Commission of the European Communities

THE EUROPEAN COMMUNITY'S DEVELOPMENT POLICY

1981 — 1983

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This document presents the main elements of the European Community's development cooperation policy in the three-year period up to the opening of negotiations for the renewal of the Lomé Convention in October 1983. It does not purport to be an exhaustive account of all aspects of Community policy. It focusses on how the Community has moved to adapt its policies to changing needs and circumstances and on how EC-Third World relations have evolved in key areas of cooperation. The text was prepared by a group of independent experts; the contents do not, therefore, necessarily reflect the views of the European Commission.

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CHAPTER I

COMMUNITY DEVELOPMENT POLICY AT A TURNING POINT

Since October 6th 1983, the European Community, its Member States and the 63 countries of the African-Caribbean-Pacific (ACP) group have been involved in the renegotiation of the Lomé Convention, the centrepiece of the Community's development cooperation policy. The negotiations will be long, but none of the parties involved believes that they will end without full agreement on a new convention. This confidence underlines the importance the Community and its Third World partners attach to ensuring the continuity of their commitments and contractual relations.

Yet, today, the EC's development policy is at a crossroads. A change of direction is taking place, slowly but surely. The new guidelines have been drawn up gradually over the past three years.

One of the starting points of this process was the debate in the European Parliament on world hunger (in October 1979 and then in 1980, on the basis of the Ferrero Report).(1) This debate, like the others which followed in both the European and national Parliaments, plus the initiatives adopted by leading Nobel Prize winners and other personalities revealed an increasing sensitivity on the part of public opinion to the fate of the poorest peoples of the Third World. These initiatives also brought home the need to adopt new methods of implementing development policy.

The conclusions of the European Parliament debate led the Community to devote increased attention to the poorest peoples and countries and to give a clear priority to fighting hunger and fostering agricultural and rural development in the Third World. As a result, the European Commission presented to the Council of Ministers of the Ten,in October 1981, an «Action Plan to Combat World Hunger». This included sections calling for short term measures with immediate impact and longer term action to deal with the structural causes of the developing countries' food problems.(2) The Council adopted the plan in February 1982.

For the short term, the plan provides for a special food aid action to help counter the consequences of the supply deficits currently encountered by the poorest countries.(3) It also calls for a larger Community contribution to international operations whose aim is to increase the security of Third World food supplies. In the longer term, and this is an innovation in development policy, the Commmission proposes that the EC gives active backing to «food strategies» implemented by developing countries to place their own efforts and those of aid donor nations in a more coherent framework. For these countries, the Community and its Member States intend to propose a greater degree of coordination of aid policies and programmes in order to reinforce, by their joint efforts, their overall effectiveness.

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(1) European Parliament, Document 1-341/80 of 5th September 1980.

(2) COM (81) 560 of 2nd October 1981.

(3) A total of 40m Ecus was used for the purchase of 230,000 tonnes of cereals and other products, the equivalent of the annual food intake of two million underfed people.

Another innovation is the concept of «thematic actions» which would apply to whole regions of the world where all the countries are faced with the same kind of specific difficulties in fighting against worsening conditions of production or in mobilising the full potential of their natural resources. In May 1982, therefore, the Commission proposed to the Council of Ministers a special action programme in favour of Central America whose principal goal was to support agrarian reform being undertaken in the Dominican Republic, Honduras, Costa Rica and Nicaragua.(1) Although the adoption caused certain political difficulties (essentially because of the inclusion of Nicaragua), it is important to underline that the Council did in fact follow the Commission in supporting agrarian reform (i.e. social reform) in all four countries.(2)

In June 1982, the Commission supplemented its action programme against hunger by proposing a special programme worth 185 million Ecus.(3) The Council reduced this to 115 million Ecus, of which 35 million were reserved for emergency action in favour of refugees and displaced persons (including Afghan refugees in Pakistan) as well as civil populations affected by events in South-East Asia, Central America and Angola. The bulk of the remainder was earmarked for agricultural and rural development programmes in the poorest Third World countries.

The principal aim of the above programmes was to reduce dependence on external food sources among the developing countries through action which helps these nations produce themselves the food they need. This goal is based on two considerations : the first is that the number of people threatened by famine is increasing rapidly. There are about 450 million people in this situation today and this could rise, according to World Bank estimates, to 700-800 million in the next 20 years. The second consideration is that Third World dependance on imported food, taken globally, is rising since food production is not growing fast enough to meet local needs. Cereal imports which totalled 52 million tonnes a year in the 1972/74 period could, on FAO estimates, exceed 90 million tonnes in 1985.

A more systematic approach : the Commission Memorandum on Development policy

During 1982 and 1983, the European Commission drew up a new, more systematic approach. On 30th September 1982, it published a Memorandum(4) which contains the general principles and guidelines that should be at the heart of Community development policy for the rest of the pre-

(1) COM (82) 257 of 19th May 1982.

(2) The programme, worth 56,7m Ecus, was divided as follows : 18m for Costa Rica, 16.9m for Honduras, 12m for the Dominican Republic and 9.8m for Nicaragua.

(3) COM (82) 320 of 3rd June 1982.

(4) Memorandum on Community Development Policy : COM (82) 640.

sent decade. At the same time, it began revising its food aid policy in order to make it a more effective tool of economic development.

The Commission Memorandum has, since its publication, been at the centre of a wide-ranging debate in the European Parliament as well as in the Council of Ministers and the Economic and Social Committee. Its guidelines were at the root of the Community's proposals for renewing the Lomé Convention and of its March 1983 proposals for a new food aid policy.(1)

In its new approach, the Commission had to take account of several factors. These included the worldwide economic recession, the balance-sheet (largely a disappointing one) of two development decades, the crisis in the multilateral system of development cooperation as well as East-West tensions which are compromising the continuation of a North-South dialogue as such.

The factors

The economic recession affects all countries. But it has a greater impact on the developing world than on the industrialised nations. It is not just a question of adjusting a certain number of divergent factors over time to bring them back in line again. The crisis is a structural one «from which the world will emerge different from what it was before, with a new division of wealth, knowledge, power centres and peoples».(2)

The European Commission believes that the crisis cannot be overcome without stimulating economic recovery in the developing countries which in turn is being blocked by the recession.(3) If the recovery in the Community and most other industrialised countries is slow and fragile, it is totally compromised in that part of the Third World where excessive debt levels have forced governments to pursue rigorous austerity programmes. In many developing countries, the bulk of export revenues have to go towards servicing foreign debts, a situation made even worse by high real interest rates.

This situation not only blocks foreign investments in these countries, it also means that they cannot import the most basic items, including foodstuffs. It was the process of borrowing by these debtor countries to pay for imports that helped keep economic activity in the industrialised countries at a substantial level. For without the indebtedness of the Third World countries, the level of unemployment, to take just one aspect, would be even higher than it is in Europe. In deciding how to deal with Third

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(1) Community Food Aid : A New Approach, Doc X/386/82, December 1982; and doc. COM (83) 141, 24th March 1983.

(2) Speech by Development Commissioner Edgard Pisani at the opening session of the EC-ACP negotiations, Luxembourg, 6th October 1983.

(3) Memorandum, op cit, Page 2.

World debt, the western industrialised nations are also taking decisions that will fundamentally affect their own productive activities.

The foregoing is only one of the many aspects of economic interdependence between Europe and the Third World. «It is therefore out of self-interest as well as because of its sensitivity to the subtle mechanisms of economic recovery that the Community is able to remain true to a concept which it believes to be fundamental for the future of the world».(1) This is why the Community is determined to promote the creation of an international economic order where the logic of interdependence far outweighs that of conflict. It is therefore in the Community's own interest that in its relations with the Third World it puts development at the centre of its preoccupations.

As the Commission notes in its Memorandum, the global balance sheet of two development decades shows that the means employed were firstly inadequate and secondly badly used. Even if for one billion (2) people in the Third World their per capita income has nearly doubled in the past 20 years, a dramatic and widening gap has opened up between these middle-income countries and the poorest nations where the per capita income has scarcely risen and in some cases has actually fallen. This is notably the case for a certain number of African countries with which the Community has privileged links.

The Memorandum states that in 1980 no fewer than 750 million people, one third of the population of the developing world (China excluded) live, or rather subsist, in conditions of absolute poverty. If in global terms, food production in the LDCs has kept pace with population growth, the number of underfed people in South Asia, Central America and Sub-Saharan Africa is actually increasing. The trend in Africa has worsened since the second half of the 1970s. These figures are taken at random from the Memorandum; one could easily quote others, which are just as significant.

Financial aid from donor countries and international organisations has also helped to deepen the split between the poorest nations and the rest of the Third World. In fact, aid is generally given to middle income countries, which have received an average of 12 dollars per capita each year, albeit a modest sum, but more than twice the five dollars per head received by the poorest developing nations.

However, this paradoxical share-out of financial aid is partly the direct consequence of the degree of underdevelopment of the poorest countries, which the aid is supposed to alleviate. For development aid, traditionally linked to financing projects and direct investments, is more easily assimilated by developing countries which already have an adequate economic and administrative infrastructure and whose internal policies foster the expansion of local productive forces.

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(1) Speech by Edgard Pisani, **op cit.**
(2) «billion» is used throughout the present document in preference to «thousand million».

The Memorandum highlights among the several factors responsible for the economic backwardness of the poorest countries political, social and military instability. «The increase in the frequency of conflicts of all sorts has made worse the poverty of certain regions and of certain sections of the population (refugees) without it being possible to say whether instability is the cause or the consequence of the poverty. It is both at the same time».(1)

At world level, one of the most discouraging factors of economic cooperation stems from the blockage of the North-South dialogue, as illustrated in the virtual failure of the Cancun summit, the impasse of the global negotiations and the crisis in financing the International Development Agency (IDA), an affiliate of the World Bank. Any judgment of the events that have marked the North-South dialogue since 1981 can only be very negative : «The global negotiations aimed at creating a new international order have been unsuccessful. They were inspired by ambitions that were either too grand or at least premature. It will perhaps take a generation before there can be any chance of success... Cancun failed, Williamsburg gave no guidance, Belgrade was a sumptuous high mass with neither rite nor faith. The new international economic order and the global negotiations have been virtually forgotten, after having consumed too much energy. What remains is poverty, debt and a global imbalance».(2)

The Commission Memorandum, published a year before the UNCTAD Conference of June 1983 in Belgrade provides a comprehensive, but pessimistic, analysis of the North-South dialogue. It concludes : «The Community has a basic interest in the stability of the international system, in the security of its functional norms, in the predictability of its behaviour. As a political and commercial power, it has a natural interest in promoting the creation of an international system which backs the logic of interdependence over that of conflict. To this extent its interests are close to those of the Third World... For these reasons, the Community cannot resign itself to a long-term blockage of the North-South dialogue. It cannot allow the East-West confrontation (which can only be settled in terms of force) to stifle the North-South dialogue (which finds its expression in terms of development)».(3)

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(1) Memorandum, op. cit. Page 8.

(2) Edgard Pisani, «What is at stake in the Lomé Convention»; article published in Europa-Archiv, August 1983.

(3) Memorandum, op cit.

The main guidelines of development policy

The Community's response to these challenges is to be found in two complementary approaches :

— The Community must strengthen and rationalise the network of contractual relations which it has established with the countries of the Third World, thereby contributing to the «creation of a system of international relations which is more harmonious, more sure and more in line with the interests of all countries». The Memorandum notes on this topic : «Between the politics of Lomé (which covers a group of countries) and those of the North-South dialogue (which is addressed to all LDCs) there is room for a broader application of the North-South doctrine which the Community has adopted.

— The Community must, in its development programmes, reexamine its priorities, instruments and working methods in order to give more effective support to the self-centred and lasting development of the Third World, particularly of its poorest members.

The first approach is essentially the continuation of past policies, whereas the second, that of the more concrete development realities, requires substantial renovation of methods applied hitherto.

The priority of more autonomous development

The analysis of the results of two decades of development policy leads the Commission to put the support for autonomous and long-term development of LDCs, particularly the poorest among them, among its first priorities.

Throughout the 1970s the concern of respecting at all cost the political independence of its Third World partners seemed to oblige the Community to adopt a «neutral» status in questions of development policy. But henceforth the Commission is seeking to enter into a dialogue with its partners on the aims of development cooperation.

This does not mean that the Community seeks to interfere in the internal affairs of the developing countries. What it does mean is that the Community wants to push further foreward the logic of dialogue and of mutual commitment which inspires the «Lomé philosophy». This will require a clearer definition of mutual responsibilities, not only as regards the measures to be taken but also the results to be achieved in development terms. To this end, the Community should bring into the discussion its own conception of aims and methods for attaining them.

The aims and methods proposed by the Commission

The broad aim of the Community is to try to support by flanking measures the application of a policy of autonomous or self-centred development. This is why it is trying to foster the attainment of self-sufficiency in food for local populations and local regions. It also implies support for an active policy of rural developement and for the definition of an economic policy that would stimulate local food production. In other terms, the Community wishes to make sure that agriculture and rural development (which concern more than 90% of Third World populations) become the driving force of more general economic advancement.

Development policy should be geared to stemming rural depopulation, to re-establishing or preserving ecological balances, to ensuring supplies of drinking water, to creating basic health services and schools. It should be the poorest sectors of the population that reap most benefit from Community aid.

The Community must contribute to the development of human resources and to increasing the awareness of the cultural dimensions of development. These principles constitute no doubt an innovation in the field of development policy. This means that, **inter alia,** the Community should contribute to the expansion of local scientific and technical research capacities, and to the use of science in the service of development.

After having too long considered development as a technical phenomenon, the time has come to realise it means more than supplying equipment. Development is clearly a human and political phenomenon. «There is no development without education or without the evolution of social structures and behaviour patterns. There can be no development without rational and coherent economic policies».(1)

It is manifestly clear that these objectives fixed by the Commission cannot be attained by merely increasing the amount of financial aid granted. It requires a qualitative change in economic cooperation. The dialogue on economic policy which the Community is seeking, particularly with its Lomé partners involved in the renewal of the Convention, is a vital element in this change.

«We do not want to impose anything; our aim is to debate. The Community is no longer saying to the ACP countries : 'this money belongs to you, tell us what you want to do with it'. It is now telling them : 'this money is available, these facilities are being offered, let us see together, in line with your priorities and disciplines, how you can derive the maximum benefit from it. Let us do more than just discuss physical projects to be financed, by examining programmes to support and policies to underpin. Yours will be the final decision, but not without being obliged by this

(1) Edgard Pisani, op cit.

method to define for your own usage your priorities, disciplines and policies'».(1)

The Commission is already trying out this approach in the framework of its support for the food strategies drawn up by certain African countries. These currently include Kenya, Rwanda, Mali and Zambia.

The «dialogue» consists of agreeing on the actual tasks to be carried out by each side so that these countries' food and agricultural policies begin to bear fruit. This will of course not happen overnight; several years will be required. But this is one concrete application of the principle whereby the Community's development policy should not just consist of projects and programmes but should also, as far as possible, support longer-term policies.

This requires corresponding long-term commitments by all the parties concerned. The Community is trying to lay the contractual basis which will simultaneously bring about a better predictability in actions to be undertaken and enable all internal and external measures linked to development to be better coordinated. It is in this optic that the Community has also begun to revise its food aid policy, which should no longer be an end in itself but an instrument of agricultural development (see below).

Strengthening the network of contractual relations with the Third World

If the Community's dominant concern is to give a new effectiveness to its development activities, it is not neglecting the framework in which these activities are set : the cooperation agreements concluded between it and many Third World partners.

In its Memorandum, the Commission sets as the aim the «establishment or the deepening of lasting contractual relations between Europe and its partners, based on solidarity and mutual interest». And it adds : «By its very existence the Community, even if incomplete, constitutes a call for the reorganisation of world economic relations. It calls on countries to go beyond the traditional schema of relations between nation states and replace this gradually by a system of relations between regional groupings or large continental units, basing their relationship and their mutual self-interest on the predictability and the security of the contract negotiated between equals and managed jointly».

It is in the name of this doctrine that the Commission proposes both consolidating and further developing the existing cooperation systems. EC-ACP cooperation which should enable «common action for development to be increased» has been based until now on conventions which have been renegotiated every five years. The Commission has suggested that

(1) Ibid.

the Ten propose to the ACP states a Convention of unlimited duration, flanked by specific protocols or agreements (1) of various fixed durations. In this way, in a unique and permanent framework, the partners could take account of the unity of the ACP group and the necessary predictability of long-term action. This framework would also enable the Convention to respond to specific problems as well as to the diversity of local and regional situations. To this end, the Commission intends proposing the reinforcement of measures to foster regional cooperation. (Later in this chapter, the proposals for renewing the Lomé Convention are looked at in detail).

The agreements concluded between the EC and the developing countries of the Southern Mediterranean are of unlimited duration. However, they ar not regional agreements but bilateral ones between each of the countries concerned and the Community. The Commission would like to see this cooperation developed in future to its true dimension - that of an overall convention linking one region to another. This desirable consolidation does not however dispense the Community from honouring fully its current commitments entered into with the Mediterranean countries, particularly in the trade sector, nor of planning the future Mediterranean policy of an EC enlarged to 12 Member States with the entry of Spain and Portugal. (2)

With the other Third World countries outside these groupings (which are called «non-associated» developing countries because they have no links of association with the EC), the Commission wants to organise stable cooperation relations and where possible to use these to promote in turn their own intra-regional cooperation.

