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COMMISSION COMMUNICATION TO THE COUNCIL

Seventh Special Session of the UN General Assembly and mid-term review and appraisal
of the International Development Strategy for the Second UN Development Decade

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SUMMARY WITH COMMENTS

International economic cooperation is assuming growing importance in the work of the United Nations agencies. Following the Sixth Special Session of the General Assembly in April 1974, which led to a "Declaration" and a "Programme of Action", the new special session (1 - 12 September 1975) on development and international economic cooperation must in particular give an impetus to the International Development Strategy for the Second Decade, which is at present undergoing its mid-term review. The Preparatory Committee for the Seventh Special Session will hold its second meeting from 16 to 27 June.

In this context the Community and the Member States can and must play a constructive and active role; however, they will be able to play this role and receive an adequate hearing only if they show a united front. Community action should be based on a spirit of dialogue and conciliation and aim to provide a real consensus. As to the substance, the Development Strategy should be adapted to take account of changes which have occurred since the beginning of the Decade and in the light of the new relations of strength prevailing in the world. The Community's contribution should be concerned with a balanced range of subjects answering the major concerns of the developing countries and providing real chances of progress.

For raw materials, the Commission confines itself to repeating the proposals contained in its Communication to the Council of 22 May 1975.

On the matter of international trade it is first of all proposed to state that the Community is willing to maintain and improve its generalized system of preferences. With regard to the multilateral trade negotiations the Community should confirm that it intends to take into consideration the interests of

the developing countries, in line with the directives approved by the Council. Moreover, measures affecting import arrangements should be accompanied by action to promote trade relations.

On the subject of industrial cooperation and the transfer of technology, the Community and its Member States should identify themselves more clearly with the industrial results proper of the Lima Conference (UNIDO). A special effort must be made to help firms play a part in industrial cooperation in such a way as to meet the developing countries' interests. To this end, the Community and the Member States should indicate their will to cooperate with the governments of developing countries, to step up information, promotion and cooperation activities, to encourage investment and other outside help, to improve the conditions for the transfer of technology, while insisting on the need for a favourable climate for foreign firms. The Community must be aware of the consequences which the redeployment of certain industries to developing countries will have for its internal structures.

With regard to the transfer of real resources it is suggested that the official development assistance objective be confirmed, a geographical reorientation of aid envisaged, special priority given to food problems, particular attention paid to the problem of indebtedness and triangular cooperation be developed. Lastly, it is proposed that constructive attitudes be adopted at the international financial institutions as regards the "third window", the "oil facility", the link between SDRs and development aid, and modification of IMF quotas.

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The purpose of this Communication is to submit to the Council the information and factors of assessment necessary for participation by the Community in the above exercise and, more particularly, the Commission's recommendations for the purpose of defining the Community contribution to the Seventh Special Session of the United Nations General Assembly.

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Introduction: Antecedents and background

1. The growing importance of economic cooperation at international level and the increased interest shown in such matters by the United Nations have over the past few years had a clear-cut effect on the activities of the United Nations organs. The tendency to incorporate these activities into increasingly structured programmes is more and more marked.

The first United Nations Development Decade covered the sixties. It was drawn up in relatively vague terms and included only two precise quantitative objectives, concerning the transfer of resources to developing countries and the average growth rate of the national product of those countries.

The International Development Strategy was adopted by a consensus, with certain reservations, on 24 October 1970 (Resolution No 2626 (XXV)). It lays down a programme for the Second Decade, takes up again and reinforces the same growth objectives, supplements them by other objectives and endeavours also to assess the qualitative changes on the way towards integrated economic and social progress. In addition, appropriate arrangements were adopted for reviewing regularly the implementation of this Strategy in order to assess progress, determine inadequacies and their causes and recommend, where necessary, supplementary policies and aims.

This review and general appraisal of progress achieved is carried out by ECOSOC every two years.

The first appraisal by the General Assembly took place at its 28th Ordinary Session in 1973 (Resolution No 3176 (XXVIII)).

The purpose of the second appraisal, which is to be undertaken now, is to review the situation half-way through the Decade.

2. Because of the economic crisis which broke out at the end of 1973 a special session of the General Assembly, the sixth of its kind, was held in New York in April 1974 on the initiative of the President of Algeria, Mr Boumedienne.

Its immediate aim was to examine the problems of raw materials from the point of view of development and in particular their influence on the situation of the countries most seriously affected by the crisis. The main object of its work, nevertheless, was to assess the existing economic order and define the rules for a "New International Economic Order." These rules are defined in general terms in a "Declaration" (Resolution No 3202 (S-VI)) and expressed in more specific form in a "Programme of Action" (Resolution No 3202 (S-VI)).

In the eyes of the developing countries, all United Nations activities in the economic field must henceforth follow the lines of this Declaration and Programme of Action so that, as all the provisions contained in them are progressively implemented, a "new international economic order" can replace the old relations based on strength. The Programme of Action specifies, for example, that it complements and strengthens the goals and objectives of the International Development Strategy and that the latter will have to be adapted in order to align it on the Declaration on the Establishment of a "New International Economic Order" and the Programme of Action.'

It should be noted that although the Declaration and Programme of Action were formally adopted by a consensus, they nevertheless include a large number of provisions which were not acceptable to most developed countries. The developing countries' refusal to take account of the reservations expressed on this occasion and the resulting ambiguity have made it more difficult to resort subsequently to the consensus procedure.

