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Report

drawn up on behalf of the Committee on External Economic Relations

on the present state of economic relations between the European Community and Latin America

Rapporteur: Mr G. BOANO

PE 42.917/fin.

English Edition

By letter of 29 April 1975 the Committee on External Economic Relations requested authorization to draw up a report on the present state of economic relations between the European Community and Latin America.

Authorization was given by the President of the European Parliament in his letter of 22 May 1975. The Committee on Development and Cooperation was asked for its opinion.

On 10 June 1975 the Committee on External Economic Relations appointed Mr Boano rapporteur.

It considered the draft report at its meeting of 2 December 1975 and at the same meeting unanimously adopted the motion for a resolution and the explanatory statement.

Present: Mr Scott-Hopkins, acting-chairman; Mr Bermani, vice-chairman; Mr Boano, vice-chairman and rapporteur; Mr Barnett, Mr Brégégère, Lord Castle, Mr Dykes, Mr de Koning, Mr Ligios (deputizing for Mr Bersani), Mr Patijn, Mr Schulz, Mr Spicer, Mr Schwörer, Mr Vetrone.

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The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on the present state of economic relations between the European Community and Latin America

The European Parliament,

- having regard to its resolutions of 25 November 1969,[1] 20 April 1971[2] and 14 November 1972[3] on the state of relations between the Community and Latin America,

- having regard to its resolution of 15 November 1974 on the results of the first EEC/Latin American Interparliamentary Conference (Bogota, 15-18 July 1974),[4]

- having regard to the report of the Committee on External Economic Relations and the opinion of the Committee on Development and Cooperation (Doc. 469/75),

1. Welcomes the growing awareness during the past few years of the need for an overall Community policy towards the Latin American countries;

2. Is pleased to record, in this connection, that since 1971, regular contacts have been established between the Community and Latin America, making it possible to consider twice a year the main economic problems between the two parties, and hopes that these contacts will continue;

3. Welcomes the recent conclusion of a cooperation agreement between the Community and Mexico, and is in favour of intensifying and amplifying the agreements with Argentina, Brazil and Uruguay and of similar agreements with other interested Latin American countries;

4. Considers that a new economic world order must be established to facilitate this increased cooperation, which is based on the principle of the complementary resources and mutual interests of the two parties;

5. Emphasizes, however, the growth during the past few years of the trade deficit of the Latin American countries with the Community, and calls upon both parties to consider measures to achieve a better balance and to intensify their trade;

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[1] OJ No. C 160, 18 December 1969, p.16

[2] OJ No. C 45, 10 May 1971, p.20

[3] OJ No. C 129, 11 December 1972, p.20

[4] OJ No. C 155, 9 December 1974, p.81

6. Is of the opinion that the Community system of generalized preferences, which has been constantly improved since 1971, constitutes an important instrument of aid for the promotion of exports from Latin American countries and for the strengthening of regional economic integration;

7. Considers that the effectiveness of these preferences could, however, be improved by setting up specialized institutes to undertake appropriate information and promotion work in order to allow a better utilization of the advantages granted to the beneficiary countries in Latin America;

8. Requests the Community to encourage the attempts at regional integration which are currently under way in the Latin American subcontinent and welcomes in this connection the signature on 18 October 1975 of the Treaty establishing the LAES (Latin American Economic System) aimed at facilitating economic and commercial cooperation between twenty-five Latin American and Caribbean countries, which could be used as a frame of reference for cooperation between the Community and Latin America;

9. Has taken note of the problems caused by Community restrictions on imports of beef and veal and their adverse effects on the trade balances of several Latin American countries;

10. Welcomes, in this connection, the greater flexibility recently agreed to by the Commission in this field and the proposals which the Commission has recently submitted as part of trade negotiations within GATT and which are aimed at finding a world solution to this problem;

11. Requests the competent Community authorities to study measures for the promotion of technological cooperation between the two areas and the introduction of common research programmes, in particular for raw material prospecting and utilization;

12. Suggests, for this purpose, the creation of a centre for financial cooperation between the two areas and the gradual extension of interventions by the European Investment Bank to cover operations to facilitate regional integration and increased trade between the Community and Latin America;

13. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

B

EXPLANATORY STATEMENT

INTRODUCTION

A few facts and figures

1. Economic development in Latin America made appreciable progress during 1973 and the first part of 1974, thus continuing the dynamic rate of expansion which began in the early '70s.

In 1973 and 74 the gross domestic product of the region rose by more than 7% per year, compared to an annual average increase of 5.1% and 5.6% respectively over the preceding two decades.

2. Taken together the developing countries, including Latin America, registered an increase in gross domestic product of 7.3% during 1973; the figure for the industrialized countries was 6.4%.

3. Amongst the Latin American countries, Brazil, Ecuador and the Dominican Republic recorded the highest rate of expansion (over 11% in 1973), followed by Colombia, Guatemala and Mexico (7%); the economic situation deteriorated in Chile, with a decline of 4% in 1973

Increase in gross domestic product (in %)

Country	1961/70	1972	1973
Argentina	4.3	3.8	5.5
Barbados	4.8	-2.4	1.7
Bolivia	5.1	5.1	6.9
Brazil	6.0	10.4	11.4
Colombia	5.2	7.0	7.2
Costa Rica	6.1	10.1	5.5
Chile	4.4	1.4	-4.0
Dominican Republic	5.4	12.4	11.2
Ecuador	4.8	8.5	13.0
El Salvador	5.7	4.4	5.1
Guatemala	5.5	7.3	7.6
Haiti	0.8	0.9	-
Honduras	4.7	3.7	5.8
Jamaica	5.0	6.1	6.6
Mexico	7.0	7.3	7.6
Nicaragua	7.1	4.4	2.2
Panama	8.0	6.3	6.5
Paraguay	4.8	5.3	7.2
Peru	5.3	6.2	6.3
Uruguay	1.6	-1.3	1.0
Venezuela	5.9	4.6	5.9
LATIN AMERICA	5.6	6.8	7.4

4. These figures should, however, be seen in relation to the population growth rate, which is at present 2.8% p.a. (higher than for the developing countries and three times as high as for the industrialized countries); moreover, population growth varies widely from country to country; in Uruguay it is 1.3% and in another group of countries 3.4%.

