

872

ISSUES IN NORTH-SOUTH DIALOG

HEARING
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL ECONOMICS
OF THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES
NINETY-FIFTH CONGRESS
FIRST SESSION

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JUNE 21, 1977
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ISSUES IN NORTH-SOUTH DIALOG

TUESDAY, JUNE 21, 1977

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON INTERNATIONAL ECONOMICS
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 1114, Dirksen Senate Office Building, Hon. Gillis W. Long (cochairman of the subcommittee) presiding.

Present: Representatives Long and Hamilton.

Also present: Thomas F. Dernburg, Kent H. Hughes, Sarah Jackson, and William Morgan, professional staff members; Mark Borchelt, administrative assistant; and George D. Krumbhaar, Jr., minority professional staff member.

OPENING STATEMENT OF REPRESENTATIVE LONG, COCHAIRMAN

Representative LONG. The meeting will come to order.

We are conducting this morning's hearing to learn more about the recent meeting in Paris of the Conference on International Economic Cooperation, known as CIEC. This was the final meeting of an economic conference that has been going for the past 18 months, a meeting at the ministerial level where participating governments reviewed, and in some cases adopted conclusions reached during the working sessions of the Conference.

CIEC dealt with the complex set of issues that has come to be known as the north-south dialog. These issues concern the economic relationships between developed and developing countries. Delegates participating in the Conference represented countries from each of these groups, as well as from both oil-exporting—OPEC—countries and oil-importing countries.

Published reports on the results of the Conference have been contradictory and confusing, to say the least. While some have hailed the Conference as a success, others have pointed to the failure to agree upon important issues, such as continuing energy consultations and the debt problems of many developing countries. It does seem clear, however, that many issues have been postponed for further discussion in a variety of other forums, while on other issues the delegates apparently "agreed to disagree." The questions considered at the Conference were divided into four main areas: Energy, commodities, development aid, and international financial affairs.

Today, we want to explore the positions that the United States and other nations took on these issues, the negotiating situation, and the

conclusions which were reached. Finally, we want to consider the outlook for further negotiations, and the potential economic impact for both the U.S. and world economies of the CIEC agreements.

Was the Conference a success from our point of view? And, specifically, was it able to change to a constructive footing the worrisome trend that seems to have developed in recent years of confrontation over economic issues between the developed and the developing countries? In other words, is cooperation overtaking confrontation? And, if it is, what will be the price of negotiated cooperation?

The resolution of these issues has a very real economic impact on the welfare of all Nations. Therefore, it is important for this subcommittee to know precisely what went on, and what the outlook is for the future.

Our witness today is in an excellent position to give us just such an assessment.

Richard N. Cooper is the Under Secretary of State for Economic Affairs, and has had many years experience dealing with international economic issues, from both academic and Government perspectives. Under the leadership of the Secretary of State, Mr. Cooper was the alternate U.S. representative to the final ministerial meeting of the CIEC. He also participated in the working group discussions.

We are delighted to be able to get his expert assessment.

Mr. Cooper, perhaps you can now begin.

STATEMENT OF HON. RICHARD N. COOPER, UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS

Mr. COOPER. Thank you very much, Mr. Chairman. It is a pleasure to appear before this distinguished committee to report on the recently concluded Conference on International Economic Cooperation, known as CIEC for short.

I have prepared a longer statement which, with your permission, Mr. Chairman, I would like to insert into the record and summarize.

Representative LONG. So ordered, your prepared statement will be included in the printed record at the end of your oral statement.

Mr. COOPER. CIEC ended on the early morning of June 3 with a ministerial meeting after 18 months of discussion of and action on many of the pressing problems of the international economy.

CIEC produced agreement on a number of issues in the areas of energy, raw materials, development, and finance which we believe can lead to mutually beneficial improvements in certain facets of the existing international economic system. The final communique also noted a number of issues in these areas where the developed or developing countries did not agree.

CIEC is one stage in the ongoing north-south dialog. The locus of the dialog will change after CIEC. For the most part, north-south issues will return to functional international forums where specific issues will be addressed. These are UNCTAD and other forums for negotiations on a common fund in support of agreed commodity agreements; the IMF-IBRD Development Committee for development assistance issues, the Multilateral Trade Negotiations or MTN for trade issues, the IMF, International Monetary Fund for international financial issues.

In our view, the substantive progress made CIEC on many north-south issues and the generally positive tone of the conference should establish a framework for a continuing dialog in many of these co-operational forums. Moreover, CIEC provided an opportunity to increase knowledge and understanding of the problems that face the international economy and countries at various stages of development. It especially enhanced our mutual understanding of the growing interdependence between national economies. Discussions in the Energy Commission of CIEC also brought into clearer focus the impact on the world economy and on national economies of abrupt changes in the price or production patterns of oil.

Let me provide just a bit of history. Originally, the industrialized countries intended CIEC to be an international energy conference. However, the developing countries did not wish to isolate energy from other north-south economic issues. The initial attempt to launch CIEC in April 1975 failed.

Subsequently, the industrialized countries, OPEC and other developing countries who were trying to set up the conference agreed it should treat raw materials, development, and finance as well as energy in four separate commissions within a single conference.

Since most of these nonenergy issues were handled in other international forums, the main thrust of the work in these areas was to stimulate treatment of them in these other forums. While industrialized countries had intended that the conference center on energy, they did not enter CIEC with the expectation or objective of obtaining any agreement on oil prices or oil embargoes. Industrialized countries did hope to achieve increased recognition by oil producers of their role in providing for a stable, growing global economy and to further the processes of integrating the economies of oil exporting countries into the world economy.

In this respect, I think CIEC has to be reckoned a success. CIEC began formally in December 1975, meeting almost monthly throughout the following year. The first 6 months of the conference were devoted to an analysis of the issues while in the latter phase the participants worked to reach concrete conclusions and proposals. The work was arduous and took longer than expected. The concluding ministerial was rescheduled from December 1976 to May of this year in order to complete the work and allow the new U.S. administration to participate in the final stage of CIEC.

We believe that the primary emphasis on the north-south—in the north-south dialog should be on improving rather than restructuring the international economic system and on enabling developing countries to participate fully in this system. In the dialog, we want to stress appropriate, efficient direct resource transfer to developing countries through foreign assistance and investment along with trade as the main element of an improved system. We believe and seek to convince developing countries that indirect, automatic and artificial means of resource transfer such as generalized debt relief and indexation of commodity prices would be inefficient, probably unworkable, and contrary to their own interests as well as destructive of the common interests in a stable growing world economy.

CIEC generally lent more credence to our efforts to concentrate north-south discussions on those areas where mutually beneficial

progress can and should be made. The demands of developing countries to restructure the international economic system through indirect mechanisms of resource transfer were subjected to reasoned analysis and intense scrutiny. This allowed industrialized countries to explain their rejection of a number of these demands on the grounds that they are counter to the interests of the less-developed countries as well as to a growing stable world economy in which they have a major stake.

More importantly, the industrialized countries undertook in CIEC to demonstrate their commitment to an improved international economic system by making a serious effort to produce concrete proposals of benefit to developing countries in development assistance, in trade and commodity issues, even though these could not meet all of the full aspirations of developing countries.

The essential element of the final package that came out of the ministerial meeting in May and early June that have positive benefit to developing countries are as follows: First, increased and more effective foreign assistance over the next several years as well as an extraordinary one-time proposals of special action to the poorest countries.

Second, support for a general capital increase for the World Bank.

Third, within that context, World Bank priority to energy resource—energy and other resource development in developing countries.

Fourth, political commitment to establish a common fund in conjunction with and to support commodity agreements.

Progress also occurred in other areas such as food and agriculture, provision of infrastructure, industrialization, technology transfer, and access of developing countries to capital markets.

The final CIEC agreement also contains significant advances on issues of interest to us. For example, cooperation in energy supply and development and the importance of an improved investment climate in developing countries.

The industrialized countries had also wanted CIEC to recommend a continuation of energy consultation between consumers and producers. We believe a continuing energy consultation is in the interests of all countries. Moreover, energy is distinctive among the issues before CIEC in that it has no natural place for discussion in existing institutions on forums. The developing countries, however, did not share our views on this issue. The lack of agreement on continuing energy consultation is a gap in the final CIEC results.

Let me briefly list the results of CIEC in the four areas of its work, representing the work of those four commissions that I mentioned earlier.

First is energy. We achieved a general set of guidelines that recognize the essentiality of adequate and stable energy supplies to global growth and the responsibilities of all nations including the oil exporting nations to insure that such supplies are available. Guidelines also call for intensified cooperation to increase conservation and accelerate energy supply; to recommend that the World Bank increase priority for energy development in developing countries in the context of the general capital increase that I mentioned earlier; to call for a new multilateral and bilateral effort to facilitate the transfer of energy technology and to increase technical assistance in energy to de-

veloping countries; and to endorse increased energy cooperation in research and development, especially between developed and developing countries.

The Commission on Raw Materials reached agreement that a common fund should be established, the purposes and objectives and other constituent elements of which are to be negotiated in UNCTAD.

As the language implies, we did not accept the UNCTAD version of the common fund nor, it should be said, has the G-19 given up the UNCTAD version.

The Commission on Development recorded a commitment of donor countries to substantially and effectively increase official development assistance. The administration has taken this commitment within the context of its intention to request increases in official development assistance over the next 5 years. It also reached agreement by donor countries to begin negotiations on the general capital increase for the World Bank as called for by the London Summit Conference. It agreed on a \$1 billion special action program of assistance for the poorest developing countries.

After appropriate congressional action, the U.S. contribution to this special action program of \$375 million will be funded in our regular bilateral development assistance program by 1979.

The Development Commission agreed furthermore on a set of general concepts concerning infrastructure development with particular reference to a conference to set objectives for an African transport and communications decade.

We also reached agreement on action regarding a 500,000-ton emergency grain reserve. Support for early negotiations on international grains agreement with stocks was also included as well as a recommendation for enhanced aid for seed production and research.

Finally, we agreed on the importance of progress in the multilateral trade negotiations and for special treatment for developing countries in certain areas of these negotiations as well as on efforts to improve the system of generalized tariff preferences and on reaching an early conclusion in the multifiber negotiations regarding textiles.

The fourth commission was on finance. It reported considerable progress in establishing the essential elements that constitute a favorable investment climate in developing countries. It also urged support for the work of the IMF-IBRD Development Committee on access of developing countries to capital markets and for speedy implementation of its recommendations involving technical assistance to developing countries to help them improve access to capital markets.

Finally, it gave strong support for the establishment of a supplementary credit facility in the International Monetary Fund which is now in the final stages of negotiations.

In conclusion, Mr. Chairman, let me provide a brief evaluation of the CIEC as a whole. We regard the specific results of CIEC as generally satisfactory, though it will take some time for the full impact of CIEC to be known because it depends on how much impact it has in filtering out to the specialized forums in which the issues discussed in CIEC will be taken up.

It is in the interests of all countries, developed and developing, that the cooperative nonpolemical approach to the north-south dialog which characterized CIEC over the last 18 months be continued and enhanced.

The results of CIEC, however, did not and could not meet all the aspirations of developing countries. Yet, progress did occur and perhaps sooner than it would have in the absence of CIEC. CIEC also served an educational purpose in increasing our knowledge—that is the knowledge of all the participating countries of the issues. In subjecting the issues to the scrutiny of nonpolemic analysis, CIEC provided the opportunity to focus further work in the north-south dialog along lines which are not inimical to our interests and those of the developing countries and those not disruptive to global economic efficiency.

It must be recognized that CIEC will not cause developing countries to abandon their political commitment to restructuring the international economy or their demands for automatic indirect resource transfers. Negotiations in other north-south forums over the next few years may not be any easier; but as a result of CIEC, they may be less polemical, more rational, more pragmatic, and we would hope more productive.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Cooper follows:]

PREPARED STATEMENT OF HON. RICHARD N. COOPER

The Conference on International Economic Cooperation concluded on June 3 with a Ministerial communique adopted by consensus of the 27 participants. This 18 month experiment in North/South relations produced agreement on a significant number of issues in the fields of energy, raw materials, development, and finance. It also brought into much clearer focus a number of areas and concepts on which developing and developed countries have sharply divergent views.

Both sides expressed regret in the communique at the failure to agree on certain specific issues. Nonetheless, both also credited CIEC with being useful and contributing to broader understanding of the international economic situation.

CIEC was but one stage in the on-going and evolutionary process of a North/South dialogue. The locus of the dialogue will change after CIEC. For the most part, future North/South discussions will take place in existing functional international forums on specific issues. Over the next several months, attention will center on negotiations in UNCTAD for a common fund in support of individual commodity agreements, on the trade negotiations in the Multilateral Trade Negotiations (MTN), on discussion of development assistance issues in the IMF/IBRD Development Committee, and on negotiations for a supplementary credit facility in the International Monetary Fund (IMF) and on negotiations for a general capital increase in the International Bank for Reconstruction and Development (IBRD).

HISTORICAL PERSPECTIVE

For several years prior to the Seventh Special Session of the UN General Assembly in September 1975, the North/South dialogue had been acrimonious and unproductive. Developing countries were increasingly distressed by the erosion in the real value of resource transfers and saw an increasing gap between their aspirations for more rapid development and the level of resources available to them to undertake development programs. At the same time, they were motivated by the success of the OPEC cartel into greater cohesion and the formulation of a far-reaching set of comprehensive and interrelated demands known as the New International Economic Order (NIEO) which, in essence, calls for a restructuring of the international economic system in their favor.

The developed countries during this period were in a reactive posture. In the wake of the adverse economic consequences of the oil embargo and the OPEC price increases of 1973/74, their immediate concern in the North/South context was to begin discussions with oil exporters, and they initiated a call for an international energy conference. The developing countries who met in April 1975 with developed countries to prepare for such a conference did not wish to isolate energy from other North/South economic issues and insisted that all relevant issues be covered. This meeting failed, but following months of further negotiations, the same countries agreed to a single conference with substantive discussions on energy, raw

materials, development, and finance to be covered in four separate commissions. Since most of these nonenergy issues are handled in other forums, the thrust of CIEC's work on these issues was to seek to advance the work on them in these other bodies. A ministerial level meeting in December 1975 launched the CIEC as a unique experiment in North/South relations: a single relatively small forum with participants representing different groups of countries, covering a broad range of North/South issues. As an experiment, its duration was limited to one year.

The industrialized countries participants were Australia, Canada, the European Economic Community, Japan, Spain, Sweden, Switzerland, and the United States. For the developing countries, the participants were Algeria, Argentina, Brazil, Cameroon, Egypt, India, Iran, Iraq, Jamaica, Mexico, Nigeria, Pakistan, Peru, Saudi Arabia, Venezuela, Yugoslavia, Zaire, and Zambia. The participants were chosen in order to give a wide geographic representation and one that reflected a variety of economic situations. Among the developing countries, the oil-exporting countries had a heavy representation because of the origins of the conference. Among the industrialized countries, the members of the European Community decided to speak with one voice. Venezuela and Canada furnished the co-chairmen for the Conference. The CIEC was not a part of the U.N. structure, but was an independent conference, with a minimal, temporary secretariat, free-standing and without formal ties to any existing international body.

The experimental aspects of CIEC resulted in a different kind of North/South forum. Its limited size and relative absence from public view meant that, for the most part, ideological rhetoric was eschewed, and a relatively businesslike atmosphere obtained. Despite our efforts, however, issues did become linked across Commissions; this situation prevented us from concentrating on issues on which we believe the most progress could be made and relegating others to secondary status. We were also not able to avoid the bloc-to-bloc tactics characteristic of other global North/South forums, as we had hoped.

While industrialized countries had intended that the Conference center on energy, they did not begin CIEC with the expectation or objective of securing any agreement on oil prices or oil embargoes. The industrialized countries did hope, however, to achieve increased recognition by oil producers of their role in providing for a stable, growing global economy and to further the process of integrating the economies of oil-exporting countries into the international economy.

THE PROCESS

The four commissions met almost monthly during 1976. The first half of the year was devoted to analytical work; the second half to efforts to formulate concrete proposals for submission to ministers for their consideration and approval. The process was temporarily suspended last July following a meeting of senior officials when the four commissions failed to agree on their work programs for the second half of the year. The G-19 insisted on agenda language that prejudged the outcome of the "action-oriented" phase, including endorsement of the concepts of generalized debt relief and indexation of commodity prices. This dispute was subsequently resolved in time for the commissions to meet as scheduled in September. But the work was arduous and long and the participants did not make sufficient progress to end CIEC as scheduled. The concluding CIEC Ministerial meeting, originally planned for December 1976, was postponed in November in order that work could be brought to a better state of readiness for ministers and also to allow the new US Administration to participate in the final stage of the CIEC.

CIEC IN THE NORTH/SOUTH DIALOG

We believe the North/South dialog, in CIEC and other forums, should emphasize improving rather than restructuring the existing international economic system and enabling the developing countries to participate fully in this system. Appropriate and efficient transfer of resources to developing countries through direct mechanisms, such as foreign assistance, as well as the importance of trade and investment, are the essential elements in an improved economic system. We believe—and seek to convince LDC's—that indirect mechanisms of resource transfer, such as generalized debt relief and indexation of primary product prices, would be inefficient, largely ineffective, and actually contrary to LDC interests.

CIEC enabled us to demonstrate to developing countries those areas in which efforts should be concentrated and progress can be made in the on-going dialog. The developed countries backed their rhetoric about improving the present interdependent economic system by undertaking serious efforts to produce concrete results in development assistance, commodity issues and trade. Moreover, subjecting the demands of developing countries for automatic, indirect resource transfer to the intense scrutiny of economic analysis enabled the developed countries to explain that a number of these demands cannot be accepted because they run counter to LDC interests as well as being contrary to the interest of a healthy global economy in which they have a major stake.

CIEC will not cause developing countries to abandon their attachment to or their demands stemming from the NIEO. Their political solidarity in North/South relations is centered around the concepts embodied in the NIEO. They cannot abandon any portion of it without endangering this solidarity. However, the cooperative workmanlike atmosphere which obtained in CIEC and the substantive progress made there may tend to make future North/South discussions more productive by encouraging developing countries to temper their more extreme and unrealistic demands and concentrate on more promising areas.

THE FINAL CIEC PACKAGE

To demonstrate their commitment to a more productive and rational on-going North/South dialog, and to try to ensure that CIEC contributed positively to such a dialog, the industrialized countries in CIEC (G-8) constructed a final package containing significant advances in elements designed to benefit developing countries (G-19). These elements include:

A commitment to increased and more effective foreign assistance over the next several years as well as a "Special Action" program of special assistance to the poorest countries.

A recommendation supporting a general capital increase for the IBRD and within this context greater World Bank priority to lending for energy and raw materials development and diversification, without prejudice to its other priorities.

A political commitment by CIEC participants to establish a common fund, which in the G-8 view is to be in conjunction with individual agreements to stabilize commodity prices.

In addition, progress occurred on a number of secondary issues including a positive approach to infrastructure development in Africa, food and agriculture, technology transfer, industrialization, LDC access to capital markets, and support for cooperation among developing countries.

There were significant advances in the final package on several elements of interest to us. We obtained agreement on general guidelines for energy supply. There are recommendations to stimulate increased cooperation in developing energy resources in oil-importing developing countries. We obtained LDC recognition of the importance for both developed and developing countries of an improved climate for foreign investment.

A disappointment in the outcome is the failure to agree on continuing energy consultation. We believe continuing energy consultations are in the interests of all countries, yet energy is distinctive among the issues before CIEC in that it has no natural place for discussion in existing bodies.

The G-19, however, remained unyielding in its opposition to an on-going energy dialogue. Some OPEC members of the G-19 believe that such consultation could infringe on their unilateral price and production decisions. Other OPEC members indicated that they were prepared to continue energy discussions if all CIEC would continue. However, the continuation of CIEC was not acceptable to oil importing members of the G-19, even though some favored an on-going energy dialogue. In the end the industrialized countries stood alone in their support of the energy dialogue and decided to drop it rather than let the issue cause the collapse of CIEC.

A brief summary of the final decisions in the four areas of energy, raw materials, development, and finance follows:

ENERGY

We made progress on all of the G-8 energy objectives in CIEC except for obtaining a CIEC recommendation for an on-going energy dialogue. The CIEC

participants agreed to a general set of guidelines that (1) recognize the essentiality of adequate and stable energy supplies to global growth and the responsibilities of all nations, including the oil exporting countries, to ensure that such supplies are available; (2) call for intensified national and international cooperative efforts to expand energy conservation and accelerate the development of conventional and non-conventional energy supplies during the energy transition period and beyond; (3) affirm that special efforts should be made to assist oil-importing LDC's alleviate their energy burdens; (4) recommend that the IBRD, in the context of a general capital increase, establish as a new priority lending for LDC energy development; (5) call for new international efforts to facilitate the transfer of energy technology to LDC's wishing to acquire such technologies; (6) endorse increased international cooperation in energy R. & D., which will probably lead to participation by some oil-exporting and other developing countries in on-going R. & D. work in the International Energy Agency; and (7) recognize the desirability and inevitability of the integration of the downstream processing industries of the oil-exporting countries into the expanding world industrial structure as rapidly as practicable.

As a first try in a North/South context, we consider the energy results to be satisfactory. While replete with caveats, the agreement on supply puts OPEC on record as recognizing that adequate energy supplies are necessary and that oil exporters have a responsibility of meeting energy needs during the transition period that must occur while countries develop alternative sources. The recommendation that IBRD increase lending to LDC's to develop energy resources could have a significant long-term impact on the development prospects of oil-importing LDC's by gradually freeing them of the need for high-cost oil. To the extent these countries reduce oil imports over time, the world supply of oil will be greater. Many OPEC countries are now concerned about their energy prospects when their oil runs out. They have been receptive to the idea of participation in IEA and other industrial country energy R. & D. projects, to begin their own conversion to alternative energy sources.

Any final assessment of the CIEC Energy Commission must include the educational impact its work has had on both the oil importing developing countries and the OPEC countries. The former have become more keenly aware of the adverse economic impact on them of OPEC price and production decisions. During the course of the work of the commission, some of the oil-exporting countries appeared to become more conscious of the impact of their decisions on the global economy.

