

# INFORMATION

DEVELOPMENT AID

A EUROPEAN POLICY FOR DEVELOPMENT COOPERATION . . . .

7/72

---

## THE COMMISSION'S FIRST ACTION PROGRAMME

In July 1971, the Commission adopted a paper entitled "Memorandum on a Community policy for development cooperation", stating its intention to submit to the Council in due course a series of concrete measures. This has now been done; and at the beginning of February 1972, the European executive published its "programme for a first series of actions". This, it states, will enable the Community to make a material increase in its aid to the poorer countries, and to do so in a comparatively near future. This is a particularly opportune moment for the Commission to extend, in the practical sphere, its existing philosophy of development cooperation.

April 13 is the opening date for the third UNCTAD conference to be held at Santiago. The Six countries of the Common Market will be represented by their own delegations, and may take what line they please; but if, in conformity with their expressed intention, they wish to speak with a single voice, this memorandum is an ideal instrument for bringing their points of view together.

After the UNCTAD conference, the Community has another important deadline. This is the meeting of heads of States or governments of the E.E.C. which, on this occasion, will be in its enlarged form. It is already settled that development cooperation will be among the questions on the agenda for this conference. An identity of views, made clear at Santiago, when it is put on the order paper for the new members at the Summit meeting of the "Ten", will give a very special send-off to the Community policy for development cooperation. As always, the first worst is the worst....

X/713/72

### Four main lines of policy

The first series of measures recently put forward by the Commission is an integral part of the memorandum of July 1971, which embodies the whole of the underlying philosophy. It must be emphasised that this is the first approach on a deliberately Community basis to the problems of aid to the poorer countries. It also helps to fill in the blanks left by the Rome Treaty on this question.

To begin with, the document insists on the necessity of a policy on a Community basis. This is made necessary by the importance of the European Community in world trade, which gives it special responsibilities to developing countries. Another factor is the lowness of the general level of customs duties, which means that the tariffs have lost much of their substance as an instrument of policy; but the primary factor is the danger of incoherence in practice, resulting from the present division of competence and responsibility between the member countries and the Community itself. It is this which militates in favour of a truly Community policy in development cooperation.

The enlargement of the European Community comes at the same time as the beginning of the second Development Decade of the United Nations. It is therefore up to the Community to do all in its power to increase the effectiveness of the effort it makes to help the poorer countries. For this purpose, according to the Commission, it should conform to four governing lines of policy :

#### 1. To integrate development cooperation into the national internal policies.

The cooperation policy must not be kept apart from the general internal harmonisation of the European Community. Should this be the case, at least two consequences might be expected to follow. On the one hand, the progress towards harmonisation itself would probably be delayed -- how, for example, could there be fair competition between firms inside the Community, if their respective governments were helping to falsify it in various outside markets by the incidence of their aid.

Secondly, if the impact of cooperation policy is left out of account, the scope for harmonisation would be vastly reduced. A typical instance might arise if the Community had to take a view on the destiny of its cotton textile industry without bringing into account the interests of the poorer countries. It might, admittedly, decide that this industry should be kept

in activity; but if the question of cotton textiles should then arise as a matter of cooperation policy, those responsible at the Community level would have no margin for negotiation, for they would be confronted with an accomplished fact. They would not be able, for example, to promise developing countries a transfer to their own mills of part of the cotton textile activity. There are a multitude of similar examples; and this is why the Commission recommends a careful policy of keeping the internal and external objectives in line with one another; though this of course, can only be done by degrees, and in conformity with a definite programme, so as to avoid "abrupt social and economic repercussions within the Community".

## 2. Progressive coordination of national cooperation policies

At present the competence in questions of cooperation policy are divided between the member countries of the Community (which of course play a big part in matters of financial and technical assistance) and the Community. This division, coupled with the simultaneous existence of independent national policies, results in a number of inconveniences. The Commission hopes that this can be dealt with by harmonising the policies of the member countries, both with one another and with the policy of the Community itself. Co-ordination, on the other hand, does not mean that there is any wish to produce uniform and identical policies. The idea is, rather, to introduce a higher degree of coherence, and thus a greater effectiveness in a system in which there will still be different levels of decision.

