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COMMUNITY POLICY FOR THE NORTH-SOUTH DIALOGUE

(Commission communication to the Council)

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SUMMARY AND CONTENTS

This communication contains the Commission's proposals to the Council for an overall strategy for the forthcoming rounds of the North-South negotiations.

It is in three parts :

- part one, "The scale of the crisis and North-South relations", concentrates on some important aspects of the current crisis in the world economy, it being the Commission's view that Europe must act on the pattern of developments if it is to come out of the present situation without loss of solidarity, influence or living standards;
- part two is concerned with the specific responsibilities of the Community as well as its objectives in the North-South dialogue;
- part three suggests a Community platform for the North-South negotiations and puts proposals on :
 - . energy
 - . financial aspects of North-South relations
 - . food
 - . trade policy, industrial restructuring and adjustments of trade
 - . commodities.

Each of these topics, here dealt with as part of the broad outline, will be covered in a working paper in support of the conclusions of this communication.

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INTRODUCTION

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INTRODUCTION

The seriousness of the crisis facing the industrialized countries and the scale of the economic and financial difficulties besetting most Third World countries, in some cases putting their stability at risk, call, over and above domestic recovery and adjustment imperatives, for the working out of internationally coordinated solutions to the most urgent problems such as energy, finance, and food supplies. The close links of interdependence between industrialized and developing countries mean that the North-South dialogue, while not in itself the whole answer, must play a part in such collective endeavour.

Despite earlier failures, several attempts will be made in 1981 to open a "global" North-South dialogue. As well as the planned North-South Summit in Mexico and the launching of the UN Global Negotiations, there will be the sectoral talks going on in GATT, UNCTAD, and the Bretton Woods institutions plus bilateral discussions with different categories or regional groups of developing countries.

It is the view of the Commission that the Community ought to lay down forthwith the policy guidelines which will govern its stand in the renewed dialogue.

The urgency and scale of the problems directly affecting the Community's interests make it incumbent on us to push our own ideas in the various forums where different aspects of North-South relations are to be dealt with in the coming months - the meetings of the IMF Interim Committee and the Development Committee in May, the Nairobi Conference on new and renewable energy sources in August and the Paris Conference on the least-developed countries in September, to take some examples.

The Commission considers that in the dialogue, the Community should take the initiative with proposals in the mutual interests of developed and industrialized countries, including its own. This approach is dictated by the role of North-South relations in the crisis and its assessment of the Community's place in that crisis, and possible solutions.

I. THE SCALE OF THE CRISIS AND NORTH-SOUTH RELATIONS

At the time of the first attempts to set up the North-South dialogue (the CIEC) the nature and scope of the crisis were generally underestimated. The accepted wisdom was that the world economy was in the grip of a cyclical downturn essentially internal to the industrialized countries - with monetary problems, a slackening of growth in the wake of overheating in the 1969-1974 period, inflation - complicated by the effect of the staggering rise in the relative cost of oil, a rise at worst regarded as final, and even then perhaps excessive.

Basically, therefore, the industrialized countries looked for a solution in domestic policies (to fight inflation or reduce dependence on imported energy) or closer coordination amongst themselves (to deal with monetary problems and trade negotiations). Although the importance of action in all areas of North-South relations was clearly affirmed, the potential contribution of such action to resolving the problems affecting the industrialized economies was only dimly perceived and the negotiating and implementing difficulties were such that in the end the only area in which a consensus emerged was that of aid for the poorest of countries.

The last five years have shown us that the scope of the problem was wider, and the necessary solutions more difficult to apply, than was realized then.

There are a number of complex forces at work in the present crisis, which have produced not only underemployment, inflation and instability but also structural changes and shifts in the balance of power and wealth.

Against this background the Commission wishes to lay particular stress on three important aspects of the crisis, because they are closely bound up with North-South relations and because in its view, Europe must take a hand in the development of those relations if it is to come through with its cohesion, influence and living standards intact.

1. The first of these aspects, chronologically speaking, and probably the most important, is the restructuring of production patterns worldwide.

First and foremost this is the result of competition between the three industrialized blocs - USA, Europe and Japan - forcing them to try and boost their competitiveness and acquire mastery over growing markets and industry associated with technological breakthroughs.

To add to this three-way competition has come the emergence from among the ranks of the developing countries of the "nics" (newly industrializing countries) which have become internationally competitive in many fields and have taken a growing share of world production and trade.