RAW MATERIALS

US objectives in the Raw Materials Commission consisted essentially of ensuring a pragmatic, objective airing of the various problems in commodity trade as well as possible solutions to these problems. G-19 participation in the discussions consisted largely of laying out the full range of demands emanating from the Manila Declaration of early 1976 and seeking to gain the greatest possible number of G-8 concessions in response to these demands. The debates revealed some general areas of agreement but even greater areas of disagreement, particularly on such traditional LDC objectives as "preservation of LDC purchasing power in real terms" and measures to harmonize the production of synthetics with that of natural products. On other issues such as compensatory financing to cover shortfalls in LDC earnings from exports of primary products, a G-8 proposed study of the issue in the IMF/IBRD Development Committee foundered over G-19 insistence on UNCTAD participation in the study.

In the wake of the decision of participants in the London Economic Summit that there should be a common fund and that CIEC should seek to give impetus to resumed negotiations on this issue in November, CIEC participants reached agreement in principle on the "establishment of a common fund with purposes, objectives and other constituent elements to be further negotiated in UNCTAD." As the language implies, the G-8 have not accepted the UNCTAD conception of a common fund. By the same token, the G-19 have not abandoned this conception.

Aside from the political decision on the common fund issue, the discussion of raw materials issues in CIEC, despite the lack of agreement on many issues, was probably salutary in that the industrialized countries were firm for the most part in rejecting those LDC proposals aimed at market intervention that are impractical and unrealistic. Although we may expect the LDC's to renew their demands in other forums, they may do so with a more sober view of the likely developed country response.

DEVELOPMENT

CIEC also produced agreement on a number of useful concepts and programs in the areas of development finance, transfer of technology, and trade as well as assistance to agriculture, infrastructure and industrialization. This outcome will serve to advance actions on these matters on other fora and lay the groundwork for further programs in the Dialogue.

One of CIEC's most notable achievements was in the area of development assistance. The G-8 countries made commitments to increase the volume of aid and agreed to a variety of concepts to enhance the quality and distribution of these flows. All traditional donors agreed—for the first time—to increase official development assistance “substantially.” U.S. commitment along these lines had important positive impact; the Administration has taken this commitment within the context of its intention to request increases in economic assistance over the next five years, starting with the current fiscal year. In keeping with this important policy decision, donor countries further agreed to begin negotiations on a general capital increase for the World Bank.

Developed countries in CIEC also agreed to establish a \$1 billion special action program of aid for the poorest LDCs (i.e. generally those eligible for concessional assistance from IDA). Contributions to this program will take various forms as determined by each participant and in accord with a burden sharing formula among donors. Subject to appropriate Congressional action, the US contribution of \$375 million will be funded by fiscal year 1979 in our regular bilateral assistance program. The European Community will contribute \$385 million to a special account of IDA for fast disbursing assistance. Other developed country participants will split the remaining \$240, generally via bilateral measures. The Japanese share is \$114 in new assistance. Sweden and Switzerland, and in part Canada, will participate via debt relief.

The conference also reached important broad agreements in other development-related areas. The participants agreed on a set of general concepts concerning infrastructure development which represents the first official text on this subject in a North/South forum. They recommended that the UN arrange a conference under ECA-AGDB auspices to define and carry forward the objectives of an African Transport and Communications Decade (1978-1987) which would be aimed at improving both economic and social infrastructures, with special emphasis on transportation and communication.

In the area of assistance to industrialization, agreement covered a wide variety of aspects, including better coordination for technical assistance and support for UNIDO sectoral consultations. The Conference, however, was unable to agree on two particularly extreme demands by developing countries concerning adjustment assistance and access to markets. These relate to industrialized countries using adjustment assistance for redeployment of industry from developed to developing countries and to their eliminating immediately all trade barriers to imports from developing countries.

On the subject of technology transfer, participants agreed on the importance of three significant measures: (1) revision of the Paris Convention on Industrial Property; (2) implementation of UNCTAD Resolutions 87(IV), which deals with strengthening the technological capacity of developing countries, and 89(IV), concerning the drafting of an international code of conduct on technology transfer; and (3) the importance of the upcoming UN Conference on Science and Technology. In the area of food and agriculture, CIEC agreed on a 500,000 ton emergency grain reserve, support for early negotiations on a grains agreement with stocks, and recommendations for enhanced aid for seed production and research.

On trade, the Conference agreed on language recognizing the importance of making general progress in the MTN and on special and differential treatment for LDCs in certain areas of those negotiations. Language calling for efforts to improve the System of Generalized Preferences and to reach an early decision on the future of the multifiber arrangement regarding textile trade was also agreed.

The Conference also discussed the question of developing country debt and considered the US-EC proposal on features to guide acute debt operations on the one hand and on the other situations where debt is part of a longer term structural balance of payments problem. The participants however were unable to reach agreement on this subject, since the G-19 continued to call for a general moratorium on outstanding debt to donor governments.

Finance

The work of the Financial Affairs Commission resulted in four generally agreed papers: private foreign direct investment, developing country access to capital markets, other financial flows (monetary issues), and cooperation among developing countries.

On private direct foreign investment, participants agreed on the importance of a favorable investment climate in promoting investment flows and made considerable progress in agreeing the essential elements that constitute a favorable investment climate. But those issues generally related to a legal framework for settlement of compensation and other investment issues could not be resolved. Regarding access to capital markets, the final results support the work of the IMF/IBRD Development Committee and urge the speedy implementation of its recommendations. These largely involve technical assistance of various sorts.

With respect to monetary issues, the participants noted with satisfaction that the work program laid out for the IMF by its Interim Committee reflected a large number of concerns expressed during the conference. Strong support was expressed for the initiative taken to establish a supplementary credit facility in the IMF. A number of G-19 participants advanced specific proposals for structural changes in the international monetary system and for easier access to international financial resources. The G-8 resisted inclusion of such proposals as these are matters for discussion in the IMF and not within the competence of the CIEC. The G-19, preferring to have monetary issues remain on the table, withdrew their specific proposals in order to reach an agreed text, noting, however, that the consensus reached did not cover all areas of interest to them. The paper on cooperation among developing countries largely reflected the text agreed earlier in various UN fora.

Disagreement on the text for measures against inflation reflected divergent views on the sources of inflation. The G-19 insisted that the only matter of concern was imported inflation and that measures against such inflation called for indexation of their export prices.

The G-8 maintained that inflation is largely homegrown, and requires appropriate demand management measures. However, the G-8 noted that those countries whose actions have world-wide repercussions—i.e. large industrial countries and countries with important exports—had a particular responsibility to combat inflation. On financial assets of oil-exporting developing countries, participants agreed that some oil-exporting developing countries, in order to accommodate world energy requirements and thereby contribute to world economic growth and stability, have been maintaining production that, at current prices, yields external resources in excess of their current requirements. However, the G-8 countries could not agree that as a consequence, such assets should receive preferential treatment.

REVIEW OF CIEC RESULTS

As noted above, the results of CIEC are broadly satisfactory. The participants gained a much better understanding on a broad range of issues of mutual concern. The dialogue will continue in other forums. The specific results of CIEC as a whole will be put before the U.N. General Assembly in September, for comment and discussion by both participants and those countries that did not participate in the Paris meetings.

Representative Long. Thank you very much, Mr. Cooper.

I am grateful to you. Having been exposed to this area over the last 2 or 3 years, I recognize the complexities and the difficulty of dealing with the problems you have discussed.

You indicated, in general, that you were fairly well satisfied with the outcome of the conference. It seems to me, though, that most of the questions considered have been around for a long time and still remain to be resolved. In other words, the conference did not apparently resolve questions concerning, for example, commodities. I would like to pursue this. It seems to me to be the one area where, perhaps, some progress was made; that is, in the commodities issue. I am not sure, though, whether the progress was not to our detriment. I will pursue that in 1 minute, but we will talk in general for the time being.

On the question of the ongoing dialog on oil and prices of oil, we did not appear to make any progress. Is this really the best we could hope for at this time, and did the conference really serve its basic purpose as an educational forum to the extent that made it all worthwhile?

Mr. COOPER. It is hard for me to evaluate the processes as a whole, personally. I came in only to the last stages of it. As you suggested in your kind introduction, I have followed these matters for some time as an academic economist. I think it is worthwhile reflecting on the contrast between the mood, if I can put it that way, or the tone, of the north-south dialog in 1975 when CIEC began and now, 2 years later.

In 1975, I think it is fair to say indeed that there was not a north-south dialog. There was, in contrast, a series of monologs directed at one another. I think there has been a general unique change in that respect. CIEC while its tangible accomplishments and agreements are limited did, I think, contribute in an important way to this change in tone. It was a forum where all of the strands in the economic area concerning developing countries were pulled together for examination. Experts worked over many months in discussing and ironing out the issues; and I think it is quite fair to say much greater mutual understanding has been achieved. Mutual understanding is something that is easy to dismiss because it is not the same as new regulations or new tangible agreements. But as a person who spent most of his career teaching, I do not want to under rate the importance of education, mutual education in this case.

Representative LONG. I agree with you. I think that is extremely important. Along that line, the meetings that I have attended with representatives of the developing nations—and I was at the recent Interparliamentary Union meeting in Canberra—seem to emphasize, basically, what underdeveloped nations call a new international economic order. I notice that your statement today places emphasis not upon the establishment of a new “order,” but upon the need for strengthening the existing economic relationships.

This seems to me to indicate the basic difference in approach by the various groups. Do you think any progress is being made toward a realization that the old existing economic order cannot be torn down and a new one created? That progress must be achieved through strengthening of the established economic order?

Mr. COOPER. I would hope so. To some extent, this is playing with words. When reform becomes restructuring is a question of art; but the new international economic order in capital letters has come to take on specific meaning for developing countries. It has a number of components which are, in fact, rather sensible, I think; but it also has a number of components which I believe would in the long run be inimical not only to the interests of the developed countries but also to those of the developing countries. What we are trying to do—and CIEC was an important part of that process—is to take up many of those specific components for discussion and to try to persuade developing countries that a number of these components called for in the new international economic order indeed would not represent improvements over the present situation and the present structure. We want to show them that by continuing to work with and within the present structure, reforming it where reforms seem to be called for with

changing circumstances, the ensuing changes will be not only more possible and more feasible, but also within our own interests.

Representative LONG. Mr. Cooper, I agree with you that the argument, to some extent, is one of words. Of course, you know better than I that sometimes words become immensely important in these situations. One more general question before we go to some of the specifics.

What is the feeling of the United States and the other developed countries with respect to how the developing countries viewed the success or failure of the meeting? I read the statement of the Venezuelan cochairman, for example, and it seemed to me he was not at all happy with what happened there, and did not feel that much had been accomplished. How do you all assess that from your vantage point?

MR. COOPER. I think Mr. Pérez-Guerrero probably reflected what is the widespread if not universal view of developing countries that, from a substantive point of view, CIEC was a disappointment to them. That has a lot to do with expectations that were built up with respect to CIEC. As I mentioned in my statement, the first half of CIEC had come to be called the analytical phase; and then the second phase was billed as the action phase. That seemed like an attractive division of labor from the point of view of the beginning of CIEC because it put off the action phase until the end.

I came into it at the end. It turned out that the action phase had a good deal less action in it than many developing countries would have liked. In that respect, I think there is no question that developing countries view CIEC as a substantive disappointment, although a number of developing countries expressed the view—at least in private—that their expectations had not been all that high for CIEC. Despite that, I think that CIEC did play an important role in this educational sense and that many developing countries not only came away with a better understanding but appreciated coming away with a better understanding of these issues from our point of view than they had before.

Indeed as Pérez-Guerrero said to me in the closing session when he gave that press conference, we all part friends from this conference. That really marked a major change from a number of other north-south confrontations.

Representative LONG. A number of these confrontations, which I have observed from the fringe, appear to have been biting and very controversial. I agree with you, though, that this one seems to have concluded on a much more positive note.

I want to go into some specifics. I want to ask Mr. Hamilton, who is very experienced in this field, to participate at any point and to treat this hearing as a roundtable discussion rather than a structured hearing.

One of the things that seems to me among the most important is the attitude the United States took about the proposed aid program. Certainly, all of us can applaud Secretary Vance's statement about the need to make aid more effective and more efficient. This is a never-ending problem. I am, therefore, specifically and substantially concerned about the special action program the United States prepared

which has been described by a number of people as a fast-disbursing mechanism; upon analysis and reflection, however, the proposal appears more like balance-of-payments support.

With the record we have developed over the last few years of implementing bilateral programs, it is surely going to take years to set up a sound project-by-project program on a bilateral aid basis. Or, are we not going to do it that way, but instead, end up with another giveaway program in order to just pump the money out under a fast-disbursing mechanism, to use the Secretary's words?

I think this is a concern among a number of people in Congress. Can you give us any idea of how the Department intends to implement the aid program, assuming that it gets through Congress?

Mr. COOPER. I would be happy to and in fact, am pleased to have this occasion to do that. There has been some misunderstanding about what the special action program is and what it is not. With your permission, Mr. Chairman, let me give a little bit of the background of this and why it came about and why it takes the form which it does.

A number of developing countries made the proposal which indeed is still on the table as a developing country proposal for the moratorium, a general moratorium on external payments of official debt. Now, I personally came into the Government with the view that the debt problem was a serious one from a global point of view and ought to be addressed as a serious issue of policy. I was sympathetically inclined not to a debt moratorium but to the issue of debt. I was, therefore, surprised to discover that the countries that were most strongly in support of this moratorium were countries which, in a list of countries that had external debt problems, while not at the bottom of the list, were not at the top, either. They sort of fell in the middle range of the list. It was a puzzle. Indeed, countries that had serious debt problems tended to shy away, some of them anyway, from the notion of a moratorium. On further exploration of this issue, I discovered that it really was the poorest developing countries, those fundamentally in need of resource transfer, rather than those having acute debt problems, which were most strongly in support of the developing countries' proposals on debt.

From the point of view of their perception in the difficult circumstances in which the world economy has found itself in the last several years due to the increasing oil prices first and then followed by the deep recession, any debt servicing by these countries did pose a real problem in terms of their development objectives and so forth.

Rather than address this as a question of debt, we thought it would be more appropriate to address it as a question of resource transfer. The program for special action was actually a proposal of the European community; in the form in which it was originally put forward, it did call for a quick disbursing, special action program of aid through the International Development Association.

We argued that for a variety of reasons we could not do extra contributions over and above the fifth replenishment of IDA but that we did take the point, as far as the need for extra resource transfer was concerned; and, therefore, we would be happy to contribute to the special action program provided we could do it in our own way and with our own modalities. From our own point of view, the special action program involves a contribution which will not be run through

IDA in our case; nor will it be quick disbursing in our case. We made that clear both to the other developed countries—the G-8 as they came to be known in CIEC in contrast to the G-19 which were the developing countries—and to the G-19 that our contribution to special action would be through our normal bilateral aid program. That happens to include some quick disbursing aid—Public Law 480, for example, is quick disbursing—but that much of it would, as you suggest, be project aid and would not be quick disbursing.

Nonetheless, it would be assistance to the poorest countries which geographically lie very largely in Africa and to some extent, in South Asia. It is really those two areas of the world to which our contribution through our bilateral aid program and the special action program will be directed.

Each of the G-8 countries has its own values and its own domestic problems; so the components of the special action program are rather different depending upon the country.

Representative LONG. Mr. Cooper, it appears to me that the United States has developed over the past few years, a multilateral approach to this whole problem. Or, at least certainly a substantial shift of emphasis from bilateral aid to multilateral aid has been made in the last few years. Does this new obligation on the part of the American taxpayer of \$375 million represent a substantial shift in American policy away from multilateral aid back to the bilateral aid?

Mr. COOPER. I am not sure I would call it a substantial shift. Certainly it is a modest shift in emphasis. I have always felt, and I think the President feels, that there are differential advantages to both bilateral and multilateral assistance and that we should move forward on both tracks as it were. Just as the administration came forward or in effect endorsed the previous administration's proposal for a substantial replenishment of the International Development Association in this fiscal year. If you look at the aid program as a whole, it looks as though there will be a substantial shift toward multilateral aid, but we expect next year to at least correct that balance to some extent through the bilateral aid program. I think the multilateral aid programs have a lot to recommend them. They seem to be politically neutral and administered competently through international staffs now.

They are done in cooperation with other countries. On the other hand, I think the capacity for innovation is greater in the bilateral aid program. Indeed over the years if one looks at the history of foreign assistance, most of the major innovations have come through bilateral programs and only later been taken up by the multilateral lending agencies.

I think we need a balanced portfolio, as it were, in terms of the foreign aid program.

Representative HAMILTON. Mr. Cooper, while you are on that topic of aid, may I ask whether the \$375 million commitment is an unconditional commitment, other than the condition for appropriate congressional action; or if it is conditional, what is it conditional upon? Is there any action required by the developing countries?

Mr. COOPER. I see, conditional in that sense. No, in that sense, it is not conditional at this stage. What we committed ourselves to do is to request from the Congress \$375 million under the label of this special action program for the poorest developing countries, to be adminis-

tered through AID, in our normal way, subject to the points on approved effectiveness which Congressman Long emphasized and which Secretary Vance and the President have emphasized in their separate statements.

Representative HAMILTON. Do you view that \$375 million on top of the present bilateral foreign assistance program?

Mr. COOPER. Our way of counting this is to compare 1979 with 1977, fiscal 1977. In that respect, it is on top of fiscal year 1977. It is not on top of the request that is now before the Congress for fiscal year 1978. Indeed, there has already been, as you know, a substantial increase, although mostly multilateral.

Representative HAMILTON. Will that be a special line item in the budget? How do you identify it? You called it a special fund.

Mr. COOPER. I do not have an answer to that question. My guess is it will not be treated as a special line item in the budget. It will be treated as part of the normal budgetary request but as a side footnote, as it were, identified as U.S. contribution to this special action program.

Representative HAMILTON. Does that mean it will be allocated to the countries that participated in this conference?

Mr. COOPER. No. One of the advantages with this conference was that there were only 27 countries; but one of the problems was that there were many countries that have an interest in the world economy and in this case, in foreign assistance, that were not represented. We felt that it would be inappropriate to single out the countries in this conference.

Representative HAMILTON. You know if it is absorbed into the regular foreign assistance program, without a special line item, then in all probability that means the overwhelming proportion of it will go to the Middle East because that is where the bulk of our assistance now goes. Do you envision that this \$375 million will be allocated to the Middle East in the same proportion that the present bilateral funds are allocated?

Mr. COOPER. No. We would expect to see a shift in regional emphasis in that regard and in particular toward Africa. The poorest countries we define are roughly those who are eligible to receive IDA funds, that does include several Middle Eastern countries. For the most part, it does not. As I said, they are concentrated in Africa and South Asia. I would expect that this would show up in terms of budgetary requests.

Representative HAMILTON. One of our problems in the aid program, Mr. Cooper, is how long it takes for projects to get underway. You mentioned a moment ago that it is not conditional but it is very important, it seems to me, that the recipient country be prepared to move on the assistance that is made available. That is not always the case. It is not the case in Egypt today, for example, where they have had a very difficult time using the amount of money that the Congress has made available. So, I am concerned about your statement that it is unconditional. Surely, one of our concerns would be that the recipient country would be prepared to move ahead on specific projects which we think are genuinely developmental projects.

Mr. COOPER. I am sorry. I did misunderstand. It is not conditional in that sense. I thought you were asking whether we laid down general conditions at CIEC for this. No, of course, the aid program is conditional on being used effectively which means obviously the cooperation

of recipient countries; and indeed, we have no particular country allocation in mind at this stage. We have some general ideas, but I do not want to go too far on them. That is in the process now, in the preparation of the 1979 budget request and authorizations. That is in the process of being worked out now. Obviously, we are not in this special action program simply trying to disburse money for the sake of disbursing money. We are concerned with alleviation of poverty, improvement of nutrition and health care, both of which have been emphasized.

Representative HAMILTON. Will this money be subject to the new directions, guidelines in the present foreign assistance program?

Mr. COOPER. Yes. We would expect it would. Indeed, as you may have noticed in Secretary Vance's speech at CIEC and I can tell you at his speech later this week at the OECD ministerial, he will be picking up the notion of the congressional guidelines. We hope to give them greater impetus in our program.

Representative LONG. One question along this line—and then Mr. Hamilton has others—what is so special about the current situation that justifies, in effect, what is a one-shot type of a program here that had not justified it in the past? Why just this one-shot sort of a program? Is it all part of what they were doing there at that meeting so we would have something to give away at the meeting in order to get their attention so they would listen to our educational program for the long-range knowledge aspect of changing the economic order instead of establishing a new one?

Mr. COOPER. That was part of the tactical use of this special action program; yes. There is a question which is somewhat delicate of actually how one counts this. I would not on our side want to emphasize the one-shot characteristics, although in the context of CIEC, the commitment for request to the Congress is clearly one shot, for the United States, and for the other members of the G-8. I would like at some point to comment on the close cooperation with the other industrialized countries in this whole process. I think that was one of the things that marked a contrast with the UNCTAD in Nairobi and other forums.

Speaking now just for the United States, the President has a great interest in the foreign aid program. He had emphasized both what he thinks to be our obligations to the rest of the world but also our insistence on effectiveness. We really see our contribution to the special action program as the first part, as it were, of President Carter's approach to foreign assistance which is concentration on the poorest countries, trying to assure ourselves that foreign aid is used to alleviate poverty along the lines of the new directions, and to be sure that it is used effectively. Anticipating this development in our own thinking on this, we saw some advantage in making use of it in the context of CIEC.

Representative LONG. I can well recognize that. It just worries me that perhaps the program calls for an increase of about 25 percent, more or less, in our foreign aid program, and because it values to some degree, a shift in emphasis from what we have been running here the last few years. It just appears to me that the program may have been devised for this purpose, rather than being used strategically in order to meet the overall need.

Another very practical problem involved in this is the ability to get a program, an increase of this size, through the Congress. How much consultation had you all done with the Members of Congress before you went to this meeting and proposed this substantial increase?

Mr. COOPER. Well, I personally talked to the chairmen of the relevant subcommittees of the authorization committees and to the chairmen of the relevant subcommittees of the Appropriations Committees before the CIEC ministerial began about our plans and intentions with regard to CIEC. In addition to those consultations, Secretary Vance held a breakfast meeting which involved perhaps a dozen and a half Senators and Congressmen. We had an extensive discussion of CIEC, the issues, the way we saw ourselves going into it, the proposals which we hoped to be able to make, and what we thought might come out, what we hoped would come out of CIEC.

Representative LONG. Did the chairman of the Appropriations Subcommittee voice at that meeting the same views that he voiced after the program was announced?

Mr. COOPER. On the House side, you mean?

Representative LONG. Yes.

