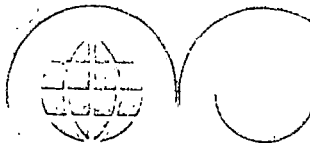


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## THE EUROPEAN SUMMIT AND THE THIRD WORLD: A NOTE BY THE OVERSEAS DEVELOPMENT INSTITUTE

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One of the achievements of the Summit meeting (19th - 20th October 1972) of the enlarged European Community (The Nine) was the degree of detail with which guidelines for action by the Community, with specific timetables, were established. The most detailed programmes, however, relate mainly to internal Community policies and institutions: e.g. to move to a second stage of economic and monetary union by January 1st, 1974; to set up a Regional Development Fund before December 31st, 1973; and to establish a precise programme of action on a common science policy before January 1st, 1974.

2. In the field of external relations, global trade policy is the only area for which a precise programme is set out. Here, the official communique<sup>1</sup> invites "the Community institutions" (Commission, Parliament and Council) "to decide not later than July 1st, 1973, on a global approach covering all aspects affecting trade" (Section 12) in order to take part in the forthcoming round of GATT negotiations on world trade; to which the Community attaches "major importance". The aim outlined by the Summit communique is to have these negotiations completed by 1975.

3. It is evident that the progress of negotiations in GATT is seen as a firm priority for the Community. It impinges on the enlarged EEC's relations both with other developed countries (principally Japan and the United States) and with developing countries. In general terms, the meeting expressed "its desire for the full participation of the developing countries in the preparation and progress of these negotiations which should take due account of the interests of those countries". (Section 12). But how are the interests of developing countries seen by the Community?

4. In comparison to the precise aims and schedules established for internal policies and for action on GATT trade negotiations, those laid down by the Summit on development policy appear somewhat vague, particularly as regards timing; development policy questions are to be "the subject of studies and decisions in good time during 1973". To an extent, moreover, they appear contradictory. In particular, the Summit proposals make no attempt to resolve the conflict between the idea of a "regional" development policy based on Association for African, Caribbean and Mediterranean states and that of a global approach to developing countries' problems and priorities. In general terms, the communique states:

"The Community is well aware of the problem presented by continuing underdevelopment in the world. It affirms its determination within the framework of a world-wide policy towards the developing countries, to increase its effort in aid and technical assistance to the least favoured people. It will take particular account of the concerns of those countries towards which, through geography, history, and the commitments entered into by the Community, it has specific responsibilities". (Preamble, para iv).

<sup>1</sup> Published in Hansard, 23rd October 1972.

The aims are set out in greater detail in Section 11:-

"The Heads of State or of Government are convinced that the Community must, without detracting from the advantages enjoyed by countries with which it has special relations, respond even more than in the past to the expectations of all the developing countries;

With this in view, it attaches essential importance to the policy of association as confirmed in the Treaty of Accession and to the fulfilment of its commitments to the countries of the Mediterranean Basin with which agreements have been or will be concluded, agreements which should be the subject of an overall and balanced approach.

In the same perspective, in the light of the results of the UNCTAD conference and in the context of the Development Strategy adopted by the United Nations, the institutions of the Community and Member States are invited progressively to adopt an overall policy of development co-operation on a world-wide scale..."

5. From this it is clear that the Community's existing commitment to Association, and to the enlargement of the Yaounde Convention to include Commonwealth countries, remains a first priority, as against the less precise "invitation" to adopt a global development policy. Recent statements from the EEC Commission (such as that made by M. Deniau on September 26th<sup>1</sup>) have attempted to play down the conflict between 'regional' and 'global' approaches to development policy, and to make the two points of view appear complementary. But a real conflict does exist; the existence of special privileges for associates - e.g. in trading access, or in aid from Community sources - essentially depends on the fact that similar conditions of access, or of aid, are withheld from other countries. It may be true that, at present, there is little conflict between the aid given by the Community as such to Yaounde associates, which is only a small part of total aid disbursed by the EEC and its members, and the divergent aims of national aid programmes; but if there is to be greater co-ordination of member states' aid policies, or if 'Community' aid given through EDF-type channels is to play a larger role over time, such conflicts are bound to arise. They have already arisen in the field of trade policy, where Yaounde associates' special preferences have been gradually eroded by most-favoured-nation tariff reductions and by the introduction, in 1971, of Generalised Preferences.