Referring to both Latin America and Asia, the Commission notes that the best way of strengthening cooperation with the poorer countries of these regions is to step up the level of aid while the best approach for the more advanced nations of these regions is to seek a form of cooperation which will be more and more balanced. The Commission proposes increasing the contractual contents of existing agreements (with ASEAN, India, Brazil and Mexico). It also suggests the possibility of adding a financial dimension to its cooperation agreements.

Outside these agreements, the Community will continue its development action by concentrating it in those countries and regions where it can combat poverty and hunger by giving financial aid for the rural development of the poorest countries.

Financial resources : long-term commitments

A more effective development policy and closer cooperation links with

(1) In particular, its financial protocol.

(2) See Commission's communication to Council of 24th June 1982 - COM (82) 353 final.

the developing world require that the Community re-examine the size and scope of its operations - be they in the areas of financial aid, food aid or trade policy instruments. The Commission's priority is to give these actions a greater degree of predictability.

The Commission does not try to minimise the need for the Community to increase the level of its financial aid. It notes, for instance, that aid flows, although rising in real terms, were inadequate to offset the negative effect of the worldwide recession on the poorest countries. But it also believes first and foremost that the increase in the amount of Community aid should be determined by the real increase in Europe's capacity to pay, although at the same time the irreversible and progressive character of Community financial aid would be confirmed.

Community aid represents at present about 10% of total aid granted by Member States, the equivalent therefore of 0.5 pro mille of their combined GNPs. The Commission proposes that the Community set itself the target of increasing Community aid to 1 pro mille of GNP in gradual stages over the next ten years.

This increase in budgetary contributions should be accompanied by a reinforcement of other methods of financial aid :

- extending the lending possibilities of the European Investment Bank (EIB) beyond the current ACP-Mediterranean zone;
- using the Community's own loan-raising potential for the benefit of the developing countries, particularly to finance viable economic investments;
- promoting private investments by drawing up an adequate contractual framework.

The Commission also believes the Community should endeavour to introduce more flexibility in the management of its different financial resources. This implies for one thing that the money available either through the EC budget or through the European Development Fund (EDF) should be brought together in one single budget.

The predictability of EC-Third World trade relations

The Community is the biggest trading partner of the developing countries; it is also the industrial entity which is most open to their exports. «In this context, the first priority for the Community is to ensure that its trading system has a maximum of predictability. This is more important for its trading partners and for the EC's credibility... than some element of limited progress towards trade liberalisation». The Commission defines its approach as follows :

- the maintenance for a long period of the preferential regime applied to the ACP states on the model of the regime granted to the Mediterranean countries, together with improved consultation mechanisms for avoiding the emergence of crisis situations;

— efforts based on the Generalised System of Preferences (GSP) or on existing cooperation agreements to increase trade with countries or groups of countries (India, ASEAN, the Andean Pact);

— for the more advanced developing nations of Asia and Latin America, a future evolution of trade relations increasingly based on the notion of graduated reciprocity.

For raw materials, a parallel area to trade policy, the Commission recalls the necessary commitment of the Community to seeking new ways of its own to limit price fluctuations. This commitment should be translated at international level by EC participation in the negotiations for individual product agreements and at regional level by seeking appropriate solutions with the producer nations concerned. It is in this spirit that the Commission is to put forward its proposals to guarantee the effectiveness of the existing mechanisms in the EC-ACP framework (Stabex, Sysmin, sugar protocol, etc). It also proposed that the Sixth UNCTAD Conference in Belgrade discuss the creation of a Stabex system for all the least developed countries, in addition to those in the Lomé Convention.

The revision of Food aid policies

After several years of discussion, the Community has redefined the principles that will in future govern its food aid to the countries of the Third World. The Council of Ministers approved on 23rd November 1983 a resolution to this effect. The resolution follows the Commission's conceptions, notably that the outright gift of foodstuffs to poor countries can have «perverse» effects on the recipient countries. These can take the form of creating food preferences which would be impossible to satisfy in the future, or of creating long term dependence on the aid, or of discouraging local production. The essential objective has to be the encouragement of food self-sufficiency on the part of the recipient nations.

The second principle is that the foodstuffs given in aid should first and foremost respond to the nutritional requirements of the recipients and not merely reflect the surplus disposal policies of the donor countries.

The countries which will benefit from the Community's food aid will still be the low-income food deficit countries, although least favoured population groups in other developing nations will also be able to benefit in times of emergency. Wherever possible, food aid should be granted along with other aid forms, notably aid to agricultural production programmed for a set period of time. These combined aids should aim at supporting the development of food for local consumption and rural development in general. Food aid operations will be concluded by preference with countries who plan parallel measures towards attaining food self-sufficiency.

These programmes can be envisaged in cooperation with international or non-governmental organisations specialised in development aid. Long-term programmes will be established after discussion with the beneficiary country on the basis of an assessment of its overall situation.

Except where there is an increased utilisation of local products (through so-called triangular operations), purchases must in the first instance take account of what is available on the Community market. Triangular operations - the purchase by the Community of food from an LDC with an exportable surplus for the benefit of a food deficit country - are to be encouraged.

The generation of government revenues by the local sale of food aid supplied by the Community should not be considered an end in itself. These revenues should be used in principle to finance the creation or the running of agricultural development projects in the beneficiary countries so as to support a policy of food self-sufficiency.

For 1982, the EC's food aid programme provided for 1.1 million tonnes of cereals (the equivalent of just over 1% of the LDCs global import needs), 150,000 tonnes of milk powder, 45,000 tonnes of butteroil at a total cost of 700 million Ecus. Two thirds of the cost is accounted for by the dairy sector. More than 60 countries, and several international organisations, receive EC food aid. The principal beneficiaries are Bangladesh, Egypt and India as well as the ACP countries which as a group accounted for 36% of the 1982 programme. For 1983, the Commission proposed the following quantities : cereals 1,04 million tonnes, milk powder 150,000 tonnes, butteroil 46,000 tonnes, sugar 10,000 tonnes. It also proposed deliveries of other products dried fish, certain vegetables, olive oil - in amounts to be determined.

On 23rd November 1983, the Commission presented to the Council of Ministers a draft regulation which sought in certain cases to carry out «substitution actions» in the form of financial aid in the place of food shipments.(1)

This draft regulation, part of the supporting framework for «food strategies», takes into account the concrete difficulties experienced by certain developing countries in taking delivery and distributing in a satisfactory manner actual shipments of food aid. The experience of Mali, for example, has shown the Commission that in certain circumstances, financial aid given for a precise purpose can be preferable to shipments of foodstuffs. The aim of the financial aid is still to contribute to local food self-sufficiency and is not meant to cover balance of payments deficits.

The Commission proposes financial aid instead of food for an equivalent value in the following cases : a) when the money is used to buy in items essential for food production; b) to finance stockpiling - at village, local,

(1) COM (83) 695.

national or regional level; c) to finance rural credits; d) to pay for transport, marketing operations or for the processing of food crops locally; e) to finance applied research activities and training programmes locally; f) to finance projects to develop local production of food crops.

Preparation for a new EC-ACP Convention

The renegotiation of the Lomé Convention provides the Community with a unique occasion to open a dialogue with the 63 ACP countries on the aims and methods of its development cooperation policy.

The European Community is determined, however, to consolidate its relationship with the ACP countries, especially in view of the stalemate in the North-South dialogue. The emphasis will be on developing and improving the main elements of the Lomé relationship. This includes a reinforcement of the **contractual** nature of EC aid to the ACP states, the fixing of mechanisms so that the ACP can **count on** a certain amount of EC money every year and on certain specific benefits in the crucial trade sector, the strengthening of the **global** framework for cooperation provided by the Lomé Convention. However despite the Convention's institutional framework, the EC-ACP relationship remains a **flexible** one.

A mere renewal of the existing contract will not be enough, according to the Commission. What is needed is more originality, more effectiveness, more shared responsibility in running the Convention, a willingness to undertake a veritable «policy dialogue» which would lead to reciprocal commitments by the EC and the ACP. In order to achieve this, the Commission recommended that negotiations for the new Convention should begin with a political debate between the two sides. Discussions on technical issues - the instruments of development, as it were - would follow later.

Such a political debate would give both sides the opportunity to discuss and reach agreement on the kind of development they want. For the ACP states, the emphasis is expected to be on meeting the objectives for the agricultural and industrial development of Africa set out in the Lagos Plan of Action. The Plan, adopted by heads of State of the Organisation of African Unity (OAU) in 1980, puts the accent on developing Africa's agricultural resources and on ensuring that Africa relies on authentic models of development rather than imported ones.

For the Commission, the focus will be on outlining the priority aims of its future development policy along the following guidelines :

** priority should go to developing rather than mere «equipping», and in particular to developing agriculture production and self-sufficiency in food in the ACP countries; the Commission intends to implement its «food strategy» in order to attain these objectives.

** the implementation of a series of long-term campaigns to be carried out on a national and regional levels and designed to protect Africa's human and natural environment from the negative effects of certain types of development projects.

** the emphasis will be on self-determined, self-sustaining , self-reliant development which is as independent as possible of imported models and based on a broad understanding of the cultural, historical and geographical factors which condition all social advancement;

** it is no longer enough merely to discuss individual projects with developing countries; what is needed is a broader political dialogue on actual cooperation policies;

** all instruments and all operations must be coordinated to prevent inconsistency and waste; food aid should be integrated with the other instruments of development and Member States' operations should be coordinated with those of the Community;

** aid should be both more predictable and more flexible;

** trade arrangements established under the Lomé Convention should be consolidated.

The Commission has made it clear that it will be looking for «greater continuity in a cooperation system which has the manifest support of the Community and the ACP but is thrown into the melting pot at each renegotiation». (1) In other words, it proposed a third Convention which would be of indefinite duration, one that does not have to be renegotiated every five years. Such a framework convention would establish the principles, objectives, key features and institutional machinery of EC-ACP cooperation. This could not incorporate additional protocols as at present on sugar, bananas, and rum, whose implementation and duration would have to be tailored to their specific subject.

This continuity would make it possible to undertake certain activities which are indispensable for development but which require long-term planning and action : for instance, the fight against desertification, the preservation of tropical forests, soil management, and the management of natural and energy resources, the development of indigenous scientific and technical research capacity, the fight against the major endemic diseases, etc.

Moreover, apart from the practical reasons for such a longterm arrangement, a convention without «deadlines» would also have a symbolic value : it will underline the faith of all concerned in the durability of the EC-ACP relationship.

The Commission believes that «Security» will be the key word when it comes to renegotiating the trade arrangements included in the Lomé Con-

(1) Memorandum op.cit.

vention. In other words, the current regime which provides for the free entry of ACP goods on the EC market must be maintained and, if possible, improved. But, since the ACP states will only be in a position to really use these trade advantages once they have reached a certain level of development, the Commission suggests that an element of «predictability» should be written into the new Convention. Such a reinforcement of the trade arrangements should be specific, for instance when it comes to products covered by the Common Agricultural Policy, and long-term. But, the continued access to European markets should not prevent the ACP states from developing their own internal and regional markets. As such, the Commission intends to back ACP attempts to forge a more coherent and dynamic intra-ACP regional market.

The Commission has also called for the maintenance and reinforcement of the Convention's system for the stabilisation of ACP export earnings - STABEX - and of the mechanism for assuring ACP mineral development - SYSMIN - in the new EC-ACP arrangement. This is necessary, according to the Commission, because of the continuing difficulties facing ACP commodity producers, fluctuations in world prices for major raw materials and the lack of international measures in the commodity sector. But, the Commission points out that both Stabex and Sysmin should be used as «development tools» and not just as a source of general deficit funding in the next Convention.(1)

Stabex should see an increase in its financial resources so that the money available for transfers to the ACP states is in keeping with the number of commodities covered by the system and the different «risks» involved. The Commission makes it clear, however, that the system must, in the future, contribute directly to the economic well-being of the sector affected by the fall in export earnings and where necessary to the diversification of the agricultural sector of the country concerned.

Similarly, Sysmin should be «readjusted» so that its transfers do more than just ensure the maintenance of a certain production volume. Sysmin interventions, says the Commission, should be designed to provoke an effective development of the ACP mineral sector. Here once again regional development and cooperation will be important.

The focus in the agricultural chapters of the new Convention will be on promoting subsistence farming and encouraging rural development as a whole. In the energy sector, in addition to large-scale projects such as hydro-electric dams and power plants, the Community should try to help ACP countries in promoting a more rational use and conservation of its fuelwood. In the industrial sector, the new agreement will try to encourage the development of small and medium-sized businesses.

Finally, in order to meet these new objectives, the Commission highlights the need for a real increase in available funds and warns that a mere

(1) The problems affecting Stabex during the Second Lomé Convention, especially its inability to meet claims in full in 1981 and 1982 are analysed in Chapter IV of this document.

roll-over or updating of the resources earmarked for the Lomé II Convention will not be enough. The Community must increase its financial assistance to the ACP states in spite of its own financial and economic problems. This is not only because such «solidarity» is necessary from the moral point of view. The Commission stresses that the world economic recovery will depend on the Third World's ability to buy from the West. There can be no lasting global recovery unless the South can increase its purchasing power. The North and the South need each other, now even more than in the past.

The Commission recognises that its attempts to forge a new relationship with the ACP states will run into problems. The present state of the international economy is hardly conducive to change and innovation. But a great deal is at stake. Europe needs the new Convention because its development policy helps shape its own identity; because a part of its strength in international affairs comes from its special relations with the Third World; because it depends on the African, Caribbean and Pacific states for an important share of its raw material supplies and as a market for its manufactured goods.

The ACP countries, for their part, need the Convention because if they cannot count on the Community they will face problems in finding a new partner willing to come up with a negotiated, contractually-based, lasting and politically neutral system of development cooperation.

This is no time for cheap compromises. A Convention which simply rolls over the present agreement will not be able to meet the development requirements of the ACP states. What is needed is a new cooperation policy with self-sufficiency as its goal. Unless such a policy is introduced most African and some Caribbean and Pacific countries, will sink back into the paralysis of increasing dependance, malnutrition, debt and uncontrolled rural exodus. The new Convention must ensure that this does not happen.

CHAPTER TWO

THE COMMUNITY AND THE NORTH-SOUTH DIALOGUE

The North-South Dialogue

This is the somewhat inappropriate title chosen to designate the wide variety of negotiations taking place at very different levels on the problems of world development. Many of these occur within the framework of United Nations institutions. The participants are the industrialised countries of the North-West (the Soviet Union and Eastern Europe are often absent from the negotiations) and the developing countries of the South.

One major attempt has been made to relauch the global North-South dialogue which was suspended in June 1977, with little to show for 18 months of discussions. This was the Summit meeting held in Cancun, Mexico in October 1981. At the very beginning, the industrialised countries - particularly the United States - tried to use the North-South dialogue to obtain supply and price guarantees for oil and gas from the petroleum exporting countries. The countries of the Third World, for their part, wanted more stable mechanisms for their exports of raw materials, the cancellation or rescheduling of part of their debts and better access to technologies developed by the industrialised nations. Neither side obtained much of what it wanted. It took four years before an attempt could be made to relaunch the global negotiations at Cancun.

There, 20 representatives of the developing countries and eight industrialised nations made a vain bid to restart the dialogue. A large part of the responsibility for the failure of Cancun lies with the intransigent attitude of the United States. The Reagan administration believes the best policy for developing countries is for them to open their frontiers to more direct foreign investment and to integrate their economies into the free-trade system of the capitalist world.

The United States, less dependent on imported raw materials than the European Community or Japan, also prefers a bilateral approach to development cooperation over multilateral negotiations. In addition, and this represents a significant change in the American attitude, the Reagan administration has shown many times that it considers North-South relations to be an extention of East-West strategic rivalries.

Another significant factor for the failure to restart the dialogue has been the less dominant role of energy in North-South relations. Energy problems, stemming from the first oil price shock of 1973/74 served as the catalyst which brought North and South together in the first place. This is no longer a likely scenario. Energy-saving measures in the industrialised countries coupled with the fall in demand resulting from the recession and the development of non-OPEC sources have combined to change the balance on the world energy market. Whereas OPEC production still represented 51% of world output in 1977, this figure was down to 36% by 1982. The risk of a third oil shock, though still possible, has receded for the time being.

The impossibility of relaunching the dialogue in present conditions was underlined by the sixth session of the United Nations Conference on Trade and Development (UNCTAD) in Belgrade in June 1983. The conference produced meagre results. Differences between the industrialised and developing countries prevented meaningful progress on the main issues of consolidating economic recovery, trade, finance or raw materials. On some specific points, differences appeared among the western industrialised countries themselves, in particular between the Community and the United States.

This meant that once again a chance was lost to introduce more stability and a greater degree of predictability in North-South trade (see Chapter Three of this document). The same is true of the problem of stability of raw materials prices and security of supply (Chapter Four). Nor did the conference bring any nearer a solution the problem of Third World finances and debt. On the contrary, this problem has worsened without any industrialised country (of West or East) giving a commitment to increase its aid contribution to the developing world (see Chapter Five below).

The Community is now using the occasion of the Lomé negotiations of 1983/84 to realise on a regional level some of the aims of its global North-South strategy. But this effort has predetermined limits : for the Community cannot alone aspire to creating an international economic order at a time when all around is disorder.