## 3. Carrying further the work the Community has done.

Though the Community is aware of the interests of developing countries as a whole, it has hitherto given priority to the associated African and Malgasy States and the countries in the Mediterranean basin. "This main orientation of Community policy in relation to Africa south of the Sahara, and the Mediterranean basin, must still be maintained and, in some aspects, developed. It is a task the Community has already accomplished; and it should be a starting point for developing and applying a cooperation policy in respect of developing countries in general".

4. Additional financial commitments for financial and technical cooperation must be envisaged.

"Apart from the resources needed for strengthening the cooperation with African and Mediterranean countries, the Commission regards it as necessary that the Community should be progressively put into command of the resources it at present lacks for carrying out a genuine policy of development co-operation which would be better adapted, both to its responsibilities and to its own interests"

The Commission makes it clear that the additional funds which should be made available to the Community would not enable it to undertake a co-operation policy on a world scale, but would give it the means to respond to various requests from developing countries and groups of countries.

Using these lines of policy as a basis, the Commission proceeded to foreshadow a considerable number of actions designed for the "systematic search for the better international spread of well-being". It is among these that the European executive has made a choice, setting aside, in the first instance, those measures which result, in any case, from decisions which ante-date the memorandum (such as food aid), which are linked with immediate events or deadlines (such as the "enlargement" of the Yaoundé Convention) and also those which it considered unripe for immediate discussion.

Oil-bearing products are not on the programme

Thus, the Commission's recent proposals regarding basic products are limited to three specific sectors -- coffee, cocoa and sugar. In the first stage nothing is included for oil-bearing crops.

This is an instance of the sense of political realism which marks the Commission's proposals. There would not be much practical usefulness in an action programme in which each individual item would be sure to give rise to interminable discussion. It seemed much better to choose a middle way and propose action which would not automatically come up against deep-seated opposition. This does not mean that the Commission's proposals are devoid of content -- any such assertion would be far of the mark, and this

for two reasons. In the first place, the Commission was careful to make it clear that it had not withdrawn from any of the proposals contained in its document of July 1971. Among these was the improvement in the lot of migrants, and the reorganisation of the world market for oil-bearing products. It also contained a number of other items, such as the setting up of a Community guarantee system for private investment, and the formation of a data bank on investment potentialities in developing countries.

Secondly, there can be no denying that if the Commission's recent proposals should come effectively into force, this might call in question a considerable number of existing attitudes and vested interests.

What then are the measures which the Commission desires the Community to adopt at this stage? The action called for is both of a commercial and of a financial type. The Commission considers that the only action which will give a consistent effect to financial aid is to stimulate the exports from developing countries and to provide, in one form or another, price guarantees for tropical products. Without this commercial element, it is argued, finance aid would serve only to cover deficits resulting from poor sales.

#### 1. Trade -- going beyond the simple tariff concessions.

On the commercial side, the outstanding Commission proposals are aimed at imposing a discipline on the markets for coffee, cocoa and sugar, the three main basic products.

#### Coffee -- accent on structural reform

In terms of the value of the international trade, coffee is second only to oil. It is the source of substantial income to countries such as Brazil, Colombia, the Ivory Coast and Mexico. In recent years the world market, despite the decline in Brazilian production, has been characterised by persistent surpluses. Since 1962, the market has been in the hands of the International Coffee Agreement, to which the chief producing and consuming countries have subscribed. Before each crop-year the members of the agreement fix, for each variety of coffee, maximum and minimum prices and export quotas. When market prices are above the maximum or below the minimum

thus provided, the fixed quotas are either increased or lowered. Over the past decade these procedures led to stabilisation on the short-term; but despite the expenditure from the Diversification Fund, administered by the International Coffee Organisation (ICO), it has not proved possible to secure equilibrium on the medium or longer-term.

The agreement comes to an end in October 1971; and the first work on its renewal is to begin in 1972. The Commission desires the Community, as a unit, to take an active part in this work. Its view is, that the Community should insist on "seeking a long-term balance between production and consumption". For this purpose all that would be necessary would be to give effect to instruments already contained in the existing agreement, but which have in some measure been allowed to lie dormant. The diversification fund should not devote the main part of its effort to limiting production, but should also take steps in regard to storage, processing and conditioning of the product and the marketing circuits. Subject to these conditions, the Community should be prepared to make a financial contribution to the Fund, as indeed two of the member countries are already doing.

