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BACKGROUND NOTE

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EUROPE'S DEVELOPMENT AID POLICY

Priority on development aid should go to the very poorest countries. Emergency food aid should have the highest priority of all, and longer term assistance should zero in heavily on agriculture.

These are the main points in a report by the European Common Market Commission to the European Communities' Council of Ministers on future development policy.

The communication says that, within the priority guidelines, countries which have association or preferential trade agreements with the European Community (EC) should have first call on EC help.

The "billions of dollars" now being generated for aid by oil states should not only go to poorer countries bilaterally and through global institutions but also through Europe's financial institutions, the report says.

"It is important for our balance of payments that we resolutely participate in such transfers, by intelligently reorientating our financial aid, by participating in joint schemes with the new possessors of wealth, and by making the best use of international banking and financial facilities," says the Commission.

Assessing the world economic situation, the report notes that while countries producing raw materials which are likely to remain in short supply are enjoying bonanza revenues, the economic instability of fluctuating prices afflicts many other tropical producers of raw materials: "Planning is difficult [in these countries] and even impossible. A bad year produces a hiatus in development and may compel such countries to enter into sudden additional indebtedness."

Urging special action for this "poorest" third of the world's population (1.1 billion people) the proposals say:

"The industrialized world must be ready to make the necessary sacrifices, to open its markets wide (through the Generalized Preference Program), to make access to them easier, to encourage the manufacture of products from raw materials to an increasing degree of processing, and finally to stabilize, as far as possible, the purchasing power corresponding to this export income."

The report compares the agreement reached at Kingston, Jamaica, in July 1974, by 44 tropical countries and the nine EC nations, for the stabilization of export earnings to "the right to unemployment and sickness [welfare] payments in our own countries."

Encouraging Third World economic grants would eliminate the tropical countries' dependence on foreign aid: "The expression 'cooperation' acquires its true full significance since these are no longer donors and recipients; equality between partners is established."

The (eventually) 47 prospective associate states in Africa, the Caribbean and the Pacific (the "ACP countries") will set their own priorities and programs, the report says, with "appreciably increased" loans and grants from the EC. The Mediterranean Basin associated countries are principally interested in industrial cooperation, the Commission notes.

Categories of Poverty

Spending less than two billion dollars a year on more than two billion people "amounts merely to almsgiving," the Commission says bluntly. But combined with other international and bilateral aid, it would considerably help increase agricultural production, and aid in the stockpiling of reserves. The EC should also assist Third World countries to promote their products.

The EC report divides the world's poor into three categories.

- Two-thirds of the Third World, with a per capita income of less than $220
- A further quarter, with a per capita of up to $530
- A "richer" segment, comprising roughly 10 per cent of the Third World.

Some of the poorest countries, either because of huge populations or because of very small populations and other "geographical or historical handicaps" earn less than 10 per cent of their gross domestic product (GDP) from exports. The three countries of the Indian subcontinent earn less than 7 per cent from overseas sales.

Financial aid alone cannot solve the problems of the Third World. Special trading arrangements and the sharing of the advanced world's technological know-how are the only guarantees of long-term development, the report says. The two go together, with the industrialized countries needing to open their markets more to the products of the Third World's growing industrialization.

The report adds: "If the European example leads the other major industrialized countries to rethink the way the commodities markets work... the conditions for development of more than 20 per cent of the developing countries' total population will be favorably modified."

While emphasizing pragmatic programs, the report admits that "financial cooperation remains the most necessary instrument of an overall cooperation policy."

It notes that "in view of the limited external debt capacity of most of the developing countries to which the Community will direct its efforts, grants will have to take first place [over loans] in the Community program. Most loans, said the report, should be interest-free or nearly so.

The report adds:"In the next few years, all the rich countries in the world (including the oil-producing countries which have surplus resources) will have to take concerted action to increase considerably their capital contributions to these countries on the most favorable conditions.

"The World Bank estimates that official development aid to these countries will have to be tripled before 1980 to do no more than keep their economies growing at the same rate as their populations...

"The priority will undoubtedly be aid to develop food production."

The report calls for cohesion of efforts between the Community and the member states and with regional and world bodies. "A definite preference should continue to be given to programs encouraging regional cooperation and integration between the developing countries," says the report, adding: "Steps should be taken to guard against laying down rigid guidelines and committing all foreseeable funds" in order to have provisions for catastrophes.

Community's Past Record

The Common Market has been linked to a score of former European colonies in sub-saharan Africa by two five-year "Yaounde" conventions: the current one expires on January 31, 1975, and will be replaced by a new, more ambitious treaty linking the Nine to 46 or 47 developing nations. A separate EC convention with three East African countries (Kenya, Uganda, Tanzania) will also expire next January 31: the three are among the 46 currently negotiating the new convention. "Aid and trade" association agreements also exist between the EC and 13 countries in North Africa, Asia, and Latin America.

The Community became the first trading power to extend generalized tariff preferences to the Third World on July 1, 1971. The offer was originally made to the 96 developing countries in the United Nations Conference on Trade and Development (UNCTAD). By February 1974, 110 countries and 43 dependencies were participating in the system. The arrangement now covers trade worth about 3 billion units of account (UA). (One UA equals $1.20635 at current rates.) The Community has been in the forefront in encouraging developed countries, particularly the United States, to agree to preferential treatment for developing countries, as a way of counterbalancing trade benefits acquired by the rich countries through GATT tariff cuts. Canada instituted a preference system this year.

The Community and its individual member states have gone beyond tariff preferences to help the growth of the third World by financial, technical, and food aid, through national bilateral programs, the European Development Fund, and the European Investment Bank. In 1973, according to figures from the Organization for Economic Cooperation and Development (OECD), seven Community nations gave .93 per cent of its gross national product (GNP), or $8.3 billion in government and private aid to the developing countries. (Figures for Ireland and Luxembourg were not available.) The United States gave $7.5 billion or .58 per cent of its GNP.

The Community created the European Development Fund (EDF) in 1958 to help social and economic improvement in the "Yaounde" countries. In the first two five-year periods the EDF made grants of $581 million and $800 million. Between 1958 and 1972, the Community also made UA 142.3 million available for loans to the Yaounde members through the European Investment Bank, to help underwrite structural improvement and industrial modernization projects.