3. At its 28th Session in 1973 (Resolution No 3172 (XXVIII)), the General Assembly decided to devote a special session to development and international economic cooperation with a view to examining the main themes and problems connected with the development process, identifying and adopting the necessary changes in the structures and organs of the United Nations and studying the transformations which should be undertaken in the general configuration of international economic relations.

This special session will take place from 1 to 12 September 1975. It will be prepared by a Preparatory Committee which, after a brief session on

organizational matters (March 1975) will meet from 16 to 27 June in order to finalize a paper recapitulating the specific recommendations in the light of which the General Assembly will at its special session be able to give a boost to the Development Strategy on the basis of objectives and supporting policies intended to ensure that they are carried out in accordance with a strict timetable.

4. In this context, the results of the World Food Conference and the Second General UNIDO Conference must not be forgotten since they represent achievements which the work of the UN will have to take into account. This also applies to the Charter of Economic Rights and Duties of States adopted at the last Ordinary Session of the General Assembly. This Charter, however, includes a relatively large number of articles which most developed countries, particularly the Member States of the Community, have not been able to accept in their present wording. Finally, the Fourth UN Conference on Trade and Development, to be held next year in Nairobi, will represent a major new element among those determining the direction to be taken by the Seventh Special Session.
5. On the same lines, the conclusions of the meeting of the OECD Council, which took place at ministerial level on 28 and 29 May 1975, should be mentioned; following that meeting the Ministers expressed their firm determination to pursue the dialogue with developing countries in all appropriate forums, particularly at the Seventh Special Session of the General Assembly. They also decided that the OECD should examine the economic relations between its member countries and developing countries with a view to identifying new and constructive avenues which may be explored regarding certain fundamental questions and to giving renewed support and impetus to the negotiations conducted elsewhere.
6. The mid-term review and appraisal of the International Development Strategy, the action to be taken following the Sixth Special Session of the General Assembly on the establishment of a "New International Economic Order" and the decisions to be taken at the Seventh Special Session of the General Assembly are inseparably linked.

Although strictly speaking these are three distinct exercises they nevertheless all directly concern economic cooperation for development. This is why the Commission considers that it must deal with the mid-decade review and appraisal of the International Development Strategy and the preparation for the Seventh Special Session of the General Assembly at the same time. The deadlines which the Member States and the Community will have to meet are set out in Annex III.

Part One: Community's general approach

1. In the exercise which will consist of drawing conclusions from the successes and failures and in particular from the new international context in order to redefine tomorrow's international economic relations, the Community and its Member States have a constructive contribution, perhaps a decisive one, to make.

Firstly, the Community is now expected to play an active role. Over the past two years the Community's rôle in the international organizations, particularly in the United Nations, has developed considerably because of the increased attention given to development cooperation by the United Nations and because of the widening of the Community's activities in this field. Moreover, this trend has been confirmed by the granting to the Community of observer status in the General Assembly.

Secondly, to participate constructively in seeking a new type of international economic relations is in keeping with the Community's interests. Given that for both its sources of supply and its outlets the Community depends more than other industrialized countries on the existence of a propitious climate in relations between developing countries and developed countries it has no alternative but to take an active part in the debate whose outcome will determine the quality of those relations.

2. This active role can be effectively played by the Community and its Member States only if they present a united front at the coming international meetings.

To the fact that the topics to be dealt with fall largely within the Community's jurisdiction or are of special interest to the common market and must therefore be the subject of common positions must be added a major political reason: it is only by concerting their positions and presenting

common views that the Member States and the Community will carry sufficient weight and therefore have a real chance of influencing the outcome of the work. If there is a lesson to be drawn from recent experiences such as the UNIDO Conference in Lima, this is it.

It must be recognized that although not a little progress has been made as to Community cohesion the latter has often failed to withstand the final test of the vote on resolutions by the United Nations organs. Now - rightly or wrongly - it is mainly by the unity of lack of it shown by the Member States in the final vote that Community cohesion is judged.

The Commission therefore considers that it is vital for common positions to be defined on all the matters dealt with and for those positions to be observed by the Member States throughout the course of the work, especially when it comes to a vote. A Community whose cohesion third countries are used to seeing disintegrate at the final stage of international meetings cannot in the long run maintain, let alone increase, its standing and influence.

The objective of defining common positions must of course be to increase and improve the contributions made by cooperation as a whole. The tendency, therefore, must be to uprate common positions, not so to align different positions on the lowest level in terms of cooperation.

3. The spirit underlying Community action must be that of dialogue and conciliation.

The special situation of interdependence between the Community and the developing countries must quite naturally lead the Community to do everything possible to reduce the climate of confrontation which has marked the United Nations since

the Sixth Special Session of the General Assembly. Within the political spectrum of the United Nations the Community is, moreover, particularly well placed to play the role of moderator and to reduce antagonism. Furthermore, the Community has shown through many recent initiatives, both in the regional and in the world aspects of its cooperation policy, that it is opting clearly for cooperation as opposed to confrontation.

On their side, according to information obtained recently, the developing countries seem to want to restore a climate which is more favourable to international cooperation. It should be noted that in the work which has so far been carried out in preparation for the Seventh Special Session they seem to have shown a spirit of moderation and greater realism than in the past.

The situation therefore seems rather favourable for a breakthrough in cooperation in the strict sense of the word. The Community could here play the part of the driving force behind western coordination and of mediator vis-à-vis developing countries.