6. Less conflict may arise, formally at least, between the aim of Community concentration on association, particularly where Africa is concerned, and that of "increasing efforts in aid and technical assistance to the least favoured people"; at any rate, if this is taken as a reference to the 25 'least developed' countries denominated by UNCTAD. The twenty-five include eight of the present Yaounde associates of the EEC (Burundi, Chad, Dahomey, Mali, Niger, Rwanda, Somalia and Upper Volta); two Commonwealth African countries currently associated with the Community (Tanzania and Uganda) and three of the remaining Commonwealth 'associables' (Botswana, Lesotho and Malawi). Nevertheless twelve 'least-developed' countries are still excluded from the possibility of EDF aid, while the majority of the associates and "associables" are not included in the 'least developed' group.

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<sup>1</sup> See EEC Press and Information Background Note of 19th October 1972, "The Enlarged Community and Development Aid".

7. The overall development policy which Community institutions and member states "are invited progressively to adopt" contains four main elements:

- i) "the promotion in appropriate cases of agreements concerning the primary products of the developing countries with a view to arriving at market stabilisation and an increase in their exports";
- ii) "the improvement of generalised preferences with the aim of achieving a steady increase in imports of manufactures from the developing countries";
- iii) "an increase in the volume of official financial aid";
- iv) "an improvement in the financial conditions of this aid, particularly in favour of the least developed countries".

(i) Agreements on Primary Products

8. At present, the Community (as distinct from the member states) is not a full member of any international commodity agreements, although it participates indirectly in some. The EEC Commission has expressed its support for the continuation of the International Coffee Agreement, and has also supported the recent negotiations leading up to an international agreement on cocoa. However, West Germany's reluctance to join such an agreement in the absence of the United States, which has refused to accept price-support proposals written into a draft International Cocoa Agreement, points to a major gap between Commission thinking and Member States' political will, particularly where important industrial interests, such as chocolate manufacturers, are involved.

9. Such conflicts may be thought equally likely to handicap rapid progress towards Community-based commodity agreements for tropical products generally, although the idea of such agreements appears to be gaining popularity. It is sometimes suggested that the Commonwealth Sugar Agreement (CSA), under which guaranteed quantities of sugar are imported into Britain at fixed prices from Commonwealth sources, might provide a suitable model. Agreements might cover not only sugar but also other tropical products such as cocoa (if the international agreement failed), groundnuts and certain vegetable oils. The aim would be to provide a stable price at above world market levels for exporters to the Community, and possibly to ensure that producers' incomes, in real terms, were maintained.

10. On the face of it, such a plan is attractive, at least for producers. But from the importers' angle the agreements might be acceptable only as long as an adequate level of protection is maintained for products processed from the raw materials imported, against similar processed goods originating in non-EEC countries which do not subscribe to the agreement and which therefore can import the raw product more cheaply. This may be feasible for sugar; markets for which in most developed countries are highly managed; but it may not be so easy for other products, and the extra protection demanded would almost certainly offend against the principles of the GATT and increase tension between the enlarged EEC and the United States. Exporting countries, too, might approach with some caution the idea of concluding price-fixing agreements with only one, very major, consumer of tropical products. (The Six plus Britain account for some 32% of world imports of coffee, 32% of bananas, 46% of cocoa, 79% of groundnuts, 47% of tea). In the long run, there could be at least some risk that the enlarged EEC's monopoly power as a purchaser would be used to keep prices down, rather than up; however benevolent the initial aim of such an agreement. In addition, a commitment to exporting raw materials to European markets, however advantageous the terms, may effectively inhibit the development of processing facilities in developing countries. It is

worth noting that the Summit communique gives no commitments or even guidelines on the development of trade in processed agricultural goods, although this is one of the most obvious fields in which many developing countries can build up an industrial capacity.

(ii) Generalised Preferences

11. There is little evidence yet available on the effects of the present Generalised Preference scheme operated by the Six, on imports of manufactures from developing countries. The Community's generalised preference scheme was introduced in 1971, and a British scheme in 1972. Before the introduction of the schemes, developing countries' exports to the Six of manufactured products had been growing more rapidly than those to Britain; figures produced by UNCTAD<sup>1</sup> show that exports of manufactures, other than metals, into the Six from developing countries grew by 320% between 1960 and 1969 (an annual growth rate of 17.3%) while those to Britain grew by only 78% (an annual growth rate of 6.6%).