But the global dialogue should go on

Nonetheless, the European Community, while adapting its development policies to this new set of circumstances and while continuing its own specific efforts on behalf of the Third World, still supports a global dialogue between the industrialised countries of the north of the planet and the developing nations in the south. It believes a multilateral framework is required to tackle the interrelated development issues of finance, trade, raw materials, food production. But the Community also believes that each of the key North-South issues should be discussed in its appropriate existing forum rather than creating a new one. Thus the International Monetary Fund (IMF), the World Bank, Gatt, the UNCTAD Common Fund for commodity agreements, structures like the Paris Club for debt rescheduling, etc, each have an important role to play. But if the Community considers existing organisations as the rightful place for further North-South negotiations, it is also aware that in some cases their working methods could be improved.

The Community favours more autonomy in the development of Third World economies since self-reliance helps reduce excessive external dependence. In this context, the promotion of technological exchanges and preferential trading arrangements within the Third World (South-South cooperation) are steps towards a wider and more universal system of cooperation.

The Community priorities

What are the Community's priorities among the constituent elements in a global North-South dialogue ?

1. The first is a short-term one : to consolidate the nascent economic recovery so that both North and South can benefit. It is clear that during the recession the continued economic activity and the import capacity of developing countries helped offset for a considerable time the stagnating or falling demand at home for the industrialised nations. Equally, there is no doubt that recovery in the advanced countries will have a positive impact on the economies of the Third World. Unless the developing countries participate in any economic recovery, it will be impossible to create the conditions for lasting economic growth in the industrialised countries themselves.

   For economic conditions have changed fundamentally. Recovery in the industrialised countries is no longer enough in itself to ensure worldwide growth. The depth of the crisis affecting the Third World is a result of a combination of external and internal factors. Adjustments need to be made by the developing countries in their domestic policies. For their part, the members of the Community are pledged to follow economic and industrial policies that foster non-inflationary growth, to reduce budget deficits and thereby bring down interest rates, to promote productive investments and to maintain as open a world trading system as possible.

2. Raw materials : the Community is committed to efforts in the multilateral North-South framework which bring more stability to raw material prices, more predictability in matching supply and demand and which increase the role of producer countries in processing and exporting their commodities. The collapse of commodity prices during the recession, although there are some signs of recovery now, came as a major setback for many developing countries, particularly those dependent on one or two products for their export earnings. The recession highlighted problems that have been developing over a period of years but which had been masked by the strength of markets and the relative stability of world prices. These include the development of industrial substitutes for some raw materials, more economical use of products and technical progress.

   The Community is ready to take part actively in negotiations on individual world commodity agreements foreseen but not yet undertaken in the framework of the Integrated Programme for commodities first agreed by UNCTAD in 1976 and to participate on the relevent management boards to review the working of existing agreements and assess room for improvements. But it is against the notion put forward by the Group of 77 on behalf of the Third

World (1) in April 1983 which called for immediate ad hoc action to negotiate provisional agreements or temporary arrangements for a number of commodities not yet covered by the Integrated Programme. The Community's preference is to speed up negotiations currently under way so that definitive new agreements can be concluded as soon as possible without getting side-tracked into interim arrangements that would only delay final agreements. While the Community favours a greater role for the developing countries in the processing and marketing of their commodities, these activities must be economically viable. They should not affect the security of the consumer nations' raw materials supplies.

3. Finance, debt and aid : The alarming level of developing countries' debts, nearing 700 billion dollars at mid-1983 if short-term credits are included, is partly a result of external factors. Their balance of payments deficits have swelled in recent years because of major currency fluctuations, a fall in their export earnings and higher import prices, including those of energy. But their level of indebtedness is also due in part to the internal policies of developing countries, some of whom borrowed in pre-recession years to finance non-productive needs. International commercial banks willingly continued to lend to developing countries long after prudential credit limits had been reached.

   For this variety of reasons, the developing countries find themselves hobbled by huge debt servicing payments (running at about 130 billion dollars a year) which are depriving them of vital resources for their economic development.

   Despite the excessive debt levels of some Third World countries an adequate flow of financial resources is as necessary as ever for their economic survival. But present problems are not just a result of a shortage of liquidities which massive financial transfers to the Third World would solve. The re-focussing of certain domestic policies by debtor nations is also required.

   The Community believes the existing multilateral institutions such as the IMF, the World Bank and the Paris Club are best adapted for tackling the debt problems. In their work to date on rescheduling developing country debts and in avoiding a major default, these organisations have responded with the necessary flexibility to meet individual circumstances. Debt problems should therefore go on being dealt with on a case-by-case basis by the appropriate institutions. In this way, debt rescheduling arrangements can be tailored to the particular situation of each debtor country. Government authorities and private sector institutions in the industrialised nations will have to cooperate with commercial banks in cop-

(1) In the so-called Buenos Aires Platform, adopted at the fifth Ministerial meeting of the Group of 77 (Buenos Aires, 28 March - 9 April 1983).

ing with the problem of their excessive exposure to Third World borrowers. For its part, the Community could consider specific measures, again on a case-by-case basis, for easing the debt burden of the least developed countries.

In addition to short-term debt problems, the Community supports a variety of initiatives to increase financial flows to the developing countries. Again the multilateral agencies play an important role. Access to IMF facilities has been broadened and World Bank structural adjustment loans have been made more widely available. The IMF has decided to increase its quotas in response to the needs of the developing countries and funds available for payments support under the General Arrangements to Borrow (GAB) have been considerably strengthened. The extra liquidity was to be available at end-1983, two years ahead of schedule.

The Community backs efforts to increase private capital flows to the developing countries, particularly in the form of direct investments. Here a better investment climate in host countries would be a considerable advantage. It also accords considerable priority to the development of indigenous energy resources by non-oil developing countries to reduce their external dependence on high-cost imported oil.

The Community remains the biggest single donor of financial aid to the Third World. In 1982, it granted aid worth 12.1 billion dollars, or 44% of the total given by the western industrialised countries which belong to the OECD's Development Assistance Committee (DAC). The Community's aid represented 0.53% of the ten Member States gross national product (GNP).

The quality of its aid as well as the amount is an important issue for the Community. It is trying to make its official development assistance more effective, by seeking to give more direct support for certain sectors of development such as human resources, energy and food production. This means less Community aid will be spent on large-scale industrial projects in developing countries, although this could lead to a reduction in export contracts for Europe's own capital goods industry.

4. Trade problems : The Community has always been the trading power most open to exports from developing countries. Its average customs duties are lower than those of any other industrialised countries. Despite economic problems, it will continue to pursue a policy of allowing the developing countries access to its markets. The growth of Third World exports to the Community has slowed down in recent years but is still positive whereas trade among industrialised countries has stagnated or declined. An expansion of world trade, to the benefit of all, depends on the maintenance of an open multilateral trading system based on Gatt rules.

In recent years the Community has carried out structural reform in a number of industrial sectors, such as textiles and steel where Community firms have lost the comparative advantage to more cost-effective Third World producers. But the North-South dimension is only one aspect of the problem. Adjustments have also been brought about by technological innovation and changes in the nature of markets and demand structures. Among the advanced countries themselves, major shifts in comparative advantage are continually taking place, with direct consequences on employment levels. Yet the Community continues its efforts to carry out structural adjustments in various industrial sectors. The degree of government intervention, although it varies from one member state to another, is limited.

It is declared Community policy not to retain any longer than is strictly necessary the restrictive commercial policy measures taken to limit the damage caused by certain imports of sensitive items. At the Williamsburg economic summit in May 1983, the Community (and the other market-economy industrialised powers) agreed to reverse protectionist trends as economic recovery grew firmer. The Community aims to participate actively in the search for a solution in Gatt to the problems of the safeguard clause. The safeguard mechanism in Gatt, as it stands, forces Gatt members to take protective action against all suppliers of a specific product even if it is only one exporting country that is disrupting their domestic market.

Although not immune to protectionist pressures itself, the Community remains committed to an open multilateral trading system. It will try to ensure that its own commercial policy complies with world trading rules and principles, including those that provide for special preferential treatment in favour of the developing countries. Gatt has played a positive and important role in expanding world trade. The Community believes that the Newly Industrialising Countries (NICs) should «graduate» to full Gatt status, by accepting all the rights but also the responsibilities for maintaining an open trading system. Despite their strong export performance, most of them maintain restrictive import policies. The Ten recognise, however, that given the massive indebtedness and payments deficits of these countries, full integration could only come about in very gradual stages.

5. Problems of the Least Developed Countries (LLDCs) : These are one of the top priorities of the EC's development policy and as such should be a central theme for North-South cooperative efforts. The LLDCs are at the other end of the development spectrum from the NICs which are held up by one school of development strategists, particularly strong in the United States, as proof that self-reliance and the harnessing of market forces offer the best development formula for the Third World as a whole. But the

LLDCs are poorly equipped to absorb external shocks and actively to adjust their economies to changing world conditions. They are so poorly endowed with natural resources and human skills that there is no foundation on which they can base a self-help strategy. As Development Commissioner Edgard Pisani stressed at the Paris Conference on the LLDCs in September 1981 :

«To expect their salvation as a result of the benevolent working of market mechanisms or commercial activity is to be utopian or fraudulent».

Because it is itself hit by the recession and its resources are more limited than they used to be, the Community is obliged to help first and foremost those countries most urgently in need, the LLDCs. The United nations lists 36, of which 27 are ACP countries and the remaining nine are in Asia and Latin America. The LLDCs do 35-40% of their trade with the Community which is their main trading partner. Nearly 40% of total EC aid goes to the LLDCs. The poorest countries which belong to the ACP group are privileged by the mechanisms of the Lomé Convention - with respect to direct financial aid (56% of total disbursements), and access to Community financing to offset losses of raw materials export earnings (through the Stabex and Sysmin mechanisms).

Other LLDCs have had special treatment under the Community's Generalised System of Preferences (GSP) since 1977. They are entitled to unlimited duty-free acces for all their manufactured exports, including textiles, and also enjoy duty-free entry for all agricultural products covered by the GSP, including those for which ceilings or quotas are in force. The Community's food aid and emergency aid programmes are also geared to favour the poorest developing countries.

CHAPTER THREE

TRADE RELATIONS WITH THE THIRD WORLD

World Trade slows down

Trade has been the principal motor of Third World economic development and privileged access to the Community market for developing countries' exports is a cornerstone of the EC's relations with them. This is why all Third World nations, those which have formal trading links with the Ten and those which do not, are able to export the bulk of their goods to the EC on preferential terms. For the ACP group of countries, the conditions of their privileged trade relations are set out in the Lomé Convention. Similar provisions are contained in the individual trade and cooperation agreements between the Community and the countries of the south Mediterranean seaboard. Exports from developing nations without formal trading links with the Community are covered by the EC's Generalised System of Preferences (GSP).

In line with the stagnation and downturn of world trade in 1981 and 1982, the growth of Community trade with the developing countries slowed down dramatically. For the first time since the end of World War Two, the volume of world trade actually fell (by 2%) in 1982. The fall in global Third World exports, which began for the oil-exporting countries in 1981, spread to the other developing countries in 1982. The value of the exports of this latter group dropped by 5% in value in 1982 while their imports fell by 10%.

There are two interconnected causes at the root of this trend. One is the recession in the Community and the other industrialised countries, which has cut their demand for imports in general. This means in turn that the developing countries have experienced a fall in their export revenues and therefore in their ability to pay for imported goods and services which are vital for their overall development. The second cause is the level of indebtedness of a number of developing countries. For a while, they were able to go on borrowing heavily even after it was clear that the world was sliding into recession. They are now in a position where, unable to expand their exports and unable to borrow any further, they are having to cut back on imports in order to service their greatly increased debts.

The importance of trade with the developing countries.

As far as EC-Third World trade is concerned, the growth rate in Ecu terms eased from 25% in 1980 to 21% in 1981 and just over 2% in 1982. The slow-down was even more dramatic in terms of the US dollar which has strengthened considerably since 1980. Already in 1981, trade between the Community and the developing countries actually fell by more than 7% in dollar terms.

Table I shows that mainly as a result of a drop in oil purchases from OPEC members, the Community actually bought less from the developing countries as a whole in 1982 than in 1981. Exports to the Third World grew by a modest 5% although EC sales to the ACP group actually fell slightly

TABLE I

EC-THIRD WORLD TRADE — 1978-1982 (in bn Ecu's)

	1978		1979		1980		1981		1982	
	Ex.	Im.	Ex.	Im.	Ex.	Im.	Ex.	Im.	Ex.	Im.
All. dev. countries	66.5	71.2	69.7	88.2	83.4	114.3	112.0	129.1	117.1	128.8
Non-oil devel. countries	35.0	32.4	39.0	35.5	45.8	47.1	58.5	53.7	61.5	57.0
OPEC	31.5	38.8	30.7	52.7	36.6	67.2	53.5	75.4	55.6	71.8
ACP	12.8	12.0	11.9	14.9	15.7	18.9	18.5	16.4	18.2	17.8
Latin America	11.0	10.9	12.4	13.2	14.2	16.0	18.0	18.7	16.2	20.7
Asean	3.9	4.3	4.4	5.5	5.3	6.9	7.1	6.6	8.4	7.1
China	1.5	0.9	2.1	1.3	1.7	1.9	1.9	2.3	2.0	2.3
India	1.9	1.6	2.0	1.8	2.3	1.8	3.4	1.9	4.0	2.6
Memo item : Total Extra-EC trade	173.8	178.3	194.2	218.2	218.8	272.9	266.7	303.8	286.5	321.5

Source : Eurostat.

in 1982. By 1982, the Community's deficit with OPEC has dropped to its lowest level since 1978.

About 40% of EC external trade (that is, excluding trade between member states), is carried out with the Third World. The actual trend is strongly influenced by fluctuations in the oil price. Community imports from the Third World peaked at 41,9% of total imports from outside in 1980 and 42.5% in 1981. They fell back to 40.1% in 1982, their lowest level in five years. Exports by the EC to the developing countries showed the same trènd, although the fall in 1982 was less dramatic. The Third World accounted for 38,1% of external EC exports in 1980, 42.0% in 1981 and 40.9% in 1982.

Besides its inevitable deficit with the OPEC countries, the Community also runs a regular trade deficit with the NICs of South-East Asia as well as with Latin America. It is in regular surplus, on the other hand, with the Arab states of the Maghreb and Mashreq and with India. The Community's previous deficit with the ACP countries is no longer a permanent feature of EC-ACP trade. The Community has run a surplus with the members of the Lomé Convention for three out of the past five years.

The complementary nature of EC-Third World Trade

The bulk of developing countries exports (80.4% in 1982) are concentrated in the sectors of mineral fuels, agricultural and mineral raw materials and food. In 1982, manufactured goods represented 16.9% of Community purchases from the Third World. This pattern is the mirror image of what the EC sells to the developing countries. Manufactured goods accounted for no less than 79.5% of Community exports.

This complementarity of EC-Third World trade has changed little over the years. Raw materials, fuel and food made up 80.1% of Third World exports to the EC in 1970, three years before the first oil price explosion, and manufactured goods 17,5%. Similarly, manufactured goods accounted for 86.6% of Community exports to developing countries in 1970, the main factor in the fall over the past 12 years being a reduction in the share of Community exports taken by chemical products.

If the shares of non-manufactured and manufactured exports to the Community by the Third World have remained relatively steady, despite sharp oil prices rises, shifts have taken place within the non-manufactured sector. The most significant of these has been a rise in the share of mineral fuels (from 40% in 1970 to 61% in 1982) and falls in the share of both food and non-food raw materials. The former accounted for 23% of Third World sales to the Community in 1970 and only 12.6% 12 years later. Non-food raw materials saw their share decline even more sharply, from 17.6% in 1970 to 7% in 1982.

These changes reflect a number of factors. Among the most significant, is a decline in the growth rate of food production on the part of certain developing countries. Another important factor has been a shift by Community members states away from Third World sources of raw materials, mainly (but not only) metals, towards sources in other industrialised countries where supply security, for political as well as economic reasons, was deemed greater.

Although the developing countries as a whole have been able to increase their exports of manufactured goods to the EC at the same rate as non-

TABLE II

EC-THIRD WORLD TRADE IN MANUFACTURES 1977 AND 1982

(in billion Ecu's)

	1977	1982	% change
EC IMPORTS			
Extra EC	60.9	116.2	90.8
Third World	11.2	21.7	93.7
ACP	1.3	1.7	26.9
OPEC	0.6	1.3	118.0
Latin America	1.7	3.2	82.8
India	1.0	1.35	35.0
China	0.4	1.13	210.0
South Korea	1.1	2.3	104.2
Taiwan	0.9	2.3	158.4
Hong Kong	1.9	3.8	96.2
Brazil	0.6	1.4	143.5
EC EXPORTS			
Extra EC	118.2	194.1	64.4
Third World	46.0	82.4	79.1
ACP	9.1	11.8	29.7
OPEC	23.6	41.1	73.9
Latin America	7.2	9.0	24.2
India	1.0	2.8	189.5
China	0.5	1.2	148.9
South Korea	0.5	0.8	53.0
Taiwan	0.3	1.0	233.0
Hong Kong	0.8	2.3	172.2
Brazil	0.5	1.8	280.0

Source : Eurostat.

manufactures, individual Third World regions have benefitted to widely differing degrees. In 1982, 40% of the Community's imports of Third World manufactured goods came from only three countries : Hong Kong, South Korea and Taiwan. The ACP states between them accounted for only 7%. The ACP countries' share of the EC's global imports of manufactureds goods has declined steadily in recent years - from 1.3% in 1976 to 0.8% in 1979 and 0.55% in 1982.