The arrival of the third world in an arena of international competition previously reserved for the industrialized countries is only one aspect of the growing part played by developing countries in the world economy. The rise in energy prices, tilting the world balance of comparative advantage, changes in the cost of production factors, the growing importance of third world markets, all render the international economy increasingly sensitive to trends affecting the developing countries.

These newcomers are entering the field of industrial and trade competition against the background of a trading system which despite all counter-pressures is still an open one.

Such freedom must remain the norm; it is the only way technology can spread and long-term growth be assured in both developing and already-industrialized countries. This will require industrialized and developing countries alike to pursue adjustment for, in all probability, some time to come. The persistence of the problems we are suffering today is due to the fact that efforts to adjust have fallen short of what is required in the interests of free trade.

Although they are not the largest issues in the restructuring and adjustment which will be needed, there are two aspects of the problem which particularly relate to North-South relations.

- (a) The relative competitiveness of the United States, Japan and Europe depends largely on the speed with which these major industrial powers can adjust their production structures in response to the arrival of the nics, and boost the overall productivity of their economies by both abandoning unprofitable sectors and bringing down the cost of their (imported) inputs and consumer goods;
- (b) it also depends on their ability to increase their share of third world markets (for capital goods and technology in particular). In the competition between the industrialized countries, the third world and Eastern-bloc markets (and hence, of course, the seal of financial support for their expansion) could, moreover, be of strategic importance. This importance is enhanced by the fact that the big industrial powers, faced by sluggish growth at home, will be forced to divert their main thrust to conquering other markets.

2. A second dimension of the crisis is the appearance (or sudden awareness) of specific scarcities which tend to change relative prices, increase the pressure for structural adjustment, and transfer wealth and power towards those controlling the supply of such scarce resources. Here again we see the importance of North-South relations in any action to mitigate some of these constraints.

Naturally energy heads the list here: the repeated - in some cases abrupt - oil price rises are the most visible symptoms of the crisis, so much so that they have sometimes been seen as its root cause.

In the relatively near future the most serious constraint on how things develop could be food. The emergence of this factor is reflected in the widening gap observed in recent years between the rate at which output is being increased, at rising cost, by the major traditional grain exporters

and the faster growth of world demand for imports, particularly from the Eastern bloc (including China) and the developing countries. The Community cannot turn a blind eye to this trend when its own common policies could help bring about a return to a balance in the world food situation.

3. There is a further, geopolitical, dimension to the crisis. Now the economic crisis is compounded by a deterioration in the climate of East-West détente and serious threats to the stability of the Community's immediate political environment and its sources of essential supplies.

Maintaining stability in its neighbouring regions is therefore a prime objective for Europe, and particularly highlights the importance of carrying on the work already initiated by the Community - adding flesh to the Euro-Arab Dialogue, for example, continuing and strengthening the Lomé policy and developing relations with the non-associated countries.

II. THE COMMUNITY AND THE NORTH-SOUTH DIALOGUE

The preceding chapter highlighted various aspects of a crisis which is characterized at political level by a heightening of insecurity, increasing and widening areas of conflict and, on the economic level, by tougher competition, increasingly unpredictable behaviour on the part of the different parties, and a change in the fundamental variables of economic activity (upsurge in protectionism, exchange rate fluctuations, inflation, increased interest rates, the prices of oil and food, etc.). In the light of such abrupt changes, the developing countries cannot be expected to cope on their own with the security and welfare requirements of their people. This hope has already faded for those developing countries which, even during the decades of relative stability, remained on the sidelines of world growth and development ; nor is immunity guaranteed for countries such as the "nics" or the oil producers, which now have extra assets since full exploitation of their relatively advantageous position presupposes a minimum of order and economic security if they are to secure the markets, finance and technology which they seek.

The Community, despite the strength it derives from its big population and its technological and industrial fabric, will likewise have to forge a determined policy in order to ride out the crisis and thereby maintain its cohesion, the living standards and quality of life of its citizens, technological parity with its main competitors, control over the vital sectors of its economy and a satisfactory share of foreign markets.

Essential as they are, it is not necessary to enumerate here all the measures required of the Community internally.

However, the Community and its Member States do not form a largely self-sufficient entity. Their internal policies cannot be framed without a clear vision of the way it would like to see the world economy develop, of the position it intends to occupy in that economy, and of its external policy objectives.