4. The above shows that the Community will have to make a serious effort to reach a consensus by negotiating mutually acceptable compromises.

This search for a consensus as to substance must not, however, be interpreted as an acceptance in advance and at any price of a consensus procedure, in other words of the adoption of the conclusions without a vote. The partners in the international debate must agree to aim at clarity in their work and to find formulae which do not hide the areas of disagreement but indeed delimit them clearly so that they can be tackled all the more effectively.

5. With regard to the approach to be adopted as to substance, the Commission considers that the aim should be to bring up to date the International Strategy for the Second Development Decade by adapting it to the new situation and adopting a fresh approach by reference to the main shortfalls noted.

In adopting this kind of initiative, the Community and its Member States will be helping not only to strengthen the Strategy as an overall instrument of cooperation, but also to build a more equitable international economic order.

It will not be sufficient for the Community's contribution to rest simply on an analysis of the results achieved during the first half of the Development Decade and to take account of the present situation of economic crisis; it must also be guided by acceptance of the fact that there is a new relationship of strength now determining relations between developing and developed countries, which originates in and is expressed by the dramatic increase in the price of oil . This new relationship has been demonstrated subsequently by growing solidarity within the Group of 77.

It is obvious - as the 77 seem to acknowledge - that the updating must be limited to subjects and areas in which real progress may reasonably be expected. The Community should therefore forestall any attempt to recast the Strategy completely on the basis of the extreme demands of the developing countries expressed in the "Charter". This will be all the easier as the Community will show itself to be constructive and ready to compromise where possible.

In thus opting for the principle of a selective approach - the choice of subjects being dependent on what appears realistic and feasible - the Commission felt it must also draw attention to the necessity of striking a reasonable balance between the various subjects. For recent experience shows that in the view of the developing countries the various subjects for cooperation are closely interconnected: from the point of view of their negotiating power, oil serves as a lever for raw materials, the latter serving as a lever for industrial cooperation, etc. Hence the phenomenon of "globalization" of the debate on international cooperation.

In these circumstances, it would not be realistic to think that by defining a constructive position on a single subject, however important, for instance raw materials, the Community is responding adequately to its partners' expectations.

The Commission therefore proposes that the Community adopt a "balanced selectivity" approach, which means that the Community would be prepared to tackle constructively the most important subjects which, in its partners' eyes, are so closely interconnected that virtually parallel progress is required.

Where immediate progress does not appear possible, the problems should at least be identified and a timetable laid down for seeking solutions in the near future. Since the Seventh Special Session and the ordinary session to follow it will be merely one stage in an on-going process, the impetus which they give to future work will be almost as important as the immediate results.

6. As regards specific subjects, the 77, in a document of 1 May 1975 (Annex IV), drew up a provisional list of the specific areas and questions which they would like to see tackled during the Seventh Special Session of the General Assembly.

This list, which they describe as very limited and selective, actually contains a great many problems. The Commission considers, however, that in order to show a conciliatory spirit the Community could accept that this list, without prejudging the substance of the problems referred to in it, be adopted as a working hypothesis with a view to the drawing up of the agenda by the Preparatory Committee (2nd session) when it meets in New York from 16 to 27 June 1975.

7. The review and appraisal of the International Development Strategy, and the parallel process of preparing and convening the Seventh Special Session of the General Assembly, will culminate in the Thirtieth Ordinary Session of the General Assembly, which will provide a synthesis in the resolutions it adopts. The Community cannot, however, lose sight of the psychological importance attached by the developing countries to the Seventh Special Session. For this reason, the Commission considers that the most important Community contributions to the strengthening of international economic cooperation will have to be presented at that special session.

Part Two: Contributions from the Community

The initiatives taken recently at Community level regarding development cooperation have strongly emphasized the need for an approach which is comprehensive, but geared to the various specific problems to be resolved in certain types of situation. This was the idea expressed in the Commission Communication to the Council of 5 November 1974 on development aid (the "Fresco"); this approach has now been enshrined in exemplary fashion in the Lomé Convention.

Although, for practical reasons the Commission will in what follows below be dealing successively with raw materials, international trade, industrial cooperation, the transfer of technology and the transfer of real resources, it would, however, like to stress two points:

1. The various chapters are interconnected in that the various instruments of cooperation complement one another or are even mutually interdependent;
2. The various fields of cooperation are of differing interest to the various categories of developing countries because of their specific problems.

In what it proposes here, the Commission has taken account of the difficulties which the Community's economy is currently passing through. It is also relying on the effect which any action proposed by the Community can have of carrying along with it the international community.

I. Raw materials

The Commission has already transmitted a Communication to the Council on raw materials on 22 May 1975. The Community contribution at the Seventh Special Session of the General Assembly could therefore include the main points of this Communication, which the Commission has outlined below.

The Community must define an overall approach with a view to adopting a clear and constructive policy towards the developing countries' claims. This approach could be based on seeking the following objectives: fair and remunerative prices without excessive fluctuations providing a long-term balance between production and consumption; the diversification of production and the development of the processing of raw materials in developing countries; the stability of developing countries' export earnings; special treatment for the poorest countries; stability of the consumer countries' raw materials supplies.

This approach could be implemented in the following ways:

1. Trade cooperation

Measures aimed at the elimination of the tariff and non-tariff barriers which hinder access to the markets of the industrialized countries, particular attention being given to the problem of the protection of the added value of the products of first-stage processing.