The picture is somewhat different where EC exports of manufactures are concerned. The three South-East Asian NICs represented only 5% of Community sales of manufactured goods to the Third World. This is largely because, in line with other NICs, with the exception of Hong Kong, they tend to protect their domestic market against competing manufactures from outside. Another contributory factor is the large share of EC exports of manufactures to the Third World going to the OPEC countries, which took 50% of the total in 1982. ACP countries accounted for 14% of EC manufactured exports to the developing world, double their share of Community imports. Table II gives the breakdown of EC-Third World trade in manufactured items, comparing the 1982 figures with those of five years previously. The slow growth in EC-ACP manufactured trade is a particularly striking feature.

The limits of export-led growth as development strategy

From the foregoing analysis it can be seen how the world recession of the early 1980s has served to underscore the limits of the role trade can play in development strategy. The Community's policy (and that of the other industrialised countries) based on export-led growth as the quickest way of inserting developing countries into the world economy has been only partially successful. It has worked for the NICs, countries which already in the 1960s were on the threshold of industrialisation. Encouraged politically and financially by the advanced nations through loans, investments and tariff preferences, they have followed export-led growth policies, concentrating first on textiles, clothing and footwear and then moving into the production of electronic components and basic sectors of heavy industry such as steel and shipbuilding.

But there has been no parallel movement on the part of the NICs, despite urging from the industrialised countries, to open up their own markets for goods from the advanced nations and other Third World exporters. The resistance of the NICs to the notion of «graduating» to full trading status with the same obligations and responsibilities for free trade as the advanced countries has been reinforced by their present debt problems. At a time when they need to boost exports and reduce imports in order to service their debts, few, if any, place import liberalisation high on their list of economic priorities.

The recession and the successive oil price shocks have not only slowed demand in the industrialised countries they have also limited their capacity to restructure their industries to make room for the expanding manufactured exports from the NICs. Increasingly, textiles, footwear, electronic goods and steel from the NICs have seen their access to the markets of the industrialised countries subjected to restrictions.

Their sales to the Community have come under a series of controls that have become stricter in the past few years : tighter restrictions for the NICs in the framework of the Multi-fibre Arrangement for textiles, self-limitation agreements for steel and a series of national controls by EC member states for footwear and electronic equipment. The access to the EC market for these «sensitive» products from the NICs under the Community's Generalised System of Preferences is also subject to strict quantitative limits. Despite the EC's continued commitment to free trade, it has had to intervene to prevent imports of these items reaching proportions that put in jeopardy its capacity to restructure its industry and adjust to the changes in the international division of labour.

The strategy of export-led growth has also helped a group of second-generation NICs to develop their industrial base. They have followed the NICs in creating labour-intensive industries while the NICs themselves have moved into more capital-intensive or skill-intensive sectors. But given the frictions that have emerged in trade between the industrialised countries and the first-generation NICs, and the likelihood that the world economy has entered a period of slower growth than in the past, the newcomers will not enjoy the same access to the markets of the industrialised countries as enjoyed by the NICs until recently.

Significant trade-induced growth has remained beyond the reach of many low-income developing countries and a number of primary-producing middle-income ones as well. These countries did not have the structures or skills to allow them to take part in the booming world market for manufactures that lasted throughout the 1960s and most of the 1970s. They have also suffered an additional drawback in that the prices of most of their raw materials have either declined in real terms or increased more slowly than those of oil or manufactured goods.

The low-income Third World nations as a group accounted for 5.6% of world trade in 1955. This share has declined steadily over the years and has fallen to less than 2% since 1980.

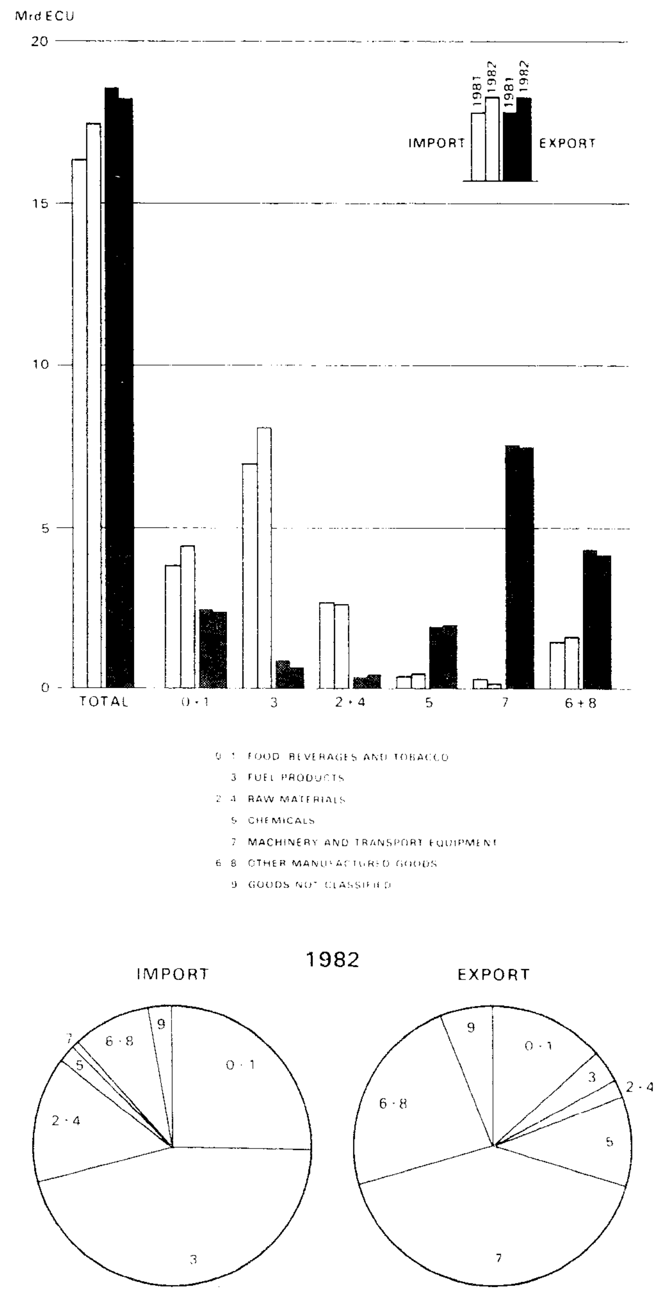
Trade between the Community and the ACP countries

It is to the ACP countries that the Community has granted the most comprehensive trade preferences. The 63 members of the Lomé Convention (which include 27 of the 36 states which figure on the United Nations list of least developed countries (LLDCs)), have unlimited duty-free access for all products, except for a few agricultural items on which reduced rates of duty are applied. The overall trends in EC-ACP trade is heavily influenced by the role of Nigeria, Africa's most populous nation, and the

Community's fourth largest outside source of crude oil.(1) Nigeria's share of trade between the ACP countries and the Community reached 40% in 1980 but fell to 38% in 1981 and 37% in 1982, largely as a result of lower oil deliveries and a corresponding reduction in Nigerian imports of capital and consumer goods from the Ten. The structure of EC-ACP trade is given in Table III.

Table III

TRADE OF THE COMMUNITY WITH THE ACP COUNTRIES BY MAIN COMMODITY CLASSES



(1) On the basis of 1982 statistics.

The chart shows that mineral fuels remained far and away the biggest category of imports from ACP countries accounting for 46% of the total in 1982. Food, drink and tobacco made up a further 25% and raw materials 15%. Both mineral fuels and food and drink showed above-average increases of 16% over 1981. Raw materials shipments to the Community declined slightly, reflecting the impact of the recession on European markets. Manufactured exports from the EC to the ACP countries declined in 1982, but together with chemical products,which grew slightly, they accounted for nearly 75% of Community sales to the Lomé group.

The Mediterranean countries

Oil and natural gas dominate the Community's imports from the countries of the South Mediterranean seaboard which have individual trade and cooperation agreements with the Community. The 1980-1982 breakdown between the Maghreb countries (Morocco, Algeria and Tunisia), the Mashreq countries (Egypt, Jordan, Syria and Lebanon) and Israel is given in Table IV. Over 70% of total EC imports from the region are composed of oil and gas from Algeria and Egypt. The decline in imports from the Mashreq in 1982 is due largely to the reduction in oil shipments from Egypt, in line with lower EC oil imports generally. The strong expansion of Maghreb exports on the other hand reflects increased imports of natural gas from Algeria by Community members, in line with Community policy of diversifying out of oil into other energy sources.

TABLE IV

EC TRADE WITH MAGHREB, MASHREQ & ISRAEL 1980-1982

(in billion Ecus)

	IMPORT			EXPORT		
	1980	**1981**	**1982**	**1980**	**1981**	**1982**
Maghreb	6.3	8.5	11.3	7.7	9.3	9.5
Mashreq	2.7	4.6	3.8	6.0	8.4	8.9
Israel	1.6	1.7	1.8	1.7	2.2	2.5

Source : Eurostat.

Morocco, Tunisia and Egypt, whose access to the EC market for sensitive textile products is already restricted,as well as Israel, have repeatedly warned that the entry of Spain and Portugal to the Community will have a negative impact on their exports of agricultural goods and manufactures to the Community unless specific action is taken. This issue is discussed in detail in Chapter VI of the present document.

Just over 75% of EC exports to the Maghreb and Mashreq countries consists of manufactured products. The share of foodstuffs in the Community's exports to the Arab countries of the Southern Mediterranean rose from 10% in 1978 to 15% in 1981 and 1982. This reflects the growing importance of these countries as outlets for Community cereals, dairy and meat products (particularly poultry).

The non-associated countries and the EC's Generalised System of Preferences (GSP)

Even without its Generalised System of Preferences, the Community allows in a higher proportion of manufactured goods from the Third World free of duty than other industrialised countries. The Community accords duty-free Most-Favoured Nation (MFN) status to 67.9% of its imports from the developing world against 21.5% granted by the United States and 18.7% by Japan. The EC's GSP gives duty-free access to a further 20.1% of imports from the Third World. The corresponding figures for the United States and Japan are 19.6% and 6.1% respectively. As betokens a scheme destined to promote the export-oriented industrialisation of developing countries, it is the NICs and other semi-industrialised countries that have benefitted most from the Community's GSP. The top 12 beneficiaries in 1981 accounted for 75% of all goods imported into the EC under the GSP arrangements. The remaining 45 beneficiaries, i.e. excluding Lomé or Mediterranean countries with their own preferential agreements with the EC, accounted for only 25% of GSP imports. The main beneficiaries with their total GSP shipments to the Community are listed in Table V. However, of total goods eligible for GSP treatment from Third World beneficiariesonly 8.1bn Ecus out of a total of 21.5bn actually received GSP treatment. This is because of limits applied to certain sensitive items by the Community as well as the non-fulfilment of origin requirements by some suppliers. In addition, despite more than 10 years of operation not all Third World suppliers or Community importers are familiar with GSP procedures.

Although the Community's GSP is geared first and foremost to the more advanced nations of the Third World it has special mechanisms destined to favour the Least Developed Countries. The LLDCs are, for instance, not subject to any quantitative restrictions on their textile exports to the Community. Of the other Third World members, states which have concluded bilateral self-limitation agreements with the EC have received duty-free ceilings for their textile shipments to the Ten. Other GSP beneficiaries do not normally qualify for preferential access. The Commission has proposed for 1983 and 1984 that the LLDCs receive special preferential treatment for certain agricultural products, although this has not been accepted

TABLE V

PRINCIPAL BENEFICIARIES OF COMMUNITY'S GSP (1981)

Beneficiaries	Value (milions Ecus)
1. Rumania	797.2
2. Brazil	740.3
3. Venezuela	609.7
4. Hong Kong	589.8
5. China	589.2
6. India	582.3
7. South Korea	563.0
8. Saudi Arabia	382.8
9. Malaysia	371.0
10. Singapore	296.9
11. Thailand	267.2
12. Argentina	249.0

(in the case of 1983) by the Council of Ministers. Notwithstanding this problem, the Community accords nearly three quarters of all GSP benefits going to the developing countries.

In January 1981, the Community renewed its GSP for a further 10 years, setting out in some detail its structure for the 1981-85 period. This maintained the main characteristics of the system of the previous decade with improved preferential margins for up to 36 agricultural products, and with the LLDCs being granted duty-free access for several additional products. The administration of the scheme for industrialised products was simplified by limiting products to two categories : sensitive and non-sensitive. Sensitive products are subject to individual country quotas and ceilings, while non-sensitive products are subject to statistical control. The change was also aimed at increasing the transparency of the Community scheme.

CHAPTER FOUR

THE COMMUNITY AND NORTH-SOUTH RAW MATERIALS PROBLEMS

The Third World commodity crisis

Commodity-producing nations in the Third World have spent the last few years trying to survive in a world where prices for their exports have either fluctuated wildly or fallen to unprecedented depths. This is largely due to overproduction of tropical commodities in the South, combined with recession-provoked weak demand in the traditional commodity markets of the North.

The future for most commodity-producing Third World nations, especially those who depend almost exclusively on exports of one particular commodity, gives considerable cause for concern. International commodity experts stress that the situation is unlikely to improve in the coming decade, despite operations aimed at stabilising commodity prices mounted by UNCTAD (the Integrated Programme for Commodities), or export shortfall compensation schemes drawn up by the International Monetary Fund (compensatory financing facility) and the EC (system for the stabilisation of export earnings - Stabex).

The seriousness of the crisis facing Third World commodity producers has been underlined in recent documents drawn up by the European Commission and UNCTAD. In a report (1) in preparation for UNCTAD VI, the Commission points out that prospects for a sustained increase in world prices for the major tropical products (coffee, cocoa, tea, sugar) in the next decade are «gloomy». The extention of acreages by producer countries when commodity prices were high in the second half of the 1970s has led to medium-term surpluses of supply over demand. «If this fundamental imbalance persists», warns the Commission, «it is clear that the international agreements (sponsored by UNCTAD) will find it difficult to prevent prices from falling in real terms».

The UNCTAD Trade and Development Report 1982 agrees. It also stresses that «any significant improvement in the prospects for the terms of trade or export volumes of primary commodities in the short term would require a resumption of buoyant growth in the developed market-economy countries».

The Integrated Programme for Commodities : poor results, sombre future

Adopted in 1976 in Nairobi, the Integrated Programme for Commodities (IPC) has proved unable to handle the current commodity crisis. Despite the conclusion of seven commodity agreements (out of a total of 18 in-

(1) Commission communication to the Council on UNCTAD VI COM (82) 803 final.

cluded in the programme), and the decision to create the Common Fund, the IPC has been unable to meet its main objectives :

- to provide Third World commodity producing countries with fair and remunerative prices for their exports;
- to attenuate excessive fluctuations in commodity prices and stabilise supplies in the interests of producers and consumers;
- to stabilise and improve the export earnings of developing countries.

The UNCTAD report concedes that the overall progress achieved so far falls significantly short of the expectations aroused by the adoption of the IPC and of what the developing countries need in order to play their full part as an active and dynamic component of the world economy.

The pessimism is widespread. Although experts concur that commodity markets need to be strengthened, few including the Commission place great confidence in the IPC, at least in the immediate future.

To date, UNCTAD can point to only three major successes : the agreement on the Common Fund, the conclusion of the International Rubber Agreement, and more recently, the decision to conclude the International Jute Agreement. Progress in discussions for other international pacts has been unsatisfactory and even agreements existing before the IPC (tin, coffee, cocoa, sugar and olive oil) have faced their share of problems, including the defection of major producers and consumers and a marked inability to stabilise world prices. Commodity producers and consumers have battled on a wide range of issues, including the size of buffer stocks, price levels, export quotas and the need for research and development measures.

European Community participation in the IPC

In keeping with a decision taken by the Council of Ministers in March 1981, the Community and its Member States participate jointly in each IPC commodity agreement. A common Community-Member State delegation expresses its joint position through one voice at all UNCTAD-hosted meetings. All documents are signed jointly by the EC and its Member States. The decision puts an end to years of controversy surrounding the terms of European Community participation in this sector. The Community played a positive and constructive role during the discussions within UNCTAD for the conclusion of the different commodity agreements and the creation of the Common Fund.

The decision to set up the 750-million-dollar Common Fund was taken in June 1980 following four years of difficult and tortuous negotiations. Once the agreement setting up the Fund was open for signature, the Community Member States began to ratify the final documents and the EC also became a fully-fledged member of the Fund on October 1981. The Fund will not, however, become operational before 1984 at the earliest, provided the required level of participation is attained by then.

EC Member States contribute both to the Common Fund's «first account» (designed to stabilise commodity prices) and the «second account» (the financing of research and development measures) :

TABLE I

MEMBER STATES' CONTRIBUTIONS TO COMMON FUND

(in Ecu)

	First account	Second account
Belgium	3,556,242	2,677,684
Denmark	2,345,606	1,513,294
France	15,178,342	11,349,707
Greece	756,647	2,677,684
Ireland	756,647	—
Italy	9,117,598	11,349,707
Luxemburg	756,647	113,497
Netherlands	4,456,652	12,463,001
Germany	20,051,149	21,431,082
United Kingdom	11,425,372	7,571,902
	68,400,902	68,469,874

In order to become really effective, the Common Fund must be backed up by the individual commodity agreements, of which as stated above, only seven are in force. Discussions on the other eleven commodities included in the IPC are still bogged down in Geneva.

