

COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE COMMISSION TO
THE COUNCIL ON THE FORMS AND PROCEDURES
FOR FINANCING COMMUNITY PARTICIPATION
IN THE EXCEPTIONAL INTERNATIONAL ACTION
IN FAVOUR OF THOSE DEVELOPING COUNTRIES
HARDEST HIT BY RECENT WORLD PRICE
MOVEMENTS

1. In its communication to the Council dated 20 March 1974, the Commission proposed that the Community should take the initiative of appealing to all rich countries that they take immediate and exceptional steps to help poor countries that are already heavily in debt and whose balance of payments is seriously affected by international price movements.

The Council's positive attitude to this proposal enabled the Community's representative to the UN General Assembly's Special Session on Raw Materials and Development to make the following statement:

"The European Community and its Member States are aware of the critical situation created by the recent rises in price for imported products that particularly affect certain developing countries. They therefore wish to say that they are resolved to study as soon as possible with all States and international organizations concerned the most effective means of implementing an exceptional international aid programme with a view to overcoming the difficulties that developing countries are faced with.

The Community and its Member States, for their part, would be prepared to play an active part in these efforts and to make a substantial contribution, providing the other members of the international community are prepared to join them in these efforts."

Within the context of the General Assembly debates, this statement was of great importance. Echoing the practical proposals presented by the Iranian and Algerian Governments, the Community took the initiative of putting it to the other big industrialized countries that a positive response should be given to the expectations of the developing countries, thus demonstrating its unity before the nations of the world. The Ambassador of India to the Communities, who led the Indian Delegation during the Special Session, and the President of the World Bank, to name but two, emphasized very clearly the importance of the Commission's activities and of the Community's initiative when talking to Members of the Commission.

2. The action programme adopted by the General Assembly indeed meets the concern of the Community with regard to the critical situation of certain developing countries resulting from the recent movements in world prices.

The United Nations, then, is recommending the launching of an emergency operation to enable those developing countries hardest hit by the rise in prices for their imported products to maintain the level of their essential imports during the next twelve months. To this end, the General Assembly has asked the industrialized countries and other potential donors to inform it before 15 June of how much they are willing to contribute to the planned emergency action.

An ad hoc Committee of thirty-six United Nations members was set up to supervise the various measures taken bilaterally and multilaterally to help the hardest-hit countries. The Secretary-General of the United Nations appointed an important figure, Mr Prebisch, to coordinate action and meet the various potential donors. On 16 May he also sent a telegram to forty-four countries, the nine Members of the Community among them, appealing for help and confirming the Assembly's Resolution (see Annex).

3. On 30 April 1974, in Luxembourg, the Council had emphasized the need for a very rapid decision on the Community's participation and how it should be financed. The message from the Secretary-General of the United Nations confirms that the Council session of 13 June will be the Community's last opportunity to adopt a decision in time for the General Assembly to be informed by 15 June.

4. As regards the implementation machinery, the Commission, as it had already done when submitting its initial proposal on 20 March, recommended that the Community avoid making at this time specific proposals for implementing the emergency action. The Secretary-General of the United Nations stated in his telegram that he was having machinery and procedures studied and would submit proposals. On the other hand, many ideas have been submitted by potential

donors, although at the moment it is difficult to reconcile them with one another. The Community must neither add to the confusion nor give the impression that on the basis of a substantial, but limited, contribution it wishes to impose its views. It would be wiser to state that the Community will only contribute once the machinery and procedures have been agreed upon in conjunction with the ad hoc Committee, within which the Community intends to play an active part.

This would not, of course, mean that the Community should not be thinking about the best possible solutions to be brought to this matter. At this stage, however, even that would be premature, since there is no way as yet of knowing whether the contributions will all be channelled through the United Nations family - especially the World Bank, whose intervention would be particularly appropriate - or whether the action will be undertaken, in part at least, within a more restricted context in the form of a more flexible internationally concerted action, which seems to be the wish of vitally important potential contributors, namely the rich oil-producing countries.

5. In order to assess the immediate requirements of those countries hardest hit by world price movements since 1972, the Commission tried between January and March 1974 to measure, for all developing countries, the impact of these price movements on their terms of trade. Its estimates were compared with those of other organizations which had carried out similar work (IBRD, OECD and UN). The conclusions, already presented in March and April, are given below. These are all the more valuable in that they have also been adopted by other important bodies:

For a period of twelve months in present conditions, the net balance of import and export prices rises for all the developing countries whose terms of trade had deteriorated between 1972 and 1974 can be estimated at \$7 700 million at constant volume*.