2. Industrial cooperation

Promotion of development and processing in situ via a contractual framework aimed at encouraging activity by business firms and the transfer of technology.

3. Production and supplies

Search for appropriate financial mechanisms.

4. Information and consultation

Improvement of exchanges of information on the supply and demand situation.

5. Measures to limit excessive price fluctuations

Product-by-product examination of the problems, based on the diversity of the situations, with special attention being paid to products exported mainly by the developing countries, in particular by means of international product agreements which may include stockpiling measures.

6. Stabilization of export earnings

International financing with the participation of all countries which have adequate resources available. The procedure for implementing this measure should be studied from the angle of the beneficiary countries and the products concerned. Such action would be in addition to the aid currently granted to developing countries.

II. International trade

The commercial policy field is one of the sectors in which the Community can make a positive contribution to the work of the Seventh Special Session of the General Assembly. Generally speaking, the developing countries' desiderata are especially concentrated on the principle of access to markets; freer access should progressively be given to imports of raw materials, and industrial semi-manufactures and manufactures from developing countries.

In this field the Community can adopt a positive attitude by basing itself on the one hand on measures to be taken under the multilateral GATT negotiations, and on the other hand, on application of the generalized system of preferences.

1. Generalized tariff preferences

In accordance with the Resolution adopted by the Council on 3 March 1975 the Community is able to reaffirm its desire to maintain and improve its generalized scheme of preferences.

With regard to maintaining the scheme, the Community can state that it considers it necessary for the preferences scheme to be extended beyond 1980. This positive attitude may be reinforced by action to convince other donor countries also to consider the possibility of extending their scheme beyond that date.

With regard to improvement of the scheme three broad lines may be taken into consideration:

- (a) increased utilization of the present Community scheme, particularly by means of measures aimed at simplifying it;
- (b) better administration of the scheme;
- (c) improvement and appropriate adjustment of the Community scheme in the light of the developing countries' expansion potential and the Community's economic potential.

According to the avowed intention of the Council such improvement will have to take particular account of the interests of the least developed countries.

2. Multilateral trade negotiations

The directives approved by the Council on 11 February 1975 already constitute a complete series of lines of action, vis-à-vis both developed and developing countries, regarding the multilateral trade negotiations under GATT which opened officially in September 1973 in Tokyo but did not actually start until February 1975. It is therefore not so much a matter of adding to these guidelines as replacing them, if necessary, with a view to trade cooperation in this field. While emphasizing that this is a specific case of trade negotiations based on the principle of reciprocity of concessions and the balancing of mutual advantages the Community can confirm the intention already expressed in the Tokyo Declaration to take particular account of the developing countries' interests by considering their needs and their specific economic situations.

Taking into consideration developing countries' interests should in particular mean:

- (a) priority treatment (tariff and non-tariff) for tropical products;
- (b) a common search for appropriate tariff solutions, on the basis of general formula to emerge from the negotiations, aimed at adapting the extent of tariff reductions or the phasing of such reductions and the detailed rules for applying any solutions regarding non-tariff barriers to the specific needs of the developing countries;
- (c) a special effort to bring about, at tariff level, a significant reduction the protection of value added for products of first-stage processing, for instance each time that the latter results in a high rate of effective protection;
- (d) taking into account developing countries' interests and problems by means of food aid measures and the beneficial effects of the stabilization of market.

3. Promotion of trade relations

Experience has proved that progress which can be made in the specific field of import arrangements is not by itself enough to increase developing countries'

exports to the industrialized countries' markets. It seems necessary, in view of those countries' economic structure in the trade field, to accompany measures affecting import arrangements by trade cooperation.

In particular this is a question of measures to be taken in the trade promotion field. The Community has already indicated, in the Council Resolution of July 1974 the importance it attaches to this problem and its intention to aid developing countries which are not members of the ACP. Action already taken to improve the structures relating to the promotion of trade and to encourage developing countries' participation in fairs and exhibitions should be reinforced by new measures for training trade promotion experts and carrying out market research and surveys.

In the light of experience gained in all these fields under the Yaoundé Convention and in line with what is intended in the Lomé Convention, progress could also be made on improving cooperation between the Community's business firms and developing countries in the trade field by establishing firmer and closer relations to provide importers and exporters with a better understanding of the problems involved. Other measures to promote cooperation between certain industrial sectors of the developing countries and the Community's firms should be taken into consideration, making allowances for the special characteristics of the various developing countries.

Trade cooperation measures could be organized on the one hand within the framework of bilateral relations with the various developing countries and, on the other, within the framework of the Community's relations with the regional integration areas established among developing countries. Agreement could be sought with other industrialized countries on improving understanding and providing an exchange of information in this particular field.

III. INDUSTRIAL COOPERATION AND TRANSFER OF TECHNOLOGY

1. Extension of Lima

In the field of industrial cooperation the Seventh Special Session will be the direct extension of the Second General Conference of UNIDO, which was held in Lima from 12 to 27 March 1975.

This Conference marked an important stage in the definition of new guidelines for industrial cooperation. The vital need for developing countries to increase the pace of their industrial development was recognized more clearly than ever and here an extremely ambitious quantified target was set (25% share of world industrial production for the developing countries in the year 2000). The need for the redeployment of industries, for a new distribution of industrial activities in the world, for on-the-spot processing of raw materials was clearly acknowledged. The principle of a certain framework for the operations of multinational companies has been accepted. The question of the consequences which industrial cooperation will undoubtedly have for the industrialized countries' internal structures has not been evaded.