The average per capita growth rate was thus only 4.6% (from $598 in 1972 to $626 in 1973) compared with a rise of 5.3% in the industrialized countries, therefore further accentuating the already existing gap.

5. Exports grew considerably, by 7.7% in 1972, 14.6% in 1973 and about 10% in 1974 .

At the same time, however, imports of goods and services increased by an average of 8.8% p.a. in the period 1968-73, thus expanding more rapidly than the gross domestic product.

6. The industrial sector increased its share of gross domestic product from 33.1% during 1960-63 to 37.1% in the 1970-73 period.

Higher growth rates were recorded in the electricity, gas and water and manufactured goods sectors.

Manufactured products, which totalled approximately $11 thousand million in 1950, were worth five times that figure in 1974, rising from 22% to 25% of gross domestic product.

7. Similarly, industrial exports, which in 1950 accounted for scarcely 6% of the total, represented 18% of exports in 1974 and covered a wide range of products.

Investment also grew, reaching 23.5% of gross domestic product in 1974; if this trend were to continue until 1985 it would take a mere 18 months to equal the total funds invested in Latin America in 1950.

<u>Restoring balance</u>

8. However, these positive factors are undermined and put at risk by the social, geographic and sectoral imbalances and by rampant inflation.

A large part of the Latin American population has still derived no tangible benefit from the acceleration of economic growth , which is concentrated in just a few countries, or rather in just a few regions.

9. At the same time the relative importance of the primary sector (agriculture, animal husbandry, fishing) continued to decline, registering a rate of expansion over the period 1970-73 considerably below that of gross domestic product, to which it contributed only 14.9% in 1970-73 compared to 18.7% in 1960-63.

10. The average rate of inflation rose from 23% in 1972 to 40% in 1973 and to over 50% in 1974, a marked worsening of the situation compared to the 1966-71 period when inflation averaged about 15-16% per year.

Venezuela was the country with the most stable currency, keeping inflation down to 4.1% in 1973 and 7.4% in 1974; countries with an intermediate inflation rate (between 10 and 15%) were Guatemala, Haiti, Honduras and the Dominican Republic.

All the other Latin American countries had high rates of inflation in 1974; the most extreme was in Chile, where the rate rose from 77.8% in 1972 to 352.8% in 1973 and 504.7% in 1974.

11. At the root of the general rise in inflation in Latin America was the energy crisis and the subsequent increase in the cost of goods imported from the industrialized countries.

The rise in oil prices brought additional revenue of $10,000 million to four Latin American countries in 1974[1] and additional outgoings of $2,700 million for the other 19.

For the non-oil exporting countries of the region the trade deficit rose from just over $600 million in 1973 to about $8,700 million in 1974.

12. This figure represents a high percentage of the exports and monetary reserves of the Latin American countries and, taken together with the higher cost of importing other supplies and products, exacerbates, particularly in the case of some countries, the already serious balance of payments deficit and jeopardizes the development process since these factors, operating in an abnormal context, may lead to a worsening of the situation.

13. This is what happened in the case of investments, for example, which have risen at a remarkable rate in recent years and call for repayment of vast sums in interest and dividends which, added to the cost of services (freight and insurance), has prevented a trade surplus from being achieved.

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[1] See Ceptal: Boletin Economico de America Latinia - Vol XIX - United Nations, New York, 1974 - page 5.

14. Moreover, the trade advantages which Latin America enjoyed during 1973 and part of 1974 were the result of a temporary increase in the price of certain primary products, in which the region is rich, and now no longer apply. Moreover, with its growing need for increasingly costly manufactured goods, the terms of trade between Latin America and the industrialized countries will alter considerably; its percentage share of world exports will fall and the precariousness of its economy become increasingly apparent.

Chapter I

THE ECONOMIC SITUATION IN LATIN AMERICA

Agricultural production

15. Latin America possesses an enormous and still largely untapped agricultural potential; this is reassuring in view of the continent's high rate of population growth and the progressive concentration of its people in urban areas.

Only 80 million hectares were under cultivation in Latin America at the beginning of the 1970s, or scarcely 17% of total arable land, compared with a world average of 42%; in both Bolivia and Paraguay there is still only 10% of total arable land under cultivation[1].

16. The agricultural sector has in recent years expanded more slowly than the Latin American economy as a whole: the growth rate for the period 1963/72 was 2.9%, equal to the population growth rate.

In 1973, however, an unusually high rate was recorded (5.9%), due mainly to the surge in agricultural production which took place in the two biggest countries, Argentina (+12.3%) and Brazil (+9.5%).

17. Despite the vital importance of the agricultural sector to the Latin America economy, adequate public investment in line with its importance has not been made available at any time during the past decade, except in the case of Mexico and Venezuela.

In various countries public investment in agriculture is limited to between 5% and 10% of the total budget, while agriculture's share of gross national product varies, according to country, by between 25% and 35%[2].

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1 IDB: Progreso econòmico y social en America Latina - Informe anual: 1974 - page 22

2 IDB: op. cit. page 16

On the other hand, taxes on agriculture are very heavy in various States, since this is considered the one sector which can be safely taxed. Revenue is collected either by direct levy or in the form of export taxes, so that the farmers, forced to export at prices below international levels and to pay extremely high prices for fertilizers and capital goods are (just as in Europe) the primary victims of the worsening terms of trade already referred to, despite the fact that the economies of the majority of Latin American States are essentially dependent on agricultural exports as a source of the foreign currency needed for the purchase of capital goods and raw materials required by industry.

18. Beef plays a particularly important part in the Latin American economy.

The Latin American countries in fact account for about 15% of world beef production and their exports represent approximately 25% of world trade in this sector.

19. 1972 was a record year for Latin American exports of cattle and beef to the Community. The total figure for live animals and meat was 942,701 metric tons.

20. Exports of beef dropped sharply (-14.3%) in 1973 compared to the previous year, a result largely of the reduction in the amounts exported by Argentina and Brazil[1].

The reduction of Community beef imports from Latin America was due initially to restrictions imposed to counteract the balance of payments deficits in Western Europe and, at a later stage, by the need to prevent a further decline in the income of its cattle farmers, caused by overproduction in all parts of the Community except Italy.

The Community accordingly adopted measures restricting imports from third countries.