Now greater interdependence may mean greater insecurity unless the behaviour of politicians and economic operators becomes more predictable at the same time. Economic interdependence must be accompanied by a strengthening of the rule of law, contracts and codes of conduct.

Of the industrialized countries, Europe is probably the one with the biggest immediate economic interest in reduction of constraints caused by scarcities and of unstable modes of behaviour.

In the United States the new Administration would appear to be giving priority to restoring economic balances and to bilateral aid rather than to strengthening the effectiveness of the multilateral system and world regulatory bodies such as the IMF and the World Bank.

Europe must therefore, if need be with the help of other industrialized countries (Scandinavia, Canada) which share the same problems with the same root causes, identify those areas where all the industrialized countries have a common interest and where joint or coordinated action is required. It must emphasize to its partners, particularly the United States and Japan, the link between, on the one hand, the economic and political security of Europe, and by extension of the whole of the Western world, and, on the other hand, the re-establishment of international economic relations offering sufficiently attractive prospects to its developing partners.

The preceding chapter analysed those areas where joint action might be possible and mutually profitable. One such area would be efforts to reduce world resource constraints, whether of energy or food. Even if some countries are more self-sufficient than others, all would be affected by the threat of instability following any future shortages. It is equally essential to strengthen the multilateral institutions which, even though

in need of change as regards their functions and operation, are the only regulatory instruments capable of limiting the insecurity and arbitrary behaviour prevalent in international relations.

To this end, the Community must seek to persuade its partners to establish with the developing countries relations in which negotiation and contractual arrangements gradually become the norm.

The Community, in the various regional agreements it has concluded with developing countries (Lomé, Mediterranean agreements, ASEAN), has provided the example. Even though such contractual relations form part of the North-South dialogue and at present are in fact the most effective part, their durability and development would be endangered in the absence of tangible progress on a global framework for relations between North and South.

Specific action by the Community where its interests so demand, joint action by the industrialized countries and other groups of countries in response to specific problems (e.g. concerning energy or agriculture), multilateral action to improve the operation of the existing institutional system, ensure that existing rules and agreements are observed and, where such do not exist, to elicit and gain recognition for certain principles and standards of behaviour - these are the various issues that should prompt action and negotiations in the North-South dialogue.

Community action in the North-South dialogue must therefore stem from coherent principles which allow it to assert its own interests and to rally the maximum international consensus.

The general objective of the Community action must be to seek ways of strengthening the security of its international environment and increase the predictability of behaviour in the major fields of North-South economic relations: energy, financing, trade, commodities and food.

This objective can be attained only if the international system encourages all parties concerned effectively to assume their responsibilities.

The following guidelines of a more specific nature should be added to this objective of security and predictability:

- i. the scarcity constraints that weigh heavily on the world economy should be eased, particularly those relating to energy and food;
- ii. development financing should be improved in such a way as to prevent a worsening of the economic situation of the developing countries, and, as a consequence, to improve economic activity in the industrialized countries;
- iii. policies should be adopted which would enable the Community to pursue its efforts to restructure its manufacturing base while ensuring greater access for developing country products and hence make the Community better able to withstand competition from the major industrialized countries.

Each of the main guidelines and the proposals for action which they contain are sketched out briefly below and will be substantiated and explained in greater detail in the working papers that are to follow up this communication.

III. COMMUNITY PLATFORM FOR THE NORTH-SOUTH NEGOTIATIONS (1)

The proposals which the Commission would like to see presented by the Community in the North-South dialogue concern the following fields :

- energy
- financial aspects of North-South relations
- food
- trade policy, industrial restructuring and adjustments to trade
- commodities.

(1) A specific paper will be issued on each of these subjects to illustrate the conclusions presented here.

1. Energy

1.1. The energy constraint

The conditions for long-term growth of the world economy were radically changed in the early seventies, when it became clear that world energy consumption was rising at a faster rate than the discovery of new fossil energy reserves able to be exploited at reasonable cost.

At that point countries with such reserves realized that they could boost their total revenue from them by slowing the rate of production, since to satisfy growing energy needs it would be increasingly necessary to turn to primary products with higher total utilization costs.

For all fuels including oil, the scope for price maximization based on slower depletion depends firstly on how easily a particular commodity can be replaced in its various uses (whether as a fuel or otherwise) and how fast aggregate world demand expands, and secondly on the specific demand for that particular commodity.

