European Communities
Commission
Background Report

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URGENT DECISIONS NEEDED ON NORTH-SOUTH ISSUES

EEC Commission warns of confrontation risks

The Commission has warned Britain and the other Common Market governments against adopting a "wait and see" policy towards the developing countries of the world and has pressed for urgent decisions to be taken about the claims for better treatment which the Group of 77 developing nations is now pursuing through the UN Conference on Trade and Development (UNCTAD).

"The decisions that will have to be taken involve a clear choice: if no progress is made on the different subjects a worsening of the climate of international relations, if not a return to confrontation, is to be feared" the Commission said in recommendations now under study by the Nine governments.(1)

The group of 77 to which considerably more than 77 states now belong has been demanding action on the Common Fund which, it was agreed at the North-South conference in Paris last June, would be set up as part of a concerted programme to stabilize commodity prices and so redress the terms of trade between rich and poor states. The Group has also called for the cancellation of debts owed by the developing nations (estimated at $180,000m) and for special treatment of the Least Developed Countries (LLDCs).

The main problem with the Common Fund is that no agreement has yet been reached on how it would be financed and operated. These matters were to have been negotiated through UNCTAD but no progress was made at the meetings held by that body in Geneva in November.

A new preparatory meeting of UNCTAD at Ministers' level has just taken place in Geneva and another full-dress delegate meeting is likely before the summer, while, in the meantime, a regional conference of Commonwealth Finance Ministers held in Sydney in February called for further action to speed up the establishment of the Common Fund.

The EEC Commission's view is, therefore, that it has become a matter of urgency for the nine European Community governments to agree on a common negotiating position before the next round of discussions opens. No agreement, the Commission believes, is likely to be reached unless the Nine speak with one voice.

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The Commission sees advantages for both rich and poor in a workable arrangement by which the developing countries would secure economic and political stability (and thus new investment capital) while the industrial countries would be able to count on regular supplies of commodities - perhaps even coffee - at predictable prices.

The Group of 77 maintains that the Common Fund should be the main channel of support for developing countries whose economies depend on one - or a small number - of commodities, since its resources would be used to buy from them in times of surplus, thus building up buffer stocks to be held available to consumers in times of scarcity. The Fund's resources would come from government subscriptions, loans and private borrowings.

The industrialised states, however, have argued that this is not the most effective way to proceed. In their view the only practical method of stabilising the production and price of commodities is to negotiate International Commodity Agreements (ICA's) between producer and consumer governments for each commodity. And these agreements would be supervised by ICA producer/consumer agencies.

Each ICA would draw its own funds from the producers and consumers concerned, and would hold on deposit three quarters of the amount required to finance the buffer stocks, in return for which government agencies would guarantee to finance the remaining quarter.

The industrial states would prefer this arrangement to one in which all the funds would be handled and controlled from a single central source.

The Commission, in its recommendations, accepts the principle of international commodity agreements financed by funds to which producers and consumers would contribute, but it suggests that capital might have to remain idle if three quarters of the expected needs had to be placed on deposit in advance. The Commission believes that a two thirds deposit ratio would be sufficient, leading one third to be guaranteed.

The governments, however, might consider making further contributions to cover foreign exchange or investment risks arising in the course of ICA operations.

But, if the Common Fund is to work,far more progress, the Commission urges, must be made towards commodity agreements and towards agreeing the list of those products to be included. The Commission is particularly anxious to see progress on rubber and copper - the latter of interest to Chile and Peru as well as Zambia and Zaire - and to pursue negotiations for agreement on jute and hard fibres (they could be needed one day if petrochemicals for synthetic fibres ever run out).

The Commission believes that the Common Fund could play a centralised role in supporting the ICAs with trade promotion, research and development, infrastructure, storage facilities and productivity improvement schemes. These activities would be based on suggestions put forward or supported by the ICA organisations and financed partly by them with help in suitable cases from participating countries and the Commission.

