

# European BACKGROUND INFORMATION Community

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BACKGROUND NOTE

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## THE EUROPEAN COMMUNITY AND A NEW WORLD ECONOMIC ORDER

*Following is the text of a speech given by EC Commission Vice President Christopher Soames, responsible for external affairs, at a luncheon sponsored by the Oil Industries Club July 1, in London.*

This is a time of crisis, a time of abrupt and disconcerting transition in world economic affairs. Over the past few years the world economy has been shaken and battered by raging inflation, by violent swings in commodity prices, by a breakdown in monetary discipline and now, most recently, by a major recession. Every country, rich and poor alike, is suffering in the storm. And the consensus around which we have organized our international economic relations with such success in the period since the last war appears to be dissolving in acrimony and bitterness. Indeed, if a decibel-count of public dissension at international meetings were an accurate measure it would seem that relations between the industrialized world and the developing countries had never been worse.

And so the outlook seems more uncertain than at any time in the past quarter of a century. It would be foolhardy not to acknowledge the dangers that we face. Nevertheless, I believe that we would be equally mistaken if we did not hear the voice of a more hopeful future calling us through the bray and tumult of the present.

For let us see our problems in their true perspective. Amid the cacophony of demands for higher prices for raw materials, for more aid, for a "new economic order," there is a still center of tacit agreement both about the purposes for which the world economic system exists and also about certain of the main principles by which it should operate. All are committed to economic development -- to the calling into play of unused or underused resources both natural and human. All recognize -- albeit tacitly -- the interdependence which our progress in economic development inexorably imposes upon us. And all acknowledge the rights of ownership and the principle that each country has an inalienable sovereignty over its own resources. Moreover, the wealthier countries accept that they must help the development of the poorer countries.

But if there be agreement on these fundamentals, why is there now such disarray? I believe that there are two main reasons for this. The first is that although the world financial and trading system which was created in the post-war years was supported by a genuine consensus, the multilateral framework of disciplines and institutions of which it consisted was almost exclusively the work of the industrialized countries. The consensus supporting it was essentially their consensus.

Over the past 30 years this system has made possible an unprecedented growth in world trade and prosperity. But its very success has undermined it. Because of the development which it promoted, larger and larger numbers and more and more diverse sections of mankind have been caught up in the process of economic expansion. And their capacity for influence has increased in proportion with their contribution to the world economy.

But their actual participation in the management of the world economy has not increased commensurately. The second reason is that in spite of the efforts we have all made -- and these are not to be belittled -- many countries in the developing world, largely because of their population growth, have seen the poverty gap between them and the rich nations get wider rather than narrower.

So the challenge which now faces both the industrialized world and the developing countries is to build a new consensus as industrialized countries must work to narrow the gap between us and the developing world. And for their part, the developing countries must sit down with us so that we can work out together the ground rules under which the world economy should operate in the rapidly changing conditions of the 1970's and 80's. For let there be no mistake -- just as in the past so also in the future the prosperity and stability of us all depends upon the existence of an effective framework of international rules and disciplines.

In this matter we all have a stake in success, and we all have a share of responsibility. The industrialized world can and must rise to the challenge. And so too must the developing countries. Above all they must understand that solutions cannot be imposed on the basis of block voting in the United Nations or by seeking to erect a system in which all the rights belong to one group of countries and all the obligations to another. It also needs to be accepted that there is no call to throw away the achievements of the past. Indeed, I can think of no course likely to be more destructive and self-defeating than the denial, in the name of a "new economic order," of all the work and all the experience of the last 30 years. The justified demands of the developing countries can be met. Their claim to be full partners in the management and growth of the world economy can be satisfied. But the events of the past year or two have surely brought home to everybody one fundamental lesson. If the world economy as a whole is not expanding, it will be much more difficult, if not impossible, to generate the growth desired by the industrialized world and the developing countries alike. So let there be no doubt that in the interests of us all the first priority is to restore the health of the world economy and permit its renewed expansion.