Mr. COOPER. The problem with these consultations was that they covered a number of topics. I have subsequently written to Congressman Long about this reminding him that we did in fact discuss the special action program and the U.S. contribution to it. Therefore, he is not actually correct in saying that he was not consulted. What is true, however, is that we discussed a number of other issues which really drew his attention much more than the special action program did. It is fair to say we did not discuss special action thoroughly although he was informed. We had the occasion to discuss it but in fact we devoted our time to discussing other issues.

Those who participated in those discussions—and those at the breakfast in particular—know those consultations did in fact affect our position, the position we took at CIEC on foreign assistance.

Representative HAMILTON. Mr. Cooper, you described the results of the conference as broadly satisfactory. If you were the Under Secretary of State for some of the G-19 countries, would you describe it to your respective country as broadly satisfactory?

Mr. COOPER. Well, there I think I can repeat what I said earlier, that from a substantive point of view, there is no doubt that CIEC was disappointing to the G-19, or to many of them. Some of them had discounted it already. Part of the problem was expectations were high. We did what we could over the months preceding the CIEC to try to deflate those expectations but we did not wholly succeed. I think a fair characterization from the G-19 point of view was that the results were substantively disappointing.

Despite that, however, I think on the G-19 side as well as on the G-8 side, there was appreciation for the tone of the conference and for the fact that, while the industrialized countries did not yield to the demands of the G-19 on many issues, nonetheless, there was strong sympathy for the content that lay behind their proposals if not for the proposals themselves, which were quite unacceptable.

Representative HAMILTON. What did we get out of this? We obviously made some concessions. We opened the door on the common fund.

We increased the amount of aid. We made some commitments with regard to trade, additional international financing. What did we get out of it?

Mr. COOPER. I think I would emphasize three things which are interrelated—four actually. The first is, to the extent that one can attribute it to CIEC, a dramatic change in the tone of north-south relations which we have already touched on earlier this morning. It is quite striking not only the difference between 1975 and 1977, but even the difference, I am told, between Nairobi a year ago and CIEC.

Representative HAMILTON. If that tone is so markedly improved, why aren't they willing to continue the dialog?

The one big disappointment it seems to me—I should not say one, I guess a major disappointment is that they would not agree to ongoing discussions in a similar format. If the tone was so good, why wouldn't they?

Mr. COOPER. The answer has two parts. The first part concerns continuation of CIEC itself. There was a division of view on that question both within the G-8 and within the G-19. The problem that the G-19 faced—and it was the view that dominated in the end—was that they had a serious problem of legitimacy. This is my way of putting it, though they might not put it this way. Here were 19 countries, heavily weighted toward OPEC countries, I might add, that were meeting with the industrialized countries on behalf of a much larger group of developing countries, called the Group of 77. That is a historical label. It is actually 114 countries now.

The Group of 77 was looking over their shoulders all the time. There was no room for maneuver. Their legitimacy was in doubt. There was very strong pressure to get the dialog back into what seemed to be the legitimate forums, one or the other of the U.N. forums. This was what quashed the idea of any kind of continuation of CIEC as such.

Then there was the specific question of the energy dialog. There were two leading OPEC countries that did lend quite a lot of support to continuation of the energy dialog, provided it could be done in a somewhat broader context.

Representative HAMILTON. Which countries?

Mr. COOPER. Saudi Arabia and Iran were both quite helpful in this regard; but they ran across two problems. One is the one I just mentioned that the majority of the G-19 felt it was inappropriate to continue CIEC because of the question of legitimacy. The other OPEC countries felt that they did not want to continue the energy dialog as such. After all, that was the starting point for CIEC, which going back to the spring of 1975, had its origins in a producer-consumer dialog. They rejected that idea then and wanted to widen the agenda. We did widen the agenda and held the CIEC. Now, as their cochairman put it, to go back to the energy dialog alone, freestanding, would be to return to square one.

Representative HAMILTON. I want to go back to those points you were listing. Before I do that, let me pursue this legitimacy bit. The CIEC format then is dead. Is it, in your judgment?

Mr. COOPER. That is right.

Representative HAMILTON. Where do we go from here?

Mr. COOPER. CIEC concluded on June 3.

Representative HAMILTON. It is concluded. Where do we go from here to discuss all of these problems? Do we go back to the forums that previously existed and which previously had been unsatisfactory?

Mr. COOPER. Well, there are several steps. The first is that the CIEC is obliged to report to the U.N. General Assembly. Actually, it has not all been worked out yet. Formally, the 31st General Assembly, that is the one that convened last September, will probably reconvene for a few days this September to hear that report. Then, there will be a substantive discussion in the U.N. General Assembly. That is at a high level of generality, a lot of speechmaking, rather than serious discussion.

Our expectation and hope is that the substantive issues that were discussed at CIEC can now be put into either preexisting forums—in most cases—with a renewed mandate as it were. What are these forums? In the area of commodities and raw materials, the UNCTAD is, for better or for worse a major forum. We hope to get discussions there going at a technical rather than a rhetorical level and to see concretely where some action can be taken that would be mutually beneficial and where such action is not possible. That is a program that is pretty well laid out now.

Some of the development issues we think should go to the Development Committee. This is a committee that was created 2 or possibly 3 years ago under the auspices of the IMF and the World Bank. It has, I think it is fair to say, more or less been treading water since that time because it has not had a consequential task laid upon it. It is a committee whose representatives are from finance ministries from governments rather than foreign ministries or development ministries.

We think that a number of the development issues that were raised and discussed at CIEC should be remanded, as it were, to the Development Committee for serious technical level discussions.

Some of the monetary issues that were discussed at CIEC have their natural forum in the IMF Interim Committee.

When it comes to energy, the area for which there is no natural existing forum of discussion, we are still examining that, discussing it. One of the topics of discussion later this week at the OECD meetings in Paris will be how hard we want to push that and how we might modify one of the appropriate U.N. forums to take on the question of energy. One of the points the OPEC countries made in turning down ongoing energy discussions was that, Oh, there are plenty of forums in which energy can be discussed." We said, "Well, name one." They mentioned several which are the general U.N. forums.

Representative HAMILTON. What concerns me, Mr. Cooper, is that these issues are really interrelated. You parcel them out to different forums and that seems to me to make more difficult the resolution of your economic problems in the world. I see enormous advantages to trying to deal with them in a single group. Obviously, you would have to break it down. I must say I am somewhat disheartened by the decisions to parcel out these problems into segments.

Mr. COOPER. Let me comment on that, if I may. I think this is a very important point.

I think I would want to modify the thrust of what you say substantially while still recognizing the importance of having some place where all these strands are pulled together.

What I discovered at CIEC, which is my first personal experience in this kind of multinational, multiagenda negotiation—but apparently it conforms with the experience on other occasions where that has taken place, too—is that when the agenda is as wide as it was and the participants were as numerous as they were—even in CIEC, which had 27 participants—the discussions tend to be at a rather general level and involve people who are nonexperts, people from foreign offices who are concerned with overall foreign economic policy.

The G-19 and beyond them the developing countries as a group—the G-77—have developed several programs of action actually.

They are embodied in various declarations, the Manila Declaration, Quito Declaration, the Nairobi Declaration that came out of the Nairobi meetings.

These declarations tend to be rather general and they also tend to become scripture. So at CIEC—and this partly goes to the question of legitimacy which I mentioned earlier—we found it was politically impossible for the G-19 to move away from, that is seriously to negotiate on any of the issues that had become embodied in one or the other of these declarations.

Therefore, it seems to me to make tangible progress, one must get off that rather high level of generality and down to specifics where experts from capitals can come who have serious pragmatic interests in the rubber market; not in commodities in general or common funds in general, but the rubber market, the sugar market, or balance of payments financing, or whatever it is.

You get the experts from capitals who know what their problems are concretely, recognize a solution and recognize a nonsolution, which is important.

It seems if we are to make tangible progress we must get these issues down into expert level discussions.

Representative HAMILTON. That can be done under the auspices of an overall conference, however.

Mr. COOPER. There are specialized agencies where these things are discussed, the IMF, the World Bank, and UNCTAD has now taken on commodities.

At the same time, I very much agree with your point that we need some forum, some mechanism that permits us from time to time to stand back from all of those discussions and ask where we are, where have we come over the last, say, 2 years, and where are we going.

Let's give a sense of direction. It seems to me that is the valuable role CIEC did play. Although the tangible accomplishments are relatively few, it did give a general sense of direction. It indicated where there are strong disagreements between G-19 and G-8 and hence where progress is unlikely.

It indicated whether there was some modicum of agreement, or where progress is likely. Without suggesting we should reconvene CIEC periodically every 2 years—I think that would not be politically possible—I do think, as Secretary Vance stated in his address at CIEC, that we need to find some mechanism for pulling all the strands of the north-south dialog together from time to time.

I think as a practical matter it will have to be under U.N. auspices. We do not have a mechanism yet. The General Assembly is too un-

wieldy, I think, to do this appropriately. We are thinking actively about how this might be done.

Representative HAMILTON. Mr. Chairman, I interrupted when he was listing those things we gained from this conference. Perhaps he could finish that listing.

You began No. 1 with the tone of it. We got diverted on this discussion.

Mr. COOPER. The second point, again, is, as I have said earlier, a much better appreciation of our position; that is, the U.S. position or the industrialized countries' position on the large number of issues which have appeared in these various declarations and why it is we think that they are just nonstarters.

They just won't go for various reasons. I think that is something that can be said in speeches, but that the understanding can't be conveyed in speeches.

I think that even though the G-19 did not find itself able to back off of those proposals in a formal way, they now understand much more clearly why it is we are opposed to generalized debt relief, why it is we are opposed to the control of production of synthetics that compare with natural products, and so forth.

There is a long list of such things. That's basically the educational function.

Third, which in a way is also an educational function but one that is so important that I think it is worth singling out, is that this started a producer-consumer dialog in oil.

Even though the agenda did get enlarged, one of the commissions was an energy commission. There were extensive discussions on the role of energy in the world economy.

I think today there is a very much greater appreciation for the consequences of both pricing and supply manipulation in the area of energy for the world economy as a whole.

Here, although the formal lineup in the CIEC was between the industrialized countries and the developing countries, in this particular regard, the oil consuming countries have an interest that conforms much more closely to that of the industrialized countries.

While in the open plenary sessions they did not speak out very much on this issue, we know there were intense discussions within the G-19 in the CIEC context on the question of energy and I think the OPEC countries now appreciate much more clearly how consequential their actions are for the world economy, including other developing countries as well as the industrialized ones. The role, for example, oil price increases played in the recession of 1975-76 was discussed even though it is very difficult to sort these things out in strict cause and effect relationships.

I like to think the moderation which Saudi Arabia in particular has exercised in OPEC forums on pricing, for example, has been partly a consequence of these discussions that took place in CIEC.

I should say the United States and Saudi Arabia were the two co-chairmen of the Energy Commission. We had quite close relations with the Saudi Arabians in the CIEC context.

The educational function, if indeed what I have said is correct, is of tremendous importance for everyone concerned.

The fourth area I would identify is the area of foreign investment, which is an area which over the last decade as you know has lent itself to a lot of high and often abrasive rhetoric on the part of developing countries.

I think we had very substantial moderation of that rhetoric in the CIEC and an expressed appreciation by some developing countries of the importance of private investment in the process of development and a recognition of the characteristics or the features that influence a good investment climate.

This marks a major change over previous years. I think this reflects in part a better appreciation by developing countries that they really can influence what multinational corporations do in their countries.

They have a better sense of control than they had a few years ago and that better sense of control gives them greater self-confidence in dealing with multinationals and, hence, permits them to express this recognition of the importance of private investment in the development process and the climate that fosters private investment.

Representative LONG. Mr. Cooper, since we are doing an autopsy of this conference, another thing that worries me is this: I understood that our policy with respect to commodity agreements prior to this meeting had been basically a policy of determining and working out the commodities to be affected, and then working out the agreement on those particular commodities before we would really even consider a common fund.

It seems to me that maybe we have gotten ourselves in a poor posture by committing ourselves to negotiating a common fund even before the individual commodity agreements are established.

Does this reflect, again, a fairly major change in American policy? And, if so, are you concerned that we have put the cart before the horse here in that subsequent negotiations will take place in other forums at which we might find ourselves being constantly outvoted? What is the effect of our having agreed to the establishment of a common fund prior to enumerating the specific commodities?

Mr. COOPER. I welcome the opportunity to comment on that. That was one of the major points. I don't know whether you want to call it the high points or the low points of the CIEC Conference. It was certainly one of the issues that was addressed most intensely.

The language in the communique and in the longer annex to the communique was very carefully tailored. Let me address the question of the administration's position.

As compared with the previous administration, it is fair to say yes, there has been a substantial change in the U.S. position. That is to say, I think the Carter administration is more sympathetic to the idea of commodity agreements and also sees some merit, if one has several such commodity agreements, in having a common fund which supports the several commodity agreements.

In that respect, there has been a change in position which, however, was not revealed for the first time at CIEC. It came up, for example, at earlier hearings before various congressional committees.

In terms of getting the cart before the horse with respect to the common fund, I would say no, we have not done that, although I recognize the danger which you are alluding to, that the language of CIEC may be misinterpreted.

What we actually agreed at CIEC was that we were prepared to negotiate on a common fund. The language was drawn up very carefully because we also agreed that our agreement at CIEC was not to prejudice our position at all when we came to the negotiation of the common fund.

The language is that the specific purposes, objectives, constituent elements—which is, I think, the phrase—will be negotiated at UNCTAD.

That meant that the G-19 did not give up the principle of the common fund as a central source of financing.

That was a phrase which in the interests of agreement at CIEC they dropped.

They made clear at the time and didn't want any ambiguity about it that they were not dropping the idea of the common fund as a central source of financing.

We on our side in the interests of reaching agreement at CIEC dropped the stipulation that a common fund be to support individual commodity agreements but we made clear at CIEC that we were not changing our position on that point.

Representative LONG. Excuse me, Mr. Cooper. Would you say that again?

Mr. COOPER. That we envisaged the common fund as a device to facilitate the functions of individual commodity agreements. That's the cart before the horse business.

Representative LONG. Have we agreed to additional financing, or borrowing capability, for a common fund facility?

Mr. COOPER. No.

Representative LONG. In addition to the specific funds to be appropriated for each one of the buffer stocks?

Mr. COOPER. No; we have not. I will explain.

Representative LONG. Let me ask you to clarify one other point. Maybe you can take both questions and comment on both in combination.

Have we agreed to consider the use of the common fund resources for other commodity activities such as the improvement of the marketing information or the diversification of projects?

Mr. COOPER. No; we have not.

Representative LONG. Thank you. Now, you may comment.

Mr. COOPER. What I was going to say is that at CIEC what we did was express on both sides the political determination to negotiate on the common fund without prejudice to the content of each side's position.

Now, what is our position on the common fund? It is that if there are to be buffer stock type commodity agreements—and we already have a couple of them and we think there are a few more that are at least possible—they remain to be negotiated but they are at least possible—then there is a genuine efficiency case for a common fund to facilitate the working of those commodity agreements.

The argument essentially rests on the empirical proposition that commodity prices don't move in parallel for all commodities.

To take a concrete example, the price of coffee at the moment is way up, the price of sugar is way down. If you have separate standing

agreements, you require a larger total amount of finance than if you pool the funds from those agreements into a common fund.

So, our conception of the common fund is a financing facility to support individual commodity agreements. Obviously, such a facility cannot be constructed before you have the individual commodity agreements.

Our position in the international forums is that we are willing to negotiate a common fund in parallel with discussions on individual commodities; that is, we can proceed to discuss the modalities of the common fund, how it is to work, and so forth.

Obviously, it cannot in our conception actually come into being until you have the commodity agreement that it is to support.

Representative LONG. So, you feel we have, in effect, a veto power with respect to those commodity agreements to be considered by any common fund agreement, which is dependent upon the ability to agree on a specific commodity agreement?

Mr. COOPER. Our approach is to take the individual commodities each on its own merits; and, where we can find a case—and I should say that we have entertained a certain amount of skepticism about how many cases we will find—nonetheless we are willing to look at it honestly and sympathetically.

Where we can find a case for price stabilizing buffer stock type commodity agreements, we will try to negotiate one.

An example where we have started that process is in sugar where you may know we had serious negotiations. They did not result in an agreement, but we had serious negotiations.

The United States put forward a proposal for a price stabilizing stocking type agreement.

Following the creation of several such agreements, the notion of a common fund that pools the resources is a highly sensible one and will help conserve the total amount of financing required.

That is the attraction of the proposal. On the second part of your question, the diversification out of commodities, I believe that this is a serious problem that has to be addressed. I would put it in a more parallel way, that the high dependence of some countries on primary products creates problems for their economies.

We ought to have a twofold approach to that problem. One is to try to discover new and improved uses for natural products.

It is a question of R. & D. A number of natural products have very attractive features. We can try to find new and improved uses for those products.

Second, to the extent we fail on that score, we should encourage the diversification of the monocultures out of their heavy dependence upon one or sometimes two commodities.

Those tasks, however, are properly development tasks. They have nothing to do with price stabilizing commodity agreements.

Therefore, we envisage that those tasks, while important, should not be undertaken by a common fund. These are areas which we think appropriate for the development committee which I mentioned earlier to take a really hard look at the best ways of addressing.

We should see them as development problems rather than as commodity market problems. So, our conception of the common fund—

it must and can be stated—is really quite different, radically different from the UNCTAD Secretariat's conception.

We have reason to believe a number of developing countries themselves find problems with the UNCTAD Secretariat proposal.

Whether they will find it politically possible to move off of that proposal, we won't discover until we sit down with them to negotiate a common fund.

Representative HAMILTON. Mr. Cooper, you state in your prepared statement to the committee that the conference agreed on a 500,000-ton emergency grain reserve as support for early negotiations on a grains agreement with stocks.

Could you be more specific as to what was agreed to beyond that? What role would the United States play? How that grain reserve is to be administered?

Mr. COOPER. No; I want to consult my colleague here in case he has more detailed knowledge. This was discussed in one of the commissions at which I wasn't present. My understanding of it is that this was really a CIEC endorsement of some proposals that we are making anyway in the London grains conference.

This is something that has been on the track for some time. We do not yet have an international agreement on it, but Secretary Bergland is very much interested in getting such an agreement.

It would involve not merely the emergency grain reserves but also management of larger grain stocks in the interests of stabilizing the world wheat economy.

What we got at CIEC was really an endorsement in the general terms that you describe.

Representative HAMILTON. How does this fit into the proposal the Secretary of Agriculture made in Manila yesterday?

Mr. COOPER. It should be completely consistent with the proposal he made in Manila yesterday. We coordinated it ahead of time.

Representative HAMILTON. He recommended a food reserve, did he not, yesterday in Manila?

Mr. COOPER. Yes.

Representative HAMILTON. This is separate? This is a grain reserve?

Mr. COOPER. No; this would be part of the food reserve. It is predominantly grains. Many foods don't store well. Grains are a staple which we produce in abundance.

Representative HAMILTON. Have we said how we think that ought to be administered, who ought to hold it?

Mr. COOPER. Yes; we did not get into this at CIEC as far as I am aware. We do have a position on that. I am not conversant with all of the details.

In broad outline, our thinking is that they should be nationally held and internationally financed reserves.

That leaves it up to the United States to determine itself the best way that grain should be held in this country. As you probably know, the Department of Agriculture is thinking that in this country we should devise a scheme for farmer-held grain reserves rather than return to the program of extensive Government holdings of grain.

But the farmer-held grain reserves would be accessible for use in these circumstances that are envisaged in Secretary Bergland's proposal.

Representative HAMILTON. Have you costed out the commitments the United States made at this conference?

Mr. COOPER. At CIEC?

Representative HAMILTON. Yes.

What does the total figure come to? When you put the aid figure together with the common fund figure and the commitments to the international banks and all, what does it all come to?

Mr. COOPER. No; we have not costed it out. Let me explain a little bit why.

The \$375 million is clear. That stands there. Regarding the common fund—and this is in contrast to the UNCTAD Secretariat—we do not envisage simply pledging a certain amount of funds to the common fund as such.

On our conception of a common fund, that will flow from what is required from the individual commodity agreements. That's a figure we won't have until we explore in greater detail the prospects for individual commodity agreements which we are in the process of doing now.

When it comes to the grain reserves to which we just spoke that was really not a proposal that originated in CIEC.

That was one of those cases where the CIEC we hope was giving impetus to something going on elsewhere. The Department of Agriculture has done very careful costing of that and we can supply that information.

I do not have it right at hand.

[The following information was subsequently supplied for the record:]

COST OF GRAIN RESERVES

The domestic grain reserve program adopted by the administration earlier this year permits farmers to store grain under USDA's extended resale program for up to three years. The Senate has endorsed this program in its legislation and has established a ceiling of 300 million bushels of wheat. This program will facilitate U.S. participation in an international reserve arrangement. The quantity is approximately in the amount that the U.S. could expect to hold under an international reserve arrangement totaling 30 million tons. The financial cost of maintaining this share of the reserve, roughly 8 million tons, would be approximately \$60 million per year in storage charges. USDA calculates an average cost of 20 cents per bushel per year. Initially the Government would incur budgetary expenditures for acquisition of the reserve in the form of loans to farmers who place their grain in storage. At the current loan rate of \$2.25 per bushel, there would be a potential maximum outlay of \$450 million. However, assuming that market changes would lead to release of reserve stocks during the course of the three year extended loan agreement, the loans would eventually be paid off with interest of 6 percent. If reserve stocks were not released during the three year program, producers might forfeit their stored grain. The Government would then receive title to the stocks and would recover the initial outlay upon release of the reserves.

Mr. COOPER. In terms of the capital increase at the World Bank, that is another issue where we really agreed—or, in the case of CIEC endorsed in a wider forum an agreement which has already been reached at the London summit—that such a capital increase would be desirable in connection with some new tasks for the World Bank, but those interact and we don't have specific numbers in mind.

We are now talking about something that will take place in the early 1980's and for the decade of the 1980's. So, the leadtime on this is long.

What we are doing there is just expressing our recognition that such a capital increase will be required and that we support it, but with the amounts to be worked out later.

That, incidentally, as I understand it, represents a change from the previous administration which resisted the notion of a general capital increase of the World Bank.

Representative HAMILTON. There is no real decision made with regard to debt, the debts?

Mr. COOPER. No. As I mentioned earlier—

Representative HAMILTON. Are they still pressing for a moratorium or even a forgiveness of those debts as part of their new international economic order?