2. Putting an end to the ambiguity of the Community's attitude

The Member States' attitude at the final vote on the Lima Declaration gave the impression of a lack of Community cohesion and gave rise to great ambiguity as to the real position; the votes of certain Member States must have seemed to contradict the constructive attitude proclaimed by the Community.

It should, however, be remembered that the vote was on ten paragraphs only, covering not more than five major problems which were virtually all outside the industrial field proper.

The Commission proposes that the Community and its Member States take the opportunity offered by the Seventh Special Session to identify themselves more clearly with the results achieved in Lima in the industrial field proper recognize that this Conference has provided a positive sectoral contribution to the establishment of a new international economic order^{1/}.

¹ See the Resolution on action to be taken following the decisions and recommendations of the Second General Conference of UNIDO adopted, with the approval of the Member States, by the Industrial Development Board of UNIDO in Vienna (21 April- 2 May 1975).

3. The role of firms

Industrial cooperation is clearly distinguishable from cooperation in other sectors - infrastructure, health measures, training, agriculture - in that close assistance from foreign firms is vital.

The Commission believes that here it must raise the point of a fundamental inconsistency in the conclusions arrived at in Lima: the industrial development ambitions expressed at Lima seem difficult to reconcile with the developing countries' attitude of caution - almost of systematic suspicion - as regards private foreign firms in particular.

Here it is not enough to appeal to the developing countries to create a climate of confidence. Instead the question should be examined with them of what measures can be taken on both sides to bring the developing countries' requirements and the firms' legitimate interests into line with one another.

This is the subject on which the Commission proposes to base its considerations¹.

4. Strengthening of cooperation between governments

The Commission considers that the Community and the Member States should show that they are prepared to cooperate with the developing countries' governments on industrialization and that they are not simply going to leave firms a clear field.

Such cooperation would first deal with the traditional fields which come under financial and technical cooperation (infrastructure linked with industrialization, training, studies, etc.) and trade cooperation (access to the Community market, trade promotion). It must systematically support efforts aimed at regional cooperation among developing countries, which is especially vital for industrial development.

¹Although in the Communication presented here the Commission is concentrating on this specific subject, it would also like to point to the other guidelines which it suggested in its Communication to the Council in preparation for Lima (COM(75)45 final of 12 February 1975) and which, since they still hold good, can continue to serve as a reference for Community positions on industrial cooperation.

Beyond that, the developing countries attach great importance to cooperation in the matter of a framework for the operations of firms, particularly transnational companies.

It must be realized that developing countries are generally ill-prepared to deal with big firms and that they often find themselves exposed to quasi-monopolistic situations. It would therefore be appropriate to help developing countries prevent dominant positions being abused, as industrialized countries do at home under rules guaranteeing the free play of competition.

The Commission therefore considers that developing countries should be able to rely on the Community to help them find a reasonable balance between their interests and those of foreign firms.

5. Development of industrial promotion and cooperation

With such a general cooperative attitude a wide field would be opened for industrial promotion measures aimed at studying concrete opportunities for industrialization and industrial cooperation, for organizing the flow of information and for facilitating all kinds of contact between promoters, firms and those responsible for industrial development.

To carry out these functions, the Lomé Convention has provided an original mechanism involving the establishment of a Centre for Industrial Development, managed jointly by the ACP States and the Community.

The Commission considers that this new initiative will be valuable in providing a source of information on the conditions governing the effectiveness of this kind of action; when a certain amount of experience has been gained, it will permit assessment of whether, and under what conditions, it would be possible and desirable to extend this form of cooperation to other developing countries. Certain trade cooperation agreements might here provide a favourable framework for such additional activity.

In the Commission's opinion, apart from information and promotion aimed at specific points it would be advisable to improve the system for reciprocal information on foreseeable trends at least in some major industrial sectors

so that the risk of overcapacity or bottlenecks can be detected in time. Such an attempt at flexible cooperation must, however, take account of the limits set by our market-economy system.

The Commission considers that UNIDO could play a useful role in providing information on industrial developments at world level. However, it will be difficult, at least in the short term, to achieve real agreement within such a wide framework. Regional arrangements (such as the Community has concluded or is concluding, particularly with Black Africa and the Mediterranean region) may be more appropriate.

6. From traditional investments to new forms of cooperation with firms

Although a number of developing countries - those producing oil and sought-after raw materials - are now able to finance their industrial development from their national resources, this is not so for many others. For the latter foreign investment, whether public or private, should continue to be encouraged.

With regard to incentives to attract private investments the Commission suggests that the Member States organize, within the Community framework, an exchange of experiences on the effectiveness of the instruments - fiscal measures and guarantees - which they have used to improve the real impact. It still believes that the creation of a Community guarantee system would now more than ever be what industrial cooperation needs, particularly in the case of transnational investments by firms from a number of Member States.

The appearance of surplus financial resources in certain developing countries should bring the Community and its Member States to promote to a greater extent triangular operations, combining these financial surpluses with the European countries' contributions of technology, management resources and training opportunities and with the raw materials and manpower resources of the developing countries which will act as host to the new industrial ventures.

For developing countries which are able to do without foreign capital for their industrial development a new problem has arisen (or an old problem has taken on a new dimension) resulting from the disappointing experiences of certain developing countries regarding turnkey projects: who will provide a guarantee against the risk of industrial plant not living up to expectations.