Cocoa -- international agreement if possible; partial agreement if necessary.

Cocoa plays only a comparatively small part in world trade. For countries such as Ghana, the Ivory Coast, Nigeria and Cameroon, however, it is a substantial source of income. Producers in these countries have not the benefit of any price guarantee. They are thus at the mercy of price fluctuations; and since these have at present carried the price to a low level, they are endeavouring, with their governments, to take over the burden of stabilisation.

The signature of a world agreement has been envisaged many times; but each time it has been rejected because of the opposition of some of the big consuming countries, particularly the United States. This is a situation which subjects producers to serious uncertainties, and the Commission would like to bring it to an end. It therefore hopes that the initiative taken in UNCTAD will result, as quickly as possible, in the signature of a world agreement. If attempts in this direction should result in yet another failure, the Commission would be prepared to go further and "cooperate in the operation of a limited agreement" from 1973 onwards.

It should be emphasised that this proposal is particularly generous. In 1973 the Community will have Great Britain among its members, and will thus be by far the biggest world importer of cocoa. This would mean that the content of a limited agreement would be considerable; and it would also give rise to additional expenditure which, because of the scale of Community buying would be far from negligible. Moreover, it must be remembered that the countries now associated with the Community produce nearly 80 % of the world's cocoa crop. The Commission could, therefore, have limited its action to proposing a regional agreement between the Community as an importer and its associates as producers. It has instead preferred to propose an agreement which would include among its beneficiaries the non-associated countries which provide some 20 % of the world's production -- including Brazil, Ecuador and the Dominican Republic.

#### Sugar -- the continued conflict between sugar cane and beet

The case of sugar is very different from the two others. In the first place the Six-nation European Community, which does not produce a single ounce of cocoa or coffee on its own territory, is in fact a sugar producer with a surplus beyond its own requirements. Secondly, many experts agree that there is likely to be a considerable increase in the world's sugar consumption, which now runs around 75 million tons annually, and is expected to reach 105 million tons by 1980. This is in itself an optimistic outlook which cocoa and coffee do not share. The scale of the expected increase is, however, the heart of the problem.

The question which arises is who will produce the enormous extra quantities of sugar required during the present decade. If things remain as they are, it is believed that the rich countries might very well supply as much as 85 % of the increase. The result might even be, that they would be exporting part of their production to developing countries, among which the increase in consumption would be by far the most pronounced. With such prospects, the part which the Community should play remains to be decided. The Commission, admittedly, has not as yet made unduly precise suggestions. Everything will depend on decisions taken on three deadline dates in the early future :

- re-negotiation of the World Sugar Agreement which comes to an end in 1973. This agreement, which came into force in 1969, covers half the world trade in sugar and includes regulated prices and mutual agreements by the signatory countries in regard to purchases and supplies. The United States, because of their preferential agreements with a number of countries, especially in Central and South America, are not members of the agreement; and the European Community, because of its sugar production surpluses, is also not a member.
- renewal in 1974 of the Commonwealth Sugar Agreement, under which Great Britain guarantees import quotas at pre-fixed prices to Commonwealth countries (the Caribbean, Jamaica, Mauritius).
- the fixing in 1975, under the Common Agriculture Policy of the Common Market, of the definite regulation applicable to sugar beet. This may give rise to the distribution of new beet production quotas among the member countries (it will be remembered that the price of beet is subject to a full guarantee up to a specific quota, a partial guarantee for another 35 % of this amount and no guarantee for any further production).

In all three cases the attitude of the Community will be of primary importance for the developing countries which are sugar producers. For the moment the Commission is not insisting on the Community's participation in the International Sugar Agreement, even though the enlargement of the Community will, after all, have made the E.E.C. a deficit area. The Commission seems to be reserving its attitude till it has more information about the methods and conditions for the renewal of the C.S.A. This expires after the International Agreement; and it may be supposed that Community representatives will be increasing their contacts with the Commonwealth sugar producers, and also with the producers in the associated African countries and Madagascar, in order to arrive at a reasonably exact assessment of the quantities and prices which will be governed by the guarantees.