The EC has played an active role in the discussion and operations of existing agreements and promised to become a member of a new sugar pact. It has worked to bring producers and consumers together on a variety of issues by drawing up compromise formulae and has tried to persuade certain countries, such as the Ivory Coast and the United States to join the cocoa agreement. EC efforts facilitated the conclusion of the following pacts :

— the sixth international Tin Agreement which entered into force on a provisional basis on July 1, 1982, despite the defection of the United States and Bolivia;

— the new International Cocoa Agreement which became operational in August 1981 despite a decision by the Ivory Coast - the leading cocoa producer - and the United States - the leading consumer - to stay outside the pact.

— the international Coffee Agreement concluded in 1976 has now been extended until September 30, 1984. It is to be replaced by a new pact running for a six-year period as of October 1, 1984;

— olive oil : the current agreement concluded in 1979 replaces a pact which was initially concluded in 1963;

— the first-ever agreement to be concluded under the IPC was the International Rubber Agreement which entered into force on April 15, 1982;

— the second such agreement under the IPC is the International Agreement on Jute and Jute products operative from July 1, 1983;

— although the EC is not a party to the current International Sugar Agreement, it has promised to become a member of a new and improved sugar pact when it is renegotiated, on condition that it obtains satisfactory quota arrangements for its own production.

The Community also continues to take an active part in international discussions on the other 11 commodities currently under way in Geneva, including tea, cotton, hard fibres, meat, tropical timber, bananas, copper, iron ore, manganese, bauxite and phosphates.

AFRICA AND THE COMMODITY CRISIS

Although the impact of the commodity crisis has been felt worldwide, African nations, most of whom depend on exports of one or two commodities, have been hardest hit by the recent price fluctuations. Most African countries, however, face an even more alarming long-term problem. Their share of world agricultural production and international commodity trade has begun to decline rapidly, especially in comparison with the dynamic performance of countries in Latin America and Asia. This decline in production is due to a number of reasons, including an overemphasis on industrialisation, lack of investments in agriculture, inadequate pricing policies, political uncertainties, lack of trained farmers, etc.

The Lomé Convention's system for the stabilisation of ACP export earnings (Stabex) was formulated to offset - at least partially - the impact of the commodity crisis on most ACP states. Stabex - with financial resources totalling 550 million Ecu for the period 1981-85 - comes into action when ACP states are faced with sudden falls in their export earnings either because of fluctuations in world prices or because of variations in national production. Transfers made by the system work to compensate ACP governments for any losses, based on traditional levels of trade, from exports sent to the EC (all destinations for the least developed states) for some 44 products or sub-products. The transfers made to the least developed ACP states are in the form of outright grants. All ACP recipients have considerable discretion as to how they use Stabex transfers which means they are often not spent on trying to solve the problems of the sector for which they were disbursed in the first place.

STABEX : financial crisis : the problem

Introduced in the Lomé Convention to help stabilise ACP export earnings, Stabex performed its tasks effectively and efficiently in the 1970s when world commodity prices were reasonably high so that ACP demands for assistance kept well within the annual ceilings fixed by the Convention.

The situation changed dramatically in 1981 and 1982 because of a coalition of negative factors : the worldwide recession accentuated the downward trend in prices, the structural decline in agricultural output accelerated in certain regions, others were hit by drought. ACP demands for Stabex transfers rose well beyond the 110 million Ecu annual limit laid down in the Convention. ACP countries asked for compensation for export earning losses estimated at about 261 million Ecu in 1981 (for losses in 1980) and 453 million Ecu in 1982 (for losses in 1981). The bulk of the ACP losses in export revenues was due to the continuing deterioration of the market for coffee and cocoa, despite the existing world agreements in both cases.

The fact that both commodities had seen major price increases in 1976 and 1977 - and that these prices had been included in the reference price used by Stabex to calculate annual transfers - had a major impact on Stabex mechanisms. It meant that the high prices obtained on world markets in both years were included in the calculation of the 7.5% trigger threshold for ACP Stabex claims for 1980 and 1981. Stabex was, therefore, in a way made to «pay» for sudden drop in cocoa and coffee prices which followed the 1976/77 boom. The resulting claims for transfers made by the ACP were much higher than ever before in the system's history.

The financial crisis facing Stabex drew attention to two factors :

— Stabex was initially seen as an instrument which would complement UNCTAD's Integrated Programme for Commodities and back-up the compensatory financing facility set up by the International Monetary Fund. It was not designed to cope practically singlehandedly with commodity price fluctuations or the resulting shortfall in export earnings. In order to function effectively, Stabex must be used in addition to price stabilisation mechanisms included in international commodity agreements. Unless this happens, and if world commodity prices continue to fluctuate, Stabex risks facing similar financial difficulties in the future.

— Stabex was not designed to tackle the structural production problems facing most African states. Its five year budget of 550 million Ecu was originally believed to be more than adequate to help ACP states confront fluctuations in export earnings caused by sudden declines in world commodity prices, a fall in demand, or production shortfalls caused by natural disasters and climatic problems. Stabex cannot handle the wider-ranging problems of structural deterioration of African agricultural production.

The solution : injection of extra funds

Faced with ACP demands for Stabex transfers which were much higher than the annual ceilings written into the Lomé Convention, EC and ACP ministers meeting in Luxembourg in April 1981 agreed to draw 20% from the next year of application and later, when this proved insufficient to meet requests, decided to resort to article 34 (2) of the Convention which authorises cutbacks in transfers if the system's financial resources prove inadequate. A total of 138 million Ecu was found in 1981 for Stabex funding, (by drawing on 1982 funds and from left-overs from the previous Convention), but this still fell 123 million Ecu short of ACP demands. Transfers were cut back by 40% for the least developed states and by 52% for the other ACP states. Transfers of less than 1 million Ecu were paid in full.

The financial problems become even more acute in 1982. ACP demands for Stabex assistance for export earning shortfalls registered for 1981 totalled 453 million Ecu. With only 90 million left in the annual budget, the Lomé Convention members were forced once again to look for additional funds and to cutback transfers for the ACP states.

Additional money was found through a series of «exceptional» measures and included 40 million Ecu taken from interest on EDF assets and 30 million Ecu taken from repayments of special loans made by Stabex in the past. In addition, an advance of 20% was made on the 1983 instalment and a number of ACP countries which owed money to Stabex for transfers made in 1975 and 1976 agreed to give up their rights and to deduct their debts from the transfer claims in 1981. This brought the total amount of money available in 1982 for Stabex assistance to 182 million Ecu. As this was still not enough, cutbacks of 46% were agreed by the EC and ACP ambassadors for the least developed states and of 41.9% for the other countries. Countries whose transfers totalled one million Ecu or less received the whole amount owed to them.(1) The crisis eased in 1983, when claims for 1982 earnings losses dropped sharply as world commodity prices recovered.

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(1) The breakdown of Stabex transfers in 1981 (for 1980) and 1982 (for 1981) are given in Tables 4-A and 4-B at the end of this chapter.

Evaluation of Stabex operations

The recurring financial crisis facing Stabex prompted the European Commission to take a closer look at the system which both the ACP and the EC see as an essential element of the Lomé Convention. Efforts to improve the system under the new EC-ACP cooperation agreement which will replace Lomé II as of 1985 will undoubtedly be influenced by some of the points made by a the evaluation of Stabex operations carried out by the EC Commission.(1)

The study which examined Stabex operations in ten countries (including five major recipients of Stabex transfers such as Senegal, Sudan, Mauritania, Niger and Tanzania as well as Gambia, Western Samoa, Comoros, Cameroon and Fiji) noted that these were always triggered by a drop in the volume of exports to the Community. Sometimes, as in the case of iron ore or timber, a fall in export prices was involved, but it was almost never the sole or decisive cause of the intervention.

A third of all transfers were used wholly to cover expenditure unrelated to the commodity concerned (inter alia for debt servicing, supplementary or local currency financing of infrastructure projects and coverage of day-today administrative costs). Where transfers were partly used in the export sector concerned, the money was spread fairly evenly between projects, price support and income support measures for farmers.

The Commission report stressed that as Stabex money was used largely outside the sector for which the application was made, it had comparatively little sectoral stabilising effect. It did, however, have some impact on government revenue (although this varied widely), helped some countries to tackle their more urgent balance of payment problems, and provided other countries with the money needed to complete projects without having to hunt for financing.

The study concluded that «ACP governments do not feel any obligation to use transfers to help producers in the sectors concerned. As there are no firm rules for use of transfers, nor any obligation to spend Stabex money on the sector concerned, the recipient government assesses the prospects for that sector when the transfer comes through, sets them against other export or sectoral priorities and allocates the Stabex funds accordingly».

EC deliberations on future of Stabex

Both the EC and the ACP have made it clear that although they still see Stabex as being an essential element of the Lomé Convention, the system needs to be improved before it can be carried over into their new cooperation agreement.

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(1) «Financial and technical cooperation under the Lomé Convention in 1981» COM (82) 707.

TABLE II

AFRICA'S SHARE IN WORLD PRODUCTION AND EXPORTS OF TROPICAL PRODUCTS 1970-1980

	PRODUCTION					EXPORTS				
	'000 tonnes		Variation 1980/1970	% of world output		'000 tonnes		Variation 1980/1970	% of world exports	
	1970	1980		1970	1980	1970	1980		1970	1980
Bananas	3.771	4.401	+ 16.7	12,19	11,21	394	272	— 31.0	6.79	3.93
Green coffee	1.281	1.151	— 10.1	30.03	23.87	1.011	900	— 11.0	30.83	24.07
Cocoa (beans)	1.097	927	— 15.5	72.99	59.54	866	727	— 16.1	76.43	70.17
Tea	117	185	+ 58.1	9.01	9.81	109	162	+ 48.6	14.61	17.11
Groundnuts	5.664	4.801	— 15.2	30.87	25.40	766	166	— 78.3	77.14	22.34
Groundnut oil	—	—	—	—	—	290	157	— 45.9	67.60	31.84
Copra	150	167	+ 11.3	3.90	3.67	74	15	— 79.7	8.05	1.24
Palm oil	1.109	1.365	+ 23.1	55.92	26.87	178	129	— 27.5	19.65	3.65
Palm kern.oil	—	—	—	—	—	58	106	+ 82.8	35.15	28.12
Cotton fibre	1.318	1.213	— 8.0	10.96	8.43	968	622	— 35.7	24.56	12.77
Nat. rubber	215	204	— 5.1	7.16	5.35	206	143	— 30.6	7.21	4.28

Source : «Marchés tropicaux et méditerranéens».

Development Commissioner Edgard Pisani has stressed that the emphasis in the forthcoming negotiations for a new EC/ACP cooperation agreement will be on making Stabex more credible, both from the financial and economic points of view.

When negotiators from both sides begin examining the future of Stabex, discussions will have to take account of the following aspects :

— should Stabex be an instrument of development policy rather than an additional source of deficit funding. As originally intended, it should as much as possible be self-financing;

— fluctuations in world commodity prices are unlikely to cease in the immediate future. This means that Stabex will still be needed by the ACP states whose export earnings from commodities will continue to vacillate in the years ahead;

— as there are no signs that new commodity agreements will be concluded in the near future - or that existing ones will function more effectively - Stabex will continue to perform its export stabilisation functions without help from price stabilisation mechanisms included in commodity agreements;

— the demand on Stabex financial resources could increase considerably in the future, especially as African agriculture production and exports are declining in comparison to Asian and Latin American output. Africa's share of world production and exports of tropical products is detailed in Table II.

— in order to be able to deal more effectively with structural problems facing African commodity-producing nations, the utilisation of Stabex funds will probably have to be linked to the products for which the transfers are made.

Africa's uncharted mineral wealth

World mineral reserves are concentrated in the large continental land masses of North and South America, the Soviet Union, Australia and Africa. Africa's riches are the least charted and the least developed.(1) However, where mining activity has developed in Africa, the sector has rapidly become a major source of export earnings. Zambia and Guinea, for example, depend on exports of minerals for almost 90% of their foreign exchange earnings. The dependence on mineral exports is almost 70% for Liberia and Mauritania and 50% for Togo and Zaire.

Most African nations export the bulk of their copper, cobalt, phosphates, aluminium and manganese to the European Community, which, apart

(1) The developing world's share of global mineral reserves is given in Tables 4-C and 4-D at the end of this chapter.

from a few exceptions, is poorly endowed with mineral resources. Globally speaking, the European Community depends for up to 75% on its imports of minerals, compared to 90% for Japan and only 15% for the United States. The EC gets its minerals from South Africa, the Soviet Union, North America and Africa. Countries in Asia and Latin America are also major sources.

Although Africa is known to have vast mineral reserves, insufficient money and effort have been invested in mineral exploration and extraction on the continent. The fiscal policies of most governments, the risk of summary nationalisation and in some cases political instability, have combined to create a climate which is not conducive to attracting foreign investment. Lack of basic infrastructure such as roads, railways and port facilities for transport of minerals has also discouraged potential investors.

The latter have continued to put money in what they generally consider to be lower-risk regions. Investments have focussed on the development of mineral resources in Australia, Canada and South Africa and in a number of Latin American countries, including Brazil.

EC/ACP mineral cooperation

The potential for cooperation between mineral-rich Africa and a mineral-starved EC was recognised by the Lomé Convention. Iron ore was included on the list of commodities covered by Stabex. This was largely as a political gesture to provide something for Mauritania, one of the poorer African countries, largely dependent on iron ore.

European leaders began to worry about the EC's rather vulnerable position vis-à-vis its external mineral suppliers in the late 1970s when it became clear that European investors were ignoring Africa in favour of projects in Latin America and the industrialised regions. EC experts warned that if this trend continued, the Community would become totally dependent on mineral supplies from countries with which it did not have the kind of «preferential» links that it did with the African members of the Lomé Convention. This, they said, was especially dangerous because unlike the United States and Japan, the European Community has not concluded long-term supply agreements with its major suppliers. In addition mineral producers among the ACP countries had been lobbying for some time for a support system for minerals along the lines of Stabex.

Discussions for the conclusion of the second Lomé Convention highlighted three major problems facing the mining sector in Africa :

- lack of investments;
- absence of new loans;
- deterioration of the productive sector because of lack of maintenance and renewal of equipment.

The need for government backing and encouragement for private investors was recognised by the new Convention which provided for four specific types of action in the mining sector :

- **SYSMIN** : according to the Convention? this system would work to assist ACP mineral-producing states in thir efforts to remedy the harmful effects on their income of serious and unforeseen temporary disruptions affecting those mining sectors. A total of 280 million Ecu was earmarked for EC assistance under this scheme for the 1981-1985 period covered by the second Lomé Convention. Sysmin transfers are decided by the EC Commission on a yearly basis in the form of special low interest loans;
- the Convention also stresses that the Community shall be prepared to give its technical and financial assistance to help with the exploitation of the ACP states' mining and energy potential,
- it provides for loans from the European Investment Bank (EIB) which are over and above its normal ceiling for mining investment projects (and energy projects) which are recognised as being of mutual interest,
- it allows for the conclusion of «specific»investment agreements to encourage European investments in the ACP mining sector.

The only parts of the Convention dealing with minerals which have been implemented are the Sysmin mechanism and provisions for EIB loans :

Sysmin aid for Zambia

In a decision taken in April 1982, the European Community agreed to give 55 million Ecu in aid under Sysmin for Zambia's copper and cobalt mining sector. Zambia's production of copper and cobalt has suffered in recent years because of the prolonged slump in world copper prices political unrest in neighbouring Shaba (Zaire), Angola and Zimbabwe, and an increase in production costs.

The total cost of the Zambian project is put at 85,346,OOO Ecu, of which 55 million will come from the EC and the remaining amount from the mining companies themselves. The EC loan has been granted for a 40-year period with an interest rate of 1%, and a ten-year grace period.

The project aims at stabilising Zambia's production costs and capacities for copper and cobalt through the following measures :

- replacement of antiquated installations and equipment;
- introduction of new and improved refining methods;
- development of long-term mining methods;
- respect for security standards.

To achieve this, the Government will need financing for the purchase of mining equipment, work supply contracts and supplies of mining infrastructure, drilling material, technical assistance for training and the creation of a fund for the improvement of social conditions.

Demands for assistance by the Zambian government were triggered off by the sudden decline in the country's exports of copper and cobalt. The project is expected to be completed by 1985.

Sysmin aid to Zaire

Zaire received 40 million Ecu in Sysmin assistance from the EC in July 1982 for maintaining copper and cobalt production capacities. Production of both commodities had fallen because of the prolonged slump in world prices but also because of the government's decision to tax all mining operations. The EC made its Sysmin assistance to Zaire conditional on certain changes in the country's taxation policies, stressing that unless these modifications were made, Sysmin money alone would not be able to redress the declining copper and cobalt production.

The EC aid is part of a 47.5 million Ecu project with the national Gecamines mining company putting in the additional 7.5 million Ecu. The aim is to maintain production capacities. The emphasis is on :

- maintaining production;
- maintaining financial cover for operating costs;
- improving productivity;
- reducing production costs.

This is to be achieved through the purchase of extraction material, the renewal of a part of internal transport infrastructure and the improvement of living conditions for workers. The EC loan has been granted for a 40 year period with an interest rate of 1% and a ten-year grace period.

Two further applications were made in 1982 for Sysmin financing, one by Rwanda for tin and the other by Guyana for bauxite.

European Investment Bank operations

The European Investment Bank financed two projects involving a total of 77 million Ecu in 1981 in the mining and extractive industries, making the sector the main recipient of the Bank's contributions.