21. These measures had considerable repercussions on Argentina in particular, which normally exports some 40% of its beef to the EEC and whose producers were, moreover, subject to a twofold government requirement not to apply to internal prices international market quotations and to render their contribution to the treasury through the export tax.

22. During the discussions first on the extension (from 31 December 1974 to 31 December 1975) and then on the renegotiation of the trade agreement with the EEC, Argentina has maintained that the agreement's provisions have proved inadequate to deal with the serious crisis in the beef sector in 1974.

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[1] IDB: op. cit. page 23

The Argentine delegation also expressed misgivings as regards the application of the agreement's provisions during 1974 relating to exports covered by the tariff quota for frozen beef opened in the framework of GATT.

The EEC has accordingly taken steps to improve the administration of the quota during 1975; these provisions do not, however, fully meet Argentina's demands.

23. At the end of July 1975, Argentina, Australia, Brazil, Colombia, New Zealand, Paraguay, Rumania, Uruguay and Yugoslavia submitted to the Commission in Brussels a new memorandum on the problems of beef.

The memorandum pointed out that the measures adopted so far by the EEC to partially reopen its borders to imports of beef had not had the desired effects. The exporting countries accordingly requested the immediate replacement of the import duty and the exim mechanism by other measures which would effectively contribute to a return of normal import conditions for bovine cattle and beef into the EEC.

On 29 September last the 'inter-governmental working party on meat' of the FAO, meeting in Rome in anticipation of a possible international agreement which might be negotiated in Geneva in the framework of the Tokyo Round, called on the EEC to substantially increase the tariff quota for frozen beef opened in the framework of GATT, and to increase the present quantity of 38,500 metric tons of boned meat to 150,000 metric tons.

24. The Commission for its part announced its decision to relax the safeguard clause from 1 October of this year by altering the 'Exim' system so as to allow the importation of twice the quantity (instead of an equivalent amount) of exported meat and to increase the coefficient of equivalence for imports of boned meat from 0.6 to 0.8.

This adjustment will permit the importation of 80 kg (instead of 60) of boned cuts for every 100 kg of exported carcass, thus promoting imports of products from non-European third countries.

Exim certificates may accordingly be issued for an initial quota of 50,000 metric tons before the end of October 1975. A further quota of 90,000 tons may be issued before the end of the year, to which should be added the amounts imported under the 'young cattle for fattening' arrangements.

The problem thus remains open pending an agreement.

25. Agreement could be reached more easily and quickly on those products of which the Community is short and which it is at present purchasing on other markets, even though they are often available from Latin America, such as soya, maize and fishmeal.

Long-term agreements could be usefully negotiated in this area.

INDUSTRIAL SECTOR

26. Industrial production in Latin America showed a rise in 1973 of 9.5% in real terms, despite the unfavourable development of the international economy.

The manufacturing sector accounted for 82.3% of total production; minerals accounted for a further 11.5% and services (electricity, gas, water) for 6.2%.

27. The rise was greater for heavy industry (12.2% in 1973 compared with 10.6% in the 1970-72 period) than for light industry (+5.4%).

According to data supplied by the Latin American Iron and Steel Institute, the region produced 17,475,700 metric tons of steel in 1974, about a million tons more than in 1973.

28. However, the main steel producers of Latin America still hold a relatively modest position in the world context; Brazil in fact occupies place 16, Mexico place 23 and Argentina place 28.

Similarly, industry is still far from playing the same major role in the Latin-American economic system as it does in the economies of the industrialized countries.

Industry's share of the gross national product exceeds 20% only in seven countries: Argentina (38.1%), Brazil (24.6%), Colombia (20.5%), Chile (26.7%), Mexico (27.3%), Nicaragua (22.7%) and Uruguay (22.8%); however, thanks to the higher percentage in some of the countries, its share of gross domestic product in 1973 for Latin America as a whole came to 25.7%.

29. Chemical products, non-metallic minerals, basic metals and the metallurgical and mechanical engineering sector, protected in many cases by heavy customs duties, showed a very satisfactory 10% increase in 1973.

There was modest progress in the textile, clothing and leather industries; other traditional activities, however, such as food, beverages and tobacco showed little progress, registering an increase in 1973 of less than 4%.

Although official and final data for 1974 are not yet available, a fall in the growth rate of Brazil, Mexico and Colombia is nevertheless apparent as a result of rising energy prices, the cost of imported raw materials and the drop in export opportunities and foreign investment.

The industrial growth rate in Brazil is slowing down, having probably reached about 10% in 1974 and considerably less during 1975.

It is likely in general that the growth rate of the petroleum producing countries will increase while that of the less developed countries which lack energy resources will lag further behind.

30. This unequal development pattern is typical in Latin America.

At present Argentina, Brazil and Mexico account for 76% of the industrial production of the area, although they contribute only 68% of gross domestic product and have only 63% of the Latin American population.

The same pattern applies within these countries as regards the location of industry.

80% of industrial activity in Brazil is concentrated in the states of San Paulo, Minas Gerais and Guanabara. In Argentina, two-thirds of industrial capacity is situated between Buenos Aires and Rosario; in Mexico it is concentrated along the Federal District - Monterrey axis.

This is the cause of the very limited influence of industry on rural zones as regards employment and income opportunities, the adoption of new techniques and the spreading of contemporary ideas and attitudes.

This explains in some measure the increasing rural exodus and the concentration in the towns of a far greater number of people than the delicate productive balance can accommodate.

31. The difficulties involved in creating a cohesive and widespread industrial system in Latin America are thus apparent; they also explain why, despite the fact that the annual average rate of Latin American exports of manufactured articles has risen considerably during the past decade, Latin America's share of world exports of these articles remains, at less than 1%, extremely weak.

Both small industries and the large, non-multinational concerns, face major obstacles; the first because of lack of credit and the major launching difficulties which arise in a still unintegrated system; the second because of the present limitations of the market.

This is demonstrated in a recent study by CEPAL - Division of Industrial Development, on the prospects and conditions for regional integration of the automobile industry in Latin America.

Its conclusions confirm the importance of this limitation.

In fact, assuming an initial investment of between $500 and $800 million and taking the most favourable conditions (such as a limited number of models) it appears from the report that it would be possible to establish a car manufacturing industry for the Andes Group (population 70 million) sufficient to satisfy local demand at production costs <u>not much above</u> those of the major world producers.