Aside from these long-term considerations, both short-term revenue constraints and the desirability of pressing ahead with investments which look likely to yield better long-term returns than managed commodity reserves also inevitably enter into the calculations.

In addition, fuel-exporting countries are coming more and more to realize that although collectively their control of the supply tap enables them to push up prices considerably in the short and medium term, they thereby force the rest of the world to curb demand and seek alternative energy sources, to the extent that the overall world growth rate, and even more the level of demand for fuel commodities, is diminished. Eventually this would tend to hold back the exporting

countries' current revenue and make the return on their productive investments elsewhere more problematic.

In the face of this fundamentally altered fossil fuel supply situation, the consumer countries have no choice but to cut demand as best they can and make more use of energy sources previously regarded as uneconomic (other fossil fuel reserves, nuclear energy or renewable energy sources).

While some energy saving can be achieved by a measure of discipline (e.g. lower central heating temperatures and speed limits), other economies, and conversion to new energy sources, require considerable investments.

At a time of stagnating overall demand and high interest rates the moment when these investments will start to pay off in total cost savings has receded farther into the future, and many firms lack either the revenue or the capital to invest at the moment even where long-term gains are already in prospect.

Some businesses may be reluctant to invest because a strong recovery in world growth, and the consequences it would entail for energy demand, still appear a long way off.

Others are doubtless assuming that the rest of the world will invest heavily enough in energy saving or substitution to prevent fuel prices reaching a level that would make it worth while for them to carry out what would basically be energy-oriented investments as well.

Given the various constraints and attitudes we have described, any even fairly vigorous recovery in the world economy would be extremely likely to run up against further strain on the energy market.

They may also lead to consumption of some fuels, e.g. oil, remaining higher than the level which the long-term interests of both users and producers would dictate.

This overconsumption of certain fuels is also against the interests of countries with reserves of other energy commodities, who could otherwise earn larger short and medium-term revenues.

In anything other than the short run the interests of all countries with energy reserves and all energy users are therefore closely intertwined; it is in all their interests to see that as many enterprises as possible regulate, and are enabled to regulate, their attitudes and actions in accordance with an optimal assessment of long-term exigencies.

1.2. Guidelines for the North-South negotiations

All interested parties will have to be prepared to cooperate during the transition from the current shaky equilibrium to a less oil-based, more resource-conscious world economy, to help finance energy development in the developing countries and ensure an orderly trend of oil supply and demand and hence oil prices, without which all efforts are likely to fail.

If the attempt to develop energy supplies in the developing countries is in the general interest, then the burden of effort should be shared among oil-exporting and industrialized countries, however the share-out of contributions and responsibilities may be organized in detail.

The industrialized countries have now woken up to the fact that OPEC links the production issue to that of its financial assets, and should have regard to this concern for some form of protection of certain asset values. Quite apart from the question of oil supplies, it is in the

common interests of industrialized and oil-producing countries both to seek solutions to the various financial problems posed by substantial surpluses.

Also the cooperation being sought from the oil-exporters as a whole would not make sense for certain countries which today have almost exclusively oil-based economies unless it was backed by an international effort to help them broaden their economic base. This essentially means access to technology and markets and even to development finance for some oil-exporting countries which run a net deficit in international trade.

Cuts in energy demand should be spread equitably among the major consumers.

Because of the complex and genuinely difficult nature of coordination on such questions, the Community should keep an open mind on the possible institutional approaches.

Some of the problems (supply contracts, how to safeguard assets, market access, transfer of technology) are a matter for restricted negotiations in detail, which would gain from being set in a multilateral framework. But at the moment there is no world forum or any set of basic principles on energy approved by all or even a majority of countries. So far the UN Global Negotiations offer the only practical prospect of creating such a framework.

It therefore seems important for the Community to secure acknowledgment there for certain principles and rules of conduct. These will include the need:

- To organize at international level a joint study by producers and consumers of the energy situation and prospects for the trend of supply and demand. Ongoing coordination could be established to allow the exchange of information on energy development and foster technical cooperation between industrialized and developing countries;

- to establish and maintain a balance between energy supply and demand compatible with the growth requirements of the world economy, by a joint attempt to achieve rational use and development of all renewable or non-renewable energy resources. An energy affiliate of the World Bank endowed with its own capital and appropriate methods of management, and with a distribution of powers reflecting the responsibilities accepted, would undoubtedly be the most effective way of combining the efforts of industrial and oil-producing countries to develop the energy resources of the developing countries;
- by such means to ensure greater security of supplies to energy-deficit countries - particularly the developing countries - and a more orderly trend of energy prices.