The first project - financed by a non-subsidised loan of 40 million Ecu - was designed to start up a mine working a goldbearing copper deposit near the Ok Tedi river in Papua New Guinea, a further 12 million Ecu in the form of risk capital was also allocated to this project to help the state finance part of its holding in the mining company's capital.

In addition, a loan of 25 million ECU was granted for the treatment of waste from the copper mines at Chingola in Zambia with a view of recovering the metal still contained in it.

The future : developing a «mineral strategy»

European help for mineral production in the ACP countries is expected to be an essential part of the new EC/ACP Convention concluded after Lomé II.

The European Commission has begun to study the possibility of moving beyond the instruments such as Sysmin included in the current Convention. The emphasis will be on widening the range of operations in the mineral sector. Instead of tackling just the results of poor investments and lack of prospection, EC experts believe that more direct action aimed at encouraging European investors to go to Africa should be envisaged in the new Convention. Such efforts would form part of a more global «mineral strategy» which would build a «bridge» between :

- the EC's dependence on imports of key raw materials for its industries and
- Africa's vast mineral wealth which, however, needs a massive injection of funds before it can become a regular and dependable source of supply to the EC.

TABLE 4-A

STABEX : RESULTS OF THE 1980 OPERATIONS

Recipient ACP State	Product	Amount of transfer in ECU
Burundi	Coffee	11.023,569
Cape Verde	Bananas	214,764
Central African Rep.	Coffee	968,396
Chad	Cotton	2.539,816
Comoros	Copra	246,447
Comoros	Essential oils	852,402
Ivory Coast	Coffee	19.195,390
Dominica	Bananas	2.527,944
Fiji	Coconut oil	842,296
The Gambia	Groundnuts	3.791,992
,,	Groundnuts oil	3.191,205
,,	Oil-cake	1.134,175
Guinea Bissau	Groundnuts	1.259,747
,,	Palmnuts & kernels	273,919
Jamaica	Bananas	3.238,995
Kenya	Coffee	10.032,204
Kiribati	Copra	497,742
Lesotho	Mohair	242,279
Madagascar	Vanilla	1.211,208
Malawi	Tea	1.330,661
Mali	Groundnut products	2.551,615
Rwanda	Coffee	6.555,031
St Lucia	Bananas	1.349,538
Western Samoa	Cocoa	1.222,900
Senegal	Groundnut products	30.353,160
,,	Oil-cake	8.253,832
Sierra Leone	Palmnuts & kernels	947,224
Somalia	Bananas	1.423,385
,,	Raw hides & skins	415,854
Sudan	Groundnuts	13.415,560
Tanzania	Coffee	6.254,257
Tonga	Copra products	602,239
Tuvalu	Copra	14,495
		137.965.905

Source : Commission of the European Communities.

TABLE 4-B

STABEX TRANSFERS FOR 1981

Recipient ACP State	Product	Amount of transfer (Ecu)
Benin	Cotton, not carded or combed	130,169
"	Palm oil	254,585
"	Palm kernel oil	544,668
Cameroon	Cocoa Products	10.348,448
"	Raw or roasted coffee	6.988,461
Central African Republic	Raw or roasted coffee	1.536,796
Dominica	Cocoa products	502,143
Ethiopia	Raw or roasted coffee	968,702
Fiji	Coconut oil	653,391
Gambia	Groundnuts	2.225,089
"	Groundnut oil	1.440,360
"	Oilcake	529,741
Ghana	Cocoa products	32.776,692
Grenada	Nutmeg and mace	197,531
Ivory Coast	Raw or roasted coffee	35.329,724
Kenya	Raw or roasted coffee	21.054,231
Lesotho	Mohair	354,533
Madagascar	Raw or roasted coffee	3.440,826
Malawi	Tea	653,391
Mali	Sheanut kernels	653,391
Papua New Guinea	Raw or roasted coffee	9.421,513
"	Cocoa beans	5.738,012
"	Copra	1.385,695
"	Coconut oil	1.160,130
Rwanda	Raw or roasted coffee	653,391
Samoa	Cocoa beans	1.170,846
"	Copra	1.035,401
Sao Tome and Principe	Cocoa beans	994,895
Senegal	Groundnut products	26.272,999
Sierra Leone	Palm kernel products	1.082,263
"	Cocoa beans	53,351
Solomon Islands	Copra	723,321
Somalia	Fresh bananas	949,211
Sudan	Cotton, not carded or combed	10.879,030
Tanzania	Raw or roasted coffee	694,174
Tuvalu	Copra	56,606
TOTAL		182.853,710

Source : Commission of the European Communities.

TABLE 4-C

THIRD WORLD MINERAL RESERVES

'000 tonnes

	Third World	Latin America	Asia	Africa	Others
Aluminium	18 050 000	6 190 000	2 105 000	9 755 000	
Copper	288 600	198 900	18 100	71 600	
Lead	23 000	13 800	1 800	7 400	
Tin	7 200	1 595	5 040	545	
Zinc	33 400	18 100	10 800	4 500	
Iron-ore	29 000 000	18 800 000	8 000 000	2 200 000	
Manganese	161 000	44 000	30 000	87 000	
Cobalt	2 300	50	1 430	620	
Chrome	597 000	6 000	17 000	574 000	
Molybdenum	2 955	2 810	145	—	
Niobium	9 300	8 165	—	1 135	
Tantalium	57	3	8	45	
Nickel	36 300	5 600	29 300	1 400	
Vanadium	316	226	90	—	
Tungsten	235	109	110	16	
Mercury	23	8	—	12	3
Antimony	855	645	210	—	
Titanium	162 700	92 200	66 300	4 200	
Zirconium	6 383	928	1 818	464	3 172
Fluor	102 000	35 360	10 064	13 600	42 976
Phosphates	19 565 000	80 000	305 000	19 180 000	

Source : ibid.

TABLE 4-D

THIRD WORLD MINERAL RESERVES

Percentages

	Third World	Latin America	Asia	Africa	Others
Aluminium	67.9	23.3	7.9	36.7	
Copper	58.0	40.0	3.6	14.4	
Lead	18.0	10.8	1.4	5.8	
Tin	71.4	15.8	50.0	5.6	
Zinc	20.2	11.0	6.5	2.7	
Iron-ore	30.9	20.2	8.5	2.2	
Manganese	9.6	2.6	1.8	5.2	
Cobalt	62.7	1.3	22.4	38.9	
Chrome	34.3	0.3	1.0	33.0	
Molybdenum	37.6	35.8	1.8	—	
Niobium	87.2	76.6	—	10.6	
Tantalium	87.4	4.9	12.6	69.9	
Nickel	56.4	8.7	45.5	2.2	
Vanadium	3.2	2.3	0.9	—	
Tungsten	10.7	5.0	5.0	0.7	
Mercury	13.3	4.8	—	6.8	(1.7)
Antimony	19.9	15.0	4.9	—	
Titanium	41.1	23.2	16.8	1.1	
Zirconium	16.5	2.4	4.7	1.2	(8.2)
Fluor	37.5	13.0	3.7	5.0	(15.8)
Phosphates	71.5	0.3	1.1	70.1	

Source : ibid.

CHAPTER FIVE

FINANCIAL RELATIONS BETWEEN THE COMMUNITY AND THE DEVELOPING COUNTRIES

Third World finance : on the brink of collapse

Nowhere has the development crisis of the past few years been more manifest than in the problem of Third World finance. Yet it is not just the notorious debt traumas of a minority of developing countries, rich enough to borrow large amounts of capital from private banks, which has brought North-South financial relations to a watershed. It is also the less spectacular but no less real balance-of-payments crisis of many lower-income developing countries, whose staggering external and fiscal deficits left no choice but to cut back on imports vital to basic production activities, which acutely threatens the very basis of their development.

Since the first oil price shock in 1973, the combined current account deficit of non-oil developing countries increased ninefold, crossing the 100 billion dollar mark in 1981. By that time, all the principal sources of finance export earnings, commercial bank loans and official development assistance - had stopped growing or had even declined in real terms. To cope with the resulting constraints, this group of countries had to choke off 4% of their imports, while their overall average rate of real growth was roughly halved from 1979 to 1981, dropping to 2.5%.

Behind these aggregate figures, however, lie the vastly different development paths and prospects of some 100 low and middle-income countries, increasingly distinguished from each other by their domestic policies, income levels, economic growth rates as well as their level of dependence on imports and exports. Only for a few newly industrialising or large developing countries will development continue to depend primarily on domestic choices between consumption and productive investment. Many others, particularly in South Asia and sub-Saharan Africa where growth in production barely keeps pace with population growth, have little latitude to redirect scarce resources from basic needs to investment.

After falling in 1981, official development aid (ODA) from the industrialised countries of the OECD recovered again in 1982 to its record level of 1980. Although aid granted by the Member States of the Community eased in 1982 from the previous year's level in dollar terms, the share of GNP devoted to ODA was maintained at the previous year's level of 0.53%. Overall OECD aid reached 27.92bn dollars in 1982 against 25.64bn in 1981 and 27.26bn in 1980. The stagnation of member states aid in 1982 reflects partly the impact of the recession on EC economies but more particularly the appreciation of the dollar against European currencies. The principal reason for the rise in OECD aid in 1982 was the recovery in American ODA which had contracted sharply in 1981.

Despite the difficulties in expanding overall aid levels experienced in 1982, the Community members remain committed to a national aid target of 0.7% of GNP. This level has already been exceeded by Denmark and the Netherlands. Italy, whose level of ODA is the lowest among the EC countries, has shown the biggest proportional rise in its contributions in recent years. The Commission took the initiative in 1982 to press for a

Community (as distinct from national) aid target of 0.1% of GNP by 1990, double the current level of 0.05%.(1)

While some 50 countries should be able to reduce their dependence on official aid during the 1980s, the World Bank estimates that another 40 low-income countries will rely almost entirely on ODA to supplement domestic resources for their physical and human development. Common to all factors contributing to the Third World liquidity crisis is the increasing differentiation among developing countries, with the LLDCs, which achieved the lowest growth rates in the 1960s and 1970s, actually falling back in real terms in the 1980s. For the Community this accentuated disparity dictates the challenge and the geographic priorities for its development assistance in the present decade.

Europe's aid to the Third World

The Community and its member states in 1982 provided 44% of the official development assistance disbursed by the OECD countries, or 33% of the world's total aid flows (Table I).

TABLE I

Amounts in US $ billion

	1980	1981	1982
World Development aid	36.36	35.51	36.30
OECD countries (DAC) (1)	27.26	25.64	27.92
EC Member States (2)	13.05	13.34	12.15
Community aid	1.29	1.60	2.10

(1) DAC = Development Assistance Committee; does not include Ireland, Luxembourg and Greece.
(2) Excluding Ireland, Luxembourg and Greece.

Source : OECD, Resources for Developing Countries and recent trends (June 1983).

(1) Memorandum on the Community's Development Policy, op. cit.

TABLE II

BREAKDOWN OF COMMUNITY FINANCING BY TYPE OF CONTRIBUTION

a) *European Development Fund (EDF)*

Commitments under the third, fourth and fifth EDFs are shown below

(in millions of Ecu)

	1981	1982
Projects, technical cooperation, training	383.3	600
Regional funds	49.2	120
Stabex	143.1	112.2
Sysmin	—	95
Trade promotion	6.5	17
Exceptional aid	24.6	50
Budget of Technical Centre for Agriculture and Rural Cooperation	—	0.5
Budget of Centre for Industrial Develop.	4.3	4.5
EIB drawings on the EDF	91	70
TOTAL	702	1 069.1

b) *Budget*

Commitments from Community budget appropriations are shown in the Table below

(in millions of Ecu)

	1981	1982
Food aid	498.1	499.6
Cooperation with non-associated developing countries	161.6	210.2
Specific measures	16.1	21.9
Exceptional measures	23	31.5
Cooperation with Mediterranean countries	156.3	209.5
Commodities cooperation	—	—
TOTAL	855.1	972.7

TABLE III

MEMBER STATES' DEVELOPMENT AID CONTRIBUTIONS

Amount in US $ million

Net disbursement	1980		1981		1982	
	Total ODA	in % GNP	Total ODA	in % GNP	Total ODA	in % GNP
Belgium	594.9	0.50	574.6	0.59	497	0.59
Denmark	480.6	0.74	403.3	0.73	415	0.77
France (including DOM TOM)	4,161.7	0.64	4,177.0	0.73	3,991	0.74
Germany	3,566.5	0.44	3,181.2	0.47	3,163	0.48
Ireland	31.0	0.19	29.0	0.17	(a)	(a)
Italy	683.3	0.17	665.5	0.19	820	0.24
Luxembourg	8.0	0.19	10.8	0.30	(a)	(a)
Netherlands	1,630.4	1.03	1,510.0	1.08	1,473	1.08
United Kingdom	1,852.0	0.35	2,194.9	0.44	1,794	0.38
Greece	(a)	(a)	14.74	(a)	(a)	(a)

(a) not available

Source : DAC/OECD.

Even though the Ten have not yet collectively attained the aid target of 0.7% of GNP, the growth of their ODA has been remarkable, particularly in the light of the serious economic and budgetary problems virtually all of them have had to face. During the past decade, development aid of the member states expanded by a real 5% annually to reach 0.53% of GNP in 1982. Resources mobilized by the Community as such increased even more rapidly during that period. Its ODA appropriations rose annually by 7 % in real terms, amounting to 1.6 bn Ecu in 1981 and 2.1 bn Ecu in 1982 (Table II).

The Member States Development Programmes and Policies

The Community's development assistance programme, to which the EC countries contribute on average some 10% of their aid budgets, seeks to complement rather than duplicate their efforts. Several common trends in the development policies of the member states and the Community have nevertheless become salient in recent years. The most important ones are :

— a greater concentration of aid efforts on low-income countries (LICs) and the poorest or least-developed countries (LLDCs);

— a gradual decrease in aid tied to specific, individual projects and a parallel increase in non-project assistance supporting certain sectors of an economy, specific geographic regions or local institutions over a longer period;

— a stronger emphasis placed on basic infrastructure and agricultural projects.

The following description of the member states development policies merely attempts to highlight their most prominent features. An overview of the Ten's aid performance (1) is given in Table III.

BELGIUM (2) : In line with the overall curtailment of public expenditures, imposed by a budget deficit of 16% of GNP, aid appropriations declined noticeably in 1980, but in 1981 picked up again by a strong 23% in national currency terms, followed by a further nominal increase of 15% in 1982. Excluding contributions to the EC (10%), some 26% of Belgian ODA in 1980 went to multilateral institutions, in particular to FAO, UNDP and the World Bank (IDA). The sixth replenishment of IDA in 1981 accounted for one-quarter of multilateral assistance or 52 million dollars.

(1) Excluding financial assistance other than ODA.

(2) The country-by-country data given in this section comes from the OECD's Development Assistance Committee.

Some two-thirds of Belgian aid is granted in bilateral form, with a strong emphasis on the three former colonies Zaire, Burundi and Rwanda. In the last ten years, however, the geographical breakdown has gradually diversified. The three main beneficiaries in 1980-1982 accounted for about half of bilateral ODA, compared with 77% in 1972. (Low-income countries received more than 70% of total ODA in 1982, with 27% going to the least developed countries.

Between 1979 and 1981, integrated pilot programmes of five year duration were launched in 12 target countries. Belgian authorities plan to introduce such global financing measures for certain priority sectors in all developing countries receiving bilateral assistance. While special emphasis continues to be given to technical assistance (over 50% in 1981), there has been a gradual shift towards other forms of support such as the above mentioned integrated programme aid and co-financing projects. The grant element of bilateral aid surpasses 75%, while credits are usually extended at very favourable terms. About half of the bilateral financial aid is tied to procurements in Belgium.

DENMARK : Exceeding the 0.7% of GNP aid target since 1978, Denmark belongs to the international » front runners»in ODA volume despite its fragile economic situation. Guided by the principle of «non-political» aid, Danish aid is almost equally divided between multilateral (46%) and bilateral assistance (54%). In its appropriations to international organisations, Denmark shows a clear preference for UN agencies, particularly UNDP and FAO. In 1981, the distribution was 47% for the United Nations, 27% for the World Bank group plus 8% for regional development banks. The EC development programmes received 17%.

Bilateral assistance is also divided almost equally between grants and highly concessional loans. Generally, loans are tied to procurements in Denmark, while grants are not. African and Asian low-income countries receive the bulk of Danish bilateral ODA, with 34% earmarked for the LLDCs in 1982. To enhance its effectiveness, development assistance is highly concentrated : Tanzania, Bangladesh, India, Kenya and the Sudan together have received nearly half of the bilateral aid in recent years. Like the other Nordic countries, Denmark emphasises the role of women in the development process as well as environmental problems and demographic questions (birth control projects in Bangladesh and India).

FRANCE : After the 1981 elections, the socialist government introduced several changes in development policy, including the intention to increase the share of ODA going to developing countries other than the Overseas Deparments and Territories (DOM-TOM) and to adapt official assistance more to the needs of these recipients. The aim was to reduce the LDCs dependence on the external economic environment, i.e., the satisfaction of internal demand (particularly as concerns basic needs) rather than export promotion. Those policy changes were accompanied by a steep nominal ODA increase of 33% in 1981, bringing the overall ODA/GNP ratio to 0.73%. This increased by a further 16% in national currency terms in 1982 to 0.74% of GNP, the highest level since 1965. Excluding aid to its own overseas departments and territories, French ODA totalled 2.6bn dollars in 1982, or 0.48% of GNP against 0.46% in 1981 and 0.36% in 1980. France is committed to reaching the 0.7% target by 1988. Aid to Africa is concentrated on the former colonies (92%) and other francophone countries (Burundi, Rwanda, Zaire, Mauritius : 6%). The grant element of French ODA has gradually declined from 94.1% in 1976 to 85.5% in 1980. French aid has remained highly tied, the proportion varying between 80 and 90%.