Obviously the situation is quite different in the case of a multinational setting up in Latin America (Volkswagen in Brazil, for example) which already possesses a wide and consolidated market on a world scale and, moreover, is able to benefit from labour costs which are considerably lower than in its home country.

<u>ENERGY SECTOR</u>

32. Despite the fact that Latin America is potentially self-sufficient in oil, its dependence on supplies from the Middle East has in fact increased. At the end of 1973 petroleum imports from the Middle East accounted for 59.4% of the region's total imports of crude, compared with 23.4% in 1960[1].

Increased petroluem purchases from abroad and the rise in prices resulted in 1973 in an increase of 86% in the region's expenditure for crude oil and oil derivatives; a further increase of 149% took place in 1974.

At the end of 1974 Latin American imports of crude and derivatives had risen to $4,944 million, compared with $1,063 million in 1972 before the series of petroleum price rises.

33. The gravity of the problem can be seen in terms of the effect of the additional expenditure on oil imports on the foreign currency reserves of the Latin American countries.

This rise in the cost of imported oil represented in 1973 7% of the foreign currency reserves held by all the countries of the region; in November 1974 this percentage had risen to 24%.

However, not all the countries had available foreign currency to use for this purpose. Some of them were forced to contract short-term loans abroad in order to pay for their oil imports and others, unable to finance the additional oil costs, were obliged to cut back total imports and limit their investments.

34. Latin America has, potentially, tremendous hydro-electric resources

[1] IDB: op. cit. page 50

which could partially replace petroleum.

However, the vast resources available in this sector have until now remained virtually unexploited and there is virually no interconnecting grid between the electricity systems of the various countries.

35. Moreover, even before resorting to other forms of energy, Latin America could reduce its need for imported oil by intensifying prospecting and extraction of local deposits.

At the moment the region produces 9% of the world's oil; but it possesses about 19% of suitable areas for prospecting.

The density of drilling being undertaken in Latin America is barely 4% of that carried out in the United States.

Of the four net oil exporting countries in Latin America, Venezuela, Trinidad and Tobago, Equador and Bolivia, very little exploration has been carried out in the latter two.

Considerable stimulus to prospecting may result from the setting up in November 1973 of the Latin American Energy Organization (OLADE), whose objectives are 'the integration, protection, conservation, orderly supply, marketing and safeguarding of the region's energy resources'.

Chapter II

THE EXTERNAL SECTOR - THE 1973 BOOM

The evolution of international commerce and its repercussions on world trade

36. The years 1970 to 1973 were characterized by major disturbances and contrasts on the world economic scene.

After two years of recession, production in the industrialized countries surged forward sharply in 1972 and the first quarter of 1973; this was accompanied by an extremely rapid growth of trade, a high level of inflation and the gradual adoption of floating exchange rates.

The result was that in 1973 the current value of world trade grew by 38%.

37. This simultaneous process of expansion of the trade activities of the industrialized countries pushed up the international level of demand, causing a considerable rise in the price of most primary products, with additional increases affecting food products as a result of poor harvests.

Taken together, there was a 45% increase in the prices of primary products compared to 1972, two and a half times above the price increases for manufactured goods[1].

The end of 1973 saw the tripling of the average oil export price and, since the productive process in any industrail system depends largely on oil, there was a sudden rise in the price of all goods and services dependent on it.

38. This fact resulted in an abrupt fall in the rate of expansion of the industrialized countries and caused the gross national product to sink from an 8% growth rate in the first quarter of 1973 to 3% at the end of that year and to bottom out at 0.25% in 1974.

39. The developing countries, for their part, recorded during 1973 a 48% rise in their revenue, in dollar terms, compared to a rise of 35% in the value of their imports.

Overall, in 1973 and at the beginning of 1974, prices of foodstuffs and other primary products rose more rapidly than those of manufactured goods; this led to a considerable improvement (about 5%) in the developing countries' terms of trade (not counting the petroleum exporting countries).

Balance of payments trends in the Latin American countries

40. In 1970/71, the first year of the economic recession in the industrialized countries, the deficit on current account of the balance of payments of the Latin American countries rose from $2,934 million in 1970 to $4,363 million in 1971.

Over the next two years, when the industrialized countries enjoyed a vigorous recovery, the Latin American trade balance was in surplus by $287 million in 1972 and by $2,726 million in 1973, which was in part neutralized by the growing deficit on services but then largely compensated by the net balance of long-term capital deposits.

Latin American exports grew in terms of the dollar by 18.2% in 1972 and 42.8% in 1973; this was due in part to the economic recovery of the industrialized countries (which are the main markets for South American exports), and in part to an improvement in supply terms and to the policy of promoting exports pursued by various Latin American countries.

41. The value of imports also grew by 29.6% in terms of the dollar, the result both of higher prices and of an increased volume of imports.

[1] IDB : op. cit. page 63

42. At the same time the deficit in the balance of services showed an increase of 14.4% in 1972 and 30.9% in 1973.

The net cost of servicing foreign capital rose by 34.6% in 1973 (three-quarters of total net service costs) and affected particularly the balance of payments of Mexico, Brazil, Argentina and Venezuela, countries which have attracted huge inflows of capital in recent years.

Freight and insurance rose by 12.3% in 1972 and by 17.7% in 1973, putting all the countries of the region into deficit largely as a result of transport costs; the worst affected were Chile, Venezuela and Mexico.

43. In compensation the high level of receipts resulted in 1973 in a trade surplus of $2,726 million for the region as a whole, which helped to alleviate the growing pressure of net outgoings in the service sector by reducing the deficit on current account from $4,352 million in 1972 to $3,303 million in 1973.

As usual, this deficit was financed with funds from abroad; net receipts of long-term capital deposits totalled $7,112 million in 1973.

44. Latin American foreign currency reserves increased considerably in the period 1970-1973, rising from $5,666 million at the end of 1970 to $16,415 million at the end of 1973.

The majority of the region's countries improved their liquidity positions.

The most significant increases in foreign currency reserves were achieved by Argentina, Brazil, Mexico, Panama and Venezuela which, at the end of 1973, held 80% of all Latin American foreign currency reserves.

Trade

45. 1972 witnessed a reversal of Latin American trade relations with the rest of the world and its exports registered a far greater increase than its imports, with the result that the trade surplus rose from $258 million in 1972 to $2,726 million in 1973.

