crises. Moreover, very few of these commitments have been in favour of the poorest developing countries, for which only long-term loans, which are not very acceptable to private banks, are conceivable.

20. A final attempt at providing a solution was made by the IMF. But, in the absence of a general agreement on the nature of the adjustments to be made in the long term, the increase in 'facilities' remained limited in volume and duration. And the short-term conditions usually imposed on the developing countries have in general proved ill-adapted to the reduction of structural disequilibria and absurd in relation to development strategy.

V. Strategy for the long term

21. Without doubt, any such strategy must include an energy component. The apparent balance on the oil markets today and the slight fall in prices would not stand up to a fairly strong resumption of growth, which is, however, a vital factor in the fight against unemployment and the pursuit of development.

22. Whatever the trend of prices in the short term, an effort must therefore be made along the following lines:

- energy saving, both in the rich countries (in the three areas of housing, transport and industry) and in the developing countries (by making better use of traditional fuels);
- development, for the developing countries, of local energy sources, and particular small deposits of coal and oil (some experts consider for example that more than 30 African countries possess small oil fields);
- the development of new and renewable energy sources (biomass, solar energy, geothermal energy ...) in the spirit of the Nairobi Conference (August 1981);
- definition of energy strategies, based, in particular, on differentiated use of the various existing types of energy.

23. These efforts will be agreed to more easily if the price of oil does not fluctuate too widely and, conversely, they will, in the long term, enable the risk of new oil shocks to be avoided.

24. Then the financial strategy of the rich countries needs to be revised. The risks caused by the existence of a mass of short-term capital no longer need stressing. Medium and long-term investment of the petrodollar surpluses should be encouraged as as to amplify the timid trends which are beginning to emerge along these lines.

25. This approach offers the industrialized countries better possibilities of financing vital new developments in industry (the psychological and political risk of seeing an increasing number of businesses taken over must be overcome by negotiation). This approach can make it easier for the industrial countries to increase their aid to developing countries, thus achieving a sort of indirect recycling of petrodollar surpluses.

26. Finally, specific measures should be taken for the recycling of petrodollars for the benefit of the non-oil-producing developing countries. Although, today, these countries receive some 15% of the flow of capital from the oil-producing countries and although official development aid from the OPEC countries is very high as a percentage of their GNP (Table 7), the existing system is not, as we have seen, adequate to solve the problem.

27. First one can envisage the extension of certain indirect aid mechanisms provided by the oil-producing countries in the form of facilities (see, for example, in annex, the operation of the facilities managed by Mexico and Venezuela on the one hand, Trinidad and Tobago on the other, for certain states in the Caribbean; similar agreements, less well known, also exist between the countries of the Persian Gulf and certain African states).

28. Then there is the possibility of extending the system of counterpart funds, which already exists for food, to cover oil: grants or loans are provided in international currency by the oil-producing countries and the industrialized countries and linked to the drawing up by the recipient countries of national energy strategies which will enable dependence on outside help to be reduced.

29. Co-financing is also a very promising method of recycling which should be developed; since 1975 it has been a vital factor in the 'triangular' cooperation between the EEC, the Arab development funds and the developing countries (see for example Table 8 for the ACP). Cofinancing has hitherto mainly taken the form of parallel financing, where the donors finance different parts of the same project. Given the convergence of views which emerged during 1981 between the EEC and the Arab funds for development aid, it might also be possible to make use of joint financing, where the donors pay out for the realization of a project sums which are not specifically earmarked. The main interest of co-financing is to provide the oil-producing countries with a form of international guarantee for projects whose profitability is not always immediate and in countries which are not always obviously solvent.

30. Finally, efforts to set up the famous 'energy affiliate' of the World Bank must be continued. Such a framework can, without upsetting the existing balance of power within the International Institutions, make it possible for the donor countries to be more closely associated with decision-making, with precise terms of reference; it thus facilitates the mobilization of the 30,000 million dollars proposed by the World Bank for the implementation of an international energy programme over five years.