Mr. COOPER. Yes; the only way I would qualify what you say is I am not sure they are pressing for that now.

It is still part of their program that they were not willing to back off as we hoped they might at CIEC. This is one of the cases where I think the G-19 felt they were unable to withdraw from something that had appeared in an earlier declaration which the whole Group of 77 stood behind.

They did not back off of it. It is still on the table as part of their position.

My impression is they are not pressing it.

Representative HAMILTON. How about the indexation issue?

Is that similar?

Mr. COOPER. Similar. This is one of those areas where I think a lot of education really did take place. They did not formally back away from the notion of indexation but I think there is a much greater appreciation of the practical difficulties of indexing commodity prices.

Representative HAMILTON. What is your impression about the way the United States Government organizes itself to develop international economic policy and our decisionmaking abilities in this area?

Mr. COOPER. Well, I—

Representative HAMILTON. Does that need to be changed? Reorganized? Improved?

Mr. COOPER. Let me say this: This runs a risk of being self-serving, although I think I am new in government and retain sufficient detachment so that I can say it honestly.

I was tremendously impressed by the way the U.S. team carried itself at CIEC. There were representatives from a number of agencies; the State Department took the lead, but the Treasury was strongly represented: AID was represented, Commerce Department, FEA, National Security Council, were all represented.

This group of people really worked as a team. The reason for emphasizing that is there have been so many stories about tremendous infighting between Treasury and State, especially.

I am pleased to report that that was totally absent in the preparations for CIEC in Washington and in the CIEC itself.

Representative HAMILTON. What is your organization? Who is the top official in developing international economic policy in the Government today?

Mr. COOPER. I am afraid that I probably am in all areas except the financial area where Treasury has the principal responsibility; and my

counterpart, Under Secretary of the Treasury Solomon, has responsibility there.

We work very closely. That's sort of a formal responsibility. In fact, we work very closely together in all of these areas.

My own personal background happens to be financial. So, he consults me, feels free to consult me on financial issues which are his responsibility.

I, in turn, keep in very close touch with him and his staff on commodity policy, for example.

Representative HAMILTON. What is the organizational structure?

Do you head up a committee of some kind that has people from Treasury, National Security, Defense?

Mr. COOPER. The formal structure starts at the Cabinet level. There is the Economic Policy Group which is chaired by the Secretary of the Treasury, on which I sit for the Secretary of State—which addresses all issues of economic policy, foreign as well as domestic.

All important consequential decisions or recommendations to the President are vetted there. In particular, our position at CIEC was examined by the EPG, the Economic Policy Group.

There were a few issues we took to the President himself.

Representative HAMILTON. The Secretary of the Treasury chairs that?

Mr. COOPER. The Secretary of the Treasury chairs that committee, that's right. On the executive committee of the EPG are represented the Secretary of Labor, the Secretary of Commerce, and the Director of OMB. I sit for the State Department.

Representative HAMILTON. Mr. Vance was our chief spokesman at this conference?

Mr. COOPER. He was our ministerial delegate, yes.

Representative HAMILTON. Why wouldn't the Secretary of the Treasury be if he is the man that heads up the Economic Policy Group?

Mr. COOPER. Its activities are primarily domestic in scope.

Since it was felt that we needed better coordination between foreign domestic policy and a domestic economic policy.

President Carter set up this group to handle both. It does not mean to imply that the Secretary of the Treasury should be the key man in each and every forum. There will be occasions when it is the Secretary of Commerce; occasions when it is the Secretary of Labor.

In this case, since there was a heavy foreign policy component to CIEC, it was appropriate it was the Secretary of State.

His chief aides at CIEC were the Administrator of AID, Governor Gilligan, myself for the State Department, and Under Secretary Solomon from the Treasury Department, we were all present to advise him at the conference.

Representative LONG. Mr. Cooper, I think it is generally recognized that a high rate of economic growth in the industrial countries—the United States and other industrial countries—would probably do more than anything else to ease the debt burden of the nonoil exporting developing world.

Secretary Blumenthal, in a speech made in Tokyo, made basically that point. He went further and said:

Countries that are in current account surplus, or that can readily attract capital, must follow policies designed to insure maximum sustainable domestic growth consistent with a gradual reduction of inflation.

That is the end of the quote of Secretary Blumenthal.

Maximum sustainable domestic growth, does this, in your opinion, square with a balanced budget by 1981? The reason I ask is that Mr. Schultze appeared before this committee 1 week or 10 days ago and we attempted to explore his assurances that we could, indeed, balance the budget by 1981.

I think most of us felt that his assumptions were optimistic at the very minimum and, at the maximum, they perhaps belong in a hope chest.

You have a great deal to say in this field. I wondered, one, what your views were on the matter; and, second, how much input did the State Department have in this determination that we can have a balanced budget by 1981?

Mr. COOPER. Well, to answer your second question first, the State Department as such had no input into that decision.

That, as you know, stems from President—then a candidate—Carter's statements on the economy before he was elected.

The group that worked that out was his economic task force, of which I personally happened to have been a member last year.

Representative LONG. Well, that makes you particularly good to answer the first part of the question, then.

[Laughter.]

Mr. COOPER. I am going to beg off answering the first part of the question.

Prof. Lawrence Klein from the University of Pennsylvania was chairman of that group. I was there largely to advise the group on foreign economic issues. I did participate in those discussions. Professor Klein produced a scenario which I think it would be fair to say is perhaps on the optimistic side but not in the hope chest category; it was a track for the economy between 1976 as it then was and 1981 which would permit the expansion of the economy out of the recession, substantial decline in unemployment—not as I recall back to 4 or 4½ percent, but to the vicinity of 5 percent—and a balanced budget in that year.

Now, that was a possible scenario and it was one that then candidate Carter accepted as the framework for his economic policy; and I think he is determined to stick by it.

Now, I think it is fair to say that the President keeps his eye on the ball. The ball here is the economy. The principal economic objectives that we have are the level of employment, the level of inflation. Those are the things that we should keep in mind.

I would really defer to Charlie Schultze on this question because it is his area of responsibility and expertise. I do not now have an independent judgment. I am not directly involved in this kind of calculation. My impression is that we think that it is still possible from today's vantage point to accomplish our overall macroeconomic objectives and a balanced budget.

Certainly, that is the track the President is still on.

Representative LONG. When that task force was considering this matter—you say you sat in on some of those meetings—did it consider the implications of the developing world at that time?

Or, were you looking at it strictly from the standpoint of the domestic situation?

Mr. COOPER. No; my function, on that task force, was to remind the group as a whole that there was a world outside the United States and to pay attention to the foreign trade aspects, and the implications for other countries, as well as developing countries, of economic activity in the United States.

I like to think that that view represented a component that went into President Carter's thinking on how best to manage the domestic economy.

Representative LONG. One last question of a general nature, not relating to your recent meeting.

In early June, Secretary of Labor Marshall called for the creation of a global minimum wage. He was widely quoted as suggesting that perhaps a \$1 worldwide minimum wage—\$1 an hour, worldwide, is a possible target.

Some of the people who commented on that remark suggested that the minimum wage proposal might really serve two different goals at once.

It could serve as an economic component of President Carter's drive for human rights; and, on the other hand, the proposal might raise production costs in the developing countries and slow their exports of manufactures to the United States.

Do you have any view you would like to express on this as an international economist?

Mr. COOPER. Yes; I did not see Secretary Marshall's statement. I don't know exactly what he said. I would like to comment on the general point. It would, of course, be nice if—or I should say when—we can assure that everyone in the world does get a minimum wage of \$1 an hour. I have to make clear that that should not come about simply through inflation.

We are talking about a real dollar as of, say, 1977 and not an inflated 1990 dollar or something like that. That would be nice; but, I would have to say that at the present time there are, unhappily, a number of economies in the world that simply cannot sustain a minimum wage of \$1 an hour.

The productivity in those economies is not a dollar's worth per hour. Even if you gave the whole of the output to labor and nothing to capital, it is just not possible.

So, I think that as a target or as a goal toward which we can strive, perhaps it has something to recommend it, but as something that is achievable in the near future, it is simply not possible.

I would like to make an analytical point on this because we naturally think in terms of dollars; and, it is easy for us to say that residents of country x or country y should get \$1 an hour.

Of course, those countries don't use dollars. They use their own currencies, pesos or whatever it happens to be.

The question is raised, What do we mean by \$1 an hour? We have in mind implicitly an exchange rate. The exchange rate is an economic variable. If we were to try at today's exchange rates, somehow through a wave of the wand or through international legislation or something like that to achieve \$1 an hour minimum wage, those countries whose economies cannot sustain such a wage would find that their exchange rate—in currency—depreciated.

What started out as \$1 an hour would slip back to whatever it is, 30 cents, 40 cents an hour.

We have to keep in mind that most of the world's population is not paid in dollars. They are paid in other currencies.

The relationship between the other countries' currency and the U.S. dollar is influenced by their ability to trade.

Representative LONG. And a related problem, of course, one of many related problems, is the degree of services provided by a particular country.

For instance, \$1 in one place buys so many shoes; in another place, it buys another number of shoes.

Mr. COOPER. Mr. Chairman, you are quite right. Purchasing power differs from country to country.

Representative LONG. Well, Mr. Cooper, you have been very candid. Your remarks have been refreshingly so, if I may say.

Speaking on behalf of the subcommittee, we are truly appreciative to you for coming.

Mr. COOPER. Thank you very much.

Representative LONG. The subcommittee stands adjourned.

[Whereupon, at 11:40 a.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

[Extract of pages 23 to 106]

**CONFERENCE
ON INTERNATIONAL
ECONOMIC
CO-OPERATION**

MINISTERIAL CONFERENCES

PARIS 16 - 19 December 1975

PARIS 30 May - 2nd June 1977

REPORT OF THE CONFERENCE ON INTERNATIONAL ECONOMIC COOPERATION

1. — The Conference on International Economic Cooperation held its final meeting in Paris, at ministerial level, from May 30 to June 2, 1977. Representatives of the following 27 members of the Conference took part: Algeria, Argentina, Australia, Brazil, Cameroon, Canada, Egypt, European Economic Community, India, Indonesia, Iran, Irak, Jamaica, Japan, Mexico, Nigeria, Pakistan, Peru, Saudi Arabia, Spain, Sweden, Switzerland, United States, Venezuela, Yugoslavia, Zaire and Zambia. The participants welcomed the presence of the Secretary General of the United Nations. The following observers also attended the Conference: OPEC, IEA, UNCTAD, OECD, FAO, GATT, UNDP, UNIDO, IMF, IBRD and SELA.
2. — The Honourable Allan J. MacEACHEN, PC, MP, President of the Privy Council of Canada, and His Excellency Dr. Manuel PÉREZ-GUERRERO, Minister of State for International Economic Affairs of Venezuela, Co-Chairmen of the Conference, presided over the Ministerial Meeting. Mr. Bernard GUITTON served in his capacity of Executive Secretary of the Conference.
3. — The Ministerial representatives at the meeting recognized that during the course of its work, and within the framework established at the Ministerial Meeting with which the Conference was initiated in December 1975, the Conference had examined a wide variety of economic issues in the areas of Energy, Raw Materials, Development and Finance. There was recognition that the issues in each of these areas are closely interrelated and that particular attention should be given to the problems of the developing countries, especially the most seriously affected among them.
4. — The Co-Chairmen of the Commissions of Energy, Mr. Stephen BOSWORTH and H.E. Abdul-Hadi TAHER; on Raw Materials, Their Excellencies Alfonso ARIAS SCHREIBER and Hiromichi MIYAZAKI; on Development H.E. Messaoud AIT-CHAALAL and Mr. Edmund WELLENSTEIN; and on Financial Affairs, Mr. Stanley PAYTON and H.E. Mohammed YEGANEH presented on May 14 the final reports of the work of the four Commissions, which were considered at a meeting of Senior Officials of the Conference on May 26-28, and subsequently submitted to the Ministerial Meeting.
5. The participants recalled their agreement that the Conference should lead to concrete proposals for an equitable and comprehensive programme for international economic co-operation including agreements, decisions, commitments and recommendations. They also recalled their agreement that action by the Conference should constitute a significant advance in international economic co-operation and make a substantial contribution to the economic development of the developing countries.

6. — The participants were able to agree on a number of issues and measures relating to:

Energy

1. — Conclusion and recommendation on availability and supply in a commercial sense, except for purchasing power constraint.*
2. — Recognition of depletable nature of oil and gas. Transition from oil based energy mix to more permanent and renewable sources of energy.
3. — Conservation and increased efficiency of energy utilization.
4. — Need to develop all forms of energy.
5. — General conclusions and recommendations for national action and international cooperation in the energy field.

Raw Materials and Trade

1. — Establishment of a Common Fund with purposes, objectives and other constituent elements to be further negotiated in UNCTAD.
2. — Research and development and some other measures for natural products competing with synthetics.
3. — Measures for international cooperation in the field of marketing and distribution of raw materials.
4. — Measures to assist importing developing countries to develop and diversify their indigenous natural resources.
5. — Agreement for improving generalized system of preferences schemes: identification of areas for special and more favourable treatment for developing countries in the Multilateral Trade Negotiations, and certain other trade questions.

Development

1. — Volume and quality of official development assistance.
2. — Provision by developed countries of \$ 1 billion in a Special Action Programme for individual low-income countries facing general problems of transfer of resources.
3. — Food and agriculture.
4. — Assistance to infrastructure development in developing countries with particular reference to Africa.
5. — Several aspects of the industrialization of developing countries.
6. — Industrial property, implementation of relevant UNCTAD resolutions on transfer of technology and U.N. Conference on science and technology.

* Some delegations of the G. 19 consider that this item should be viewed in the context of the report of the Co-Chairmen of the Energy Commission to the Ministerial meeting and the proposal presented to the Energy Commission by the delegates of Egypt, Iran, Irak and Venezuela.

Finance

1. — Private foreign direct investment, except criteria for compensation, transferability of income and capital and jurisdiction, and standards for settlement of disputes.
2. — Developing country access to capital markets.
3. — Other financial flows (monetary issues).
4. — Cooperation among developing countries.

The texts agreed appear in the attached annex which is an integral part of this document.

7. The participants were not able to agree on other issues and measures relating to:

Energy

1. — Price of energy and purchasing power of energy export earnings.
2. — Accumulated revenues from oil exports.
3. — Financial assistance to bridge external payments problems of oil importing countries or oil importing developing countries.
4. — Recommendations on resources within the Law of the Sea Conference.
5. — Continuing consultations on energy.

Raw Materials and Trade

1. — Purchasing power of developing countries.
2. — Measures related to compensatory financing.
3. — Aspects of local processing and diversification.
4. — Measures relating to interests of developing countries in: world shipping tonnage and trade; representation on Commodity Exchanges; a Code of Conduct for Liner Conferences, and other matters.
5. — Production control and other measures concerning synthetics.
6. — Investment in the field of Raw Materials.
7. — Means for protecting the interest of developing countries which might be adversely affected by the implementation of the Integrated Program.
8. — Relationship of Integrated Program to New International Economic Order.
9. — Measures related to trade policies, to the institutional framework of trade, to aspects of the GSP, to the MTN, and to conditions of supply.

Development

1. — Indebtedness of developing countries.
2. — Adjustment assistance measures related to industrialisation.

3. — Access to markets for manufactured and semi-manufactured products.
4. — Transnational corporations.

Finance

1. — Criteria for compensation, transferability of income and capital and jurisdiction and standards for settlement of disputes.
2. — Measures against inflation.
3. — Financial assets of oil exporting developing countries.

The proposals made by participants or groups of participants on these matters also appear in the same annex.

8. The participants from developing countries in CIEC, while recognizing that progress has been made in CIEC to meet certain proposals of developing countries, noted with regret that most of the proposals for structural changes in the international economic system and certain of the proposals for urgent actions on pressing problems have not been agreed upon.

Therefore, the Group of 19 feels that the conclusions of CIEC fall short of the objectives envisaged for a comprehensive and equitable programme of action designed to establish the New International Economic Order.

9. The participants from developed countries in CIEC welcomed the spirit of cooperation in which on the whole the Conference took place and expressed their determination to maintain that spirit as the dialogue between developing and developed countries continues in other places. They regretted that it had not proved possible to reach agreement on some important areas of the dialogue such as certain aspects of energy co-operation.

10. The participants in the Conference think that it has contributed to a broader understanding of the international economic situation and that its intensive discussions have been useful to all participants. They agreed that CIEC was only one phase in the ongoing dialogue between developed and developing countries which should continue to be pursued actively in the U.N. system and other existing, appropriate bodies.

11. The members of the Conference agreed to transmit the results of the Conference to the United Nations General Assembly at its resumed 31st Session and to all other relevant international bodies for their consideration and appropriate action. They further agreed to recommend that intensive consideration of outstanding problems be continued within the United Nations System and other existing, appropriate bodies.

12. The participants in the Conference pledged themselves to carry out in a timely and effective manner the measures for international cooperation agreed to herein. They invite the countries which did not participate in the Conference to join in this cooperative effort.

13. Finally, the ministerial representatives at the Conference reiterated their appreciation to the President of the French Republic and to the Government of France for their hospitality and for their cooperation in facilitating the work of the Conference on International Economic Cooperation.

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Note : Throughout this document the following uses of brackets and parentheses applies to all non agreed texts:

- [] Indicate G-19 proposals
- () Indicate G-8 proposals

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ANNEX TO THE REPORT OF THE CONFERENCE

I. — ENERGY

A. CONCLUSIONS

The Energy Commission having assessed past and current trends in the world energy situation and having taken into account the economic interests, including energy interests, of all countries, with a view to dealing with energy-related problems on a basis of international economic cooperation recognizes that:

1. Energy availability and supply are among the important factors for the economic advancement of both industrial and developing countries.
2. Oil and gas are the most rapidly depleting among the non-renewable sources of energy owing to the concentration of worldwide demand on them. They have a number of non-energy and, at least in the short to medium term, non-substitutable uses.
3. It is in the interest of the world community that a transition should take place
 - from the present, primarily oil-based energy mix to an energy mix primarily based on more permanent and renewable sources of energy,
 - and from an economy in which oil and gas are predominantly used as a source of energy to an economy in which oil and gas are predominantly reserved for non-energy and non-substitutable uses, and be short enough so that these changes are brought about well before depletion of oil resources.

During this period, the world community should, as rapidly as possible and practicable, expand, develop and diversify its energy resources and implement adequate conservation policies for oil and gas, while ensuring that sufficient supplies of energy are available to meet demand, and that energy exporting countries are enabled to develop their economies sufficiently.

Failure to take actions required to achieve these objectives would lead to serious consequences for the world as a whole.

4. The availability and supply of energy resources are to be within a commercial sense and must take into account technical limitations, financial needs, replacement costs, future requirements of currently energy exporting countries and other constraints. Adequate and stable supplies of energy, both non-renewable and renewable sources, are essential to the economic well-being and progress of all countries. Within this context, all countries will need to contribute, on the basis of their individual capacities and potential—with due regard to their different forms of energy resources and technological knowhow—toward the adequate availability of energy supplies and sources for the transition period and beyond.
5. The economies of the energy importing developing countries do not possess the ability to adjust easily to the structural changes in the world economy, particularly those related to the new economic situation, which add to the constraints on their development progress. The energy importing

developing countries will continue to increase their energy use as they modernize and industrialize their economies. Considering their inability to reduce energy use significantly without hindering development, alleviation of their energy problems needs special attention.

6. External payments factors related to the present world economic situation seriously reduce, for various energy-importing developing countries, their development progress, which depends on many variables *inter alia* the ability to import inputs such as technology, capital and other manufactured goods, services and oil as well as world economic growth trends and other domestic and international economic factors.

7. There is scope for energy conservation in most countries, especially the developed countries. The developed countries generally possess the resources and technology needed to curtail non-essential uses of energy, to increase the efficiency of energy utilization and to concentrate oil and gas gradually in uses where possibilities of substitution are limited.

8. All countries should endeavor to develop all forms of energy, renewable as well as non renewable, to the maximum extent possible subject to technical feasibility, economic needs and efficiency, safety and security considerations, national policy and environmental constraints. This will require large volumes of capital, advanced technology and know-how. Technology and know-how are primarily available in the developed countries; capital is mostly available in the developed and some developing countries. Special attention should be given to the development of indigenous energy sources in the developing countries.

9. The developing countries, being committed to the New International Economic Order, are determined, as part of their overall economic development objectives, to develop downstream industries in order to diversify their industrial base and realize value added benefits. The oil-exporting developing countries have great potential for making substantial progress in the fields of refining, petrochemical and other hydrocarbon-based industries. Their own domestic energy requirements and financial needs will grow as they pursue their long-term economic development plans.

As global demand for oil and gas products and derivatives expands and the availability of gas and gas products grows and as existing capacities become obsolete, the oil exporting countries will contribute by increasing their share of total global supply of these products and derivatives. It is in the interest of all countries that the economic integration of the refineries, petrochemical facilities and other downstream industries of the oil exporting countries into the expanding global industrial community take place as rapidly as economically practicable. Cooperative efforts will need to be made, within the context of mutually beneficial technical and commercial arrangements and taking account of relevant national and international constraints, to bring about in an economic manner the structural and other changes in the world community, including those connected with refinery capacity and production mix, with a view to ensuring that restrictions to market access do not prevent sufficient supplies of various grades and types of oil and gas and their

associated and manufactured products from being available and making their necessary contribution to world energy supply.

10. The world community requires an international energy cooperation and development program within the overall framework of an international economic cooperation program that would, recognizing relevant constraints, encourage and accelerate energy conservation and the development of additional energy supplies through, *inter alia*, facilitating and improving access to energy-related technology, expanding energy research and development and increasing investment flows into energy exploration and development. It is clear, on the basis of the analysis performed in the Energy Commission, that without such a comprehensive program the world risks significant shortages of energy in the medium term and rapid depletion of oil and gas that will seriously jeopardize the economic progress of all countries. This comprehensive program would address financial aspects of energy development problems, energy conservation, exploration and development for non-renewable energy resources and technological research and development efforts related to both renewable and non-renewable energy sources. There is need to initiate measures promptly and simultaneously that will produce results in the short, medium and long term. Within this comprehensive program:

a) Financial assistance will be needed to bridge external payments problems of oil importing [developing]* countries, particularly those developing countries, heavily dependent on imports on energy,** while these countries adjust to the present world economic situation. Such financial assistance is particularly important for countries where unavoidable payments problems are particularly large in relation to the size of their economies*. These problems need to be addressed within the appropriate framework of existing** institutions.

b) Efforts at energy conservation, in particular of oil and gas, will need to be intensified. In all countries where there is potential to do so, new actions will need to be taken. This is particularly true for the developed countries who as a group have the greatest possibilities for expanded energy conservation.

c) Additional energy supplies will need to be developed in developed and developing countries:

i) The developing countries, in particular, will need to be encouraged and assisted in exploration, expansion, development and diversification of their indigenous energy resources, both non-renewable and renewable, as well as related infrastructure. For these purposes, the developing countries require technology primarily from the developed countries. They will also require technical assistance, particularly in the area of energy research

* This bracket appeared in the draft of the Co-Chairmen of the Energy Commission.