Argentina, Brazil and Colombia contributed most to this expansion. Venezuela, with $2,600 million in 1973 registered the largest surplus of all the countries of the region: Mexico, on the other hand, showed the greatest deficit, amounting to $1,259 million.

(a) Exports

46. After the standstill of 1970-1971, Latin American exports rose again in the two following years, by 18% in 1972 and 43% in 1973.

This surge continued into 1974 when, thanks to the increase in the average unit price of the region's exports, a further significant rise in their total value was possible, despite the fact that the economic recession in Latin America's principal trade partners had led to a slackening of demand for imports which had already begun in 1973.

47. At the beginning of 1974 the reduction in external demand for Latin American products was neutralized by the rapid rise in prices of its main exports as a result of scarcity of supplies following the bad harvests of 1972 and 1973, increased stockpiling and the steep climb in world food consumption.

48. In terms of product type, agricultural exports fell from 60% to 46% of total value in the period 1961 to 1971; exports of semi-manufactured and manufactured goods, however, increased their share from 12.1% to 18.3% of total sales.

Latin American exports have also been diversified as regards destination; in the decade from 1963 to 1973 exports to the United States and Europe dropped from 38% to 32% and from 32% to 29% respectively; those to Japan, on the other hand, rose from 3% to 6%. Exports to the developing countries also rose, from 20% to 23%, and exports to Germany, Italy and Canada showed a further increase.

49. The rise in exports amongst the Latin American countries themselves has also been considerable, increasing from 8.4% to 12.7%.

This sizeable percentage increase goes only a small way towards improving the continuing low level of inter-regional trade, a factor which illustrates just how long and difficult the path to economic integration of the Latin-American countries is proving to be.

Origins and destinations of Latin American foreign trade

Area	Imports 1960-63	Imports 1970-73	Exports 1960-63	Exports 1970-73
Totals	100.0	100.0	100.0	100.0
(A) Developed regions	82.4	79.8	78.3	74.3
1. Industrialized countries	80.4	76.5	75.8	68.8
2. Other developed areas[1]	2.0	3.3	2.5	4.5
(B) Developing regions	15.9	19.2	19.7	22.8
1. Latin America	10.5	12.4	8.4	12.7
2. Other areas of western hemisphere	1.6	0.8	7.8	4.8
3. Middle East and Asia (excluding Japan)	3.0	3.7	0.8	1.9
4. Africa (excluding South Africa)	0.3	1.3	0.4	0.6
5. Other countries	0.5	1.1	2.3	2.8
(C) State trading countries	1.7	1.0	2.0	2.9

(b) Imports

50. Latin American imports also showed a very high increase (30%) in 1973, amounting to $23,067 million; this growth is accounted for by inflation, monetary adjustments and exchange rate fluctuations which occured in 1973, and also by the rise in the volume of imported products resulting from increased purchasing power made possible by the increase in exports.

51. Under the influence of these factors there was a general tendency during this period amongst a number of Latin American countries against imposing import restrictions, and even in favour of abolishing those that already existed.

Argentina abolished its 15% duty during 1972; Uruguay, at the end of 1973, abolished the advanced payment requirement for certain imports from outside the LAFTA zone; Chile simplified its tariff arrangements and abolished the system of multiple exchange rates.

Ecuador and El Salvador reduced the amount of the import deposit; Colombia and Venezuela did away with it altogether; Ecuador cut tariffs and El Salvador limited exchange restrictions on imports.

52. Agricultural imports as a share of the total fell considerably but there was a substantial percentage increase in imports of manufactured goods.

Imports from the United States and Western Europe also dropped, from 76.9% to 69.3%, alongside a parallel increase in imports from Japan and the developing countries.

[1] Finland, Greece, Iceland, Ireland, Malta, Portugal, Spain, Turkey, Yugoslavia, Australia, New Zealand, South Africa.

The service sector

53. The service sector includes freight and insurance charges for international transport, tourism, investment revenue and a variety of other services.

Latin America's chronic deficit in this sector continued to increase in 1970-1973, rising by 30.9% in the last year of this period to a total of $6,400 million (more than double the positive trade balance achieved in the same year), and involved all sectors except tourism which is traditionally in surplus in the Latin American region.

54. One single sector, freight and insurance, made up mainly of payments to foreign transport companies, showed a deficit of $1,497 million in 1973.

What revenue there was in this sector went mainly to Argentina, Brazil and Colombia, whilst the heaviest outgoings were recorded again by Argentina and Brazil, as well as by Chile, Venezuela and Mexico which, concerned at the size of this expenditure, is now fitting out an independent merchant fleet.

55. Like other developing areas, Latin America is a net importer of capital and payments of dividends and interest constitute a significant burden on the services sector account.

In 1973, the amount involved for Latin America as a whole reached the remarkable figure of $4,975 million, 75% more than in 1970 and approximately three-quarters of total expenditure in the services sector.

56. The 'other services' deficit also rose from $360 million in 1970 to $908 million in 1973.

In this area surpluses were recorded only by Panama, as a result of transactions connected with the activities of the Canal Zone, and Mexico, thanks to funds transferred from abroad by migrant workers, whilst the highest deficits were incurred by Brazil (- $561 million), Venezuela (- $243 million), Argentina (- $121 million), Colombia (- $111 million) and Peru (- $88 million), in that order.

Chapter III

THE CONSEQUENCES OF THE RECESSION

57. The outlook for stability and recovery which, thanks to the price increases affecting most primary commodities, had become positive aspects of the situations of the developing countries and, particularly those of Latin America, were fundamentally upset in the second half of 1974 and in the first six months of 1975 by the magnitude of the inflationary wave which had engulfed the entire world, whilst a deep recession originating in the industrialized countries then also spread throughout the other regions.

This inflation and recession (as the recent annual GATT report on international trade trends underlines) has in the meantime reached a degree unparalleled since the war and has been exacerbated by the intensity and exceptional universality of the expansive phase which preceded it.

World production

58. World production, whose rate of increase reached the record level of more than 8.5% in 1973, rose in 1974 by a mere 3%: this figure is considerably below the annual average of 5% registered throughout the 60's.

59. This overall result was the sum of a limited increase in the first six months of the year, a stagnation in the third quarter and a decline which began in the fourth quarter and continued into 1975.