31. The EEC for its part should in any case consider the setting up of an energy affiliate common to the EIB and the Arab Funds.

VI. A philosophy, that of mutual interest

32. The fall in the real value of a barrel of oil from 1950 to 1973 is undeniable and the desire of the producers to make up the ground lost and guarantee their purchasing power in future must be considered as legitimate. However, a conflictual approach to relations between consumer and producer countries, in the light of the facts mentioned above, can only lead to further oil shocks and the deepening of the crisis, to the detriment of all in the end.

33. A contractual approach must therefore be proposed to implement the long-term strategy defined above. This approach must be based on mutual interest in three dimensions:

- that of the highest possible level of world economic activity;
- that of joint preparation for the 'post-oil' era via the joint financing of research and projects in the field of new energies;
- that of the development of a new field of international relations outside the hegemony of the two superpowers: Africa-Europe-Middle East relations.

34. The 'Müller-Hermann' motion calling for the creation of a 'Community financial instrument', does not seem to fit in with this conception since it gives the EEC a preeminent role vis-a-vis the oil-producing countries which is a situation the latter are unlikely to accept.

35. Beyond the purely financial aspects of recycling, a contractual approach must lead to acceptance of discussion of the idea of indexing the price of oil so as to cushion the effects of the market convulsions which are bound to come.

36. In the same spirit favourable consideration must be given to the possibility of modifying the present balance of power within certain international institutions (and particularly the IMF) with a view to creating new international relations.

37. The definition of this other system of international relations, including multi-annual commitments, can contribute to greater control of the world economy, help the developing countries as a whole to further their development, encourage the establishment of a growing regular aid flow from the richest countries to the poorest. The survival of thousands of millions of men, the jobs of millions of workers and the chances of peace also are at stake.

TABLE 1

Year	Oil Price $/b (1)
1970	1.80
1971	2.20
1972	2.47
1973	3.29
1974	11.58
1975	11.53
1976	12.38
1977	13.33
1978	17.05
1980	28.33
1981	32.00

Notes :Annual averages, except for 1981 (January). Official or posted price of a barrel (b) of Arabian Light (34° API) at Ras Tanura, price shading ($ 0.30 to 0.50/b) were common in the early 1960s.

Sources : Data prepared by author
For oil from 1945-1975 : Gilbert Jenkins, British Petroleum Co., Oil Economists' Handbook (London :Applied Science Publishers, 1976), p. 130.

TABLE 2

Payments balances on current account 1973-81[1]
(in billions of U.S. dollars)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	TOTAL
Industrial countries	19.7	-11.6	17.6	-0.2	-4.6	30.8	-7.8	-44.1	-29	-29.2
Seven larger countries	14.1	-3.7	23.2	9.1	8.0	34.2	4.7	-15.7	-1	
Other countries	5.5	-7.9	-5.5	-9.3	-12.6	-3.4	-12.5	-28.4	-28	
Developing countries										
Oil exporting countries	6.6	67.8	35.0	40.0	31.1	3.3	68.4	112.2	96	460.4
Non-oil developing countries[2]	-11.5	-36.8	-46.5	-32.9	-28.6	-37.5	-57.6	-82.1	-97	-430.5
By area										
Africa	-2.0	-4.8	-9.2	-8.0	-6.0	-7.3	-5.8	-7.3	-14	
Asia[3]	-2.5	-9.8	-9.0	-3.5	-0.7	-5.8	-14.2	-23.7	-25	
Europe	0.3	-4.3	-4.7	-4.2	-7.6	-5.2	-8.5	-10.3	-9	
Middle East	-2.6	-4.5	-7.0	-5.4	-5.2	-6.3	-8.3	-7.7	-8	
Western Hemisphere	-4.7	-13.4	-16.6	-11.9	-9.1	-12.9	-20.9	-33.1	-40	
TOTAL[4]	14.8	19.4	6.1	6.9	-2.1	-3.4	3.0	-14.0	-30	