* Of course, the world price for some essential foods seems at present to be dropping. Wheat, for example, seems to have dropped from \$214 in January 1974 to \$187 per ton at present. But the quantities involved are insignificant at this time of year, and it is unfortunately to be feared that recent speculation on price falls will cease once the time for large contracts returns. We may then very well find that prices are up once again at the levels obtaining at the beginning of the year which served as a basis for the Commission's calculations.

This being the case, the Commission planned to consider only those developing countries

whose terms of trade seriously deteriorated between 1972 and 1974

which are among the poorest countries (annual per capita income under \$300)

and whose indebtedness is such that they cannot consider floating a loan or drawing on special IMF facilities.

This approach has since been adopted by the international community: the United Nations Resolution lays down almost identical criteria¹ (see Annex).

We are therefore faced with some twenty-five or thirty countries that are the hardest hit. In twelve months they will suffer a net deterioration in their terms of trade of about \$3 000 million², half of this resulting from the rise in the cost of petroleum products and nearly another quarter from the rise in the cost of food.

The Commission has been asked many questions on the details of its calculations and particularly regarding what twenty-five or thirty countries it considers to be affected. The Commission has refused, and still refuses, to give any details. It is not up to the Commission to draw up a sad list of this kind. Once a leak has occurred, there are bound to be rash reactions of all kinds from all quarters. The Commission, like the World Bank, is resolved to keep its work on this matter confidential. The international agencies responsible for coordinating the

¹The General Assembly Resolution mentioned the following criteria inter alia:

- (a) low per capita income
- (b) big rise in the cost of essential imports compared with export earnings
- (c) high ratio between debt servicing and export earnings
- (d) low level of currency reserves.

²To give an idea of the figures involved, the Commission's memorandum of March noted that this loss of \$3 000 million represented an amount equal to 60% of the value of the exports of the countries concerned in 1972 and corresponded to almost twice the amount of the official aid received by them.

emergency action will thus be fully free to act in agreement with those concerned, both donors and recipients. It need only be noted that, in view of the high population of Asia and the low returns from exports of resources of certain developing countries in that continent, nearly 80% of the emergency action now agreed upon will be devoted to Asia, especially to the Indian subcontinent. In short then, the Commission had in March assessed the desirable world effort at about \$3 000 million over twelve months. It is striking that, since then, this amount should have been mentioned in so many studies and proposals, namely the IERD and OECD studies, the Iranian proposal (same figures), and the American proposal (\$4 000 million over eighteen months). It is therefore reasonable to work on the basis of \$3 000 million over twelve months.

6. Although it did not state as much in its communication, the Commission had thought that the international effort would be shared - half by the industrialized countries and half by other donors (mainly the oil-producing countries). Since Iran has meanwhile officially made this proposal for sharing the burden, it is now possible to specify that approximately \$1 500 million could be borne by the industrialized countries.

A "substantial contribution", as announced in the UN General Assembly may reasonably be assessed at a third of the amount that would be desirable for the industrialized countries, namely \$500 million over twelve months, which was the Commission's initial proposal and which it means to maintain.

7. On 20 March the Commission merely proposed a figure. Now, pursuant to the United Nations' action programme and as proposed by certain member Governments, it is possible to add that the action may take various forms, e.g. financial aid in cash, aid in kind (food supplies, manufactured products such as fertilizers or pesticides, and capital goods).

Given this principle has been raised, the Commission recommends that as with the machinery and procedures, the present Community position should not further specify the manner in which this sum is to be used, all this being left for the appropriate international discussions.

On the other hand, the Community can propose that the urgent nature of international aid should be indicated by fast settlement procedures.

8. The Council requested the Commission to propose financing procedures.

- (i) The \$500 million mentioned in the present communication is equivalent, at the current rate of exchange to 415 million units of account. In view of the fact that the Community's contribution covers a period of twelve months and that it could not be asked for before the contributions of other donors have been fairly determined and the procedural machinery has been set up by common consent, the Commission proposes that the Community decide to distribute its contribution over 1974 and 1975 and therefore include only 205 million units of account in the budget for 1974.