However, the negative effects of the stagnation and decline in the revenue of the industrialized regions only began to have repercussions on the developing areas during 1975.

This explains the exceptional spread of inflation at present taking place in many Latin American countries, the series of devaluations in the most important countries (the cruzeiro has already been devalued eight times since the beginning of the year, the Argentine peso five times) and, as regards foreign trade, the almost universal reversal of the trend in the area as evidenced by the general readoption of a wide range of import restrictions.

World trade

The value of world exports, which increased by 20% in 1972 and by 38% in 1973, grew by 47% in 1974.

The volume of exports, however, rose by only 6% in that year, a reduction compared with the 11% increase recorded in the previous year.

The increase continued at a somewhat slower rate during the first half of 1974, stabilized in the third quarter and fell back in the last quarter, further worsening in the first half of 1975.

Trade by area

60. The value of exports from the industrialized countries increased by one-third against a growth in volume of only 7%, about half that for 1973 (+ 15%).

The industrialized countries' imports grew by 45% in value but by only 1.5% in volume.

Exports from the developing countries grew by 113% in value and by 5% in volume.

The increase was due mainly to petroleum exports which increased in value by 220% to the developed areas and by 200% to the developing countries.

The share of trade between the industrialized countries as a percentage of world trade has fallen from 51% to 44%; that of developing countries which import oil has increased from 19% in 1973 to 27% in 1974; that of the producer developing countries from 7% to 16%.

The percentage share in world trade of the countries of the East fell from 10% in 1973 to 8% in 1974, emphasizing the progressive trend towards trade with the industrialized countries.

It is thus clear that the increase in total world trade registered in 1974 is, to the extent referred to above, largely due to imports by the developing regions.

World inflation

61. The annual rise in consumer prices in the industrialized countries increased abruptly from an average of 8% in 1973 to 13% in 1974.

The marked acceleration of world inflation has been accompanied by a widening of the gaps between the inflation rates of the various countries.

The inflation rate in most industrialized countries began to decline towards the end of 1974; it is still rising, however, in the developing countries because, as usual, the effects of inflation in the industrialized parts of the world are only now having repercussions there.

The recession in the industrialized countries

62. The present recession is the first since that of 1957-58 to have affected nearly all the industrialized countries at the same time.

The recession, which first became apparent in the second half of 1973 when the governments of the three major industrial countries (USA, Germany, Japan), which alone account for two-thirds of total GNP of all the industrialized countries, adopted extremely restrictive fiscal and monetary policies, forcing all the other industrialized countries to introduce measures restraining demand during 1974.

Continuing inflation, aggravated by the huge rise in the price of oil and certain other primary products made it necessary to maintain the restrictions for considerably longer than was the case in previous cycles.

Trade balances and balances of payments

63. Economic development in 1974 was characterized by efforts to correct the serious disequilibrium in the trade balances and balances of current payments caused by the price rises which had occurred throughout the world in 1973 and the first months of 1974.

This explains the reversal of the trend already referred to in many Latin American countries, which began in the second half of 1974 with the implementation of a wide variety of measures to restrict imports.

64. To take an example, Colombia, a country which has been characterized over the past few years by its liberal attitude towards trade, reintroduced an import deposit scheme on 2 May 1974.

Brazil did the same thing, and also laid down by decree of 4 August (even if only as a precautionary measure) the legal basis for the application of reprisal measures similar to those of the much maligned American Trade Reform Act; Argentina took similar steps with some notable differences, and at the same time tightened up its exchange control regulations.

Mexico has also recently adopted various measures restricting imports including a compulsory import licence scheme for all goods, so that more rigorous controls can be enforced aimed at preventing the purchase from abroad of products not essential for the country's development.

Trade and the oil-importing developing countries

65. We have seen that in 1973 and in the first months of 1974 the oil-importing developing countries in general recorded a considerably higher increase in their export earnings than during the previous decade.

This was the result of the temporary improvement in terms of trade linked to a major quantitative increase in transactions carried out.

As a result, these countries were able to increase both their volume of imports and their foreign currency reserves.

However, the terms of trade of most of these countries changed in the second half of 1974 and the volume of their exports were increasingly affected by the negative effects of the worsening recession in the industrialized countries.

66. One of the immediate causes of the rapid deterioration in their balance of payments has been the price trend of numerous basic commodities.

In the case of five of these (tea, jute, iron ore, tobacco, bananas), the terms of trade worsened even when the price of primary commodities was generally rising.

Prices for ten other products again fell during the first quarter of 1975 to below the average level for the 1969-1971 period; these were copper, rubber, coffee, coconut oil, leather and hides, copra, palm oil and oilseed cakes.

67. The oil-importing developing countries were consequently forced to finance their deficits by borrowing; but access to the international private capital markets proved to be increasingly expensive and difficult since the bulk of available funds were being absorbed, for the same reasons, by the industrialized countries with balance-of-payments deficits.

As a result, the developing countries have had to dip into their foreign currency reserves, which fell by about $650 million in the first half of 1975; from this angle the situation of some Latin American countries has become critical.

68. If this trend continues, the deficit situation of the oil-importing developing countries will worsen considerably as a result of a further deterioration in their terms of trade and the drop in the volume of their exports to the developed countries.

The problem thus arises of how this overall deficit is to be eliminated; for a variety of reasons, it is a problem which no longer appears capable of solution through aids and similar classical expedients but calls for the setting up of a balanced and carefully considered new economic order.

CHAPTER IV

MUTUAL COOPERATION

Traditional areas of disagreement between the EEC and Latin America

69. The brief history of relations between the Community and the Latin American countries has already assumed an unvarying ritual pattern which limits discussion instead of letting it expand to new areas.

70. The Latin American side emphasizes the fact that the EEC is becoming increasingly important both as a supplier and a client of Latin America, whilst for Europe the relative importance of trade with South America, whose products have lost ground in terms of total Community imports, is declining.

There is growing concern at the special relations between the EEC and the ACP countries; although beyond reproach to the extent that they favour the least developed countries, they effectively relegate Latin America to a position not in keeping with the region's historical ties to Europe, it is claimed, and at the same time interfere with the practical possibilities for mutual cooperation.

There is concern, moreover, at the growing economic difficulties faced by Latin America; at the drop in its share of gross world product; at the progressive reduction of its share of international trade; and at the serious increase in the national debt of the countries of South America.