1. On goods, services, and private transfers. For the industrial countries, alternative current account balances including official transfers are given for the years 1977-80 in Table 9. Projected 1981 balances including official transfers are $ 50 billion for the industrial countries as a group, $ 18.5 billion for the larger countries and $ 31.5 billion for the other industrial countries. For classification of countries in groups shown here, see Tables 1 and 2.
2. Fund staff projections
3. Excluded data for the People's Republic of China prior to 1977.
4. Reflects errors, omissions and asymmetries in reported balance of payments statistics plus balance of listed groups with other countries (mainly, the Union of Soviet Socialist Republics and other nonmember Countries of Eastern Europe and, for years prior to 1977, the People's Republic of China).

TABLE 3

VALUE OF NET OIL IMPORTS
(Million dollars)

	1973	1974	1975	1976	1977	1978	1979	1980
Austria	325	765	745	9125	948	1 081	1 727	2 687
Belgium	679	2 337	1 888	2 240	2 368	2 503	2 979	4 692
Denmark	637	1 466	1 452	1 544	1 705	1 714	2 651	3 187
France	3 218	10 380	9 300	11 159	11 194	11 361	16 208	26 593
Germany	5 078	11 310	11 206	13 392	14 171	14 617	24 528	32 025
Italy	2 395	7 971	7 587	8 021	8 375	8 695	11 892	19 860
Netherlands	836	1 962	1 816	2 828	3 058	2 669	4 514	6 589
Portugal	119	467	489	592	637	738	1 143	1 815
Spain	887	3 016	3 449	4 320	3 765	4 513	6 709	10 848
Sweden	1 014	2 444	2 561	2 861	3 028	2 805	5 212	6 480
Switzerland	758	1 336	1 336	1 465	1 554	1 724	3 202	3 738
U.K.	3 289	8 975	7 661	7 870	5 429	4 497	2 331	92
TOTAL EUROPE 12	19 235	52 429	49 490	57 207	56 232	56 917	83 096	118 606
Canada	643	152	196	954	1 412	1 593	990	2 337
Japan	6 123	20 781	20 842	23 257	25 843	25 776	38 059	57 867
U.S.A.	7 031	23 418	27 377	30 797	42936	40 037	57 576	74 103
TOTAL ABOVE COUNTRIES	31 746	96 476	97 905	112 215	126 423	124 323	179 721	252 913

Source : Oil and Energy Trends, Statistical Review 1981 ; prepared and published by Energy Research Ltd.

TABLE 4

THE IMPACT OF THE SECOND OIL PRICE INCREASE[a] ON NET OIL IMPORTING DEVELOPING COUNTRIES

Countries and country groups	Oil import bill ($ million)			As percent of imports[b]			As percent of GNP		
	1978	1979[c]	1980[c]	1978	1979[c]	1980[c]	1978	1979[c]	1980[c]
LICs	4 560	6 550	9 860	20	24	31	2.2	2.7	3.8
LLDCs	690	980	1 520	10	12	17	1.7	2.2	3.1
Bangladesh	170	240	360	10	13	17	2.6	3.3	4.3
Tanzania	135	200	270	14	21	29	3.8	5.2	6.1
India	2 600	3.500	5 300	28	32	41	2.1	2.7	3.7
Pakistan	350	500	770	10	14	18	1.9	2.4	3.1
NICs[d]	17 870	25 110	40 900	25	30	37	3.4	4.2	5.7
Brazil	5 950	7 300	10 500	29	36	45	3.1	3.5	4.7
Spain	4 660	6 600	9 900	21	27	34	3.6	4.6	6.2
Korean Republic	2 210	3 400	5 900	14	17	23	5.6	6.9	9.3
Other MICs	9 270	12 140	16 740	13	17	20	3.5	4.1	4.9
Turkey	1 400	1 770	2 400	25	27	33	2.8	3.4	4.2
Thailand	1 100	1 800	2 500	11	23	27	5.5	8.0	8.9
Philippines	1 000	1 450	2 200	17	23	30	4.2	5.3	7.1
Ivory Coast	200	290	430	6	7	9	2.8	3.4	4.2
TOTAL	31 700	43 800	67 500	20	25	32	2.9	3.9	5.2