The Commission will therefore submit a preliminary draft supplementary budget which will have to include the proposal to enter a new item of expenditure of this amount in a new line in Title 9, Chapter 91, entitled "Exceptional measures" - Article 911 "Neutralization of the effects of the crisis for certain developing countries".

- (ii) To cover this expenditure, even though reexamination of the forecast for customs revenue shows an underassessment in the 1974 budget approved by the Council¹, the Commission, in view of the unreliability of the economic forecasts which can be made at this date, does not think that it would now be wise - half way through the budget year - to reassess the forecast for customs revenue. For this reason, it proposes that the planned expenditure be covered by increasing, by an equivalent amount, the financial contributions from the Member States. However, these contributions will obviously be called up only in so far as implementation of the budget shows that the underassessment now found to exist in the forecast for customs revenue is not borne out.

¹This underassessment is easily explained by the rise in the value of products imported into the Community, a rise that is very sharp in respect of raw materials - few of which are indeed liable to customs duties - and of about 10% on manufactures.

9. The Commission therefore proposes that the Council:

- i. confirm to the Secretary-General of the United Nations, before 15 June 1974, its intention to make a substantial contribution to the emergency operations referred to in the action programme adopted by the Special Session of the General Assembly (with the intention of providing \$500 million over a period of twelve months), subject to the procedures and machinery to be adopted by agreement under the auspices of the ad hoc Committee being acceptable to it and subject to the contributions of other industrialized countries and potential donors making it possible to implement an international programme covering the additional and exceptional deficit in the balance of payments of poor and heavily indebted countries that are the hardest hit by world price movements; in 1974 the Community's contribution would be 205 million u.a.; to this sum would be added 210 million u.a. from the 1975 budget with a view to extending the total Community contribution in the twelve coming months to 415 million u.a., i.e. \$500 million at the current rate of exchange;
- ii. inform the Secretary-General of the United Nations of the Community's intention to play, as a Community, an active part in the bodies which are to determine how the international emergency programme should be carried through and are to supervise it.

ANNEX I

See Council document S/522/74 (RELEX 5) dated 6 May 1974.

Copy of

A TELEX SENT BY MR KURT WALDHEIM, SECRETARY-GENERAL OF THE UNITED NATIONS

dated 15 May 1974

Your Excellency is certainly aware of the extremely critical situation at present facing a number of developing countries by reason of the sharp increase in the price of essential imports.

At its sixth Special Session held recently, the General Assembly concluded that if no remedy was brought to the situation thus created, these countries would be unable to finance their essential imports, thus bringing about a deterioration in the living conditions of hundreds of millions of people who are already in desperate straits. Consequently, the General Assembly has decided that special measures were needed to mitigate the difficulties of developing countries that are most seriously affected by the present crisis. The General Assembly emphasized that the essential and most urgent task of the international community was to enable these countries to make up the deficit of their balance of payments with a view to maintaining fully their essential imports during the coming twelve months.

As a first measure within the framework of the special programme, the General Assembly has requested that I launch an emergency operation and invite the Governments of the industrialised countries and other countries able to contribute to announce (or to declare their intentions to do so) by 15 June at the latest their contributions under emergency help. In view of the undertakings and assistance measures announced or already taken by certain countries in this respect, I wish to draw your attention to the fact that the General Assembly has underlined that assistance to be provided within the framework of the special programme should be in addition to the present volume of aid and should be provided as soon as possible and, to the greatest extent possible, in the form of aid without security, and where this is not possible on advantageous terms. The General Assembly has also pointed out a number of measures that Member States could take to help countries most seriously affected.

In cooperation with the Secretariat Heads of the United Nations agencies concerned, I have immediately started taking steps to work out the procedures and to introduce the necessary machinery for carrying out the assistance operations, namely a Special Fund has been opened at UN Headquarters to receive cash contributions for the assistance operations. I have also initiated consultations for the purpose of assessing, on a preliminary basis, the magnitude of the needs of countries most affected.

I should be very grateful if you would inform me as soon as possible of your Government's contribution, which will facilitate the timely supply of emergency aid to countries most affected by the crisis. I trust that your Government's reply will be as prompt and generous as the present situation requires.

With my highest consideration.

(signed) Kurt Waldheim,
Secretary-General of the United Nations