71. The European side responds by emphasizing that the laws of the Latin American countries governing external trade would appear to be dictated more by motives of protectionism than by a desire to move towards genuine liberalization of trade.

It is pointed out that, whilst on the one hand some Latin American countries blame the EEC's agricultural and commercial policy for the sharp fall in their exports of traditional products (beef, for example) the same countries, for fiscal reasons, levy heavy taxes on these very exports.

Attention is drawn to the increasing tendency of most Latin American countries to impose import restrictions, not only in the form of tariffs, limiting imports in some cases to products shown on positive lists; at times even to prohibit imports of capital goods or even essential products; or at least to restrict them, either by fixing quotas or by requiring import licences, which have to be issued in advance, under extremely onerous conditions , for every transaction.

72. Some of the non-tariff obstacles to trade which have recently given rise to the serious differences of opinion characterising relations between the EEC and Latin America have in fact been applied by both sides.

The import deposit scheme, for example, which provoked sharp reactions from the Latin American countries when it was applied by a Community country a little more than a year ago, is at present being applied by several of them. The Exim Scheme, too, applied by the EEC on beef imports from third countries, uses the same 'quota' principle which forms part of Brazil's legislation on foreign trade.

Improvement of mechanisms already in force: generalized preferences

73. Various proposals which deserve careful study and could be realistically implemented have emerged from this almost traditional exchange of views.

Some of them are entirely novel and augur a new approach to relations between the two areas; others, by contrast, relate to the improvement of mechanisms and procedures already in force, such as the generalized preferences scheme.

74. The generalized preferences scheme, since its entry into force in 1971, forms one of the most frequent topics of discussion between the EEC and Latin America, a fact which bears witness to the interest it arouses and the scope, in part still potential, of the scheme's effectiveness and applicability.

Generalized preferences, which theoretically benefit all the developing countries without discrimination are in fact the primary and most important indication of the EEC's interest in the non-European non-associated countries.

75. The Latin American countries, in addition to stressing certain disadvantages resulting from the progressive harmonization of the preference schemes of the three new Member States with the original Community scheme, have made a number of criticisms of the EEC's preference scheme, some referring to its structure and others to the mechanics of its application.

As to its structure, there is regret at the scheme's lack of emphasis on processed agricultural products; there is also disappointment at its restricted field of application as regards various industrial products, as well as the fact that the limited duration of the scheme offers no guarantees which might enable the beneficiary countries to draw up long-term industrial plans: the whole scheme is confined to commercial concessions which are insufficient to provide any structural impetus to development.

As to the mechanics of its application, there is concern at the lack of balance with which the concessions are allocated amongst the countries which could theoretically benefit from the scheme: at the failure to recognize the cumulative origin criterion for products coming from countries of a particular region; at the failure to set up a Community tariff quota reserve for sensitive products; at the lack of clarity in the various phases of administering the quotas; at the restrictiveness of certain technical time-limits; and at the out-of-date statistics which are taken as a basis of reference and the lack of information publicizing the scheme and making it more accessible.

76. The EEC has, over the past two years, agreed to some of the requests made by the Latin Americans.

In 1975 it introduced the principle of cumulative origin for the following regional groupings: Andes Group, Central American Common Market, Asean.

It introduced, although for only two sensitive products, a Community quota reserve.

It subsequently reduced the number of sensitive products.

It adopted a general increase, in some cases of considerable magnitude, in the size of the tariff quotas and the ceilings, and applied new reference years for each calculation.

It recently decided on a 10% increase in the preferential margins for 1976 for agricultural products eligible to benefit under the system.

77. The broad outlines of a further improvement in the scheme's existing design are emerging from a comparison between the general characteristics of the various schemes applied by different countries, as well as certain aspects which could be altered only as part of a multinational agreement in the framework of the negotiations at present being held on a review of the international trade and monetary order.

78. In a formal sense, the more liberal preference schemes for agricultural products are those of certain state-trading countries (Russia, Czechoslovakia, Bulgaria and Hungary), which are open to virtually all products; the only exceptions, which differ from country to country, are shown on negative lists.

The substantial difference in the foreign trade arrangements as between the free market economies and the state-trading countries must obviously not be overlooked; the latter are able to grant major concessions because they can then protect their internal markets from any negative repercussions by means of the control and official authorisation of all imports.

Nevertheless, this comparison may well act as a stimulus leading to a significant widening of the restricted range of processed agricultural products which are at present covered by the EEC's preference scheme.

Of particular importance in this regard is the vote of the Committee on Agriculture of the European Parliament on 2 October 1975 calling for the tariff-free entry of tropical agricultural products to Community markets.

79. In the industrial products sector the Community preference scheme, which has been very wide-ranging since its inception, has undergone further improvement characterised by a progressive reduction of sensitive products, some of which have been added to the semi-sensitive group, and a progressive increase in quotas.

Of the various preference schemes granted by the free market industrial countries, the Community's is certainly amongst those which take most account of the beneficiary countries' interests.

As an example, the fact that the primary products listed under Chapters 25 to 99 of the BTN are excluded, i.e. all metals up to the ingot stage (in contrast to the Japanese scheme, which admits them in the unprocessed state), reflects the wish to encourage the processing of industrial raw materials in the countries of origin.

80. The problem of generalized preferences is one of the key subjects of the present Geneva negotiations on a new world trade system.

The coordination and harmonization of the various schemes of the donor countries will also be discussed at these talks with a view to reaching agreement on the most advantageous arrangements for the beneficiary countries.

The sensitivity always shown by the Community in this area is a guarantee that it will make further improvements to its preference scheme, even if agreement in the multilateral negotiations is not reached.

81. For their part, the Latin American countries should set up agencies to provide information on and promote the generalized preferences scheme which could act by:

(1) identifying the products of local interest included in the different schemes and indicating for each the preference margins, the ceilings and the arrangements for administering the relevant quotas;

(2) carrying out market research studies to assess the possibility of marketing local products which are covered by the scheme in the industrialized countries;

(3) making contact with bodies representing the importers with a view to agreeing on measures to bring supplies into line with demand;

(4) publishing all necessary information for local producers and foreign distributors and importers.