a) Oil import figures for 1979 are based on the 1978 oil import volume, applying the average oil price for 1979 ($ 19 per barrel) and 1980 ($ 30 per barrel); however, adjustments have been made to correct oil import volumes for countries for which available information indicated changes from the 1978 import volume (e.g. due to increased domestic energy production conservation, import ceilings, increased use of alternative energy, etc.)
b) Imports include goods (including oil) and services
c) Figures for 1979 are privisional and those for 1980 are estimates
d) The NICs in this table do not include Hong Kong and Singapore

TABLES 5

WORLD ESTIMATED OIL PRODUCTION
Thousand tonnes

	Jan.-June 1980	July-Dec. 1980	Jan.-June 1981
Africa			
Nigeria	52 835	48 915	41 000
Libya	45 405	40 530	35 825
Algeria	26 930	24 600	23 700
Gabon	4 400	4 445	4 100
Angola/Cabinda	3 694	3 734	3 500
Tunisia	2 778	2 848	2 900
Cameroun	1 350	1 400	2 000
Congo	1 377	1 269	1 800
Zaire	522	501	500
Ivory Coast	—	50	170
Ghana	100	75	50
Marocco	20	20	20
	139 411	128 387	115 565

Source : Petroleum Economist 1981, September

TRADE AND PAYMENTS (US $ millions)

	1974	1975	1976	1977	1978	1979	1980	1981
CAMEROUN								
Exports fob	493.2	512.0	584.2	809.1	1095.9			
Imports fob	389.9	540.3	554.9	719.2	951.5			
BALANCE :	103.3	-28.3	29.3	89.9	144.4			
Source : ABECOR, Country report, April 1980, distributed by								
CONGO :								
BALANCE		-42	-13.5	+32.6	+15.6			
Source : I.M.F. International Financial Statistics								
GABON*								
Exports			1 217	1 300	1 309	1 815	2 487	
Imports			629	694	558	555	689	
BALANCE			588	606	751	1 260	1 798	
* 1980 : Estimate								
Source : ABECOR, Country report, Sept. 1981, distributed by								
NIGERIA**								
Exports				12 430	10 508	16 734	27 000	20 000
Imports				9 721	11 386	11 800	18 000	22 000
				2 709	-878	4 934	9 000	-2 000
** 1980 : Estimate - 1981 : Forecast								
Source : IBID, Oct. 1981								

TABLE 6

Country group	Billions of current dollars		Billions of 1978 dollars		Percentage real growth,
	1970	1980	1970	1980	1970-80[a]
Oil importers	48.0	301.3	102.6	250.9	9.4
Low-income	14.5	48.0	31.0	40.0	2.6
Middle-income	33.5	253.3	71.6	210.9	11.4

Note : Includes private nonguaranteed debt.
a. Compound annual rate of change

Source : World Development Report, 198l

TABLE 7

OPEC and OECD aid 1974–1980
(Net disbursements as a percentage of GNP)