The Common Fund should not, the Commission feels, become the political instrument of any given group of countries, and, as a safeguard, when agreement on a question of general policy cannot be reached by consensus and a vote has to be taken, there should be a blocking mechanism to protect the essential rights of participants.

The ICA's would, as far as possible, operate within automatically enforced rules on such matters as deposit obligations, drawing rights, interest rates and the protection of commercial confidences. Decisions on other matters, if not taken by consensus should be by simple majority but with voting rights distributed in close relation to financial contributions.

The Common Fund should run for a trial period of five years and the EEC Council of Ministers should decide within a year after the end of the trial period whether and in what form it should continue.

The problem of debt cancellation could, however, prove to be an even more controversial subject than the Common Fund. The Group of 77 is asking for a general cancellation, as an exceptional measure, of the bilateral official debts of certain categories of developing countries and the establishment of guide lines for the treatment of future debts.

At any top level meeting, cancellation, the Commission believes, is likely to be the more acute issue since guidelines can be left to be negotiated by experts. The Group maintains that debt is a general handicap to all poor developing nations and that cancellation would be merely aid in retrospect. This 'legacy from the past' must, the Group declares be wiped out if equitable standards are to be established for the future. Sweden, it would appear, has encouraged the Group by presenting a memorandum to UNCTAD advocating cancellation of debts incurred as part of official aid programmes by a number of poor developing countries and some industrialised countries have already cancelled certain debts.

At the recent Geneva meeting of UNCTAD the industrialised countries did, in fact, agree to review retroactively the conditions of overseas development aid, with a view to a measure of debt relief. But it will be up to the donor countries themselves to take action, not automatically, but case by case.

The Commission does not recommend an across-the-board cancellation. Indeed the World Bank and other studies indicate that the problem of debt is not a general one and, where it does exist in particular cases, the scale and origins vary so much that no one solution would be appropriate.

"A generalised cancellation measure - that is, one covering all the developing countries in a given group - which is triggered automatically by the simple fact of membership of that group is therefore unjustified" says the Commission.

Cancellation would prejudice the chances of the developing countries receiving future financial help all of which could not take the form of outright grants.

The Commission therefore recommends that the discussions should concentrate on the future treatment of debts. Its view is that the proposals put forward jointly by the EEC and the US government last June for revised and improved procedures for reviewing and rescheduling debts should be tabled as a Draft Resolution since it covers both long and short term problems and gives priority to the Least Developed Countries (LLDCs) and the most seriously affected countries (MSAs) both of which figure prominently in the Group's demands.

The Commission also points out that there are other ways, apart from cancellation of relieving the problems in indebtedness. (The $1 billion fund provided by industrialised countries and the EEC last June for the special action campaign to help low income countries is one example).

The industrialised countries are on stronger ground on the third issue raised by the Group - the problems of the Least Developed Countries (LLDCs). EEC members trebled the value of their bilateral aid to LDCs between 1970 and 1974, and the LLDCs' share of aid from the European Community rose from 28.7 per cent to 44.3 per cent over the same period. All of the aid given by the Community between 1972 and 1974 and 96 per cent of aid from EEC member governments within the same period was in the form of non-repayable grants. Then came the Lomé Convention - shortly to be re-negotiated - which allots extra assistance to developing countries in greatest need of it - including not only the Least Developed Countries but also the Landlocked States (LLs) and the Island Developing Countries (IDCs) which suffer from the handicaps of geography.

The Stabex (Stabilising Exports Earnings) Scheme - a part of the Lomé Convention, already tops up export earnings of developing countries - especially those dependent on a limited number of commodities for their income. Stabex aid covers some 20 products ranging from groundnuts and coffee to timber and raw hides and goes to those whose exports in total and to the EEC have fallen by more than a stated percentage. Landlocked states, IDCs and LLDCs get special terms.

The 10 LLDCs not included in the Lomé Convention are also receiving aid worth approximately $84 million this year (1978) as well as food aid.

But the Commission favours technical, managerial and administrative assistance to enable the LLDCs to make the best use of the aid they have rather than 'blanket concessions' of aid which the recipients are not equipped to use effectively.

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