The new ground to be covered by negotiations on different aspects of the energy question and the considerable obstacles in the way of the emergence of common solutions will make the progress of such negotiations within official forums particularly difficult. To ensure the best chance of success, therefore, the formal talks should be preceded by meetings and informal contacts to bring the points of view of the main parties involved closer together. The Community should be particularly active in contacts of this kind. It can do this effectively and with authority only on the basis of common positions on the main topics of discussion.

2. The financial aspects of North-South relations

2.1. Financing deficits and growth in the non-oil developing countries

During the eighties the developing countries' demand for external finance, though it will depend on the trend of the international economy, will in any case be enormous: to their "normal" investment requirements will be added those occasioned by the need to adjust to the new energy situation.

Reducing financial problems by cutting the level of effective demand and thus of growth is not feasible for the developing countries as a whole, though it may be possible for a few of them. Consider:

- i. As the OPEC surplus must be reflected in deficits elsewhere, no attempt on the part of developing countries to adjust by cutting demand could really succeed in reducing their deficits unless the industrialized countries were willing to shoulder a larger part of the oil deficit themselves. But if everyone rushes to apply deflationary remedies, the economic situation will simply get worse.
- ii. The consequent slowdown in the developing countries' growth would not only have intolerable economic and social consequences, it would delay the structural adjustments made necessary by, inter alia, the new energy situation. Such a slowdown would also have serious repercussions on the industrialized economies.

To avoid this sort of situation, therefore, the developing countries must be provided with the right amount and type of finance, which must be efficiently deployed to foster both development and the necessary structural adjustment process.

The banking system must continue to play a major part in recycling, but it is questionable whether it will be able to step up its activities fast enough to cope with the needs created by the second oil crisis. Anyway, the

banks' terms will continue to put this source of funds beyond the reach of the poorer developing countries and at the same time could add to the problems of indebtedness for the others. Nor is it the job of the banks to direct funds to those investments which will allow the necessary structural adjustments to be carried out.

In these circumstances, official international initiatives are needed to support and supplement private-sector recycling. In particular, it is necessary:

- (a) first, to see that the flow of credit from the banks does not dry up, while at the same time trying to channel it towards priority projects (greater emphasis on cofinancing with the World Bank, regional banks or the Community and on joint financing operations with the IMF, setting up of a mutual assistance safety net between banks with or without backing from public funds);
- (b) second, to encourage other forms of resource transfer using market mechanisms (in particular the issuing of bonds and direct investments);
- (c) third, to improve official financing machinery.

As regards (c), what is needed is to improve ODA¹, which must be substantially increased towards the 0.7% target, not only to cope with the needs of the poorest developing countries (which further involves a distribution problem), but also to allow the bulk of the other measures advocated above to be put into effect. ODA methods and terms must also be more closely tailored to the needs of the recipients. The same applies to public funds granted on non-concessionary terms.

¹Official Development Assistance.

As regards multilateral financing, there are obvious reasons - the experience of the IMF and IBRD in their different fields, and the problems, delays and risk of overlap involved in setting up new machinery - for trying to get the best out of the existing institutions without fundamentally changing them. This can be done by :

- i. increasing their resources : an eighth quota revision, borrowing, allocating SDRs if necessary, some of which could be earmarked for the IMF to provide structural adjustment loans within the framework of its facilities; putting the Bank's latest capital increase into effect and doubling its gearing ratio;
- ii. differentiating terms to suit the situation of different debtors, via interest rate subsidy accounts, some of which already have official standing - the Bank's third window or the account set up in connection with the IMF's Supplementary Financing Facility ;
- iii. changes in methods ; in determining conditionality and scheduling programmes and maturities, the IMF should take account of the long-term, structural nature of current balance of payment problems ; in the case of the Bank, there should be more programme lending, e.g. for structural adjustment : the proportion should be increased above the 10 % limit set a few years ago.

Giving first priority to the existing machinery does not mean ruling out a degree of institutional flexibility if this turns out to be needed to cope with the whole range of the developing countries' financial requirements and give the OPEC countries' greater responsibility for the management of the international finance system.