When it comes to fixing quotas, there is one point of policy about which there is no longer any doubt. The Commission proposes that "after the enlargement of the Community, its sugar production should remain below its total consumption; and the gap to be filled by Community imports will depend on the undertakings it has given to the developing countries".



This aspect may raise a number of questions in Community farming circles -- unless, indeed, the governments take the same attitude as the Commission, reducing the taxes falling on sugar products, so that consumption is stimulated. It might then happen that sugar cane and beet will be better bedfellows.

#### Getting to know the Community market

Apart from the action contemplated regarding coffee, cocoa and sugar, the Commission suggests a number of measures aimed to stimulate the exports from developing countries. It has in fact come to the conclusion, that nowadays "it is not enough to remove the tariff and non-tariff obstacles" to secure an automatic increase in the volume of trade.

It is therefore necessary to take special care that the developing countries improve their market penetration technique. The Community now has at its disposal its experience with the existing African associates, and it is thus in a position to improve the methods of these importers, so as to "give them a better knowledge of the Community market". In addition, the member countries might follow the example of Germany and the Netherlands, which have special cooperation centres with the developing countries. The Community might also provide technical aid "for product improvement and standardisation". This should enable the exporters of the Third World to adapt themselves to Community standards and to the tastes of their European customers.

#### Promotion of Europe's consumption of tropical products.

The Commission suggests two types of measure, aimed at increasing the Community consumption of tropical foodstuffs.

In the first instance it calls for the progressive elimination of excise duties on products such as coffee, tea, bananas and cocoa. On the other hand the Commission does not take it for granted that the disappearance of these duties would be automatically followed by higher consumption. It believes that "there are strong reasons for thinking a lowering of the prices of these products would create better marketing conditions". In

any case the Commission has a good case in calling for a substantial cut in the excise duties, if not for their total suppression. Did not the member countries undertake -- when they adopted their economic and monetary union programme on February 9, 1971 -- to harmonise their indirect taxes ?

In addition, the Commission suggests there should be set up for these products a system of protected indication of origin. Nowadays the food industries use growing quantities of organic ingredients; and it would be desirable for natural products to be brought into the foreground by such methods as commercial labelling, which would of course have to be subjected to very strict control. In this respect the case of vegetable oils is extremely significant. They are unduly easily propagated as being of superior quality; but it may well happen that they do not have the "purity" so emphatically claimed in the advertising. Moreover, even if producers are subjected to a certain discipline by regulations on the use of the "natural product" label, the consumer would become conscious of an extensive range of oils, such as colza (rape-seed), soya, olive, groundnut and others. It thus becomes important that the consumer should know something about the differences between these various oils, and whether and when one of them may be of better quality and healthier than another.

## 2. Finance aid -- a bigger effort and more harmonisation

The Commission proposals, as we have seen, are somewhat elaborate on the commercial side. They do not, however, omit to bring into consideration the other important aspect of development cooperation which consists of finance aid.

### An ambitious target -- public aid of 0.7 % of the GNP.

The first class of action proposed in the finance aid sector is specially ambitious. The Commission asks that, conformably to international recommendations which have been made, each of the member countries should, by 1975, have scaled up the public aid to 0.7 % of its GNP (and private aid to 0.3 %). For such a country as Italy, for example, this would mean multiplying the existing public aid by no less than 4; and for Germany the corresponding figure would be 2.5. If all the member countries were to accept the Commission proposal, the Community would be doubling the

total volume of its aid. The Commission gives a clear account of its reasons for recommending such an increase in the effort made. In 1970, the 0.7 % target was not reached by any of the member countries; and since 1960, there has been a consistent tendency for the appropriations made by the member countries to diminish, with the solitary exception of the Netherlands. Moreover, the fall in the aid itself has been accompanied by a fall in the unit purchasing power of the aid which the Europeans have been granting. If this were to continue, the consequences for some of the poorer countries might be disastrous. The Commission also insists on the need for finance aid to be given by the member countries on a regular basis. For this purpose it would be necessary for each of the member countries to enact pluri-annual programme laws. In the framework of the Community medium-term policy, the comparison of these different programme laws might well result in some degree of harmonisation. It would thus become easier for the developing countries to plan their investment programmes in advance.