** Wherever reference is made to developing countries heavily dependent on imports of energy, it is intended to include the non-oil exporting developing countries heavily dependent on oil.

* India and Jamaica suggested replacing "economies" with "imports".

** Zaire and Jamaica suggested replacing "existing" with "international".

and development and the facilitation of improved access to appropriate energy technology. Investment funds on a substantial scale will also be required from countries capable of providing them. International financial institutions will also need to play a significantly enlarged role in this regard.

ii) Oil exporting developing countries need to be assisted in diversifying their economic base in order to fulfil their development plans and sustain their long-term economic progress. An integral part of such diversification for these developing countries is the progressive and orderly expansion of their share in downstream hydrocarbon processing. Such diversification would need appropriate action to facilitate access to technology as well as to ensure that restrictions to market access do not prevent access of their exports of hydrocarbon-based products to the developed countries' markets.

d) Cooperation between developed and developing countries will need to be expanded in current and future research, development and demonstration facilities, projects and training related to both non-renewable and renewable sources of energy.

11. *There is considerable lack of knowledge on the part of all countries with respect to the world energy outlook. All countries would benefit from improved knowledge.*

There is considerable lack of knowledge on the part of all countries with respect to the world energy, economic and monetary outlook. All countries would benefit from improved knowledge in these fields.

12. The Energy Commission examined extensively the issues of energy prices and the purchasing power of energy export earnings on the basis of the following work program:

a) Competitive standing of various sources of energy including but no limited to:

i) availability;

ii) depletability;

iii) prices and economic costs of existing sources of energy as well as the intrinsic value of depletable energy sources;

iv) the probable prices and economic costs of new sources of energy.

b) The Energy Commission considered proposals for the preservation of purchasing power of energy export earnings, including accumulated revenues from oil exports, within a general framework of the improvement and preservation of the purchasing power of the export earnings of developing countries vis-à-vis among other factors, inflation in industrialized countries, changes in prices of imported goods and services and other economic factors essential to the economic progress of developing countries.

c) The role of energy prices together with the prices of other major economic inputs in the world economic situation including growth, inflation and investment.

* : This version of the paragraph is the final draft proposed by the Co-Chairmen of the Energy Commission on which agreement was not reached.

** : This version of the paragraph is alternative language proposed by one or more delegations on which agreement was not reached.

B. RECOMMENDATIONS

The Energy Commission

With the aim of providing impetus to the development and implementation of effective and comprehensive national and international efforts and measures for global energy conservation, exploration, development and transfer of related technologies and to achieve these energy objectives through an international energy cooperation and development program within a framework of an international economic cooperation program recommends the following:

1. That the availability and supply of energy are to be within a commercial sense and must take into account the technical limitations, financial needs, replacement costs, [protection of the purchasing power of the unit value of energy export earnings,] future energy requirements of the currently energy exporting countries and other constraints, and taking into consideration the limited availability and rapid depletion of oil and gas, the world community should earnestly endeavor to expedite in a practicable manner the process of progressive reduction of the world's dependence on oil and gas and increased reliance on other non-renewable and renewable sources of energy. In this process, effective measures such as price incentives, sufficient allocation of financial resources, direct quantitative measures, taxation, transfer of technology for development of alternative sources of energy on a non-discriminatory basis, etc. should be taken. Oil and gas throughout the world should be increasingly conserved in an efficient manner for non-energy uses and for those uses which are at least in the short to medium term non-substitutable in order to effectively and progressively reduce over-dependence of energy consumption on these rapidly depleting sources, while providing that sufficient supplies of energy are available to meet essential demand.
2. That intensified worldwide efforts should be made to increase exploration, augment reserves of conventional energy resources, increase productive capacity of conventional and non-conventional resources of energy, particularly those resources that are less rapidly depletable and more permanent and renewable, subject to technical feasibility, economic needs and efficiency, safety and security considerations, national policy and environmental constraints. The development and use of alternative conventional and non-conventional resources of energy should be expedited. In this context, the developed countries should take into account the world requirements for special and advanced technology and provide access to appropriate government-owned technology and know-how and facilitate provision of the technology and know-how available in the private sector in order to enhance appropriate development of energy sources. The amount of capital required for energy exploration and development in the future will be substantially greater than the level of energy investment in the past. The major part of the investment funds required for such development is likely to come from the developed countries and the remainder from some developing countries. International financial institutions would also be

required to play a significantly enlarged role in this regard. Particular attention should be given to the development of indigenous energy resources in the developing countries.

3. That measures be adopted worldwide to intensify exploration and to ensure efficient extraction and utilisation of oil, gas and other energy sources through advanced technology and appropriate conservation practices particularly in energy deficient developing countries.

4. That during occasional periods of inadequate energy supply, the international community should, within the limits of availability and supply of energy, give priority consideration to the particular vulnerability of developing countries most dependent on oil, especially the MSACs and those most dependent on any form of energy imports to satisfy their essential domestic, industrial and economic development requirements.

5. That the Law of the Sea Conference should continue its efforts to establish—in accordance with the principle of the common heritage of mankind—an international regime for the exploration for and exploitation of (mineral) [natural] resources of the (deep seabed area) [the seabed and ocean floor and the subsoil thereof] beyond the limits of national jurisdiction, to ensure equitable sharing by states in the benefits derived therefrom—taking into particular consideration the interests and needs of the developing countries—as provided for in Resolution 2749 (XXV) of the UN General Assembly.

6. That all countries, particularly the developed countries, should increase the efficiency of energy utilization by means of conservation and greater technical efficiency. To this end developed countries and other countries with the potential and means to do so should establish definite self-imposed objectives for conservation in energy, in particular oil and gas, and take the necessary measures to meet these objectives.

7. The Energy Commission was unable to reach agreement on a recommendation on the issue of accumulated revenues from oil exports, and recommended that the Conference take note of the situation for further consideration. The Energy Commission also recognized that this issue was on the work program of the Financial Affairs Commission where various proposals had been made.

8. That appropriate measures be undertaken for effective energy cooperation between developed and developing countries in the fields of technical assistance and technology transfer in order to assist developing countries to develop and diversify their sources of energy. In this regard, the developed countries should on a non-discriminatory basis, consistent with national and international legal, security and safety considerations:

- (i) facilitate on the most extensive basis improved access by developing countries to technology and technological support for energy exploration, expansion, development and diversification programs to developing countries;

(ii) take action to encourage private and public holders of modern energy technology to transfer that technology to developing countries under appropriate terms and conditions.

9. That, while capital and technology required for global energy development are held in most cases primarily by the private sector, public financial institutions should have an increasingly important and effective role in facilitating the financing of energy exploration and development in developing countries, particularly energy importing developing countries. New procedures should be introduced to enhance the complementary roles of all sectors in channelling flows of capital into these countries. The International Bank for Reconstruction and Development is invited to expand its participation in the diversification and development of energy resources in developing countries, particularly energy importing developing countries, in order to:

- augment capital availabilities for investment in energy exploration and development in these countries;
- act as a catalyst to induce additional flows of capital into energy development in those developing countries which desire such capital through both participation in energy projects as well as serving as a source of lending for them;
- contribute to the general improvement in the investment and economic climate, thereby promoting increased efforts at exploration for energy resources, through an active expanded role in energy development projects.

10. That the IBRD/IDA be invited to evaluate on a priority basis, in consultation as appropriate with the IBRD/IMF Development Committee, how it can most effectively expand its activities in line with the preceding paragraph in order to increase capital flows, on concessional terms where appropriate, into the development of indigenous energy resources in the developing countries, particularly the energy importing developing countries.

11. That member countries through their Governors in the IBRD take account of the capital requirements associated with the expansion of its activities in the energy area when deciding on the general capital increase in the Bank's resources, while taking fully into account the need to assure that the Bank's activities in other priority areas are not prejudiced.

* [That the IMF should be invited to establish its proposed Supplementary Credit Facility as early as possible in 1977 and, in managing the Facility, should take account of the needs of energy importing developing countries:

- to avoid such restrictions on imports of petroleum and petroleum products as would prejudice the maintenance of economic growth;
- to have assistance available for this purpose until energy diversification measures can begin to take effect.

The IMF should be requested to maintain an Interest Subsidy Account from which developing countries most seriously affected and most dependent on imports of energy may be assisted to make use of the Facility.]

* This paragraph, had it been accepted, would have become Recommendation No 12 with subsequent paragraphs being re-numbered accordingly.

12.* That other international and regional financial institutions be invited to study whether they can also play a role in contributing to greater capital flows to developing countries, particularly energy importing developing countries, for energy development.*

13. The developed and developing countries should cooperate to facilitate the rapid and economic integration of the petroleum refineries, petrochemical facilities and other downstream industries that the oil exporting countries have started and intend to develop further, and the products therefrom, into the expanding global industrial community as rapidly as is economically practicable. An integral part of such diversification of the economic base of these developing countries is the progressive and orderly expansion of their share in downstream hydrocarbon processing. The developed and developing countries should also take appropriate cooperative and economically efficient action, consistent with relevant national and international constraints, to make structural and other changes as required during the transition period and beyond to ensure that restrictions to market access do not prevent sufficient supplies of various grades and types of oil and gas and their associated and manufactured products from being available to the world community.

14. That measures be undertaken by the international community to facilitate the availability and expansion of transportation, storage, harbor and marketing facilities for oil, gas, coal and their derivatives, inside and outside developing countries for the benefit of all countries, particularly the developing countries.

15. That as part of the general effort of energy technology transfer, bilateral and multilateral efforts should be made to assist developing countries interested in such transfer, particularly energy importing developing countries, to diversify and develop their energy sources through:

- undertaking national assessments of energy resource potential and developing concrete national energy strategies, where appropriate, for interested countries by countries prepared to extend such assistance;
- establishing an appropriate managerial and technical base through training of personnel;
- promoting and facilitating energy resource exploration and development in the oil-importing developing countries; and
- facilitating access to and adaptation of existing energy technology and the development of new energy technologies to meet the special needs of developing countries, particularly energy importing developing countries.

In order to help achieve the above objectives, various proposals, such as the proposal for an International Energy Institute or expansion of energy related activities in other existing institutions, such as the U.N. and IBRD, have been considered. Expeditious international consideration of appropriate means to achieve these objectives is recommended.

* Some energy importing countries expressed reservations on this recommendation stating that it did not adequately address the immediate balance of payments problems of the oil importing developing countries associated with the financing of their oil imports. The delegations of Brazil, Cameroon, India, Jamaica and Zaire tabled a proposal on this subject which appears at the end of the section on energy.

16. That international cooperation in energy research and development between developed and developing countries be intensified, particularly with regard to the technologies needed by the developing countries. This should be achieved by arrangements, in accordance with national and international policy and legal frameworks, which:

(a) facilitate access, on a non-discriminatory basis to existing and new energy technologies, particularly for developing countries, and

(b) provide for opportunities for active and positive participation by developing countries in energy R&D activities. In this regard, the developed countries will endeavor to make available to developing country participants in energy R&D activities — jointly identified — *inter alia*, the following:

- i) the results of current research;
- ii) test and demonstration facilities;
- iii) training of scientists and technicians;
- iv) joint energy R&D projects with participation by developing country scientists and technicians.

PROPOSAL SUBMITTED BY THE DELEGATIONS OF BRAZIL, CAMEROON, INDIA, JAMAICA AND ZAIRE

International, financial, scientific and technological co-operation amongst all countries for the development of energy resources, etc.

The Energy Commission recognizes:

1. that the world's limited non-renewable resources of oil and gas are being rapidly depleted owing to the concentration of worldwide energy demand on these resources;
2. that it is in the interest of the international community that the developing countries be encouraged and assisted to expand, develop and diversify their indigenous and non-conventional sources of energy and related infrastructure. For these purposes the developing countries will require technology from developed countries and investment funds on a substantial scale;
3. that the economies of the energy importing developing countries do not possess the strength to adjust easily to the new energy situation which has added to the constraints on the achievement of maximum progress in the development programmes of these countries. The use of energy in energy importing developing countries will continue to increase as these countries modernize and industrialize their economies and they have no ability to reduce oil use significantly without hindering development.

The Energy Commission therefore recommends:

1. That an international programme of financial and technological co-operation be established including short, medium and long-term measures designed to meet the needs of developing countries.

The short-term measures should aim at enabling the energy deficient developing countries to maintain their imports of petroleum and petroleum products.

The medium and long-term measures should aim at assisting and encouraging interested developing countries to explore for additional sources of energy and to expand, develop and diversify their indigenous conventional and non-conventional sources of energy with the related infrastructure.

2. Short-term measures

The Conference should:

(a) Request the IMF to provide for a period of five years beginning in 1977 a Special Credit Facility to assist those developing countries which are net importers of petroleum products to finance their imports of those essential supplies;

(b) Inform the IMF that

i) the annual amount of the credits required for the purpose by the oil importing developing countries is of the order of 4 billion SDRs;

ii) industrialized countries and oil exporting countries in a position to do so should be invited to contribute to the resources of the Facility;

iii) a country's total purchases under the Facility in any year should be limited by reference to its quota in the IMF, but should be sufficient to enable it to meet the cost of its estimated imports of petroleum and petroleum products in that year;

iv) the conditionality and terms of repurchase applicable to the drawings on this Credit Facility should be similar to those applied to the drawings on the 1975 Oil Facility.

(c) Request the IMF to maintain, in connection with the Facility, an interest subsidy account, to be contributed voluntarily, from which the most seriously affected countries and developing countries most dependant on imports of petroleum and petroleum products may be assisted to make use of the Facility.

3. Medium and Long-Term Assistance

(a) Priority should be given in the world programme of financial and technological co-operation to medium and long-term measures which will operate to expedite the increase and diversification of energy supply sources in developing countries especially in the present energy deficient countries.

In particular the programme should promote:

i) exploration for oil, natural gas, uranium, thorium, sources of geothermal energy, coal and lignite. Exploration includes the conduct of aerial, geological, geophysical surveys, the assessment of geophysical data and planning and execution of exploratory drilling programmes;

ii) energy development projects in the developing countries, including inter alia : the development of oil, natural gas, shale oil, bituminous sands, uranium and thorium resources and the installation of the necessary transport and processing facilities; the development of hydropower and associated transmission lines; the development of coal, lignite and peat resources, including the installation of transport infrastructure, and the introduction of coal gasification and liquefaction technologies;

the development and introduction of nuclear technology in accordance with internationally accepted standards of safety and security safeguards;

the development and introduction of solar, wind and wave energy and non-commercial energy sources such as wood, bio-gas and organic and inorganic wastes;

the manufacturing of capital equipment for energy projects on both a national and regional basis.

For the purpose of the diversification programme industrialized countries should accept the commitment to:

i) provide technological support for energy exploration, expansion and diversification in the developing countries;

ii) take action to ensure that private companies domiciled within their jurisdiction co-operate in the diversification programmes by supplying finance and technical know-how on fair and reasonable terms.

The industrialized countries and developing countries having the capacity to do so should undertake further —

(a) to contribute not less than 300 million SDRs per annum for the next three years to an appropriate international institution to be disbursed for energy exploration in developing countries.

(b) to enable the IBRD to embark upon a long-term programme of finance for energy projects and programmes in developing countries. Before 1980 the capital of the Bank should be increased sufficiently to enable it to augment assistance for such programmes by not less than an average of 5 billion SDRs per annum over the next five years without affecting normal growth in real terms in its lending for other purposes.

Co-operation in energy research and development and the transfer of technology

By way of co-operation with developing countries in the area of research and development and transfer of technology, the industrialized countries should undertake to adopt upon request by interested developing countries, measures to promote:

(a) research and development programmes on energy related technology, including efficient utilization and conservation and in this connection establishment of research, development and demonstration facilities and projects within the developing countries for existing and alternative energy sources,

(b) energy planning,

(c) training of personnel from the developing countries in the energy sector,

(d) exchange of and access to information by the developing countries on scientific and technological research related to production, use and conservation of energy,

(e) establishment of appropriate manpower and technical bases in the developing countries sufficiently early to facilitate introduction in these countries of industrialization and other related energy technologies of the future.

17. The Energy Commission considered various proposals submitted by delegations for recommendations on the issues of energy prices and the purchasing power of energy export earnings and was unable to reach agreement on them. Two of these proposals, appearing below, were given for consideration by the Conference.

PROPOSAL SUBMITTED IN THE ENERGY COMMISSION BY THE DELEGATIONS OF EGYPT, IRAN, IRAQ AND VENEZUELA

Energy prices and the purchasing power of energy export earnings

The Energy Commission recognizes:

That the principle of improving and preserving the purchasing power of the unit value of the export earnings of raw materials of the developing countries has already been agreed upon in several international fora;

That the development needs for all developing countries are vitally linked with their export earnings and that erosion of the purchasing power of the unit value of such earnings seriously hinders their development plans and projects and that increased volumes of exports are not an acceptable solution to compensate for this erosion;

That so far the price structure for energy, mainly oil, has been neither conducive to the development of alternative energy sources nor to a balanced mix of its components nor to the adoption of sufficient or effective conservation measures, mainly in industrialized countries.

That the oil price, whose competitive standing with the price of alternative sources was partially re-aligned in 1973 and 1974, has since been affected by serious erosion in its purchasing power.

The Energy Commission, acknowledging that pricing of raw materials is the sovereign right of the respective producing exporting countries, and accordingly, it is the sovereign right of the oil exporting countries to determine the prices of their oil,

Further recognizes, without prejudice to the aforesaid sovereign right:

- 1) That the prices of oil be established, taking into consideration, *inter alia*, the competitive standing of oil vis-a-vis other sources of energy; and
- 2) That the purchasing power of the unit value of energy export earnings, including accumulated revenues from oil exports be protected within a general framework of the improvement and protection of the purchasing power of the unit value of export earnings of developing countries — through indexation or any other appropriate methods, taking into consideration, *inter alia*, the rising cost of imported goods and services, the erosion of purchasing power due to inflation and currency depreciation;

3) That measures for such adjustment are entirely different from changes in prices of oil due to changes in the competitive standing of oil vis-a-vis other sources of energy mentioned in (1) above.

PROPOSAL SUBMITTED IN THE ENERGY COMMISSION BY THE JAPANESE DELEGATION

Energy prices and the purchasing power of energy export earnings

1. Energy prices in general and — given the important share of oil in total energy consumption — oil prices in particular exercise and will continue to exercise great influence on the world economic situation, especially concerning growth, employment, inflation, the allocation of investment capital and the evolution of payments balances.
2. The price of energy is of particular importance to the economic progress of both developing and developed countries which are either dependent on imports for a major part of their energy requirements or dependent on energy export earnings for the financing of their development programmes.
3. Participants in CIEC recognize the common interest of all countries in energy prices which are fair both to consumers and producers. In particular they recognize the need for reducing uncertainty about the future and avoiding large and sudden changes in energy price levels.
4. The concern of oil producers with the purchasing power of oil revenues, both current and accumulated, is recognized; as is the necessity to reduce world price-inflation as well as cost increases resulting from other elements.
5. Taking into account these general considerations, the participating countries recognize that the following interrelated elements are relevant to the formation and trend of energy prices:
 - energy supply and demand trends,
 - the costs of existing alternative sources of energy, including such aspects of each form of energy as investment requirements, transportability, pollution characteristics and versatility of use and degree of substitutability,
 - the range and costs of developing and utilizing new energy sources, with emphasis on lead times, investment requirements, likely technological progress and economies of scale,
 - impact on the world economy as a whole as well as on the economies of individual countries, bearing in mind the problems of energy-importing developing countries and of industrial countries heavily dependent on energy imports,
 - the concern of oil exporting countries with the purchasing power of their energy earnings.

* The measures suggested above may involve various forms of contacts. This question remains to be considered further at a later stage in the Conference. *

** [The measures suggested above may involve various forms of contact amongst energy exporting and energy importing countries both developed and developing. The possibility of establishing institutional arrangements to facilitate this contact and continue consultation on energy issues remains to be considered further at a later stage in the Conference.]**

*** [The implementation of above conclusions and recommendations are to be carried out by the governments of the respective countries, with due regard to the linkage between energy problems and those of raw materials, development and finance.] ***

* Proposal made by the Co-Chairmen of the Energy Commission on which agreement was not reached.

** Proposal made by a delegation of the Group of 19.

*** Proposal made by a number of delegations of the Group of 19.

II. — RAW MATERIALS AND TRADE

A. LOCAL PROCESSING AND DIVERSIFICATION

1. The appropriate institutions [including commodity arrangements] should foster, through funds [and] (or) other measures, research and development activities, improvement of marketing and technical characteristics of processed products, development of new end uses for commodities and adaptation of imported processing technology to the local conditions of developing countries.
2. [Commodity agreements should include commitments from developed countries to import from developing countries increasing quantities of commodities in their processed and semi-processed forms.]

B. INTERESTS OF IMPORTING DEVELOPING COUNTRIES

The participants agree that special attention should be given to both short-term and long-term problems faced by developing countries which must depend on growing imports of raw materials and foodstuffs as an essential element of continued economic growth. While balance-of-payments facilities of the IMF offer one means for dealing with the short-term problems, it is agreed that it is necessary to take *inter alia* the following measures:

[1. The interests of developing importing countries, particularly the least developed and the most seriously affected among them and those lacking in natural resources, adversely affected by measures under the Integrated Programme, should be protected by means of appropriate differential and remedial measures of the Programme during its implementation.]

(1. In implementing the Integrated Program, due regard should be paid to ensure that the interests of importing developing countries, particularly the least developed among them, will not be adversely affected.)

2. Measures should be taken — including research and development, industrial cooperation and investment — to assist importing developing countries to develop and diversify their indigenous natural resources.

3. In addition to support for the programme of increasing agricultural production in the developing countries, an effective and adequate flow of food aid should be provided as a transitional measure with sufficiently long-term perspective and food security should be strengthened. Reference was made to the approach adopted in the section of the Annex on Development.