In this connection the establishment of a World Bank energy affiliate has a significance going beyond the immediate object in view, since it provides a chance for non-oil developing countries, OPEC and industrialized countries to learn to work together and adapt institutions in a limited context and for a specific purpose.

2.2. Investing oil surpluses

The oil-exporting countries are going to amass huge surpluses over the next few years, and it is up to the international community as a whole, but in particular the industrialized countries on whose markets the flow of OPEC assets is likely to concentrate, to mobilize all existing investment possibilities and if necessary set up new arrangements. The aim should be to see that world involuntary saving, corresponding to oil revenues not used to purchase goods or services, is put to productive purposes, helps finance deficit countries, whether developing or industrialized, and does not threaten the stability of the banking system or national macroeconomic policies by sudden movements of funds or the excessive creation of liquidity. A further aim should be as far as possible to take account of the oil surplus countries' financial behaviour and to increase or strengthen their links of interdependence with the industrialized countries to give OPEC a stronger interest in a smoothly functioning world economy.

It is important to stress that any new approaches worked out in this context should not be conceived essentially as a quid pro quo for OPEC concessions on oil production or pricing, but should reflect the common interest of both OPEC and the industrialized countries in finding financial solutions to the financial problems which are going to face them.

While it does not seem advisable for this purpose to get involved in devices to safeguard the real value of OPEC's financial assets, there are many possible measures which could both strengthen financial cooperation between industrialized and OPEC surplus countries and at the same time improve the stability of the financial system.

Within a framework of reciprocal obligations, for example, it would be possible to study the value of:

- protecting OPEC capital against a possible freeze or confiscation;
- facilitating OPEC capital access to the industrialized countries' markets through a most-favoured-nation clause.

In order to diversify OPEC investments and make them more secure it is also desirable to :

- (i) increase opportunities for OPEC investment in regional or international bodies;
- (ii) make more use of bank issues and investments denominated in units of account (SDRs or ECU);
- iii) make use of bilateral financial arrangements outside the market place;
- (iv) extend cofinancing operations with OPEC;
- (v) extend the use of commodity bonds and convertible bonds;
- (vi) examine the case for a non-subsidized international investment fund.

3. Food and agriculture

The main scarcity constraint at world level - and the least tolerable - is the shortage of food. Such a situation calls for vigorous action on the part of the governments concerned and the international community as a whole if we are to avoid an even greater deterioration that might lead to uncontrollable developments.

The following are features of the present situation:

- the world's food resources are very unevenly distributed. According to the FAO, while the world produces enough food to cover its global needs, there are over 450 million people suffering from malnutrition in the third world;
- it is becoming increasingly difficult to adapt supply to demand on the world cereals market, and on markets for other products of importance for the third world's food supplies, and this has resulted in a considerable increase in supply costs for the countries with a shortfall. More and more countries have been unable to meet their own food requirements and their situation has gradually degenerated from one of self-sufficiency (or even surplus) to one of structural shortfall. The result is that demand from the developing countries on international markets is on the increase (the volume of their imports doubled between the early and late seventies and is expected to double again in the eighties), and so is demand from the USSR.

The main exporting countries - and there are not many of them - namely Argentina, Australia, Canada, the European Community countries and the United States, faced with this increase in world demand, can step up their supply only by incurring higher production costs since increased output requires large quantities of energy (1) and there are increasingly serious difficulties in trade because of storage and transport problems.

(1) For fertilizer, plant health products, mechanization, etc.

Alongside the effort required of all the exporting countries to step up supply there should above all be an effort to increase output in the countries with a food shortfall in order to achieve the long-term aim of equilibrium on the world food markets. In this respect, it is incumbent principally upon the latter countries to work out national food plans or strategies (price and credit policies, storage, transport, land tenure, development of cooperatives and so on) to foster food production. The international community, in particular the EEC, must help them in this by stating its readiness to:

- provide backing for the drawing-up and implementation of such food plans or strategies;
- agree to allocate increasing quantities of financial aid to food and agriculture development schemes and improve the ways and means of granting such aid;
- step up national, regional and international research activities designed to increase food production and evolve cultivation systems and methods that are less dependent on imported energy.