WEST GERMANY : Taking account of the Brandt Commission report, the 1980 guidelines on development cooperation emphasized rural development, energy cooperation and the protection of natural resources as priority sectors. In more general terms, German development policy stresses the integration of LDCs into the world economy as well as the safeguarding of their political independence and their cultural identities. An important role is given to direct investments, which are supported by a comprehensive system of risk insurance and fiscal benefits, and other private flows. Consequently, ODA is considered a supplement to these transfers and in particular to the developing countries' own efforts.

Although Germany has not accepted a specific time limit for the aid target of 0.7% of GNP, the volume of overall aid doubled between 1977 and 1979, reaching 0.47% of GNP in 1981 and 0.48% in 1982. Excluding contributions to the EC, Germany channeled 27% of its ODA to multilateral agencies, giving particular preference to international financial institutions (World Bank group 54%, Asian Development Bank 12%). For a long time, German aid was divided among a large number of LDCs. This policy, however, is in the process of being reversed, with a growing proportion of ODA now going to the African and Asian «poverty belts». Low-income countries now account for half of the bilateral ODA, including 22.3% for the LLDCs. Grants amounted to 86% of German aid in 1981, while 74% of ODA disbursements were provided in untied form, as against 82% in 1980. The sectoral breakdown of German ODA has remained relatively constant over the past several years, with 35% slated for public services (electricity, communications, transport, etc.) followed by industry, agriculture and education, each with between 15% and 20%.

GREECE : Itself considered a developing country by the OECD, Greece represents a particular case among the member states. This does not prevent it from allocating resources to Third World countries. A member of all principal international development agencies, Greece contributes a share of its aid in convertible currencies which sets it apart from most LDC donors. It participated in the sixth replenishment of IDA with 6 million dollars and in 1980/1981 provided 615.000 dollars for UNDP and 120.000 dollars for UNICEF. Since 1981, Greece participates in the Community's aid efforts via its general budget appropriations, of which 8 million dollars were earmarked for LDCs. Greece will also contribute funds to the EDF, but the amounts still have to be decided by the Council of Ministers.

IRELAND : Since 1975, Ireland substantially increased its ODA from 6.7 million dollars to 31 million in 1980, of which over two-thirds was allocated to multilateral institutions (including the EC with 45%). Bilateral aid was provided exclusively in form of grants for technical assistance combined with capital aid, as well as volunteer programmes. One-quarter of bilateral ODA was earmarked for co-financing projects with non-governmental organisations mainly in the field of education. Ireland concentrates over half of the bilateral ODA on four priority countries : Lesotho, Sudan, Tanzania and Zambia.

ITALY : Since 1977, Italy has been engaged in a major overhaul of its development policy, characterized by a steep increase in its ODA volume, the creation of a substantial bilateral aid programme and a strong concentration on agricultural projects and food aid. Italy's ODA/GNP ratio trebled from 0.08% in 1979 to 0.24% in 1982 and is due to reach the DAC average of 0.35% by 1984. Before 1979, over 90% of Italy's ODA was in form of multilateral aid. Apart from the EC which received one-third, FAO followed by regional development banks and UNDP were the major recipients. Conforming to the new government directives, the share of bilateral aid rose from 15% in 1980 to 28% 1981 and will constitute about half of Italy's ODA by 1983-1984. Grants, which more than doubled in national currency between 1980 and 1981, account for over 97% of the total bilateral ODA. Among the member states of the Community and DAC, Italy has one of the best records for untied aid, with only some 20% of its grants being tied to purchases in the donor country.

Africa received 60% of the bilateral ODA in 1981, Mediterranean countries 23% and Latin America 8%, while the least developed countries in these regions got half of the total amount.

LUXEMBOURG : From 1978 to 1980, Luxembourg allocated 0.20% of its GDP to development aid, which in 1981 rose to 10.8 million dollars or 0.30% of GDP. In that year, 54% of the total ODA was in form of multilateral aid, with threequarters going to the EC and the World Bank group. Grants account for 40% of bilateral aid, which is largely directed to social infrastructure projects (hospitals, schools) in Algeria, Togo and Rwanda. Concessional credits make up another 40% of bilateral ODA and food aid accounts for most of the remainder.

NETHERLANDS : Dutch development policy is guided by two major principles : the improvement of the LDCs' structural position in the world economy through measures assisting self-sustained economic growth and direct efforts to combat absolute poverty in the developing countries. Net ODA in 1982 increased by 4% in national currency terms and as a percentage of GNP maintained the record 1981 level of 1.08%. This has been the best performance recorded by any DAC country since the early 1960s. The share of multilateral ODA varies between 25-30%. Excluding the EC

(8%), the principal recipients are UNDP (26%), World Food Programme (11%) and FAO (6.5%). For reasons of effectiveness, bilateral aid is concentrated on a limited number of LDCs chosen among the low-income group according to certain criteria regarding human rights and fiscal management. The list of the so-called «target countries», which usually receive about half of the bilateral aid (52% in 1980), is frequently modified and in 1980-1981 included 13 countries. The principal beneficiaires were India (12%), the Netherlands Antilles, Indonesia and Tanzania (each 7%) as well as Surinam (6%) and the Sahel countries (5%). Overall, the low-income countries obtained 55% of the bilateral ODA, including 22% for the LLDCs.

The grant element of bilateral ODA is now about 90%, threequarters of which is in form of untied aid. Dutch aid increasingly takes the form of «programme aid» aimed at the long-term support (ı 10 years) of sectorally or geographically integrated projects. Some 40% of the ODA destined for the 13 target countries already falls in the non-project category. Agriculture and public services (water and electricity supplies) are the two priority sectors of Dutch assistance, followed by education and social infrastructure. In the future, it is planned to concentrate ODA progressively on food production and energy.

UNITED KINGDOM : At irregular intervals, so-called «white papers» define the guidelines of British development policy. The latest white paper, published in 1981, like its predecessors, stressed the importance of aid for the least-developed countries. It also recommended a reduction in multilateral ODA in favour of bilateral assistance and put greater emphasis on non-concessional financial flows and direct investments. After a very sharp rise in 1981 to 0.44% of GNP, British ODA fell by 12% in real terms in 1982, bringing the ODA/GNP ratio down to 0.38%. The figures were affected in part by the timing of aid to India. The 1983 figures are expected to show a rise again. In accordance with the white paper recommendations, the share of multilateral ODA decreased from 44% in 1979 to 39% in 1981. Contributions to the EC, however, have increased from 6% to 16%. The lion's share of British multilateral aid goes to the World Bank group (68%) and United Nations agencies (20%). Although bilateral aid is given to some 130 countries, the major part goes to ten priority beneficiaries in Asia and Africa. The grant element in British ODA to more than 90% and includes all financial aid going to LICs and LLDCs. Over half of the bilateral ODA has been tied to procurements of British goods and services. Public services (39%), education (22%) and agriculture (16%) are the three principal sectors of bilateral assistance.

The spread of Community aid

In general terms, the Community's aid programmes fall into two broad categories :

— contractual aid which covers primarily the members of the Lomé

Convention and the Mediterranean states (the Maghreb and Mashreq countries and Israel) with bilateral agreements with the Community;

— international operations applied by the Community autonomously in the form of technical and financial assistance to the non-associated countries, food and emergency aid, as well as financial assistance to non-governmental organisations and aid provided under cooperation agreements which are not financed on a contractual basis.

The Lomé Convention (and the earlier Yaoundé Conventions) are at the heart of the Community's financial aid policies. From the first European Development Fund (EDF) of 1959 and Yaoundé I (1964-1970), which made some 730 million Ecu available to 19 newly-independent African countries, the policy has expanded to cover over 60 African, Caribbean and Pacific states with a budget of 4,5 billion Ecu.(1)

Alongside Lomé, the Community established a wide spectrum of programmes to promote social and economic development in the Third World. This includes emergency and food aid, technical assistance, as well as money allocated for non-governmental organisations, trade promotion and regional cooperation. One result of this diversification of instruments has been a much wider geographical spread of EC aid.

In the early years of Community development cooperation, African states received well over 80% of the funds made available by the Community. Being among the poorest countries in the world they still get well over half of the Community's ODA, but a larger share is now earmarked for other developing countries : during the past decade, Africa on average received 65% of Community financial aid, leaving 35% to be allocated mainly to Asian and Latin American countries. By comparison, Africa accounts for some 45% of the Member States' bilateral aid.

Assistance to non-Associated LDCs

It was in 1975 that the Commission presented the Council with an action programme on financial and technical assistance for non-associated developing countries, which in 1981 was complemented by an outline regulation setting the guidelines, aims and possibilities of this type of Community aid.

Although programme funds reaching these countries were rapidly increased to about one-quarter of total Community aid, they are admittedly still far too low in per capita terms, given that some 1,300 million people live in the 30 non-associated countries which so far have benefitted from the

(1) Community aid in the context of the Lomé Convention is examined in detail in Chapter Six of this document.

programme. In comparison, the associated LDCs count a combined population of 500 million people. On the other hand, the fact that the aid is given in the form of grants and directed mainly to food production in the poorest countries (75%) has meant an effective utilisation of these funds.

Generally speaking over the past years, 73% of the aid programmes has been earmarked for projects in Asia where India is the biggest recipient, 20% for Latin America and 7% for non-Lomé countries in Africa. China has not so far concluded any aid agreements with the Community. The Commission feels, however, that a number of rural development projects currently under study by the Chinese Government are consistent with the goals set by the EC for its financial and technical assistance programme.

Community aid to the non-associates can take three forms. It can be a one-off operation, covering aid to one specific project, and concentrating on one particular aspect of rural life in the country concerned (for instance improving village water supplies, or setting up a clinic). Or, EC aid can cover a larger geographical area as is the case for integrated rural development programmes. Finally, aid can go to national development programmes covering an entire country. This is the case for training programmes, credit or marketing facilities and the like.

The Tables 5-A and 5-B at the end of this chapter give a financial and geographic overview of the non-associates programme.

Emergency Aid

The Community has developed rapid and effective means of stepping in with immediate and unbureaucratic help in emergencies, be it in form of natural disasters, wars or political conflicts from which people have to flee. A large proportion of the available funds are in fact used to aid refugees. These emergency funds are available to all developing countries. Assistance for the ACP countries is financed from a special EDF allocation of 150 million Ecu for Lomé I and 200 million Ecu for Lomé II. Similar budget appropriations exist for the non-associated countries which like the aid for ACP countries are intended to cover the most urgent needs such as medicine, temporary shelters, and food in the event of disasters. All in all, the Community distributed 63 million Ecu in emergency aid in 1980, 47.5 million in 1981 and 81.5 million in 1982.

Food aid

Over 400 million seriously undernourished people and some ten million refugees directly dependent on outside help for sheer survival make food aid the Community's most important humanitarian programme. To help reduce hunger in the world, the EC in 1982 again greatly increased its food aid budget, which at 700 million Ecu (500m Ecu in 1981) now amounts to about one-fourth of total Community ODA.

EC food aid went to more than 60 Third World countries in 1982. It included 1.1 million tonnes of cereals, 150,000 tonnes of skimmed milk powder and 45,000 tonnes of butteroil. Only a small fraction of this is used for disaster relief or refugee support. The bulk goes to cover cases of chronic shortages in specific regions.

Food aid can only be effective if it is integrated as part of an overall food strategy. Such strategies have been adopted by a number of developing countries. The Community declared itself ready to participate in implementing these strategies with any developing countries that asked it.(1)

Combining financial instruments

In the light of the financial constraints experienced by most LDCs, as well as the overall inadequacy of ODA, the Commission has recommended that the Community step up and broaden the use of its financial instruments to assist both Lomé and non-associated countries in tapping the resources of international capital markets. With EIB loans being so far the only instrument available to the EC for channeling market resources to developing countries, the Commission favours a more liberal interpretation of Article 18 of the EIB's statute, so as to enable the Bank to undertake financial operations outside the ACP-Mediterranean area to which they are presently limited. It is further envisaged that the Community use its own borrowing capacity for the benefit of developing countries in order to finance economicallyviable mining and energy projects.

Cofinancing Macro and Micro-Projects

The Community seeks to combine with other aid donors in the financing of large infrastructure projects designed to lay the basis for self-sustained development, such as dams, irrigation systems, roads, ports and railways. Particularly successful in this respect has been the triangular cooperation between the Community, the ACP countries and the Arab States, which during Lomé I helped to finance 48 projects worth 3.6 billion Ecu. The Community provided 36% of the total, the recipient states 22% and Arab funds 12%, while another 12% were contributed by the World Bank and 14% by other donors. In the same period, 29 co-financing operations totalling 1.6 billion Ecu were carried through in non-associated LDCs and six such projects worth 1.7 billion Ecu were approved for the Maghreb and Mashreq countries.

(1) See also Chapter One of this document.

The Community's principal partners in cofinancing under the non-associates programme have been the international and regional development agencies, led by the Asian Development Bank which contributed 47.4 million Ecu and the World Bank (23.5 million Ecu). The Member States participated in 17 projects and contributed 58.8 million Ecu.

Both geographical pattern and sectoral breakdown closely parallelled the make-up of the overall non-associates programme, as Asia accounted for 70% of cofinanced funding, followed by Latin America with 23% and Africa with 7%, while an overwhelming proportion of funds (92%) went into agricultural projects with a particular emphasis on irrigation. The remaining 8% were used to finance utilities.

At the other end of the aid spectrum, the Community established working relationships with leading non-governmental organisations (NGOs) engaged at the grass-root level with the most deprived populations in the Third World. NGO microprojects were first cofinanced in 1976, albeit with a modest budget of 2.5 million Ecu. Since then, allocations have been gradually increased to reach 14 million Ecu in 1981 which, however, was only sufficient to cover about one-third of the applications for cofinancing. Nevertheless, the Community by the end of 1982 had supported 187 NGOs in 1,116 projects with 81.1 million Ecu which benefitted 107 developing countries and led to a total joint investment of 212 million Ecu.

TABLE 5-A

AID TO NON-ASSOCIATED DEVELOPING COUNTRIES TOTAL FUNDS COMMITTED

(in million Ecu)

1976	1977	1978	1979	1980	1981	1982	1983
20.0	45.0	70.0	110.0	138.5	161.6	210.2	235.0

TABLE 5-B

1982 PROGRAMME, COMMITMENTS BY RECIPIENT

(in million Ecu)

India	46.000	Angola	8.750
Bangladesh	23.600	Mozambique	10.658
Bhutan	3.400		
Nepal	3.700	Total AFRICA	19.408
Indonesia	11.670		
Thailand	17.220	Post-catastrophe	9.700
ASEAN	0.030	Research	5.500
		Expertise	4.000
Total ASIA	105.620		
Total	GENERAL	Total GENERAL PROVISIONS	19.200
Costa Rica	18.000		
Dominican Rep.	12.000		
Haiti	6.600		
Honduras	16.900		
Nicaragua	9.800		
Andean Pact	0.676	GRAND TOTAL	210.204
CIMMYT	2.000		
Total LATIN AMERICA	65.976		

Source : CEC.

CHAPTER SIX

COOPERATION BETWEEN THE COMMUNITY AND THE DIFFERENT REGIONS OF THE THIRD WORLD

The Lomé Convention in 1981/1983

Although preparations för the new EC-ACP Convention have taken up much of European Commission's time, questions related to the implementation of the second Lomé Convention received equal importance. The following pages review some of the key aspects of EC-ACP relations between 1981 and 1983.

Most of the EC's assistance to the ACP states from the European Development Fund (2.3 billion Ecu) was programmed in 1981, but implemented in 1982. An indicative aid programme was drawn jointly up by the Commission and the ACP national governements for each of the 63 ACP states. The pace of the financial commitments entered into under these indicative programmes speeded up considerably. While commitments at the end of 1981 amounted to 12% of the total for the programmes drawn up at that date, they exceeded 30% (or 902 million Ecu) of the total at the end of 1982. The rate, however, varies from one ACP State to another, ranging from O.4% in Liberia to 91.8% in Western Samoa.

The amount available under Lomé II for regional cooperation (631.5 million Ecu) was entirely programmed for the financing of regional projects or programmes in the seven ACP regions. The European Commission committed almost 1.2 billion Ecu (including Stabex transfers (1), emergency aid and money for trade promotion) for development projects in the ACP states, in 1982, that is 43.5% more than in 1981. A further 159.5 million Ecu came from the EIB. Two-thirds of the financing decisions taken by the European Development Fund focussed on the «production development sector», with rural development projects and industrialisation and energy projects getting equal amounts from this global chapter heading.

In the rural development sector, alongside the financing of traditional large-scale integrated development projects, there were also more modest projects aimed at giving the rural population the means of improving their living conditions. The emphasis is also on microprojects, stockfarming, and fishery projects.

Commitments for industrialisation and energy projects received about the same amount as that committed for the rural sector. The emphasis was on developing industries which could use local resources and on industrial promotion, the development of small and medium sized enterprises and on training. Energy projects included the development of hydro-electric or geothermal power, and coal. A considerable part of Community aid was also directed to the development of new and renewable sources of energy.