Of course the governments of the industrialized countries will not be able to guarantee - as an Algerian-inspired resolution put forward at Lima asks them to - the quality and smooth operation of industrial schemes undertaken with the assistance of their nationals in developing countries. However, the Commission considers that the Community should at least acknowledge that the problem raised by Algeria is a real one when the foreign firm is no longer financially committed through a contribution of its own. It should state that it is prepared to help the developing countries identify the risks with which they are confronted. The Commission suggests that the possibility be explored of setting up a system of insurance to enable European firms to assume additional responsibilities imposed upon them by developing countries.

As regards verifying the quality of services rendered competent bodies exist whose objectivity is undisputed and which might be used more systematically. Certain forms of official technical assistance (ad hoc expertise, temporary provision of advisers, accelerated training programmes, etc.) might prove useful where help is needed. In the case of firms which might prove to consist of unscrupulous businessmen, the pressures which the governments of the industrialized countries⁸ can exercise, even if only through guarantee systems for instance, should be fully recognized.

7. Improving the terms for the transfer of technology

Although any industrial cooperation scheme involves a transfer of technology so that it is not always easy to distinguish one from the other, the transfer of technology presents certain specific aspects which could be dealt with by special action.

The Community and the Member States are taking part in preparing within the framework of UNCTAD, an international code of conduct on technological transfer. The Commission feels that the Community and the Member States should state at the Seventh Special Session that they will actively pursue the efforts to achieve such a code and do their best to ensure that its rules - although they cannot be binding - are observed.

The Community could also announce that it intends to provide assistance to ensure better transparency of the industrial property market and to facilitate developing countries' technological choices: information and documentation on available technology advice on choosing and developing adapted techniques, establishment of contact between those requiring and those supplying techniques, specialist training in industrial property, etc. Some of these measures presuppose the existence of financial resources, even if only very modest resources.

By thus aiding the developing countries to get a clearer idea of the very complex problems involved in the transfer of technology, the Community would contribute to restoring the free play of market forces in a field where competition is often lacking.

8. The developing countries' contribution: the welcome they provide

If the Community were prepared to offer these various forms of help in order to integrate its firms in industrial cooperation in a way which respects the developing countries' sovereignty and takes maximum account of their interests it would be entitled to insist on a requirement from them in return: the welcome and the stability of the working conditions to be offered to foreign firms. Rather than granting them privileges, the developing country should clearly inform them of the rules and undertake to stick to them. By doing this, they can keep their political options wide open, as well as the possibility of nationalization provided that the latter is carried out with the necessary fairness.

It should be emphasized to the developing countries that the climate of uncertainty is often the cause of a lack of dynamic commitment by foreign firms and - when they do commit themselves - the reason for excessive profits. The restoration of a climate of confidence, however, would attract industrial projects of normal profitability which, because they would not have to be amortized over a very short period, would not be carried out in an atmosphere of uncertainty.

9. Consequences for the internal structures

The implementation of a substantial industrial cooperation policy implies a number of choices involving the search for a new industrial balance in the EEC countries. These policies of adjustment require that account be taken of major trends, of the location of activities by sector in view of certain constraints, such as the technological level of the industry considered or of the labour market.

The extent of industrial cooperation and of its corollary, the redeployment of certain Community industries in the developing countries, will primarily depend upon making firms aware of this need and minimizing the foreseeable social upheavals by avoiding the necessary readaptation of industrialization being carried out at the expense of sacrifices imposed solely upon the working classes in the industrialized countries: (the European Social Fund is already in a position to make a substantial contribution to retraining workers without waiting for them to become unemployed; action by the European Bank, the EAGGF and the Regional Fund can enable the foreseeable imbalances to be minimized). The capacity for redeployment will also depend upon the EEC's ability to master an adequate technological dimension in strategically important fields (nuclear, informatics, aerospace) and to be competitive on an international scale.

The reluctance to invest abroad has so far been due, among other things, to the fear that such investment would involve a reduction in the investor countries' internal growth. The extent to which the Community will be able to participate actively in the redeployment of industry - which, moreover, will be realized by the transfer of the growth of such and such an industrial sector and not of entire sectors - will depend on whether there is prolonged economic stability.

IV. Transfer of financial resources and international monetary system

1. Confirmation of the objective of official development assistance

An increased flow of financial resources is an important factor for the success of the second half of the Development Decade. The Commission considers that the Member States should reconfirm publicly their desire, expressed jointly in the Resolution adopted in July 1974 by the Council, to attain as soon as possible the objective of 0.7% laid down in the Strategy, progressing towards this objective at a rate determined by the distance at present separating them from it¹. At the same time the Member States should emphasize their resolve to insulate in so far as possible the development of their official development assistance from any budgetary or balance of payments difficulties in order to ensure that the flow of aid remains continuous, as recommended by the Strategy.

In support of their desire, the Member States and the Community will also be able to point to (besides intentions regarding the future development of each of the Member States' bilateral aid) the considerable increase in Community aid which will come about as a result of the financial provisions of the Lomé Convention and the agreements to be concluded with the Mediterranean countries.

In the same context the Community should reaffirm the principle of granting financial and technical assistance to non-associated developing countries and announce that the terms under which this principle is to be implemented in the near future are currently being examined by the Community authorities. Here it could be emphasized that the technical assistance granted since 1974 to non-associated developing countries in trade promotion and regional

¹An exception being made for certain Member States which find themselves in a special situation.

integration matters, and in particular the Community contribution to the United Nations emergency action, already constitute the first steps in this direction.