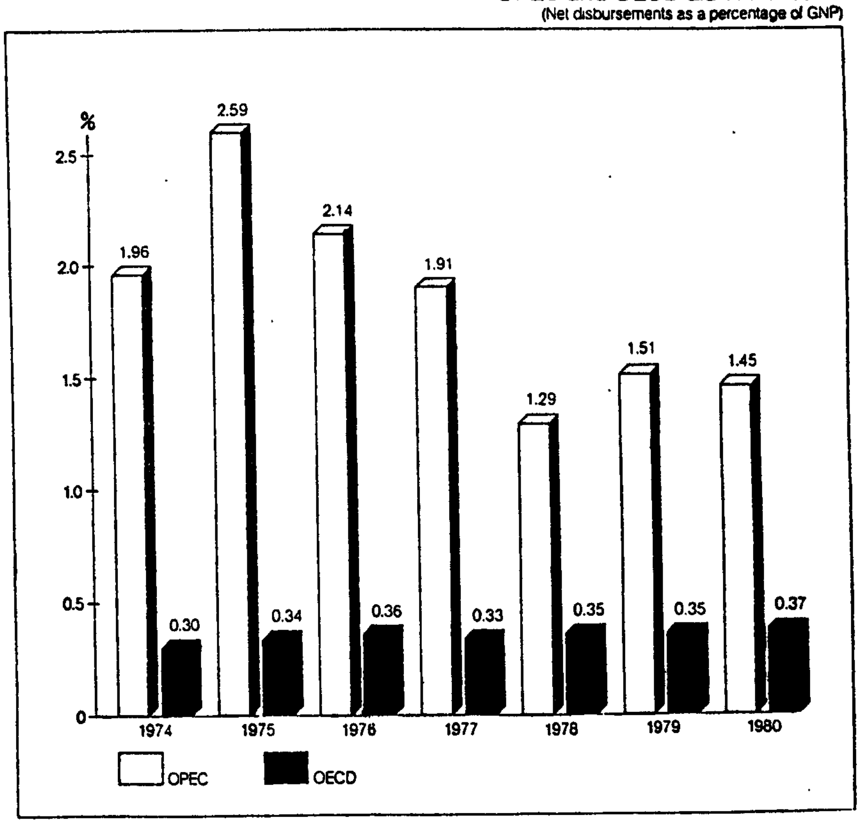

TABLE 8

LOME I - COFINANCEMENTS

48 Projects
3600 millions ECU or 4800 millions US $
Medium amount 75 M ECU or 100 M US $

Benefiting states		22 %
Community		36 %
EDF	16.3	
EIB	2.5	
Member states	17.4	
Arabian funds		16 %
BIRD		12 %
Other money lenders		14 %

ANNEX

OIL FACILITY

Mexico and Venezuela signed an agreement in August 1980 (CONVENO DE SAN JOSE, Costa Rica) under which Mexico and Venezuela undertake to try to meet 5, % of the oil import requirements of the following countries :

Barbados, Costa Rica, Domenica, El Salvador, Guatemala, Honduras, Jamaïca, Nicaragua, Panama.

This list applies to the time of the signature. Belize and Haïti may have since joined.

Operation of the facility

70 % of the invoice is paid under normal commercial conditions. The remaining 30 % can be paid over 5 years at a 4 % rate of interest. The latter can be reduced to 2 % over a 20 year period if the amount being financed is used to develop energy infrastrucutre projects within the countries such as a refinery of ports to facilitate the delivery of oil.

Mexico and Venezuela both make 80,000 barrels per day available under this programme.

Facility for Financing Oil, Fertilizer and Asphalt Purchases by CARICOM States from Trinidad and Tobago

The Government of Trinidad and Tobago has been operating an aid mechanism since 1978 to assist members of the Caribbean Community which are experiencing severe economic problems. However, the project oriented nature of this mechanism has undergone substantial change in light of the intensification of such difficulties in the wake of a new round of price increases for petroleum products in 1979, and now takes the form of a facility.

The facility has been structured to privide for the financing of incremental costs of petroleum products, fertilizers, and asphalt to eligible participants, where these products are supplied from Trinidad and Tobago.

The facility came into effect on January 1, 1980. However, since the renewed acceleration in the price of crude oil and its products stated in early 1979, the market prices at January 9, 1979 are used as the base prices against which to calculate incremental costs.

The life of the facility will be determined by subsequent events in the petroleum market, but an initial life span of three years has been set with a committment to review experience and the outlook at the end of that period before deciding whether or not to continue the facility. The total size of the facility will not exceed $ 500 million over the three year period.

Eligible countries fall into one of two categories : More Developed Countries (Barbados, Jamaica, and Guyana) and the Less Developed Countries (Eastern Caribbean Common Market). Terms of the loans are as follows : Maturity of 15 years, including 3 years grace at an interest rate of 3 % for MDCs and 2 % for LDCs, with interest capitalized during the grace period.