Until these measures start having an effect all shortfall countries will have to sort to international trade. So that they can have satisfactory access to stable, reliable sources of supply steps should be taken to ensure:

- that world markets for good products are more stable, particularly those for cereals but also for other basic products; that new agreements are negotiated, notably on wheat, and that a storage system is set up which is appropriate to the developing countries' needs;

- that the EEC sets up an export policy. The EEC does not possess adequate machinery to provide greater security of supplies to the developing countries and permit easier access to such supplies;
- that the developing countries' exports of agricultural products are given improved access to the industrialized countries' consumer markets and, hence, to the European Community market.

The weak countries will be prey to unexpected disasters. Some developing countries will become increasingly unable to cope with their food shortfall by purchasing on the world market. They must therefore be provided with aid - food aid and short-term balance-of-payments aid. To this end, the international community should try to act on two fronts:

- by increasing the quantities of food aid and diversifying the products supplied, and at the same time applying the aid in ways (on a multiannual basis for instance) that enable it to be integrated into development schemes and improve food security; and also by improving the workings of the International Emergency Food Reserve;
- by setting up, as an initial step in the right direction, a short-term adjustment system, possibly under the IMF's compensatory financing facility, to deal with balance-of-payments deficits resulting from sudden, temporary and exceptional increases in the food bill.

4. Restructuring of the Community's industry and trade relations

The Community's most essential task over the years ahead is to adjust the structure of production. The first part of this paper describes the principal challenges that will face European industry in the next decade : changeover to other sources of energy, development of new fields plus growth activities and introduction of new technologies (micro-processors, robotics, etc.) in the traditional industries, and the trade challenge not only from the industrialized countries but from a number of developing countries.

The work on structural adjustment is basically an internal matter and, at Community level, involves a strengthening of European integration : market unification, coordination of research and development activities, a coordinated approach towards public aid to industry and the use of Community borrowing facilities to finance restructuring.

The Community's external commercial and industrial relations and in particular its relations with the developing countries are nevertheless a very important factor in the process of structural adjustment. In this context it is necessary first of all to stress the need to maintain a worldwide system of open trade that will permit the dissemination of technology, improve the allocation of resources at world level and constitute for each country a powerful incentive to rationalize and aim at increased productivity.

Where trade flows concern the developing countries, especially exports from those countries, it is all the more important to keep markets open since not only do such exports of low cost-price manufactured products help to keep down inflation

and increase overall productivity in the importing country but they also create in the developing countries purchasing power which, as experience has shown, is at once converted into orders for equipment or more highly processed products from the developed countries.

For the Community, the growth of links of commercial interdependence with the developing countries serves its interests and roles as a trading power and may also, where competition with the other industrialized countries is concerned, be a factor helping to restore its competitive capacity; an opening of the Community's markets to the developing countries resulting in genuine industrial cooperation would enable each of the partners to profit by their complementary assets and the comparative advantages of the other party (technology, labours costs, availability of raw materials or energy resources, markets, etc.).

Such a strategy is not of course easy in a period marked by recession and unemployment. It implies a resolve on the part of the Community to take whatever action is needed to develop the activities of the future, which will provide alternative jobs. The effort required under this strategy is essential if the overall political and economic advantages of offensive policy which, when applied, has rarely achieved a resounding success as regards the aim assigned to it, namely the preservation of jobs.

A commercial policy tending to be restrictive towards the developing countries would damage the long-term effectiveness of the Community's productive sector without achieving the expected results for the sectors thus protected, whether in terms of jobs or the preservation of productive capacity.

Consequently, the Community must learn to look upon the third world not solely in terms of markets to be conquered but rather as a potential industrial partner. The fact that the developing countries are involved very little in the industrialized countries' information, consultation and coordination machinery, although largely attributable to the relative recentness of third world industrialization, is nevertheless astonishing and explains why their interests still receive too little attention in the decision-making process.

If the Community is to maintain an open trade policy towards the developing countries despite the present sectoral difficulties, the adjustment which this will entail should be facilitated by exchanges of information, consultation and cooperation between all the partners involved. There should be reciprocal information on industrialization projects, market prospects and opportunities for industrial cooperation. It is essential that such exchanges of views include all the social partners, not only because of their direct concern with the advantages and the necessities of adjustment which the furtherance of such cooperation involves, but also because cooperation would be meaningless and therefore rejected if it were not to lead on both sides to improvements in living and working conditions and to sharing out of the fruits of trade and growth.