Social development in the broad sense, including education and training, but also health, water engineering, urban infrastructure and housing accounted for around 10% of financing decisions taken in 1982.

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(1) The operation of the Stabex and Sysmin mechanisms is examined in Chapter IV of this document.

Financial aid under Lomé II

Together with subsidised loans from the European Investment Bank (EIB), the sum of 5.2 billion Ecu has been committed for the period of Lomé II, with an additional 94 million Ecu earmarked for the overseas territories and countries (OTC's) still linked to Member States. Tables I and II give a breakdown of Lomé II funds and the Member States contributions (which fall outside the Community's general budget). Administrative and operating costs to the tune of 180 million Ecu, which previously were included in the EDF, are now covered by the Community under its regular budget, thus freeing the entire EDF for project aid.

TABLE I

COMMUNITY FINANCIAL AID (EDF + EIB)

Community financial aid to the ACP States for the 2nd Lomé Convention (1981-1985) has been set at 5 227 million Ecu broken down as follows :

5th EDF : 4 542 million Ecu

of which : 2 928 million in the form of grants
504 million in the form of special loans
280 million in the form of risk capital

Total project aid :

3 712 million Ecu
+ Stabex 550 million Ecu
+ Sysmin 280 million Ecu

EIB* : 685 million Ecu in the form of loans from the Bank's own resources with interest rate subsidies of 3%

Grand total : 5 227 million Ecu

* The EIB will be able to commit 200 million Ecu to the mining and energy sector in the form of ordinary loans not eligible for interest rate subsidies. This sum is not included here.

Source : CEC.

Accounting for 40% of programme aid, agriculture is the priority sector of Lomé II. Then come transport and telecommunications with 20%, the social sector (training and public health) with 12%, industry, energy and mining with 9% and housing and urban development with 6%.

TABLE II

MEMBER STATES CONTRIBUTIONS TO THE FIFTH EDF

The fifth EDF stands at 4 636 million Ecu (4 542 million Ecu for financing operations in the ACP States plus 94 million Ecu earmarked for the overseas countries and territories (OCT), made up of Member States' contributions in the following amounts (in million Ecus)

Belgium	273.5
Denmark	115.9
Germany	1,312.0
France	1,186.0
Ireland	27.8
Italy	533.1
Luxembourg	9.3
Netherlands	343.1
United Kingdom	834.5

Source : CEC.

Cooperation with the Mediterranean Countries

Nowhere is the interrelation between trade and aid more pronounced than in the Community's cooperation agreements with the Mediterranean countries. Modelled on the Lomé Convention, the accords with the countries of the Maghreb (Tunisia, Algeria, Morocco), the Mashreq (Egypt, Jordan, Syria, Lebanon) and Israel represent an integrated package of trade preferences, export promotion and technology transfer as well as financial aid protocols.

The latter are of five year duration while the overall agreements - unlike the Lomé Conventions - last indefinetly. Table III gives a geographical breakdown of the funds provided under the First and Second Financial Protocols.

Although the Commission admits that aid provided under the financial protocols is notoriously inadequate in the light of the enormous structural changes required of the economies of the South Mediterranean countries, the Community's involvement can nevertheless serve as a catalyst in encouraging other funders and in promoting co-financing projects. Thus, potential non-EC suppliers of funds will become more interested in investing in these countries if they can be sure of preferential access to the Common Market for the products they might manufacture there.

TABLE III

FINANCIAL AID FROM THE COMMUNITY TO THE SOUTH MEDITERRANEAN DEVELOPING COUNTRIES, 1981-1986 (SECOND FINANCIAL PROTOCOLS)

(in million Ecu)

COUNTRY	TOTAL	EIB	BUDGET	SPECIAL LOANS	GRANTS
Algeria	151 (114)*	107 (70)	44 (44)	16 (19)	23 (25)
Morocco	199 (130)	90 (56)	109 (74)	42 (58)	67 (16)
Tunisia	139 (95)	78 (41)	61 (54)	24 (39)	37 (15)
Egypt	276 (170)	150 (93)	126 (77)	50 (14)	76 (63)
Jordan	63 (40)	37 (18)	26 (22)	7 (4)	19 (18)
Lebanon	50 (50)	34 (40)	16 (10)	5 (2)	11 (8)
Syria	97 (60)	64 (34)	33 (26)	11 (7)	22 (19)
Israel	40 (30)	40 (30)	—	—	—
TOTAL	1,015 (689)	560 (382)	415 (307)	155 (143)	260 (164)

* First Financial Protocols, 1977-1981.

Source : CEC.

Commission proposals for a new Mediterranean policy for the enlarged Community

The prospect of European Community enlargement to include Spain and Portugal - and its effects on the EC's trade links with the Southern Mediterranean states - has been a subject of major concern in the Maghreb, Mashreq and Israel since the late 1970s. Other countries also affected include Turkey, Cyprus, Malta. The Commission, which has studied the issues in a number of reports, recognises that the southward enlargement will have a major impact on its trade in industrial and agricultural products with its partners in the Southern Mediterranean. But, in a major policy document, it has also stressed its determination to «safeguard the policy of openness and cooperation on which it has embarked with the Mediterranean countries... in order to contribute towards their economic and social development». (1)

The paper underscores the need for a new initiative which would reassure the Southern Mediterranean states about the EC's intentions once Spain and Portugal join the Community. The Mediterranean is an area of considerable importance, in relation to which the Community, for historical and geographical reasons, is in a unique position and has responsibilities it cannot shirk.

The report points out the limits of the «overall Mediterranean approach» worked out by the Community in 1972. For one thing, the Community's far-reaching concessions on the industrial side have not had the desired results, essentially because of the repercussions of the world economic crisis both on the EC and on the Southern Mediterranean states. Secondly, the Community's internal Mediterranean problems made it difficult for the EC to review its agricultural concessions granted to the Maghreb, Mashreq countries and Israel in the 1970s. As a result, the countries of the Southern Mediterranean run a trade deficit with the Community which totalled 3.3 billion Ecu in 1981 and 2.2 billion in 1982. This has prompted a number of countries to impose severe import restrictions which have, in fact, hit EC exports.

The EC recognises that the Southern Mediterranean states could well find themselves facing even tougher competition on the Community market once Spain and Portugal join. Moreover, the greater ease of access to employment which Spanish and Portuguese workers could enjoy in the Community framework could shut the doors to immigration from the other Mediterranean countries. Although the Maghreb and Mashreq states and Israel will also benefit by enlargement because they will be able to export more to Spain and Portugal - who will be committed to opening up their markets in keeping with EC obligations - the Commission recognises «that in the short term, the export openings created for our

(1) Commission Communication to the Council on a Mediterranean Policy for an Enlarged Community, COM (82) 353 Final.

Mediterranean partners on the Portuguese and Spanish markets will be extremely limited».

The products most affected by EC enlargement in the agricultural sector include citrus fruit, particularly oranges and small fruit, fresh tomatoes, potatoes (especially new potatoes) wine and olive oil which account for the bulk of the Community's agricultural imports from countries in the Mediterranean area. As far as manufactures are concerned, the main problem is with processed food, especially tomato concentrates, fruit juice, canned fish, textiles and leather footwear. The EC is by far their largest market.

But the Commission insists that the Community fulfil its obligations. «The Community should, therefore, show itself to the Mediterranean countries as being a reliable partner, whose trade and aid policies can be counted on in the longterm». The focus should be on standing by previous undertakings in spite of continuing recession and the risk that internal cohesion will diminish after enlargement.

The main proposals for such a policy are as follows :

— the Community must commit itself to a consolidation of existing trade concessions in the agricultural sector granted to the South Mediterranean states;

— the Community must endeavour to ensure that its own production policy does not clash with the interests of the Mediterranean partners. It will also have to encourage as much complementarity as possible between its own and its partners' Mediterranean agriculture, for instance, as regards the timing of production and marketing;

— in order to improve their trade balances (between the EC and the South Mediterranean states) the agreements should as far as possible, encourage the South Mediterranean states to gear their agricultural production to home demand thereby reducing their dependence on food imports rather than to increase their exports;

— there should be no question of going back on the dutyfree access to EC markets for industrial exports granted by the Community to the South Mediterranean states. But, the restatement of this principle should be accompanied by the installation of better functioning mutual consultation machinery so that proper concerted action can be taken whenever necessary;

— the main aim of a Mediterranean policy must be for the Community to help its partners with their development, while respecting their domestic and foreign policies. This will require increased EC financial aid or EC assistance in getting funds mobilised on the international capital market;

— cooperation on social and labour policies also need a boost. This should be through efforts to give migrant workers true equality in their living and working condition.

— the long-term option of a global convention between the EC and the South Mediterranean states should be kept open.

Finally, the Commission report makes it clear that the Community cannot and must not let its immediate domestic and external difficulties deter it from following such a policy.

Links with the non-associated states

In addition to its preferential ties with members of the Lomé Convention and countries in the South Mediterranean, the EC has continued to develop wide-ranging links with the non-associated countries of Asia and Latin America.

During the 1970's, formal trade and economic cooperation agreements were concluded with four South Asian States India, Pakistan, Bangladesh, and Sri Lanka. An agreement has also been signed with the member countries of the Association of South East Asian Nations - ASEAN - and with the Chinese Peoples Republic. Discussions on the negotiation of an agreement with the Republic of Korea are under way.

Similar commercial and economic cooperation agreements have been negotiated with four Latin American states - Brazil, Mexico, Uruguay and Argentina - while a global framework agreement with the member states of the Andean group was negotiated in 1983.

Agreements between the EC and the non-associated countries are «non-preferential» because they do not lead to any reduction in EC tariffs for the import of goods from these countries. Nor is the EC committed to giving the same amount of aid to the non-associates as it is to members of the Lomé Convention or the countries in the South Mediterranean. Despite this, however, EC aid and trade with the countries in Asia and Latin America have grown substantially over the years.

All non-associated states are also eligible for European Community food aid, emergency assistance, trade promotion facilities as well as preferential access to the EC's market as a result of the Community's Generalised System of Preferences. The non-associates financial and technical assistance programme is now a well-established component of the Community's overall development cooperation policy.

In the two-year period 1981-1983 the Community reinforced its links with different non-associated countries and regions of the Third World, including India, Nepal, the ASEAN states and Latin America. The following pages summarise briefly just what this expansion has meant for the EC and its partners in the developing world.

EC relations with India

«The relationship between India and the European Community is not only economic. It has an important politic dimension. It is a relationship between two unions of democracy». This was the message conveyed to the Indian authorities by Gaston Thorn, the President of the European Commission, when he paid an official visit to New Delhi in November 1982.

The EC's links with India, a giant among developing countries (with a population of 680 million and a land area roughly twice that of the EC), date back to 1962 when India first established a diplomatic mission to the EC. The two sides signed a commercial cooperation agreement in December 1973 to develop and diversify trade. This pact became a model for similar agreements between the EC and other developing countries outside the Lomé Convention.

Negotiations for the conclusion of a new economic cooperation-agreement between India and the EC ended in April 1981 and the new pact, which is wider-ranging and more comprehensive than the previous agreement, was signed in June 1982. The new arrangement provides for industrial, scientific and technical cooperation between the two sides, and could, once again, pave the way for similar agreements with other South Asian countries - Pakistan, Bangladesh and Sri Lanka.

Both sides have agreed to set up a new council designed to bring together Indian and EC businessmen. The aim of the programme is to help Indian industry make a bigger breakthrough on the Community market, to bring together potential business partners, and to identify the scope for increased economic cooperation whether in the marketing of Indian products in Europe, the development of the Indian market or, finally, in the development of Indian exports on world markets.

India is the leading beneficiary of the EC's financial and technical assistance programme for non-associated developing countries and has received over 180 million Ecus from this programme over the past five years. India also heads the list of developing countries which are regular beneficiaries of the EC's food aid programme. In India's case, EC aid is used to develop local dairy industries through the wide-ranging «Operation Flood» programme. The EC is committed to providing a total of 186,000 tonnes of milk powder and 114,000 tonnes of butteroil to the six-year project at a total cost (at present world prices) of about 200 million dollars.

EC trade with India represents about 1% of the Community's total trade. The EC is, however, India's largest export market, with 26% of all exports going to the EC, compared with 12% sent to the United States. The EC is also the leading exporter to India, supplying 26% of total Indian imports. EC exports to India totalled four billion Ecu in 1982 while Community imports from that country came to 2.6 billion Ecu in the same year.

The EC Commission opened a delegation in New Delhi in the spring of

1983 which is also responsible for relations with Bangladesh, Sri Lanka, Nepal, Bhutan and the Maldive Islands.

Relations with Nepal

The EC sought closer relations with Nepal in 1981 when a Commission delegation visited the country to look at development projects for future assistance and later in 1982 when Commission President Gaston Thorn met Nepalese leaders in Katmandu. Total trade between the Community and Nepal is about 30 million Ecu. Nepal's main exports to the Community, all of which have duty-free access, are raw jute, carpets, leather, vegetables and some handicrafts. Nepal has also benefitted from the Community's programme of aid for non-associated countries to the tune of 5.2 million Ecu and received some food aid, following the drought which hit the country in 1979.

The European Community and ASEAN

The European Community's political, economic and trade links with the five member countries of the Association of South East Asian Nations (ASEAN : Indonesia, Malaysia, the Philippines, Singapore and Thailand) have been growing steadily over the last ten years, ever since both sides decided to set up a regular dialogue (through the ASEAN Brussels Committee) and later, in 1975 when a «Joint Study Group» to examine questions of mutual economic interest was created.

The EC welcomed the formation of ASEAN in 1967 recognising the viability of the organisation and its potential in regard both to the economic development of the region and to political stability in the whole of South-East Asia. Increasing contacts between the EC and ASEAN led to the conclusion in March 1980 of a wide-ranging cooperation agreement which is in fact the first such agreement to be concluded in the name of ASEAN by its five members. The pact is evolutionary in character, flexible and covers such areas as trade and economic cooperation. It also provides for cooperation between the two sides for the development of the ASEAN region as a whole.

Trade promotion is an important part of the new agreement and the EC has set up a number of schemes designed to promote exports from the ASEAN region. These schemes include the organisation of exporter's trade missions to Europe and European buyers' missions to ASEAN, participation in fairs for ASEAN members, organisation of workshops, the provision of experts in various fields, the setting up of trade centres, etc.

Although trade between the EC and ASEAN has grown over the years (EC exports to the region for instance have gone up from 1.6 billion Ecu in 1973 to 8.4 billion Ecu in 1982), EC experts stress that the Community - and EC businessmen - have been slow to appreciate the opportunities for more intense economic exchanges with ASEAN. ASEAN today represents only 2.4% of the Community's external trade and is therefore much less important an outlet for EC exports than either members of the Lomé Convention or the Latin American states. Much the same trend can be seen in the investment field. Japanese investments in ASEAN have grown rapidly and are estimated at just over one third of total foreign investment in the region, as against about 16% for the United States and only 14% for the Community.

An ASEAN-EC Business Council has also been set up to encourage the development of trade and investment in the two groups of countries. ASEAN governments and the EC have made it clear that their private sector has a key role to play in strengthening economic and trade ties between the two sides.

Development cooperation is another major area covered by the EC-ASEAN agreement, and commits the EC to cooperating with ASEAN in order to contribute to the region's self-reliance, economic resiliance and social well-being. This is done through EC financing for development projects and programmes including food production and supplies, rural development, education and training facilities. The EC has to date spent a total of 84 million Ecu for development projects in Thailand, Indonesia and the Philippines and for regional projects for ASEAN as a whole.

There is another important element to the EC-ASEAN relationship : ministerial meetings, attended by foreign ministers from both sides which have become a regular feature of the EC-ASEAN dialogue. Three such meetings, devoted to a study of international political issues, have been held between the two sides.

In addition to the regular ministerial consultations, the EC-ASEAN agreement also provides for annual meetings of the Joint Committee set up to monitor how the pact was being implemented.

New moves in relations with Central America

In addition to its existing links with Latin American countries (including a regular dialogue with ambassadors from the Latin American Economic System (SELA), and the new agreement with the Andean Pact states), the Community has focussed attention on helping the poorer nations of the Central American region.

Although the possibility of a global framework arrangement with the Central American states was raised as early as 1975, subsequent developments in the region (especially as far as human rights are concerned) narrowed the scope and content of the EC's dialogue with the Central American states. This dialogue has, in fact, been limited to a series of meetings between Ambassadors of the Central American isthmus and the European Commission.

The EC has, however, continued to include the Central American states in its annual programme of financial and technical assistance to the non-associated states. The six countries have, in fact, received over 50% of EC aid to Latin America in recent years.

The political and economic importance of boosting EC ties with Central America was stressed by European Heads of State and Government at their meeting in Brussels in March 1982. The European Commission followed up on the European Council proposals in June 1982 by sending a communication to the Council of Ministers which called for special financial measures to promote economic and social development in Central America. The main emphasis in the Commission's call for a new approach was on stepping up aid to Central America, and helping the region in its attempts to reform its agriculture and agrarian policies.

The EC Commission's call for increased aid to the Central American states was accepted by the Council of Ministers in November 1982 when a decision to give an additional 30 million Ecu in financial and technical aid was finally taken. The money is destined primarily for rural development projects as part of the agrarian reform currently under way in most of Central America. The additional aid will virtually double the amount of funds originally provided for Central American by the EC and demonstrates the Community's desire to contribute towards the socio-economic stabilisation of the region.