12. The main improvement which could be made to the Community's generalised preference scheme, as far as manufactures are concerned, would be to liberalise the treatment accorded to 'sensitive' manufactures such as textiles, shoes, electronic components and toys, duty-free access for which is now limited by a complex structure of tariff quotas. Not unnaturally, these are the very sectors in which over the past decade a number of developing countries have shown themselves to be highly competitive; and it is likely that, as manufactured exports from developing countries grow in volume and diversity, the number of fields in which they are likely to come into active competition with European manufactures must also increase. A necessary accompaniment to the "improvement" of Generalised Preferences might therefore be an undertaking as far as possible not to yield to protectionist pressures for the imposition of non-tariff barriers, such as import or 'voluntary' export quotas, on products in which developing countries compete effectively. Such an undertaking underlines the need to pursue an active policy of "adjustment assistance" in fields where it becomes clear that the balance of comparative advantage has shifted in favour of developing countries. The EEC has already taken a step in this direction by permitting the European Social Fund to be used in the re-deployment of workers in the textile industry; and the new Regional Development Fund may be a suitable vehicle for the further development of such a policy.

13. It was apparently tacitly accepted by the Summit - certainly by Britain<sup>2</sup> - that a target of 15% annual growth in total imports from developing countries might be adopted by the enlarged Community. This would represent a very substantial increase on past performance for the Six and Britain alike; and to achieve it will require considerably faster growth in imports of agricultural products and industrial raw materials, as well as of manufactures. The implication is that all aspects of the enlarged EEC's trade policy must be greatly liberalised.

(iii) Aid volume

14. The 'invitation' to increase official aid contained in the communique is very weak. It involves no target volume nor date, nor even any commitment to increase the volume of aid in real terms. For Britain, it represents less than existing policies have laid down; and it goes no way towards meeting the target date of 1975, proposed by the UN as part of the Strategy for the Second Development Decade, by which net flows of official development

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<sup>1</sup> Source, 1972 'Handbook of International Trade and Development Statistics', UN, New York, 1972.

<sup>2</sup> See Hansard, 23rd October 1972, Col. 796.

assistance (oda) should reach 0.7% of donor GNP. Of the Community countries, only Belgium, Denmark and the Netherlands have undertaken to meet this target; France has undertaken to maintain its net aid at between 0.6% and 0.7% of GNP; Germany is committed to working towards the target at an unspecified date; but neither Britain nor Italy has made any such commitment. Indeed, Britain does not accept the need for such a target; and the Prime Minister, in reporting on the Summit to Parliament, once again expressly rejected the 0.7% target for official aid.

(iv) Aid terms

15. On terms of aid, the commitment undertaken follows from a recent agreement by OECD countries, except Italy, to ensure, firstly, that the "grant element" in oda should be overall not less than 84% of the value of oda and, secondly, that for "least developed" countries the grant element should be 90%. Of the main EEC member states, only Belgium, Denmark, and the Netherlands already fulfil the first target. France, Britain and Germany come close to it, while Italy does not approach it. For most of the members, then, such a commitment is likely to be a relatively minor matter. Again, to make a special effort in favour of the least developed countries is in line with OECD recommendations. However, the history of aid programmes to such countries as Ghana and India shows that there are important aid recipients, not classed as "least developed", whose debt problems pose a major handicap to their development. Nothing is said about these countries.

16. The results of the Summit must be regarded as inconclusive, so far as developing countries are concerned. There seems to be an (implicit) proposal for a faster rate of growth of imports from developing countries. If realised, this would represent a substantial achievement. But there are some notable gaps: for example, the complete lack of reference to any policy towards Asian countries (although it is understood that their debt problems, at least, were raised by Britain), and the failure to commit the enlarged Community to any official aid target. And a major area of ambiguity remains unresolved; the problem of reconciling the 'global' and 'regional' approaches to development policy.

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<sup>1</sup> See Hansard, 23rd October 1972, Col. 796.