COMMISSION OF THE EUROPEAN COMMUNITIES

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ASSEMPT TO NEUTRALISE

CERTAIN INTERNATIONAL PRICE MOVEMENTS

FOR THE MOST AFFECTED

DEVELOPING COUNTRIES

(Communication from the Commission to the Council)

Thanks to studies made on all sides (OECD. IBRD, Commission), it is now beginning to be possible to assess the consequences of international price movements as a whole for developing countries.

Among these price movements, the most spectacular and the one most fraught with consequences is obviously the movement of the price of oil. The rise in the price of oil since 1972 has brought about, for 1974, an increase in the import expenditure for all the developing countries in an amoung of approximately $10 thousand million.

Unfortunately, the rise in the price of oil is far from being an isolated case. For certain developing countries, its effects are added to those of the rise in the price of cereals or essential industrial products such as fertilisers. In 1974, the developing countries' import expenditure for wheat and fertilisers bought from industrialised countries would be increased by about $3.3 thousand million and $2 thousand million if these countries were in a position to maintain their purcahases at the level of 1972.

Therefore, the rise in price of three essential products in one year involves for the developing countries that do not produce them a total additional expenditure of about $15 thousand million, to which must of course be added the expenditure resulting from the general increase in export prices practised by the industrialised countries (19% in 1973 for the countries of the OECD as a whole.)

To give an idea of the magnitudes involved, it should be noted that the amount of $15 thousand million represents 30% of the total value of exports of the developing countries in 1972, that it is equal to 80% of the value of all financial flows (public and private) brought to the developing countries by the DAC countries in 1972, and that it represents almost twice the amount of public development aid furnished by the DAC countries to the developing countries.

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The internal and external adjustment problems forced upon the non-oil exporting developing countries by these price developments vary considerably according to the particular situation.

In a first type of situation, the rise in import prices might be compensated, at least provisionally, by increasing the revenue from exports of base products for which the world prices have considerably risen over the last year. Even if the position in most cases is precarious, it is nevertheless true that the estimated development of world prices over the next year leaves some time for initiating the necessary adjustments.

In a second type of situation, developing countries are suffering considerable deterioration in their terms of trade but have enough resources available to soften the shock and to spread the adjustment process over a period of time, either by means of loans or by using their own exchange reserves. Such is the case for manufactured-products-exporting developing countries, for instance South Korea, Taiwan, and Singapour.

In a third and last type of situation, there are poor countries that are most affected by the crisis. These inculde in particular South-East Asia (India, Pakistan, Bangadesh, Syri-Lanka), Central America and the Caribbean, certain countries of tropical Africa (the Sahel countries, Sengal, Kenya, Burundi).

According to several sources of information (OECD, ODC), the net effect of international price movements represent, for these last countries, an additional burden of approximately $ 3 thousand million. The current work in the Commission's departments will make it possible to evaluate more accurately, and very soon, this estimate and its distribution among the countries concerned.

The position of these countries is extremlyyserious since, unlike the industrialized countries, they cannot count on the return of capital from oil exporting countries, and since their present indebtment level does not enable them recourse to loans for the purpose of extending the period of adjustment.

They also run the danger of suffering the effects of a reduction, even if temporary, in external capital flows and possibly of a regression of their export revenue caused by the short-term developments in the industrialised countries.

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Exceptional steps will have to be taken very soon by the international Community to help these countries. Beyond the problem of the imbalance in their balances of payments, it is a matter of plain survival. The reduction, forced by the rising prices, in these countries' consumption of oil and fertilizers represents a reduction in agricultural yields, a loss in harvests, greater use of cereals imports, and serious risk of local famines if recourse to such imports does not take place.

Consequently, the Commission proposes to the Council that the Community should take the initiative in appealing to all rich countries to join it in an effort of exceptional aid for those poor countries whose financial situation is seriously affected by the international price movement, in order to help them meet adjustment problems.

To this end, the Community could propose the setting up of a world fund in an amount of approximately $3 thousand million. This fund would be distributed to the most affected countries. Not only the usual donating countries but also all the rich countries would be asked to contribute to this fund.

For its part, the Community could provide this fund with a sum amounting to about $500 million. This Community effort would be in addition to development aid which it must maintain.

This proposal could be made within an international body that would seem the most appropriate for the purpose. In particular, it could be made, on behalf of the Community, during the special session of the United Nations General Assembly dealing with problems of raw materials and development.

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