### Community's Role in New World Order

In this work the Community has a central role to play. We in Europe enjoy a unique position, both economically and politically. The Community is by far the largest trading group in the world and -- together with our member states -- we are the largest aid donor. We are the world's chief importer of raw materials -- only Japan imports proportionately as much, and the Japanese draw a smaller proportion of their commodity imports from developing countries than we do. We are also major investors in the developing world, and we have the capacity to provide more investment. So from the economic point of view, the Community stands at the very center of the debate both because of the degree of its dependence upon the effective functioning of the world economy and because of the extent of its ability to contribute to the improvement of that functioning.

Politically, too, the Community is well placed to play a distinctive role. It is a new actor on the world stage. Some of its members have a colonial past but the Community itself is free of all this -- and is seen as such. Above all, the Community neither represents nor is thought to represent a threat to any country's independence or its right to develop along the road it chooses for itself.

How then should the Community act?

We are already doing a good deal to respond to the needs of the developing world. Yaoundé has become Lomé, 22 associated countries have become 46, and the range of support from the Community to these 46 has greatly increased. We have made special arrangements for the Mediterranean countries. Through the United Nations Emergency Fund and through our own program of food aid, we have made a notable effort to help those who need help most. More generally, we have greatly improved and extended our system of generalized preferences so as to open the way for a better international division of labor.

But what of the future? In recent months much of the debate has been about procedure. But important as it is, procedural debate does not always help towards a real meeting of minds. The issues we face are too considerable for us to run this risk, and it is high time we applied ourselves directly to questions of substance.

I would like to set out a possible program of action which we in the Commission believe that the Community should be prepared to put forward on the whole range of the matters of substance. The main heads of such a program relate first to oil; second, to other raw materials; third, to industrialization; fourth, to trade questions, and fifth, to assistance to the neediest countries.

### Oil

I make no apology for giving pride of place to oil and energy questions, for they are at the heart of the present crisis in world economic affairs.

In this matter our fundamental proposition is that there must be a real dialogue between consumers and producers. It is surely amazing that for this crucial commodity there should be no forum in which international discussion can take place between those concerned in its production and those who use it. This lack must be remedied. And in the deliberations which then take place we must aim at the very least to build up a common appreciation of questions of supply and demand, of investment needs, and of financial and technical problems.

For their part the consumers will also want to carry the discussion further to cover questions of price and stability of supply. This is only natural and it is certainly not a matter of confrontation. We accept that the producers have their own distinct and legitimate interests. But in their turn the producers must understand that unreasonable prices and uncertain supplies pose genuine problems for us, and through us also for them and for the rest of the developing world. In the end our aim must be to create a climate of frankness and mutual trust in which it will be possible to agree on those levels of oil pricing and supply which will best meet the long-term interests of us all.

In this context we must of course be ready to discuss the problem of the real value of the oil producers' earnings. Let us be realistic. We know all too well that in this inflationary period more than half the argument is about purchasing power, and we must recognize the producers' concern. But this is certainly not to say that indexation is the answer for it would pose many difficult problems, above all problems of fairness to all those affected. Nevertheless, the Community ought to be ready to take part in the debate about real returns.

We will also need to have a more coherent attitude towards the way in which the oil producers invest their revenues. They are evidently going to invest a largish proportion of their funds in the industrialized world, and it cannot be in our interest -- or indeed in theirs -- that these investments would be concentrated on the short end of the market. They will want -- and we should welcome -- opportunities for long-term investment. Perhaps we should think in terms of investment trust instruments with joint participation by industrialized and other countries? In all events, the Community is a major center of investment and it must plainly be ready to put forward ideas on these matters for international discussion.

### Raw Materials

I turn now to other raw materials. Unlike oil, there are a number of international forums for debate on commodity questions. But no one could pretend that this debate has yet got very far. There has been plenty of rhetoric, but apart from the welcome discussion at the Commonwealth Prime Ministers' Conference at Kingston, specific ideas have on the whole been conspicuous by their absence.