C. TRANSPORT, MARKETING AND DISTRIBUTION

1. [Reaffirmation of the right of the developing countries to take action, whether individually or collectively, with a view to counterbalancing the predominant position of transnational corporations in the determination of international prices of commodities of export interest to developing countries. Hence, developed countries undertake not to retaliate against such actions.] (1)

(1) It was considered that this issue should be addressed in the light of the results in the section of the Annex on Development.

2. With a view to enabling developing countries to play a greater part in the transport, marketing and distribution of their raw materials and thereby securing for them a greater share in the economic benefits from such activities:

a) the developed countries and specialized international or regional organizations should intensify their efforts to provide aid and technical assistance programmes as may be appropriate, such as professional training, strengthening of organizations involved in foreign trade and other activities required for efficient sales promotion.

In this context, efforts should be made to promote and strengthen internal systems of marketing and distribution, as well as infrastructure.

b) efforts should be made to promote the international exchange of information on supply, demand and trade in raw materials and its dissemination down to the individual producers.

c) governments should facilitate or assist efforts by individual or joint commercial enterprises of developing countries to establish marketing operations in developed countries with a view to increasing their participation in the marketing and distribution of their export products.

3. Developed and developing countries should contribute actively to the elaboration of a [legally binding] (1) mutually acceptable Code of Conduct by the United Nations Commission on Transnational Corporations, with a view to its timely adoption. They should actively support the work of the Centre for Information and Research on Transnational Corporations to ensure appropriate transparency in the activities of such corporations. Discussions in the UNCTAD on the subject of restrictive business practices should proceed as a matter of priority.

4. Barriers to fair competition between marketing enterprises of developed and developing countries should be eliminated.

In this context, measures should be taken, where they are not already in force, to contain unfair trade practices in advertising.

5. [Early accession to and ratification of the Convention on a Code of Conduct for Liner Conferences by States which had voted for it.] (The participants in the Conference adopted the objective of facilitating world maritime transport, in the context of the balance between the interests of suppliers and the interests of users of regular maritime transport services and the principle that the practices of Liner Conferences should not involve any discrimination as between ship owners, shippers and the foreign trade of any country. The participants also acknowledge the desirability of improving the system of Liner Conferences. One means of achieving such improvements could be to recognize the need for an elaboration of a universally acceptable Code of Conduct.)

6. [With a view to improving the share of developing countries in the transport of their raw materials, international financial institutions and developed

(1) It was considered that this issue should be addressed in the light of the results in the section of the Annex on Development.

countries should provide technical and financial assistance aimed at increasing the share of developing countries in world shipping tonnage and trade.]

(In order to facilitate international trade, international financial institutions and developed countries should continue to intensify their efforts to provide technical assistance, as well as financial assistance to infrastructure, aimed at making the transportation of developing countries' raw materials from the producer to the consumer as efficient as possible. In this context, they noted the recently agreed resolution of the UNCTAD Shipping Committee on Fleet Development.)

7. Action should be taken where appropriate to improve the functioning of commodity exchanges dealing with products exported by developing countries.

Achievement of the above objectives will also be promoted by:

a) [securing adequate representation of export interests from developing countries in the management of the commodity exchanges];

(encouragement of contacts between the commodity exchanges and developing producing countries so that the views of the latter can be taken into account in the operation of the exchanges);

b) publication of appropriate information on transactions as well as other market information to enhance transparency in the market;

c) appropriate measures to prevent:

i) any unfair trading practices, which are detrimental to the interests of both producers and consumers.

ii) trading activities that would have the effect of causing artificial or distorted prices.

8. Existing commodity exchanges, regulatory authorities concerned with commodity exchanges and international institutions are encouraged to extend advice, technical assistance or other appropriate support to developing countries interested in setting up in their territories commodities exchanges dealing with their export commodities.

D. ACTION IN SUPPORT OF NEGOTIATIONS WITHIN THE INTEGRATED PROGRAMME INCLUDING ITS COMMON FUND

The Conference on International Economic Co-operation, in concluding its work for action in the field of Raw Materials intended *inter alia* to improve structures of international commodity markets, calls for speedy and effective progress in implementing the Integrated Programme for Commodities, including the negotiation of a Common Fund pursuant to UNCTAD Resolution 93 (IV).

The participating countries in CIEC consider that [the full] (such) implementation [of that Resolution] is a vital element in the cooperation between developed and developing countries for [the establishment of the New International Economic Order] (a more just and equitable economic order) and for the successful implementation of the results of CIEC.

The participating countries in the CIEC agree that a Common Fund should be established as a new entity to serve as a key instrument in attaining the agreed objectives of the Integrated Program for Commodities as embodied in UNCTAD Resolution 93 (IV). They also agreed that the specific purposes and objectives of a Common Fund, as well as its other constituent elements, will continue to be negotiated in UNCTAD. The participating countries in the CIEC pledge themselves to secure a successful conclusion at the forthcoming resumed session of the United Nations Negotiating Conference on a Common Fund scheduled for November 1977 at plenipotentiary level.

The participating countries in CIEC reaffirm their commitment to adopt appropriate measures and procedures for attaining the agreed objectives of the Integrated Programme for Commodities in the context of the on-going negotiations within UNCTAD on individual commodities.

They declare their willingness to make all efforts for the success of the negotiations being undertaken in UNCTAD within the timetable agreed to in Resolution 93 (IV).

E. COMPETITIVENESS OF NATURAL PRODUCTS VIS-A-VIS SYNTHETICS

The participants in the Conference recognized the importance to the economic and social development of certain developing countries of earnings from exports of natural products subject to competition from synthetic products.

Production

[1. Governments of developed countries should agree to regulate and control production of synthetics which compete with natural products; particularly those synthetics that have a great capacity for pollution.]

(1. In considering plans for expansion of new plant capacity for synthetic production, the world capacity and supply situation in regard to competing natural products should be taken into consideration with due regard to existing capacities.)

[2. To the extent that available or existing capacity of natural products is sufficient to meet total demand, there should be a standstill on further expansion of production of synthetics competing with natural products.]

(2. Assessments made in the international organizations involving producers and consumers, regarding the prospects for future world supply and demand for natural products subject to competition from synthetic products should be widely disseminated so that they may be taken into consideration by those planning expansion of productive capacity for such products.)

[3. Before any major addition to synthetic capacity is implemented, the country concerned should consult with the major producers of the natural alternative to determine whether they are in a position to meet the consumers' requirements on terms equal to or better than the synthetic alternative.]

(3. Governments should cooperate with the international organisations involving producers and consumers and dealing with natural products subject to substitution from synthetics in providing available data on supply, demand and trade in the relevant synthetic products.)

[4. Governments of developed countries should eliminate or reduce any special encouragement, protection or incentives provided to industries producing synthetics competing with natural raw materials in particular to those industries having a great capacity for pollution.]

(4. Any special encouragement, protection or incentive which governments deem necessary to extend to industries, including those producing synthetics, should take into account, *inter alia*, the repercussions on international trade, environmental considerations and development objectives and be in conformity with relevant international agreements.)

[5. Governments of producing countries of synthetic materials should implement the necessary regulations to ensure that the companies producing and distributing synthetic products that have a great capacity for pollution of the human environment bear, as far as possible, the costs of the pollution of environment caused by their activities and by their products, or that they eliminate or control such pollution.]

(5. Governments should seek to ensure that enterprises which produce or use natural or synthetic materials that have a great capacity for pollution of the human environment, bear as far as possible the cost of prevention of pollution or its elimination as practicable. Full account should be taken of agreed international undertakings in this regard.)

Research and Development

1. Action should be taken to reduce the costs of production and to improve the quality of natural products. Such measures should first of all ensure intensified research and development work and encourage the transfer of the technologies necessary to make possible a substantial improvement in the productivity and quality of natural products to meet market demand and to foster new uses.

2. Considering that current world expenditure on research and development for individual natural products facing growing competition from synthetic materials is small compared with corresponding expenditures on competing synthetic materials, international institutions and developed countries should, as appropriate, co-operate with developing countries in providing increased international technical and financial assistance to research centres or programmes of, or involving, developing countries for research and development aimed at promoting the competitiveness of natural products subject to substitution from synthetics, in particular by improving the natural characteristics of these products, by increasing productivity at the production level and by developing new end-uses.

3. Recalling UNCTAD Resolution 50 (III), and while noting the recent conclusion of the Technical Assistance Committee and Review Committee of the Consultative Group on International Agricultural Research (CGIAR) that the CGIAR's focus on food crops was appropriate, the need for enhanced research and development for major non-food crops subject to substitution from synthetics should continue to be recognised. The CGIAR should keep under review the extent to which it might broaden the base of its activities.

4. Measures for research and development by national and international institutions should be considered in the course of discussions and negotiations on individual commodities, subject to substitution from synthetics, within as well as outside the Integrated Programme for Commodities, including, as appropriate, provisions for such research and development in commodity agreements or arrangements.

5. Measures in this domain are all the more important where a larger role for natural products could contribute to an improvement in the defence of the environment.

Trade promotion and other measures

[1. Elimination of tariff and non-tariff barriers affecting natural products of developing countries facing competition from synthetics.] (1)

2. Recalling UNCTAD Resolution 50 (III) developing and developed countries should co-operate in seeking ways and means of providing technical and financial assistance to appropriate commercial promotion programmes aimed at improving the competitiveness of natural products subject to competition from synthetics.

[3. Developed countries should agree to an early adoption of a Code of Conduct concerning the transnational corporations which should include provisions dealing with market allocations and any other restrictive business practices detrimental to the competitive position of natural products of developing countries vis-à-vis synthetics produced and marketed by these corporations.] (1)

4. Governments of all countries producing natural or synthetic products should encourage public and private firms to provide as much information as possible for use in appropriate international fora in order to facilitate study of problems facing natural products.

F. PURCHASING POWER OF DEVELOPING COUNTRIES

1. Cognizant of the fact that developing countries are highly dependent on the exports of primary commodities or raw materials, [that the unit price of commodities exported by developing countries has had a long term declining trend, and] that (excessive) price fluctuations [which accompany these phenomena] are detrimental to the interests of both developed and developing countries, the Conference participants recognized the importance of the question of the purchasing power of developing countries. This issue could be approached [both] (by looking at the scope for an improvement in the export earnings) [in real terms] and [through adequate and direct measures related to the evolution of prices of their essential imports of goods and services with a view to establishing and maintaining an acceptable relationship between the prices of manufactured goods and those of primary products] of these countries so as to enable them to achieve the economic and social development essential to them.

(1) It was considered that this issue should be addressed in the light of the results in the section of the Annex on Development.

2. They considered that in the context of continued and equitable growth of the world economy, the long term answer to this problem lies mainly in the local processing of the raw materials and in the establishment of manufacturing industries in the developing countries, permitting *inter-alia* adequate market access to the developed countries by eliminating or reducing tariff and non-tariff barriers (to the extent possible).

3. [They recall the specific international instruments reaffirming the principle of improving and preserving, in real terms, the prices of commodities exported by developing countries already agreed to in : United Nations General Assembly Resolution 623 (VII) adopted on December 21, 1952, and in General Principle VII of the First Session of UNCTAD which states :

"all countries should cooperate through suitable international arrangements on an orderly basis, in implementing measures designed to increase and stabilize primary commodity export earnings, particularly of developing countries, at equitable and remunerative prices and to maintain a mutually acceptable relationship between the prices of manufactured goods and those of primary products",

in Art. 28 of the Charter of Economic Rights and Duties of States :

"All States have the duty to cooperate in achieving adjustments in the prices of exports of developing countries in relation to prices of their imports so as to promote just and equitable terms of trade for them, in a manner which is remunerative for producers and equitable for consumers",

and in UNCTAD Resolution 93 (IV).adopted in Nairobi.]

4. Consequently, the participants agree to the following [measures] regarding improvement [and preservation in real term] of the purchasing power of export earnings of developing countries:

a) [that all commodity agreements within the framework of the UNCTAD Integrated Programme or arrangements outside of it should include price or price ranges which should be periodically reviewed and automatically revised. Such revisions should take into account, *inter-alia*, the movements in the prices of manufactured goods and services imported by developing countries from developed countries, prices of imported inputs, exchange rate changes and imported inflation from developed countries;]

(that price stabilisation around the long-term market trend could be sought in the context of individual commodity agreements where the producers and consumers concur that such agreements are appropriate and desirable. In this regard, the participants agree that, where commodity agreements have pricing provisions, these provisions could be periodically reviewed and appropriately revised taking into account, *inter alia*, levels of production and consumption, exchange rates, world stock, and production costs including movements in the prices of imported manufactured inputs;)

b) that the reference or basic price or price ranges should be just and remunerative for producers and equitable for consumers bearing in mind that such prices could facilitate the formation of domestic savings in the developing countries and contribute to a reduction of the existing disparity between their standards of living and those in the highly industrialized countries;

c) [that in the case of commodities not covered by international agreements, developing countries may take measures individually or collectively through Producers Associations to maintain in real terms the prices of their export commodities, taking into account the criteria referred to in sub-para a) above as well as the interest of the consumers.]

G. COMPENSATORY FINANCING

1. Bearing in mind the relevant provisions of Resolution 93 (IV) adopted in Nairobi, the participants in the CIEC acknowledge the importance of the problem of the stability of export earnings [in real terms], especially for the developing countries which are exporters of raw materials.

2. A number of phenomena which characterize the production of and trade in raw materials, such as fluctuations in prices and quantities, particularly affect the developing countries which produce and export raw materials, because their economic consequences are relatively more serious for the developing than they are for the industrialized countries.

3. The stabilization or even the improvement of raw materials price levels does not necessarily shield the developing countries from fluctuations in their export earnings. For this reason international efforts with a view to the stabilization of export earnings must be continued and increased [according to needs] (if necessary):

4. The participants of the Conference noted the greatly expanded use of the IMF Compensatory Financing Facility following the liberalization in December 1975 and the substantial increase in members' drawing rights, including those of developing countries, stemming from the sixth review of quotas likely to take effect later this year. They also noted that another increase in drawing rights on the Compensatory Financing Facility would result from the further increase in quotas currently under discussion in the IMF following the Interim Committee meeting of April 1977.

5. [Participants also noted that the recently improved Compensatory Financing Facility of the IMF still retained many restrictive conditions. Furthermore it did not contain special measures in favour of the poorest developing countries. The parties to the Conference therefore considered that the CFF should be improved along the following lines:

- a) easing of the balance of payments criterion for assistance;
- b) calculation of exports shortfalls in terms of purchasing power of exports by deflating flows by import prices and around a growing trend which should be assured to be not less than the rate of growth of the volume of world trade over the previous years;
- c) provision to developing countries of a right to base claims on shortfalls in aggregate commodities export earnings or on other categories of current account receipts as they may choose;
- d) provision for full compensation of shortfalls without quota limitations;

e) repayment should be triggered only by "overages" just as drawings are triggered by shortfalls;

f) expansion of the grant element in Compensatory Financing particularly for the poorest developing countries; in appropriate cases drawings under the Facility should take the form of grants.]

6. (The participants recognized the importance of effective international action to offset the adverse effects on developing countries of excessive fluctuations in export earnings, including in particular earnings from exports of primary commodities. They agreed that an international study was required in the area of export earnings stabilization to assess the precise problems of developing countries and the most appropriate form of international response to these. They considered that the necessary work should be set in hand as a matter of urgency within the IMF/IBRD Development Committee and that account should be taken of all relevant economic and institutional aspects.)

[The participants, recognizing the adverse effects on developing countries of the instability of their export earnings, in particular their earnings from exports of primary commodities, are of the opinion that measures additional to existing compensatory financing facilities should be considered within the framework of Res. 93 (IV). In this context they agreed that an international study should be carried out in order to assess the precise problems of developing countries in the area of export earnings stabilization. In the light of this assessment and of various proposals which have been put forward in this area, especially the one presented at CIEC, the study should make specific recommendations as regards the most appropriate new additional measures. They agreed that the work should be carried out as a matter of urgency by the IMF/IBRD Development Committee, in association with UNCTAD and completed not later than April 1978. The study should take account of all relevant economic and institutional aspects.]

H. INVESTMENT (1)

(1. The participants in the Conference agree that in the context of a growing world economy the efficient expansion of the productive capacity of the world's raw material sector-including extraction, local processing, transformation and related infrastructure - is important to all countries. They also agree that an objective in the raw materials sector should be to ensure a flow of investment resources, foreign and domestic, public and private, permitting the development of production and exports to meet world demand. [In this context, they recognize the importance of the improvement of the structure of the raw material markets.]

2. The participants recognize that there are significant differences in the stage of development of the raw material sectors of the developing countries and that the allocation of investment resources should reflect these differences.

(1) It was considered that this issue should be addressed in the light of the conclusions on Development and Financial Affairs on international flows of financial resources.

For countries with raw material sectors at the initial stage of development the investment would normally take place first in the extractive stage; while countries with more developed raw material sectors have a greater interest in investment in local processing and transformation.

3. The participants agree that increased local processing and an adequate flow of supplies to foreign processors both have an important role to play in strengthening the export earnings from the raw material sector of developing countries.

4. The participants recognize that development in the raw material sector of many developing countries frequently requires substantial investment in infrastructure and that this is an area where public sources of finance are generally more readily available. They also recognize that private investment forms an important part of the overall flow of resources to the raw material sectors of developing countries.

5. The participants recognize the importance of price stability and of price levels remunerative to producers and equitable to consumers in encouraging development in the raw material sector through an adequate flow of investment.

6. The international financial institutions should intensify their efforts in the raw material sector. Specifically, the International Finance Corporation (IFC) should be encouraged to continue to take equity positions in new investments in developing countries and thereby play a catalyzing role by bringing to the participants in these projects the benefits of the technical and organizational expertise of that organization. The decision to increase the IFC's capital should enable that organization to increase its activities in the raw material sector.

7. The participants have held preliminary discussions on the proposal for an International Resources Bank and consider that the recent decision of the IMF/IBRD Development Committee to further study the proposal for an International Resources Bank represents an additional step in the search for solutions to the problems of investment in the raw material sector.)

[1. The participants in the Conference agree that in the context of an *equitable growth* of the world economy the efficient expansion of the productive capacity of the world's raw material sector - including extraction, local processing, transformation and related infrastructure - is important to all countries. *In this connection, they also agree that the improvement of the structure of the raw materials markets taking into account the interest of developing countries is a necessary precondition for an adequate flow of investment into the raw material sector.* They further agree that an objective in the raw material sector should be to ensure a flow of investment resources, foreign and domestic, public and private, permitting the development of production and exports to meet world demand, *as long as this objective takes into account the development needs of specific developing countries.*

(2. The participants recognize that there are significant differences in the stage of development of the raw material sectors of the developing countries and that the allocation of investment resources should reflect these differences.)

3. The participants agree that the objectives in the raw material sector should be increased local processing and increased export earnings, in real terms, and, accordingly:

- a) call on developed countries and international financial institutions to provide increased financial and technical assistance to meet investment needs in both the infrastructural and productive activities in developing countries;
- b) agree that improved real price levels, particularly unit price of raw material exports, would encourage the development of the raw material sector through an adequate flow of investment.

4. International financial institutions should intensify their efforts in the raw materials sectors, *while continuing to give priority to and allocating the substantial part of their resources to the industrial sector.*

5. The participants noted that one delegation submitted a proposal for an International Resources Bank. They took note of the preliminary comments presented on this subject on behalf of the Group of 19 developing countries delegations. They were informed of the recent decision of the IMF/IBRD Development Committee to further study that proposal.]

I. TRADE BETWEEN INDUSTRIALIZED AND DEVELOPING COUNTRIES

(i) Agreed Texts

1. The participants in CIEC which are also participants in the Multilateral Trade Negotiations underline their determination to seek this year to achieve substantive progress in key areas of the MTN, taking into account also the need for the negotiations to reach rapid agreement on specific measures to implement the concept of differential and more favourable treatment for developing countries in all areas of the negotiations where feasible and appropriate.

Furthermore they noted that, *inter-alia*, the areas of tariffs, subsidies and countervailing duties, safeguards, quantitative restrictions and government procurement provide opportunities in varying degrees for special and more favourable treatment.

They stressed the need, in the context of the liberalization of tariff and non-tariff barriers, to give particular attention to the interests of the least developed countries, with the aim of substantially improving their export opportunities.

2. Developed countries should improve their Generalized System of Preferences shemes on the following lines, taking into account the relevant interests of those developing countries which enjoy special advantages in the markets of some developed countries, as well as the need for finding ways and means of protecting these interests:

- a) Maintain the system of generalized tariff preferences in force beyond the period initially planned;
- b) bring more security into the use of the GSP to enable the beneficiaries to orientate their industrial development plans on a satisfactory basis, by providing greater opportunities for the concerns of beneficiaries to be taken into account in the case of reduction or withdrawal of GSP advantages, including some form of prior consultations, unless impracticable or inappropriate;
- c) make a significant effort to improve the application of the system of generalized tariff preferences by expanding product coverage, reducing restrictive stipulations and deepening tariff cuts, in the spirit of and in accordance with the relevant provisions of UNCTAD Resolution 96 (IV);
- d) undertake concerted efforts among donor countries in adjusting their schemes and a revision of the system for a new period beyond the initial period of ten years originally envisaged, in taking into account the real needs of the developing countries and particularly of the problems facing the poorest among them and with a view to ensuring a fair distribution of the advantages offered among the beneficiary countries;
- e) assistance to beneficiaries to increase utilization of the existing preferential systems;
- f) particular attention to the interests of the least developed countries.

3. The participants in CIEC agreed that the current deliberations regarding the immediate future of the Multilateral Fibres Agreement should be brought to a quick conclusion, as uncertainty in international trade in textiles is harmful to the interests of exporting developing countries.

4. The countries participating in the Conference will actively continue to study the possibility of introducing appropriate tariff sub-headings with a view to identifying products of special export interest to the developing countries, specially tropical products, in order to allow developed countries to grant more favourable treatment to these products.

5. Improved marketing and promotion by the developing countries for their export products could further increase their effective participation in world trade. On their part the developed countries and the specialized international or regional bodies should significantly enhance trade promotion measures aimed to help developing countries to derive maximum benefits from tariff preferences and to participate in international markets under the most favourable conditions. Such measures should include provision of technical assistance to developing countries. The participants stressed the importance of the UNCTAD/GATT International Trade Centre in the field of trade promotion.

(ii) Disagreed Texts

(A wide range of trade issues were discussed by the participants in the CIEC and agreement was reached on the following points.