On the other hand, the Commission considers that it is premature to discuss any requests which might be made by the developing countries for reformulation of the official development assistance objective - either by taking into account interest payments or by excluding certain types of financial flows - as long as the objectives set previously have not been attained.

2. Reorientation of aid

Since it is mainly the poorest of the developing countries which suffered most from the inadequacy of the flow of aid during the early years of the Development Decade, it is important that, side by side with the increase in volume, the flow of official development assistance be redirected towards those countries. The Commission considers that the Member States and the Community will have to gear their respective aid programmes to this need and announce their intention to do so before the General Assembly.

Furthermore, to give greater weight to such a declaration, the Member States and the Community could take the initiative of proposing that a specific international objective be set in this field. Such an objective, with regard to which a number of practical formulae are possible (and are currently being examined by the Development Assistance Committee of the OECD), should aim at achieving a better correlation between the share of official development assistance intended for the least developed countries and the size of their population relative to the total population of the developing countries. The work on defining the detailed rules to be adopted for this objective could be carried out as part of the work on updating the Strategy for the Second Decade.

3. Aid to specific sectors

With regard to the sectoral allocation of aid, greater attention will have to be paid in the future to the developing countries' food requirements and, in general, to the development of rural regions. The main objective in this field should be to improve the standard of living of the worst off sections of the population by a wide variety of measures dealing with all aspects of rural life. The Commission considers that the Member States of the Community should use their endeavours to see that a greater effort is made here by the international community. As regards their own aid programmes, the Member States should stress that they are willing to increase the share of aid devoted directly or indirectly to these objectives should the recipient countries so wish. In addition, it would be desirable if the Community could now state that current thinking on the extension of financial aid to non-associated developing countries was also tending in that direction.

At the same time the Community and the Member States should state that they intend to continue their food aid programmes - where local production remains structurally inadequate, and in emergency situations - and to increase both the volume and range of products supplied.

In the same context it should be possible to state that the Community authorities are studying whether and under what conditions the Community could contribute to the International Fund for Agricultural Development should that Fund, which was proposed at the recent World Food Conference, be set up.

4. The debt problem

Greater attention will have to be paid in the future to the increasingly disturbing indebtedness of the developing countries. In particular, methods should be devised for assisting countries threatened by crises arising from indebtedness before such crises actually occur. However, the Commission considers that international measures to deal with this problem, in which the Member States should participate fully, cannot be undertaken in accordance with generalized rules applied automatically, as the developing countries would like. Instead, each individual case should be studied and dealt with by reference to the particular circumstances of that case, bearing in mind the need to preserve the international creditworthiness of the country concerned and - above all - to avoid discouraging the pursuit of prudent financial policies.

More important than curative measures, however, is the prevention of crises arising from indebtedness by a suitable policy on the terms and geographical allocation of aid. The Commission therefore believes that the Member States and the Community should, on the basis of the Resolutions adopted by the Council in 1974, confirm before the General Assembly their willingness to improve further the terms of their aid, in particular by increasing the overall proportion of grants, and to adapt those terms to the individual circumstances of each recipient country, special attention being paid to those developing countries which are or risk becoming heavily indebted.

On the other hand, the attention of the developing countries should be drawn to the need for sound management of their external debts, which implies inter alia an effective system for recording and monitoring indebtedness, particularly in the private sector. The Member States and the Community should offer increased technical assistance in this field to all countries which so desire.

5. Triangular cooperation

As a result mainly of the increased price of oil, certain developing countries now have substantial surplus financial resources, part of which can and must be devoted to the development of the Third World. This situation makes it possible to have new forms of cooperation, bringing together the surplus capital of the oil countries and the know-how of the developed countries, plus where appropriate, additional financial support from the latter.

Some Member States have already taken steps in this direction. It is important now to develop this incipient triangular cooperation - beyond what is already being done bilaterally and multilaterally - and to devise structures to provide a more systematic basis for this new form of cooperation. The Commission considers that the two sessions of the General Assembly in the autumn could provide an opportunity for the Member States and the Community to launch such an initiative.

6. "Third window" and "oil facility"

The Commission suggests that the Member States adopt a positive attitude to the ideas put forward by the IBRD on establishing an intermediate financing mechanism, to fit in between loans from the Bank and those from the International Development Association (the "third window").

In addition, the Commission considers that it would be desirable for the Member States to confirm that they are prepared to make appropriate contributions to the special fund set up by the IMF in order to reduce the burden of interest which the most seriously affected countries will have to bear under the "oil facility".

7. Linking SDRs and development aid

At the Third Session of the United Nations Conference on Trade and Development (UNCTAD) at Santiago in 1972, the Commission declared itself in favour of a link between special drawing rights (SDRs) and the financing of development, while emphasizing that this procedure should not involve the creation of excessive additional international liquidity. In the meantime the question has been extensively studied and discussed, particularly by the Group of Twenty responsible for drawing up an outline for the reform of the international monetary system. The question of a link is one of the points of the reform which must be settled during the interim period.

The Commission considers that the Member States of the Community should endeavour to speed up any decision on this matter. Such a decision will have to be compatible with the range of measures currently under discussion by the International Monetary Fund for improving the functioning of the international monetary system in the immediate future.