When I visited China recently, I learned a useful Chinese saying -- "Don't make a noise like a hen unless you are going to lay an egg." It is time we laid a few eggs. As we see it in the Commission, there are two essential points.

Dependence on export earnings from raw materials is one of the most serious of the many problems of the poorest countries. Some of them -- and in particular some of the poorest -- depend for their export receipts on only one or a few primary products. Because of this their economies are more or less at the mercy of changes and fluctuations in weather conditions, price, or demand. In the Lome Convention the Community has already set up a plan for stabilizing the export receipts for some of the commodities exported by the Lomé countries to the Community. What we are now proposing is that all the rich countries of the world should now together back a plan of this sort, applying to a wider range of commodities for the benefit of the neediest countries everywhere. Our proposal is that every country below a certain level of prosperity should be assured that, whatever the prices prevailing on world markets for its most vital commodity exports, it would continue to be assured of a certain level of receipts.

Our second proposal relates to the need to reduce the violent price fluctuations of recent years, which have done no good to anyone -- consumers and producers, developed and developing countries alike. No one supposes that it is easy to square the circle of fair prices and stable supplies. Commodity agreements are the classical device for this purpose. But on the whole such of these agreements as exist -- for coffee, tea, tin and cocoa -- have not been working very well. In the past there has been little will to make them effective. Now we must see whether this can be changed. And while it is of course true that not all products readily lend themselves to this approach, we should be ready to consider extending the range of commodity agreements, including among others an agreement on certain agricultural products along the lines that the Community has already suggested in the multinational trade negotiations.

Of course, both these proposals for the stabilization of export receipts and for commodity agreements raise a lot of problems which will have to be thrashed out both with other consumers and with the producers. It will also cost money to put them into effect -- money for the financing of buffer stocks, for compensation of the loss of export earnings, and perhaps for increasing the lending capacity of the International Monetary Fund. These costs will have to be shared by all concerned--by the industrialized countries, including the state trading countries, by those developing countries which can afford it, and -- in certain cases -- also by the producers.

### Industrialization

From the point of view of world economic development, oil and raw materials make up only one half of the story. The other half can be summed up in a single word -- industrialization. The developing countries naturally want a larger share of the world's industrial activity. And if we are to secure not only a fairer distribution of the world's goods but also a fuller use of the world's resources, it is right that they should have it. The Community's system of generalized preferences is designed to help bring this about. We must now be ready to go further, especially in encouraging the development of capacity for first transformation by the producer countries. In particular we must work towards this end with the other industrialized countries in the framework of the multilateral trade negotiations.

None of this need or should involve an abrupt or sudden transfer of existing activity. It will take time for the developing countries to develop the level of capacity at which they are quite properly aiming, and they are unlikely to go so fast as to cause acute adjustment problems for the industrialized countries. We will have the time to adjust and adapt to new activities, and we should not fear to plan for more industrial investment in the developing world.



There are various ways in which this can be done. Governments can act through the international organizations. Private industry can act through direct investment. There is plenty of scope for so-called "triangular operations" involving surplus oil revenues. And we think that the Community should be thinking in terms of a European 'Exim Bank' to provide new export credit mechanisms. But for all this to be effective, the developing countries will obviously need to ensure a reasonable degree of security and profitability for this investment which they need for industrialization.

### Trade

But what is the use of increasing the productive capacities of the developing world unless we also expand their opportunities for profitable trade? As the world's largest trading group, the Community must use its influence to get lower tariffs, to broaden this we must take account of the special interests of the developing countries.

### Special Help for the Neediest

Probably the most serious of all the challenges with which we must now come to grips is posed by the world's neediest peoples. Some of the proposals which I have outlined today will benefit them-- notably the concept of the stabilization of export receipts. But it must be admitted that such solutions will not be enough in themselves. Indeed, some of the neediest countries are poor, among other things, because they have no raw materials to export or export receipts to be stabilized. And others again are poor because the growth of their needs outpaces the growth of whatever capacity for export earnings they may have. In many cases, the situation of these countries is worsening as they suffer the rises in prices of oil and other raw materials without any financial and industrial reserves to take the strain.