The participants agreed that improved opportunities for international trade are essential for an expanding world economy and that improved participation in

international trade plays a vital role in the economic development of developing countries.)

1. [During the present Multilateral Trade Negotiations the GATT, including its Part IV, will be reformed in order to provide the institutional framework for differentiated and more favourable treatment for developing countries, in all aspects of international trade. This task shall be accomplished by all negotiating groups at the MTN. Preferential treatment by developed countries to exports of developing countries taking into account the special situation of the least developed among them, will be established as a permanent element in the international trade system.]

(Participants in the Conference consider it important to find effective ways of meeting the aims of the Tokyo Declaration regarding differential measures and special and favourable treatment for developing countries. In this context they stress their determination to contribute actively to the work of the framework group, within the multilateral trade negotiations, and to make every effort in that context to find ways and means of meeting the request of the developing countries for special and more favourable treatment in accordance with the most appropriate legal provisions. The application and continuation of such treatment should, however, depend on the economic situation and development needs of developing countries.)

2. [Strict adherence to the principle of non-reciprocity. The question of the contribution of the developing countries to the over-all objectives of the negotiations consistent with their trade, development and financial needs should not be considered until the objectives and commitments of the Tokyo Declaration in their favour are adequately fulfilled.]

(The developed countries do not expect reciprocity for commitments made by them in the negotiations to reduce or remove tariff and other barriers to the trade of developing countries, i.e. the developed countries do not expect the developing countries, in the course of the trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs.)

3. [The tariff-cutting formula and plan to be adopted should be designed and applied in a way which would afford differential and more favourable treatment to the exports of the developing countries.]

(The tariff-cutting plan to be adopted should be applicable in a way which would afford differential and more favourable treatment to the exports of interest to the developing countries.)

4. [The maintenance and improvement of the GSP preferential tariff margins; where these are eroded by MFN tariff cuts in the multilateral trade negotiations effective compensation is to be accorded to developing countries.]

5. [The binding in GATT of preferential tariff margins in favour of developing countries.] (1)

6. [The elimination of quantitative restrictions and other non-tariff measures having a trade restrictive effect impeding exports of developing countries.]

(Progressive elimination or reduction of quantitative restrictions impeding exports of developing countries to the extent possible.)

7. [Preferential treatment for developing countries in the application of government procurement policies of developed countries and at least no less favourable than the latter countries accord to their domestic suppliers.] (2)

8. [Exemption of developing countries, in principle, from the application of safeguard measures.] (2)

9. [Recognition of the right of developing countries to accord export incentives, including subsidies, in the context of their economic development and industrialization policies without this giving rise to the imposition of counter-vailing duties by developed countries.] (2)

10. (a) To give the GSP a firm statutory basis and make it a permanent feature of their trade policies.

b) To improve, simplify and harmonize the rules of origin to the benefit of developing countries, to apply them flexibly and liberally and to treat all developing countries as one area of origin.

c) To accord beneficiary status to all developing countries without discrimination, reciprocity or other conditions. Developed of political or economic coercion or fo retaliation against developing countries including those that have adopted or may adopt singly or jointly policies aimed at safeguarding their national interests.]

(Improve, simplify and harmonize the rules of origin to the benefit of developing countries and give serious consideration to appropriate forms of cumulative origin treatment in their schemes.)

11. [Urgent adoption, as soon as possible and not later than 1978, of a set of multilaterally agreed, equitable, legally binding principles and rules for the control restrictive business practices, including those of trans-national corporations, having adverse effects on the trade and development of developing countries, which are to be negotiated in UNCTAD.] (3)

12. [Strict adherence to the standstill principle, i.e. under no circumstances the introduction of new trade restrictions or domestic measures limiting imports from developing countries. In this regard the participants request the

(1) G. 8 considered that agreed paragraph 2b) related in part to the concerns in this paragraph.

(2) G. 8 considered that agreed paragraph 1 related to the concerns in these paragraphs.

(3) Dealt with under Industrialization in the section of the Annex on Development.

UNCTAD Trade and Development Board to establish a body for multilateral surveillance, prior consultations and determining compensation where the principle is not adhered to, as well as for the institution of internationally agreed criteria and procedures with a view to implementing fully the standstill principle.]

(To re-affirm the need for developed countries to continue to implement fully the standstill provisions they have accepted concerning imports from developing countries, and the developed countries confirmed their intention to do so.)

13. [Developed countries shall not require developing countries to impose voluntary restraints on their exports.]

It is reaffirmed that the Multilateral Fibres Agreement was conceived and established as a temporary expedient to tide over a difficult period of adjustments in the field of textiles industry and trade.

Any temporary extension of this arrangement should contain improvements in the direction of liberalization.]

14. [Taking into account that the concessions made by some developed countries up to the present moment in the Tropical Products sector in the Multilateral Trade Negotiations fall far short of the requests presented by developing countries, the participants reaffirm that the work in the Tropical Products Group shall continue to be pursued on a priority basis and that the following principles shall be observed by developed countries in order that the Tropical Products be effectively treated as a special and priority sector:

- (i) all tropical products mainly or substantially originating in developing countries will be covered by the Tropical Products Group in the Multilateral Trade Negotiations;
- (ii) unrestricted duty free treatment of the import of these products by developed countries and advance implementation of the concessions agreed upon shall be observed;
- (iii) the principle of non-reciprocity shall be strictly adhered to in the case of concessions on tropical products given to developing countries;
- (iv) removal of internal taxes on tropical products exported by developing countries or the refunding of part or all of the revenue proceeds as a compensation for the export earnings "lost" by the developing countries;
- (v) elimination of any of the remaining tariff or non-tariff barriers on tropical products imported from the developing countries.]

(In the special and priority sector of Tropical Products covered by the Multilateral Trade Negotiations it is recognized that there have been substantial contributions to assist the developing countries through the developed country offers, most of which have been put into effect. These offers have, for the most part, been implemented without any specific request for reciprocity.)

15. [Limit the protection which agriculture is afforded in the industrialized countries by progressively reducing production subsidies and other forms of

internal protection; this should be implemented on the basis of an agreed plan of market sharing which would allow for freezing and progressive reduction of self-sufficiency ratios of industrialized countries with a view to securing a growing share of their markets for agricultural commodities exported by developing countries.]

(As regards trade in agricultural products, the Conference participants noted agreement in the multilateral trade negotiations of the Tokyo Declaration which, while in line with the general objectives of the negotiations to achieve the expansion and over greater liberalization of world trade and to secure additional benefits for international trade of developing countries, should take account of the special characteristics and problems in this sector.) (1)

16. [Eliminate export subsidies granted by developed countries to agricultural commodities.]

17. [Exempt developing countries from the application of safeguard measures in the field of agricultural commodities.]

18. [Health and sanitary regulations :

a) negotiations of a set of criteria on health and sanitary regulations in order to eliminate arbitrary application which results in trade distortive and restrictive effects, particularly affecting developing countries;

b) health and sanitary regulations should come under review in any trade negotiation;

c) adopt as quickly as possible measures that would assure the international validity and recognition of disease-free zones;

d) equal treatment for imported and domestically produced commodities;

e) provide technical and financial assistance to exporting developing countries to allow them to comply with the health and sanitary regulations imposed by developed importing countries.]

(Reaffirmation that health and sanitary regulations should not be used as a disguised form of restriction on trade and recognition of the need to provide assistance to the developing countries, in appropriate cases, to enable them to comply with the regulations laid down in this field.)

19. (The participants in the CIEC recognized the desirability of additional international efforts to assure reliability of supply. Consequently, they agreed on the urgent need to analyze methods that would improve reliability of supply.

The Conference participants resolved:

– that national and international economic policies should be formulated in accordance with the need to optimize supply and demand conditions for commodities in the interest of producers and consumers,

(1) This paragraph was a response by the G. 8 to paragraphs 15; 16 and 17.

- to uphold existing international rules and principles governing access to supplies and export restrictions,
- that given the importance of stable commodity trading relationships, export restrictions and other actions which disrupt or threaten to disrupt access to supplies should be brought within the scope of notification and consultation procedures in appropriate international organisations.

The Conference participants resolved

- to recommend to participants in the Multilateral Trade Negotiations that international rules and procedures governing access to supplies and export restrictions be subjected to a careful examination in the course of these negotiations bearing particularly in mind the specific problems of developing countries.) (1)

(1) Proposal by some members of G. 8. The G 19 did not wish to register any views on this paragraph.

III - DEVELOPMENT

A - INDEBTEDNESS OF DEVELOPING COUNTRIES

The indebtedness of the developing countries was one of the major topics of the CIEC and the participants examined and explored various approaches and proposed solutions to this problem. The participants could not reach agreement on the various aspects of external indebtedness, though they found useful elements in the proposals which were considered.

The participants agreed that the work done on the proposals could form a useful basis for consideration in other appropriate fora.

INDEBTEDNESS OF DEVELOPING COUNTRIES

Problems of indebtedness of developing countries

CIEC decides,

That as an extraordinary and one shot operation, relief on official debt should be provided forthwith by developed countries to all most seriously affected, least developed, developing land-locked, developing island countries, (1) and other interested developing countries in order to alleviate their existing debt burden, to restore the momentum of growth lost during the recent economic crisis and to facilitate the achievement of the International Development Strategy target.

To this end:

(a) Official Debts

1. Bilateral Debt owed to developed countries

- i) The least developed, developing land-locked and developing island countries should have their official debts converted into grants.
- ii) Other most seriously affected countries should receive the same treatment as above, or as a minimum, should have their outstanding official debts recomputed at the present IDA terms.
- iii) Debt relief should also be provided by developed bilateral creditors and donors to other developing countries seeking relief.

2. Multilateral

Multilateral development finance institutions are invited to commit new resources in an appropriate form within their lending policies and practices which should continue to respond increasingly to the needs of the developing countries.

(b) Commercial Debts

- i) International agreement should be reached to consolidate debts of interested developing countries and to reschedule payments over a period of at least 25 years.

(1) It is understood that countries experiencing similar geographical difficulties and which have been qualified as semi-land-locked would benefit of the same treatment.

ii) The consolidation of commercial debts and the rescheduling of payments should be achieved by the funding of the commercial debts of the interested developing countries.

iii) A financial facility to refinance the burdensome short-term loans contracted in recent years should be established for the use of interested developing countries, perhaps under the aegis of the World Bank and the IMF.]

[Problems of indebtedness of developing countries: future debt reorganization for interested developing countries.

Integral to the creation of a New International Economic Order is the necessity of giving a new orientation to procedures of the reorganization of developing countries' debt owed to developed countries towards a development approach. To this end, there is an obvious need to redesign and reorient operations such as those of the aid consortia and the creditor clubs in the context of international cooperation for development.

Consequently, CIEC decides the following:

General objectives of debt reorganization

i. Policies with regard to debt reorganization should be considered in the overall context of internationally agreed development targets and national development objectives which call for an increased net transfer of resources to developing countries within the framework of international financial cooperation.

ii. Debt reorganization in certain circumstances should be recognized as an appropriate means of increasing untied and quickly disbursable resource transfers to developing countries in order to meet their development needs and goals.

iii. It should be recognized that often debt problems indicate a need for augmented financial flows on appropriate terms in addition to debt reorganization.

iv. Debt relief should not be restricted to cases of so-called debt crisis since this penalizes countries that have been forced to abort their development programmes in order to service their external debts. Thus, ways and means must be found for developing countries to initiate international action at an early stage of emerging difficulties.

v. Mitigation of debt service difficulties on terms and conditions which are consistent with an orderly development process in developing countries is in the interest of both debtor and creditor countries. It should contribute to increase the capacity of the debtor countries to discharge their debt service liabilities over the longer run consistent with their development objectives.

vi. Debt reorganization would be carried out within an institutional framework that would ensure the application of the principles of international financial cooperation and protect the interests of debtors and creditors equitably.

Debt reorganization should be carried out within the framework of these general objectives. Principles and procedures should be established to regulate the entire process of debt reorganization in all its stages.

Procedure for the initiation of international action.

The procedure governing the initiation by a developing country of international action should contain three fundamental elements:

First, the procedure should confirm that it is the exclusive right of the debtor country to initiate the process of reorganization. It should not in any way open the possibility of international surveillance or a priori analysis.

Second, it should result in action at an early stage, well before the problems of the developing country have reached crisis proportions and have damaged its development plans.

Third, whenever the developing country initiates the process for international action according to agreed principles and procedures, developed creditor and donor countries will participate in the reorganization and commit themselves to contribute the necessary resources warranted by the economic analysis and the development objectives of the country. Multilateral development institutions participating in the reorganization operation would be invited to commit additional resources in an appropriate form to help meet those objectives.

It follows from the above that it will be necessary to establish agreed principles that would entitle a country to initiate a reorganization operation within the framework outlined above.

Procedure for analysis of the country's long-term economic situation.

Having initiated the renegotiation operation, the next step is the preparation of detailed analyses of the country's long-term economic situation. At the forefront of these analyses will be the protection of the country's development goals and strategy within the broader context of the International Development Strategy and the New International Economic Order. Such analyses will respect the socio-economic objectives and the development priorities established by the country.

Included in these analyses will be five key elements: First, there will be estimates of long-term capital requirements and projected availabilities as well as debt projections.

Second, an examination will be made of the extent to which factors operating in the international economy may have contributed to the current developmental and financial problems of the country.

Third, a similar examination will be carried out of the extent to which changes in international policies may have contributed to the current and prospective situation.

Fourth, the analyses will also take into account the internal economic situation of the country including relevant policies within the context of the country's development plan.

Fifth, based on the net capital flows required by the country in the pursuit of its development strategy within the context of internationally agreed targets, those combinations of additional development finance, debt reorganization and

national and international policy action will be indicated that would most quickly restore the country back to its development path and increase its long-term capacity to service its debt obligations.

Guidelines for reorganization operations:

Guidelines should be established for such reorganization operations. They should be consistent with the spirit and content of the International Development Strategy and the New International Economic Order. Specifically, these guidelines should include, *inter alia*, the following elements:

First: Creditor and debtor countries should ensure that reorganization would be completed expeditiously in order to reduce to the minimum any uncertainties associated with them.

Second: Measures to be adopted should be consistent with an accepted minimum rate of growth of per capita income.

Third: International and national policy actions to be adopted should be consistent with the socio-economic objectives and priorities of the country's development plan, and should be conducive to restoring the country to its development path as quickly as possible.

Fourth: The provision of new flows and the terms of debt renegotiation should be on a long-term basis consistent with the country's long-term financial and developmental needs as reflected in the analysis.

Fifth: The terms and conditions of rescheduling the official and commercial debts should be no harsher than the softest terms prevailing for the same kind of loans at the time of reorganization.

Sixth: Provisions should be included to facilitate additional flows or accelerated repayments if the analysis proved either too optimistic or too pessimistic with respect to the pace of the country's recovery.

Institutional arrangements for reorganization operations.

An appropriate and permanent institutional machinery should be provided for, which will have the authority to convene, organize and supervise reorganization operations in accordance with internationally agreed principles and procedures.

Implementation of the agreement.

With the view to implementing the present agreement, and working out the necessary details with respect to the principles entitling a country to initiate the procedure outlined above and to propose the institutional machinery, the Joint Ministerial Committee of the Board of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee) in consultation with UNCTAD, is invited to present its recommendation by June 1977. The necessary institutional machinery should be established in the course of 1977.]

(EEC/US proposals: Draft resolution on features which could provide guidance in future operations relating to debt problems pursuant to UNCTAD Resolution 94 (IV).

1. Participants in the CIEC recognized at the outset that indebtedness *per se*

is not necessarily an indication of financial or economic weakness on the part of the debtor country, and that externally-borrowed funds can be particularly useful to developing countries as a supplemental source of financing for economic growth.

2. They recognized that the avoidance of debt servicing difficulties under conditions that are generally consistent with an orderly development process in developing countries is in the interest of both creditor and debtor countries. They noted that it is desirable that international financial institutions, donor countries and developing countries should continue to co-operate so that financial problems which may unduly hamper progress towards economic and social development can be avoided by timely and efficient management of resources. To this end:

- donor countries would assist the developing countries in managing their external financial problems *inter alia* by ensuring that their assistance is compatible with the recipients' development situation and by assuring that their capital markets do not discriminate against developing countries, offering technical advice and assistance on debt management techniques, including advice on the use of commercially borrowed funds;

- for their part, developing countries would *inter alia* pursue domestic and foreign monetary and financial policies to enhance the mobilisation of domestic resources and the efficient use of foreign borrowings and avoid external financial obligations which could prove detrimental over the medium and longer-term to their financial situation, thereby impeding growth;

- donor and developing countries would strive to encourage efforts by the IMF and multilateral development finance institutions to improve developing country resource management with particular emphasis on resource allocation and project selection.

3. In this connection, participants found it useful to distinguish between two different types of situation. The structure and prospects of all items of the balance of payments have to be taken into account in examining both types of situation, bearing in mind balance of payments problems may be derived from a number of factors, some of which are well within the control of the debtor government while others lie beyond their control in varying degrees.

4. (a) The first type is a debt crisis involving default or imminent default on debt servicing, as well as serious balance-of-payments difficulties in which debt servicing payments play a major role. This situation is characterized by the fact that it cannot be remedied, in the short-term, by appropriate internal and external adjustment measures which the debtor country can realistically be expected to take. Consequently, there is a need for efficient and equitable recourse to debt re-organization as a last resort.

(b) The second type of situation is of a longer term nature, involving structural, financial and transfer of resources problems, where an adverse structure of the balance of payments hampers development by *inter alia* constraining the capacity to ensure essential imports. In this situation, the country concerned is not facing default, or imminent default, on external debt servicing and there would be more scope for timely and appropriate internal and adjustment measures along the lines described in paragraph 2 above, including all those affecting the quantity, quality and use of external resource transfers.

In the present world economic situation, there are some cases among MSA and least-developed countries in particular where development prospects have been seriously reduced by external factors. Such problems, which may lead to difficulties in implementing their debt service, constitute general problems of transfer of resources.

Debt default situations

5. Participants in the CIEC noted that debt default situations would be treated, on a case by case basis, in creditor clubs, at the request of the debtor concerned. Within these clubs the problems of the debtor concerned would be discussed in a spirit of co-operation.

6. Participants identified the following features which could characterize debt reorganization in default situations and recommend that, subject to suitable modifications in individual cases, they should be used to provide guidance in future such reorganizations.

(i) Creditor and debtor countries should ensure that renegotiations would be completed expeditiously in order to reduce to the minimum any uncertainties associated with them.

(ii) The debtor country would undertake a comprehensive economic programme designed to strengthen its underlying balance of payments situation. This programme would, as a general rule, be worked out with, and monitored by, the IMF.

(iii) Debt reorganization and the programme of economic measures would take into account the development prospects of the debtor country, thereby enabling it to continue debt servicing payments and restore its credit worthiness and to increase its capacity to discharge its debt servicing obligations over the longer term.

(iv) The modalities of debt reorganization would be determined flexibly, on a case by case basis, taking into account, on the one hand, the economic situation and prospects of the debtor country, the development prospects and the factors causing the debt service difficulties and, on the other hand, the legitimate interests of the creditors. It should also be recognized that the debtor country's implementation of its viable economic policies is essential to the long-term effectiveness of a rescheduling exercise.

(v) Debt reorganization would cover official and officially guaranteed debt with a maturity of over one year.

(vi) Consolidation periods would normally be kept relatively short and generally would not extend, as to future maturities, beyond the year in which the reorganization is undertaken.

(vii) Equality and non-discrimination among all creditors, including those not participating in the creditor club, is an essential principle underlying the operation of debt renegotiations. Creditor countries with minor debts due, which frequently include developing countries, would generally, however, be excluded from the multilateral debt renegotiation.

(viii) In respect of its private non-officially guaranteed debt, the debtor country would be expected to negotiate debt reorganization with private credi-

tors on terms similar to those agreed in the creditor club for its official and officially guaranteed debt.

(ix) Debt reorganization arrangements would provide for flexibility to review the situation at the end of the consolidation period in the light of unforeseen circumstances. They would also provide for accelerated repayments in an agreed manner if the debtor's economic situation improved more rapidly than anticipated.

Remedial measures to deal with situations of a longer-term nature.

7. Participants in the CIEC noted those developing countries which depend largely upon aid for their external capital resources cannot always deal with the second situation described in paragraph 5 above without help from aid donors. At the request of the recipient concerned, these cases would be considered expeditiously in an appropriate forum on an individual basis, with a view to providing aid in forms better adapted to the balance of payments needs of the recipient in the period of difficulty foreseen.

8. Participants identified a number of features discerned from past operations as well as in the light of the present situation and incorporated them in the following procedure. They recommended the procedure, subject to suitable modification in individual cases, as an effective way of identifying and examining as quickly as possible countries presently confronted by such situations and ensuring that appropriate action is taken expeditiously to assist their development efforts. The procedures would also respond to future situations of the same sort which could unduly impinge upon a country's development prospects.

(i) A developing country which believes it has a development problem of the type described above, of which debt is an element, would, before the problems have reached crisis proportions, request an examination of its situation by the IBRD or another appropriate multilateral development finance institution mutually agreed upon. These requests should state the grounds on which the request is justified, and provide all the relevant data.

(ii) The relevant institution would then examine the request, paying particular attention to the following elements:

- (a) the relative poverty of the developing country concerned and its long-term growth potential;
- (b) the extent to which the country concerned depends on ODA for its external capital resources;
- (c) the extent to which factors operating in the international economy contributed to the current and prospective economic problems of the country;
- (d) developments in and prospects for export receipts;
- (e) the capacity to ensure imports essential to the development process, such as fertilizer and other agricultural inputs, food-stuffs, energy, capital goods (and spare parts) and industrial raw materials, and the impact which the situation has already had upon essential imports;
- (f) the composition and trend of debt service obligations and its capacity for any further borrowing upon non-concessional terms.

(iii) If in the light of these elements any further steps seemed necessary, the relevant institution would then analyse the general economic situation of the country. This analysis would include, *inter alia*,

(a) an assessment of:

- the effectiveness of the country's use of both domestic and external resources for safeguarding its development process, such as mobilization of domestic savings, priorities for new investment, and export promotion;
- its fiscal and other economic policies;
- its measures for monitoring external credits and other measures to avoid debt-servicing difficulties;

(b) estimates of capital requirements and projected availabilities;

(c) an appreciation of the level of ODA which is available in appropriate forms;

(d) the IMF's assessment of the country's balance of payments and exchange rate policies and prospects, including debt servicing, and an assessment of its monetary policy and the extent to which the developing country has made use of IMF facilities.