Cooperation between the two sides in establishing a new international economic order

82. Although some room for manoeuvre in intensifying relations between Europe and Latin America does exist within the framework of existing institutions and procedures, there can be no question that it is by defining a new world economic order that the two sides can best find a new basis for cooperation of mutual benefit.

Among the major promoters of world trade and a world economy the Community has, more than any other, emphasized the need for and the desirability of making new arrangements and setting up new mechanisms for cooperating with the countries of the third world.

83. Following the Summit decision of 5 November 1973, the Council, at its meeting of 16 July 1974, completed an important stage in the achievement of a more effective Community development policy, adopting two resolutions which concerned the principle of Community financial and technical aid to the non-associated developing countries and the harmonisation and coordination of the cooperation policies of the Member States.

Thus, for the first time, the principle of constructive complementarity between the regional and global dimensions of the Community cooperation policy was affirmed, whilst in the past the problem had been posed almost invariably in terms of alternatives.

84. In these circumstances the Council adopted nine resolutions and one recommendation.

The resolutions concerned: improvement of generalized preferences; the agreements on primary commodities; the harmonization and coordination of cooperation policies of the Member States; the volume of public aid to development; the conditions of that aid; the problems of the indebtedness of the developing countries; regional integration amongst them; the promotion of their exports; financial and technical aid to non-associated developing countries.

The recommendation concerned the geographic distribution of aid granted by the EEC.

85. In the three final resolutions the Council affirmed that the Community would consider favourably requests for assistance from developing countries or groups of countries which were involved in the process of setting up or consolidating mechanisms of economic cooperation or regional integration.

The reference applied chiefly to the countries of Latin America.

The Council also undertook to introduce, at the request of the developing countries, special technical and financial aids as a complementary measure to help them in their export efforts and affirmed the principle of Community aid, both financial and technical, to non-associated developing countries.

86. The Commission's position was even clearer and more significant. Four notes were drafted to the Council in 1975, the first of which, dated 22 May concerned the problems of raw materials from the point of view of relations with the developing countries which exported them; the second referred to commodity agreements intended to limit price fluctuations; the third concerned international action to stabilize export earnings and the fourth and last summarized the first three, in preparation for the seventh extraordinary session of the UN General Assembly held in New York from 1 - 12 September 1975.

The four Commission notes to the Council covered every aspect of relations between the industrialized and developing countries.

87. It is clear that constructive participation in the quest for a new type of international economic order is very much in the interest of the Community itself since, as regards both supplies and markets, it has a greater need than others for a healthy relationship between the developing and industrialized countries.

Indeed, only the United States and the Soviet Union (the world's principal producers of raw materials) have economic systems which are potentially self-sufficient; the situation in Europe, on the other hand, is characterized by a lack of raw materials, just as Latin America is obliged to play a secondary role due to its lack of financial and technological resources.

88. The Commission, in drawing up the general lines of a more open Community approach to the problem of raw materials, has emphasized that the time is ripe to adopt a positive attitude towards the aspirations of the developing countries both in multilateral trade negotiations (through priority treatment of tropical products, a joint search for acceptable tariff arrangements and the effort to make significant reductions in the tariffs protecting value added in the case of products in the initial stage of processing), and by stronger attempts to improve the arrangements for the commercial promotion of the developing countries' products.

89. The proposal to set up in Brussels a commercial centre to make it easier for small and medium-sized Latin American firms to gain access to the European market could help to achieve this purpose.

This is a valuable suggestion but to be workable, it would require the co-location of the various units already set up by individual Latin American countries in EEC Member States.

To this end the Community could usefully draw on the experience gained by the Centre for the promotion of imports set up some time ago in the Netherlands to provide assistance in marketing developing countries' exports.

90. Various recent cooperation agreements, such as that concluded with Mexico, could provide a suitable framework for another form of back-up activity, which has already been written into the Lomé Convention for the ACP countries; the Commission, in the notes referred to above, considers that it could possibly be extended to other developing countries; we refer to the setting up of a centre for industrial development administered jointly by the Community and the beneficiary countries.

91. It would also be possible to set up a financial cooperation centre linking the two systems through the implementation of the plan, recently drawn up by the Commission, for a European Export Bank, which, operating in both regions, like the American EXIM Bank, could be highly effective by arranging joint projects in the field of investment and technological cooperation.

It should be recalled, moreover, that nearly all the Member States of the Community finance the activities of the IBD through national contributions. It should not be impossible to add a Community dimension and character to this contribution.

92. A similar effort is also called for to coordinate in a Community framework the technical cooperation which is at present taking place, often on a major and impressive scale, bilaterally between Latin American countries and various Community Member States.

93. Obviously, the Community cannot on its own solve all the problems faced by the Latin American countries; it can however make a determined effort to respond openly and constructively to their concerns.

It is also completely clear that all further Community efforts in Latin America will be that much easier if the operating background is as homogeneous and stable as possible.

94. The climate of uncertainty often given rise to a lack of firm commitment on the part of foreign undertakings or induces them, once they have become involved, to seek excessive profits in view of the short anticipated period of amortization and the precariousness of relations.

Conditions of uncertainty make it impossible, on the other hand, to embark on industrial projects operating with normal profit margins and long-term amortization periods.

95. Any large-scale industrial project can be successful only on the condition that there is an integrated market.

Latin America will thus be able to play its due part in the world economy only when it succeeds in achieving a measure of integration.

This is also essential for any degree of independence on the political level, since market restrictions present a fundamental obstacle to the establishment of any system whose goal is self sufficiency.

96. Latin America possesses all that is necessary, in terms both of human and natural resources, to solve the problems of its persistent poverty within a generation without having to suffer unacceptable costs or social upheaval.

Relations with the EEC should therefore move ahead not on the basis of development aid but as a parallel effort, the need for which has been shown by the events which have recently upset the world economy.

97. A parallel effort of this kind can best be put into practice if the EEC acts as a single body with its own specific policy in dealing with the major problems which at present characterize the world situation; agreed access to natural resources and markets, stabilization of prices of raw materials, arrangements to facilitate processing at their place of production, and the assurance of an acceptable role for the developing countries in world trade and in the world economic context.

98. The European Parliament considers that the time is ripe to begin to put this difficult and far-reaching plan for collaboration between the two sides into practice and reaffirms that its implementation could be considerably facilitated through a sharing of commitments and to the extent that it becomes possible for the two sides to move closer together structurally and institutionally on the political level.