#### Alleviation of the debt charges

The second type of action mentioned by the Commission under the finance heading, relates to the alleviation of the charges to be borne by the poorer countries. This objective might, in the first instance, be reached by harmonising the conditions on which "public aid, whether bi-lateral or from the Community" is granted. This would eliminate various situations which are, to say the least, paradoxical. Commission experts have in fact disclosed that in present circumstances, and depending on the countries concerned, "projects of the same nature and comparable profitability are financed on very different terms". These differences are highly prejudicial to the poorer countries; for the donors who are most liberal do not wish, especially when they are participating in a multi-lateral finance scheme" to find they are indirectly subsidising the interest paid out to donors who have been less liberal". In these conditions the "liberal" donors have a way of accepting the terms of the "tough", which works out to the disadvantage of the developing countries.

The Commission also notes that there has, in recent years, been a tendency for the aid given by way of donation to decrease by comparison with the loans. As another method of lightening the charges borne by the poorer countries,

the Commission suggests that the member countries should increase the proportion of donations. Finally, the Commission proposes that in the field of export credits, account should be taken of the conditions in the developing countries themselves, for the Community is a predominant source of supply for credits in this class. Special care should be taken that "the use of the goods supplied under the credit results in a net financial profitability in foreign currency (or at least in economic profit) exceeding the interest charge; and that the economic life of the goods is at least as long as the period laid down for repayment of the loan".

These recommendations are primarily made to private exporters, from whom they will require a genuine effort of re-adaptation. This might be undertaken in the Community coordination group for credit insurance.

Finally, the Commission emphasises that if nothing were to be done to make the terms of the aid more flexible (especially the rates and the duration) quite a number of developing countries might, within a decade, find themselves obliged to be making repayments on a higher scale than the loans received

End of the "reserved enclosure".

Another proposal by the Commission is aimed at encouraging the progressive liberation, on the Community scale, of the aid made available. The practice of tied aid consists, it will be remembered, "in the obligation laid on the beneficiary to use the aid received in the country from which it was given". This is clearly to the advantage of the richer countries, because it promotes their exports and lifts their firms above the perils of international trade; but it is often a prejudice to the poorer countries who, when they carry out their investment projects, are not able to place their contracts outside the aiding country, even though they might thus get better terms or better technical service.

The member States have already made some progress in untying their aid, since that which is given by the European Development Fund is itself untied. The Commission, however, considers that tied aid perpetuates watertight compartments which are inconsistent with the progress towards economic and monetary union, and is therefore anxious to go further. To do so it will be necessary

to take action step-by-step, largely based on the respective shares of each member country in the gifts and loans. As is well known, governments are increasingly apt to tie their aid in proportion as it is given in the form of donations. Counsels of prudence have led the Commission to limit its recommendation in the first stage to the untying of a comparatively modest proportion -- the bi-lateral public loans. In 1970, they amounted for the Six countries as a whole, to about \$ 650 million.

In order to avoid the wastes which result from the lack of harmonisation between the aid granted by the member countries individually and the Community as a whole, the Commission suggests a systematic centralisation in Brussels of the information relating to the granting of loans and donations. This would enable it to spotlight "the overlapping, or possible gaps"; and it would make it possible for each of the Six countries to adapt, or rectify, their aid programmes.

In a final proposal the Commission recommends encouraging cooperation between the developing countries themselves by establishing special connections with the regional groupings. This would mitigate the disadvantages which are inherent in the smallness of the market in most of the poorer countries. The assistance under this heading may take various forms, including training courses for nationals of the developing countries; the organisation of discussions; the sending of experts to keep touch with integration experiments; and the undertaking of investigations of regional interest. According to the Commission, the regionalisation of aid on these lines should encourage a spirit of cooperation between neighbouring countries as it has done in the case of the Community's own African associates.

The proposed measures reviewed in the above, both for commercial cooperation and for finance aid, bear witness to the desire of the Commission to make a determined attack on one of the major problems of our time. There is in this a reason for believing that the "programme for a first series of actions" will not be swamped in vain squabbles between the experts.