If these needs are to be met, two things above all are essential. The world must increase its financial aid. And we must ensure that the elementary need for food is satisfied.

So, however difficult it may be at the moment, our member states and the Community as a whole must provide a real increase in financial aid to the neediest countries. But the increase in aid which can reasonably be expected from the industrial world will not be enough by itself. The oil-exporting countries with surplus funds must therefore continue to play an increasing part -- as they have been doing over the past year.

On the question of food, our policy should be based on the view that the long-term solution to the world's food problems lies in agricultural expansion in developing countries. For over a decade the Community has been working along these lines by way of the Yaoundé and now the Lomé Agreements. Our task now is to increase still further the area covered by our aid for rural development among other things by taking part in the International Fund for Agricultural Development.

But for some time to come the neediest countries will not be able to meet their need for food from their own production. As one of the world's main sources of food aid the Community should step up what it is already doing, organize its aid on a plan extending over several years, and concentrate it on the most needy countries. And we must look at the possibility of offering medium-term supply contracts for food at favorable prices. At the same time the multilateral trade negotiations give the world as a whole a chance of contributing to the solution of its food problems by measures such as the agreement on cereals which the Community has recently proposed as a way of stabilizing prices and limiting the risks of shortages and surpluses.

#### Member States Must Act as a Community

I now sum up the five propositions which are before you.

- For oil, we need a continuing dialogue leading to an understanding between consumers and producers on fair prices and stable supplies, and on other issues that concern us both.
- For raw materials, we must reach agreement both on the stabilization of the export earnings of the poorest countries and on the wider and more effective use of commodity agreements.

- We must promote industrialization in the developing world by encouraging the growth of their processing and manufacturing capacity.
- In respect of trade, we must proceed to further measures of liberalization, giving special weight to the needs and interests of the developing countries.
- And in respect of aid, we must all increase our efforts to help the poorest countries, and we must ensure that there are adequate supplies of food both through increased production in the developing countries themselves and wherever necessary by increased food aid.

Of course it is not for the Community or for the industrialized countries collectively to present our ideas as a kind of *fait accompli* to the rest of the world. We can only achieve a new consensus in world economic affairs if everyone is able to participate actively in the search for solutions and in their eventual adoption. But there is now a genuine opportunity for the Community to ensure that in the many forums where these matters are debated in the months to come the discussions do not give rise merely to empty rhetoric and sterile confrontations but that they issue in practical solutions founded upon a genuine consensus.

The program of action which I have outlined is intended to have precisely this effect. Moreover, because it deliberately covers all the central themes that are at issue, it will enable us to discuss the full range of the questions together in a comprehensive and unified fashion. For these matters are clearly interlinked, and in our treatment of them we must avoid artificial divisions. It is in this spirit that we should be ready to give due weight to raw materials questions and to the question of the needs of the poorest countries, as well as to energy, when we come to resume the dialogue between the oil producers and consumers.

In the months of international debate that lie ahead, we in Europe will find that, whatever the individual strength or persuasiveness of any one of the Community's member states acting separately, it will not be by separate action that their interests will be best served. Nor will it be by speaking with a multitude of distinct voices that Europe will best contribute to the solution of the world's problems.

Of course, the Community draws its authority from the inventiveness and weight of its member states. But it is as a Community that these resources can be most effectively deployed, and this is the task which faces the Community's heads of government when they meet in Brussels next month. I do not believe that the 68 per cent of the voters in the recent British referendum who chose so positively were voting for some idealistic blue-print of the European Community. That massive vote stemmed from their recognition that it was only by acting as a community that Europe can hope to deploy its collective strength effectively in the search for practical solutions to real problems. The task we all now face is of a magnitude not often encountered. The Community must live up to the faith the world places in it.