Mutual adjustment of the structures of production, industrial cooperation and the promotion of specialization clearly do not lend themselves to negotiation but could, where appropriate, be the subject of specific consultations. The primary area of multilateral action continues to be the affirmation of the law and the establishment of codes of conduct and rules of behaviour. In this sphere, it is essential to obtain the maximum acceptance and effective application by the largest number of countries of the codes negotiated in the MTN and to avoid erosion of the rules governing multilateral trade. Limiting recourse to trade restrictions, in whatever form, presupposes not only the observance of GATT principles but also a return to the source which inspired them, namely the Havana Charter, which considered the expansion of international trade as an instrument of economic growth and affirmed the right to work, the need for fair labour standards and their link with distribution of income. These principles continue to be every bit as important today as efforts are made to administer and keep intact a multilateral trade system embracing countries with such widely differing levels of development and such dissimilar industrial and social structures. In particular, the newly industrialized countries, as they become more competitive and increase their exports of industrial products, must lower the import barriers they erected to protect their infant industries: the advantages of specialization cannot flow from the opening of markets in one direction only.

5. Commodities

The problem of commodities is closely linked to those encountered in the fields referred to above. The question of how to ease the scarcity constraints will inevitably arise in a few years time, in the same way as for energy and food, unless effective action is taken now on investment, particularly mining investment.

Action here is necessary because current developments are making the Community turn increasingly to raw-material-producing industrialized countries for its supplies. It must be careful not to become almost totally dependent on too small a number of countries, particularly where they are its competitors and especially as there is no guarantee that Community users will always enjoy the same treatment as processors in the countries of origin.

The success of this action depends on improving development financing for non-oil developing countries, in the first place because the political and economic risks are too great and even European private businessmen do not generally consider themselves to be responsible for the availability of supplies to industries which do not belong to their own financial consortia, but also because most raw material users do not really have the financial or technical resources to enable them to prospect for or work mineral deposits in third countries themselves. The only way is by public support in the form of financial incentives and legal protection.

Commodities are closely connected with the problem of the restructuring of industry, particularly since the energy crisis radically altered the comparative advantages at the first processing stage. This brings us to the problem of on-the-spot processing of commodities viewed in constructive terms, with European industry taking an active part in promoting the growth of these sectors in the developing countries through the acquisition of holdings, or even cross-holdings, and transfers of technology.

Commodities continue to be the main factor in North-South trade relations, for various reasons. Although the Community imports about half of its external requirements from other industrialized countries, these products still account for the bulk of the developing countries' exports to the Community and the other industrialized countries, and therefore their export earnings.

It follows that any change in the pattern of EEC commodity imports in the developing countries' favour would reduce the deficit in their balance of payments, thereby alleviating the financial problems to be solved at world level, and enable these countries to buy more of our manufactures.

The price level of commodities may also play an important part in solving other problems. In the case of mineral products, persistently unrewarding prices - kept low by the continuing recession - lead to underinvestment and possibly in the long run to price escalation which may take a long time to bring under control. In this field it takes about eight years before the effect of an investment decision is felt at production level.

On the other hand, the maintenance of unremunerative prices for other commodities, such as tropical products, is leading to political situations where some sort of a solution just has to be found in the form of loans (compensatory financing, Stabex, etc.) or official assistance.

If the Community's economy is to function properly, the problem of the physical shortage of industrial raw materials should take precedence over short-term considerations.

Furthermore, the Community must work out an active policy for North-South relations, both bilateral and multilateral, in line with the following principles:

- aiming at stable prices which are remunerative over a longer period for producers and equitable for consumers, by means of commodity agreements where this seems appropriate, but also by eliminating dominant positions, unfair speculation and other factors which distort competition;
- stepping up scientific and technical cooperation so as to create technologies geared to the specific conditions in developing countries, particularly as regards exploration and exploitation of natural resources (and the processing of minerals);
- promoting mining investment in developing countries in a stable environment through much greater participation by financial institutions, taking the form of risk capital and the prefinancing of local holdings in foreign investments, and by a constant effort to reduce non-commercial risks.

In this connection, it is important that the Community should be involved in the strategies which African governments and the Arab countries are now working out for mineral products, with a view to strengthening its relations with these two groups of countries, facilitating Africa's development by playing a part in the recycling of oil surpluses, and making its energy and raw material supplies more secure;

- encouraging Community industry to help develop on-the-spot processing of commodities in developing countries, by cross-holdings if possible, and by transfers of appropriate technology in order to improve security of supply for downstream sectors and reduce the energy bill.