8. Quotas and voting rights in the International Monetary Fund

In accordance with the conclusions reached by the Council on 20 May 1975, the Community will assert its view that the IMF quotas of the developing countries which are net exporters of oil must be doubled as a percentage and those of the other developing countries maintained (at the same percentage level). The result would be to reduce the developed countries' quotas. By this procedure the voting rights of the developing countries as a whole would be quite considerably increased.

Progress of the developing countries during the first half of the Second Development Decade with particular reference to the Goals and Objectives of the International Development Strategy.

1. Diverse results

The results of the first half of the second development decade present a rather diversified picture. Most of the quantitative targets laid down in the Strategy, relating to overall production, industrial and agricultural production, trade expansion and domestic savings, were achieved or almost achieved during the period 1970 - to 1973 (the last year for which data is available). On the other hand one of the most important targets was for agricultural production, yet there was a marked failure to reach anything approaching the Strategy target in this sector. Moreover the aggregate results achieved for developing countries as a whole concealed very considerable disparities between them.

While it was relatively easy to identify successes or shortfalls in the achievement of the quantitative targets outlined in the Strategy, it was much more difficult to evaluate the more general qualitative targets. The qualitative goals of the Strategy were broad and ambitious : - to bring about a more equitable distribution of income and wealth for promoting social justice and efficiency of production, to raise substantially the level of employment, to achieve a greater degree of income security, to expand and improve facilities for education, health, nutrition, housing and social welfare. The overall objective that of social development, including the eradication of mass poverty in the world, remains an elusive goal. Notwithstanding the importance of these qualitative objectives, especially because of the pressing nature of the twin problems of structural unemployment and mass poverty, the rest of this paper focusses upon the economic results attained during the first part of the second development decade, where concrete data is more readily available.

2. Overall growth

The developing countries achieved an overall growth rate of 5.7% between 1970 and 1973, almost reaching the 6.0% target for overall economic

growth in the Strategy. Given that the rate of population growth was about 2.5% per annum (a figure which was probably only marginally exceeded according to recent estimates) then this would have led to a per capita growth rate in production of 3.1% per annum, a little short of the Strategy target of 3.5%.

Yet these aggregate achievements concealed very considerable disparities, and tended to divert attention from the reality that only a third of developing country populations lived in countries where the 6% overall growth rate target was achieved whereas about 45% of the population of developing countries lived in countries which only achieved an annual growth rate of less than 2% per annum. Of these twenty four low performance countries, thirteen, accounting for 6.4% of the population of developing countries, actually experienced negative growth in gross domestic product between 1971 and 1973. This contrasts with the most fortunate section of the population of developing countries, 10.4% of whom lived in the ten countries which increased their annual production by more than 10.0% during this same period.

These disparities became more acute when diverse demographic factors are taken into account. Thus more than 40% of the population of the developing countries live in countries where per capita income actually declined between 1971 and 1973. Most of the people in this category (about 36% of the population of developing countries), live in countries in which per capita income fell by 1% or less, whereas 8.8% of the population suffered a decline in per capita income of more than 1%. Additionally another 5% of the population were affected by per capita production falls reflecting special circumstances, including two cases of planned production reductions (Kuwait and Libyan Arab Republic), but more typically the consequences of adverse weather conditions (Sahel and India) or political instability (in certain cases notably in the Middle East and South East Asia). On the other hand twelve developing countries, with about 15% of the total population experienced per capita production increases of over 5.5%, including increases in the range between 10% and 20%.

3. Trade successes

The main factor behind the overall achievements of developing countries during this period has been trade, and the results achieved in this sector were encouraging. The trade of developing countries increased

by about 8% per annum, exceeding the 7% target in the Strategy, and the target for developing country imports was also exceeded.

Yet once again, the overall success in the trade field reflected a diversity of development situations. The gains in trade were made largely in Western Asia and in the oil producing countries, and least progress was made in Africa, and South and East Asia. The trade deficits of non-oil exporting developing countries were deteriorating by 1974 and their overall deficit is expected to rise from \$ 29 thousand million in 1974 to \$ 41 thousand million in 1975. Thus the overall trade figures do not properly reflect the variations in the advantages accruing to developing countries as a result of primary material price increases.

Moreover, the overall successes in the field of trade were achieved because of the buoyancy of international commodity markets between 1971 and 1973 and because of the associated rise in prices for these commodities, rather than as a result of positive trade liberalization measures or the implementation of the International Development Strategy. Indeed prices for commodities from developing countries rose on average by 17% per year overall between 1971 and 1973, the greater part of this increase being accounted for by the dramatic increase in oil prices. At the same time, the terms of trade of the non-oil exporting countries deteriorated and are currently expected to benefit the developed countries to the tune of \$7.5 thousand million in 1975.

4. Domestic savings

Given overall successes in the field of trade developing countries were on aggregate able to mobilize resources in line with the target of a 20% savings ratio by 1980. In the African region the average savings ration between 1971 and 1973 rose by 0.9% per annum, at a fractionally greater rate than in South and East Asia. This took the African average above 20% overall gross domestic savings during that period in comparison with 16% for Asia. Savings rates in the developing countries of the Western Hemisphere continued to decline in terms of past performance in the 1960's but still achieved a rate of 19% in the period in question. The countries in which there were serious declines in savings ratios nearly all have problems of political instability or special difficulties, mostly countries in the Indo China peninsula and Bangladesh.