(iv) The relevant institution would, if the analysis reveals that, in the context of development policy, the prospects of the country in question are seriously hampered, contact the aid donors to discuss, on an urgent basis, with the developing country its needs by mutual agreement. This could be done within the framework of consortia and consultative groups. Otherwise, the relevant institution could organise ad hoc meetings of donors or contact donors individually in cases where this is appropriate. The international institution would submit a report to the donor community and the recipient country, on the conclusions of the above analysis, and on those combinations of national and international policy actions that might be taken to restore the country to a reasonable development path as quickly as possible. It would also invite all concerned to examine the report sympathetically.

(v) Donor countries and the recipient country would urgently take the conclusions of the analysis made by the relevant institution into serious consideration. Where the report leads to broad agreement that the developing country is encountering long-term financial difficulties impinging unduly on its development progress, the donor countries taking part in the operation would, to the best of their abilities, enhance assistance efforts in response to the developing country demonstrating its willingness to take corrective measures on its own behalf, insofar as it is able. Such an effort would be directed towards increasing the quantity of aid in appropriate forms and improving the quality so that terms are appropriate to the economic situation and the development prospects of the recipient country.

(vi) Among the various measures which could be taken by a donor country for this purpose, programme aid, other flexible forms of quickly disbursable aid would be considered preferable to ODA debt reorganization. Whatever the donor's choice, this supplementary effort will bring about an improvement of the situation of the recipient country.

(vii) If the donor chooses debt reorganization, the concessional element of reorganized ODA would be as great as the average concessional element of comparable new ODA provided by the donors concerned.

(viii) Multilateral development finance institutions would consider committing new resources in an appropriate form within their lending policies and practices.

(ix) The recipient country would try to make equivalent arrangements with donor countries not taking part in the operation to ensure comparable assistance efforts by all other such countries and to ensure that the increased balance of payments flexibility provided was not indirectly used for the benefit of these other donor countries.

10. Participants in the CIEC invited the IBRD, and any other multilateral development finance institution receiving requests according to the above procedure, to give priority, in the present economic situation, to requests from least developed and Most Seriously Affected developing countries.)

(Debt problems of developing countries: proposal by Sweden

In order to contribute to the alleviation of the existing debt burden of the least developed and most seriously affected developing countries the developed countries participating in the CIEC should agree, at the Ministerial Conference, to make a general political commitment to provide additional ODA resources to the countries in those categories. This should be done in the form of direct ODA debt relief and/or equivalent measures. The terms, conditions and modalities of such actions could vary from case to case. Developed countries not being in a position to grant direct ODA debt relief - due to technical or constitutional problems - could resort to equivalent measures (additional ODA, e.g. in the form of untied programme aid or import support). The implementation of this commitment could be left to each developed country on a bilateral basis. The Ministerial Meeting should agree to recommend the establishment of an appropriate review mechanism in order to monitor the implementation, e.g. within a year after the commitment was made. The Ministerial Conference should urge all developed countries not participating in the CIEC to undertake similar action.)

B - OFFICIAL DEVELOPMENT ASSISTANCE

The Conference recognizes that the primary responsibility for the economic development of the developing countries rests with these countries themselves and that, to that end, they are determined to make all necessary efforts to solve their problems, to carry out the necessary improvements in their economic and social structures, to mobilize fully their basic resources and to increase the participation of their peoples, particularly the poor majority, in the process and benefits of development, in accordance with their development plans and objectives.

It also recognizes that assistance from developed countries constitutes an indispensable complement to the internal efforts of developing countries.

VOLUME OF ODA

1. (a) Pursuant to the agreement of the Seventh Special Session of the UN General Assembly which envisages the attainment of the 0.7 % target by the end of the decade, and having in mind the form in which it was reached, developed donor countries should increase effectively and substantially their ODA.

(b) Those developed donor countries which have not so far accepted the concept of the target also commit themselves to work to increase progressively and substantially their official development assistance flows taking into account the importance of raising the levels in real value of these flows.

(c) Within the framework of an equitable sharing of their efforts, developed donor countries' efforts will be the greater, the lower their relative performance.

2. The methods to be used to increase flows of ODA, in order to meet the objectives set out above, should be determined by each developed donor country, taking into account its evolving individual institutional and budgetary procedures. Specific measures should be considered for adoption or continue to be applied. Among these could be the following suggestions which are not necessarily mutually exclusive:

(a) increase annually their ODA budgets by a specific percentage on a multi-year basis;

(b) set aside at least 1 per cent of their annual GNP increase expected to accrue to be devoted to augment ODA flows;

(c) include aid volume targets in their economic planning;

(d) undertake long-range planning of aid budgets.

3. The volume of ODA of each developed donor country should, as far as possible, not be affected in the future by budgetary difficulties, balance of payment problems or other relevant factors, so as to assist in rendering ODA flows predictable, continuous and increasingly assured.

4. With a view to increasing the volume of ODA flows and enhancing the understanding of the needs of developing countries, the participants agreed that the implementation of the above conclusions should be reviewed regularly.

Multilateral development financial institutions

(a) General

Flows from multilateral development institutions to developing countries should continue to increase substantially, and negotiations now in progress to increase contributions to these institutions by all countries in a position to do so should be brought to an early and successful conclusion.

The participants in CIEC invite the multilateral development finance institutions to consider appropriate measures to achieve the following objectives. The policies and operations of these institutions should continue to respond increasingly to the development priorities and basic needs of the developing countries. In this context, equitable and effective participation of the developing countries in the decision making process in the competent organs of these institutions should be ensured in accordance with the existing and evolving rules.

(b) IBRD and regional development banks

To help meet the capital requirements of developing countries and to assist them to achieve their development objectives, the regular lending of the World Bank and regional lending institutions should increase substantially, consistent with the evolving capital structure of these institutions.

All members of the World Bank should complete as soon as possible the internal procedures necessary to implement the recently approved selective increase in the Bank's capital. Participants in CIEC welcome the agreement reached recently by the Executive Board of the Bank on indicative planning assumptions for an increased lending programme of \$ 6.1 billion in FY 1978 and \$ 6.8. billion in FY 1979.

The capital base of the World Bank should be increased sufficiently to permit its lending to rise adequately in real terms in the years ahead. Negotiations for a general increase in the capital of the Bank should be undertaken, as soon as possible, so as to allow the Bank to achieve its lending programme of \$ 6.8. billion in FY 1979 and thereafter further increases in its lending in real terms. (1)

The Third Window of the World Bank should be brought to the original target of \$ 1 billion by contributions from wherever possible.

Special attention should also be given to expanding the resource base of regional development banks where needed in order to ensure that their concessional and regular lending is increasing adequately to help meet the capital requirements of the developing countries and to assist them to achieve their development objectives.

Participants in CIEC stress the importance of the above mentioned institutions keeping under review their lending terms to ensure that they are fully responsive to the special circumstances of developing countries.

(c) International Development Association

The participants in CIEC welcome the agreement reached recently for a fifth replenishment of IDA amounting to \$ 7.6 billion and the fact that some countries have been able to participate in an IDA replenishment for the first time.*

Participants in CIEC hope that the final agreement on a bridging arrangement will be reached in time to assure the continuity of IDA's operations. All contributing countries are urged to complete as soon as possible internal procedures to make the fifth replenishment effective.

(d) United Nations Development Programme

With a view to achieving a stable and sound financial basis for the programme activities in the second programming cycle, the resources of the UNDP should be significantly and urgently expanded in accordance with the agreed decision of the Governing Council of the UNDP at its 539th meeting on July 1st, 1976 which calls for:

(1) This paragraph should be read together with any agreed recommendations relating to the financing of energy and other priority sectors in other conference documents.

* They note, however, that a small amount remains outstanding in pledges to the replenishment and hope that contributions will be forthcoming to meet this unallocated balance as soon as possible.

a) an increase in overall voluntary contributions with the objective of funding the planned 1977-1981 programme, which is based on the major assumption of an overall average annual 14 % growth rate of voluntary contributions, each nation determining its own contribution.

b) for all donor countries to assist in the achievement of the dynamic growth of the Programme's activities in 1977-1981, based on the need for an equitable sharing of the total effort required with regard to the level, timeliness and usability of voluntary contributions to the Programme.

(e) Policies of international financial institutions.

International financial institutions are invited to take appropriate measures:

1) To implement the agreement reached at the 7th Special Session to enhance the real value and volume of assistance to developing countries and to ensure that the developing countries obtain the largest possible share in the procurement of equipment, consultants and consultancy services.

2) To increase where appropriate their local currency financing.

Quality and distribution of assistance

a) Terms of ODA flows

Participants in CIEC agreed that developed donor countries should explore further the possibilities of adopting changes in the definition of ODA. They noted the following suggestions for changes.

(a) ODA should be calculated as net of both amortization and of interest payments.

(b) The minimum grant element for qualifying for inclusion in ODA should be raised from the present 25 per cent to 50 per cent.

(c) Assistance to countries/territories not regarded by developed donor countries themselves as sovereign political entities should not be included in measuring a country's performance in fulfilling its ODA target.

(b) Grant element

Each developed donor country should improve the financial terms of its ODA, so as to:

(i) endeavour fully to maintain or achieve, as soon as possible, an overall grant element of at least 86 per cent in its commitments; and to have the best possible grant element for the least developed countries and other countries whose needs are the greatest;

(ii) adapt the terms of its aid more closely to the particular circumstances of the recipient countries, including their external economic and financial situation; and to contribute to the harmonization of aid terms of all developed donor countries at the level of each recipient country;

(iii) extend ODA to the least developed countries essentially in the form of grants.

(c) Untying of ODA

In order to improve the quality of aid, developed donor countries should increase to the maximum extent possible their ODA flows in untied form.

Multilateral arrangements should be sought as far as possible for the reciprocal untying of ODA flows.

As untying may compromise efforts to increase ODA flows, alternative arrangements could also be sought to mitigate the disadvantages of tying.

(d) Distribution

ODA should be rationally and equitably distributed among developing countries, without prejudice to existing bilateral or multilateral agreements with special attention to the needs of special categories of developing countries.

(e) Forms of assistance

Bilateral and multilateral ODA, and the regular lending of the international financial institutions, should be provided to recipient countries in the forms most appropriate to their developmental needs and priorities; attention should be given as appropriate to the need for additional amounts of programme assistance and local currency financing.

C – FOOD AND AGRICULTURE

The work on Food and Agriculture included an examination of issues relevant to Agricultural Production in developing countries, Agricultural Inputs including Fertilizer, World Food Security and Food Aid. The Commission on Development agreed that solutions to the world food problem, including malnutrition and the improvement of agriculture in developing countries must be matters of primary concern and responsibility of the whole international community. The close relationship of agriculture and food production to rural development underlines the importance of implementation of comprehensive economic and social measures. It was agreed that while the developing countries had the primary responsibility for their own economic development in these areas, their efforts must be supported by donor countries and by the appropriate multilateral institutions. In this context it was agreed that special treatment should be given as appropriate to categories of developing countries as called for by relevant international recommendations and resolutions as adopted by the world community at the concerned international fora.

As a fundamental step towards the solution of world food problems, renewed efforts must be made and immediate and effective measures taken to fully implement all resolutions as adopted at the World Food Conference. In the broad range of topics considered, agreement was also reached that:

1. The realization of the minimum agriculture and food production growth rate in the developing countries of 4% per annum, agreed at the World Food Conference, could be achieved only through the investment of concerted efforts and resources both by developing and developed countries as well as by appropriate international institutions.
2. Developing countries confirm their primary responsibility for ensuring the rapid development of their food and agriculture production by according a high priority to food and agriculture within their national development programmes, taking measures for appropriate progressive changes in the socio-economic structures and relations in rural areas, facilitating the development of adequate supporting services for agriculture and providing to the extent possible material

and financial resources necessary for the optimal development of food and agricultural production as provided for in the corresponding resolutions of the World Food Conference.

3. Developing countries which have not already done so should develop national plans for increasing food production, which would make it possible to determine the internal means and the external resources necessary for the attainment of the objectives.

All parties concerned should make every effort towards the most effective use of resources allocated for agriculture and rural development in developing countries.

4. Efforts and resources invested by developing countries themselves must be supplemented by resources allocated by all countries capable of providing assistance and by multilateral agencies and institutions. While international agencies and many governments have responded positively to the need and the flow of resources has increased appreciably since the beginning of the decade, there is necessity for bilateral donors, multilateral aid agencies, and institutions to increase effectively and substantially their Official Development Assistance to agriculture and food production in developing countries.

In view of the overall targets as adopted at the relevant international fora the developed donor countries should increase their ODA level to food and agricultural production in order to achieve as soon as possible a 4% sustained rate of growth of food production in developing countries, taking into account the estimate of the Secretariat of the World Food Council that \$ 8.3 billion in 1975 prices in external resources on an annual basis is a necessary element for achieving this 4% rate of growth of food production in developing countries.

5 a) With a view to improving capital and technical assistance to developing countries agriculture, supplementary effective measures should be taken by industrialized countries, multilateral agencies and other donors to provide official flows on the most concessional terms appropriate to the recipient country's economic conditions.

b) In accordance with already adopted principles and with the aim of helping developing countries to utilise progressively their food production potentials, multilateral and bilateral donors should pay special attention and accord favourable treatment in accordance with para 3, Resolution 1 of the World Food Conference and with paragraphs 50 to 53 as adopted in the report of the Second Session of the World Food Council. Priority should also be given to programmes and projects aimed at benefitting the poorest producers, placing equal emphasis on both economic and social aspects.

6. The participants welcome the attainment of the agreed target of \$ 1 billion as contributions to the initial resources of the International Fund for Agricultural Development, as supported by the Development Commission. All interested parties and countries should undertake promptly those steps which are necessary for the establishment and commencement of operations of the IFAD, which is of fundamental importance to the solution of the world's food problems.

7. Noting that production of fertilizers in developing countries in the foreseeable future will be below their increasing needs, and taking into account the

recommendations of the World Food Conference, of the FAO Commission on Fertilizers and the Consultations on fertilizers held in January 1977 in UNIDO, the Development Commission agrees that every effort should be made to expand the supply and production of fertilizers in developing countries.

a) International agencies and donor countries concerned should extend their financial and other assistance to developing countries to improve the utilization of their existing fertilizer production capacities.

b) Financial and technical cooperation and assistance should be strengthened, which would include supply of technology and equipment on favourable financial terms where appropriate to the economic circumstances, for the installation of new, as well as enlarging existing, fertilizer production capacity in the developing countries which possess necessary raw materials and/or other factors favouring such investments.

Paragraphs (a) and (b) should be read together with the agreed conclusions on industrial capacities (section E, para 3).

8. Donor countries, as a matter of urgency, and in meeting the real needs of developing countries, should increase their assistance to these countries, in kind and/or cash, under concessional terms, so as to enable them to meet the minimum needs for fertilizers. The needs of MSAs, in 1975-1976, were estimated, at the 7th Special Session of UNGA, at one million tons of nutrients. This assistance should be provided by the most appropriate channel, bilateral and/or multilateral, including the International Fertilizer Supply Scheme of FAO.

9. The Development Commission recommends that steps be taken:

a) to increase the production capacities as appropriate and supplies of pesticides in developing countries, through financial and technical assistance, by donor countries and international agencies on a voluntary basis via bilateral and multilateral channels.

b) to provide financial and technical assistance for seed production, training and research into high-yielding varieties of seeds suited to the climatic conditions of the beneficiary developing countries, inter alia via bilateral programs or contributions on a voluntary basis to the FAO Seed Industry Development Program in an amount of at least twenty million dollars.

10. (a) The participants in the CIEC confirmed the importance they attach to the strengthening of world food security and, consequently, to the principles contained in the International Undertaking on World Food Security on improving the supply conditions of the developing countries and reducing the fluctuations in production and prices on the world market from which the developing countries suffer severely.

(b) It is particularly important in view of the necessity to facilitate implementation of the principles contained in the International Undertaking that an early decision be made to undertake formal negotiations leading to the conclusion of a new International Grains Arrangement, one of the important features of which would be an international system of nationally held grain reserves. All efforts should be made by concerned governments to conclude negotiations before the expiry of current extension of the International Wheat Agreement.

(c) As recommended by the Committee on World Food Security at its 2nd Session, the objectives and main elements of the International Undertaking on World Food Security should be appropriately reflected in the provisions of a new International Grains Arrangement which should also pay particular attention to safeguarding the special interests of the developing countries.

11. In order to meet the objectives of food security, the participants in the CIEC emphasize the usefulness of carrying out evaluations of the level of current and prospective stocks of cereals by reference to the estimates already made by the FAO Secretariat, as agreed, pending further examination, by the Committee on World Food Security at its second session, as a reasonable basis for its assessments. Estimates such as these could be used to establish a basis for an assessment of the minimum level of world cereals stocks, on the understanding that such estimates do not imply any particular commitment as regards the level of stock to be adopted in an international agreement on cereals.

12. Governments and concerned international and regional organizations should give priority to evolving policies and programmes to provide the most appropriate assistance, in accordance with Resolution XVII of the World Food Conference, in the form of grants or on specially favourable terms, to help developing countries implement appropriate national food stock policies, including the extension of storage and transport facilities, within the priorities of their national development programmes.

13. Developed countries and other donors should, where possible, earmark stocks or funds for meeting international emergency requirements.

14. The need was also stressed for all countries to conduct their operations of stocks and trade relations in such a way as not to discourage the growth of agricultural production in developing countries and not to disrupt international trade in the field of food and agriculture.

15. The decision of the General Assembly to make available within the World Food Programme an international reserve for emergencies with the aim of a target of not less than 500,000 tons of cereals, pending the establishment of a World Food Grain reserve, should be implemented as early as possible; consensus has been reached and modalities already agreed in the Committee on Food Aid Policies and Programmes on ways and means of implementing the decision. In support of this objective developed donor countries participating in the CIEC announced their intention to participate. This would be by and indication of financial transfers or availabilities of commodities from which contributions could be made to the reserve, through appropriate channels and procedures. They called upon other potential donors to indicate their contributions to the reserve.

16. Recognizing the importance of food aid as a transitional measure, participants agreed that such aid must be a matter of concern and responsibility for the whole international community. As recommended by Resolution XVIII of the World Food Conference, the Commission stressed that adequate action or commitments should be undertaken in order to reach promptly the minimum annual target of 10 million tons in physical terms for cereals, in cash and/or in commodities. The levels of food aid needs should be subject to continuing assessment.

17. The CIEC agreed to recommend that the developed countries and other donors should substantially increase the grant component in the total food aid supply, especially to the developing countries in serious economic difficulties. Food aid provided to the least developed countries should be essentially in the form of grants.

18. Food aid should be administered in a manner to avoid disincentive effects on production in recipient countries and with due regard to the legitimate interests of developing countries exporting food commodities, in accordance with the FAO principles on surplus disposal.

Donor countries, in appropriate cases, should make efforts to provide food aid through cash resources in the form of triangular arrangements between themselves, developing food exporting countries and recipient countries. This might be arranged, *inter alia*, through the World Food Programme.

D – INFRASTRUCTURE

Importance

1. The participating countries reaffirmed their belief that social and economic infrastructure plays a critically important role in the social-economic well-being of all countries; that the infrastructure of many developing countries is not adequate; that this fact represents a significant obstacle to the development process; further, that infrastructure should increase the overall productivity of the social-economic system and directly or indirectly serve human advancement through the meeting of basic collective needs, such as nutrition, drinking water, housing, health, education and employment. Infrastructure should therefore be so selected and planned as to benefit as large a proportion of the population as possible and to establish a better urban-rural balance.

2. The participants hold that it is for each country to frame its development strategy by determining what it regards as the most judicious blend of investment, having regard to its own particular situation, general economic policy and development model. In particular they emphasize the need for a systematic drive aimed at increasing integration and complementarity on the spot between the development of directly productive activities and the development of the services provided by the economic and social infrastructure. In this connection care must be taken to avoid wasting resources by investment in infrastructure whose construction and operating costs are out of all proportion to the benefits derived.

National and Regional Efforts

3. Recognizing that the developing countries' own efforts to resolve infrastructure problems are indispensable, the participants noted that effective infrastructure, cooperatively planned on a regional basis, in particular in the transport sector, is a prime means for promoting regional cooperation generally and in particular for increasing economic cooperation including trade among developing countries and thereby increasing their self-reliance. They consider that the regional approach is especially necessary with regard to countries that

are particularly disadvantaged geographically, such as land-locked, semi-land-locked and island developing countries, and *inter alia* to the African continent as a whole. The participants encouraged the further expansion and strengthening of these national and regional efforts.

4. The participants recommended that great care be taken to meet the essential conditions for the success of infrastructure projects. For example, projects should be appropriate to local circumstances, including, so far as feasible, use of labor-intensive techniques and local supplies in both construction and operation; they should be efficiently managed so as to defer the need for new investments of the same kind; and, in the case of transport infrastructure in landlocked countries, there should be appropriate standing agreements with the countries affording them transit facilities to the sea.

Development assistance: Multilateral and Bilateral

5. The participants noted the significant contributions which international financial institutions have made in this area, and they restated complete support for these efforts. Recognizing the urgent need for increased resources, donor countries expressed a readiness to enhance the assistance capabilities of appropriate international institutions, especially the World Bank Group and the UNDP, in order to enable these institutions to intensify their present efforts to promote and implement regional, sub-regional and national programmes of infrastructure in developing countries.

6. The participants called on the multilateral agencies as well as the industrialized countries and other donors:

- (a) to contribute funds to provide the developing countries, and in particular those least equipped, with the infrastructure essential for their development;
- (b) to assist the developing countries in carrying out their education development plans;
- (c) to assist the developing countries to develop and adapt their health systems, notably through the development of preventive medicine, the expansion into rural areas of medical services so as to service a larger proportion of the population, the training of the requisite medical and para-medical staff, and —when requested— integrated programmes of health/nutrition/family-planning;
- (d) to assist the establishment and operation of national and regional research institutes conducting research of direct interest to the developing countries;
- (e) to assist the developing countries to improve their sea-transport infrastructure and capacities, through multilateral and/or bilateral aid, so as to improve the efficiency of their transportation generally including their regional capabilities.
- (f) to assist promotion of local industry, and in particular building and allied trades, by means of infrastructural investment;
- (g) to facilitate the participation of developing countries' undertakings and suppliers in aid-financed infrastructure, including the supply of components;
- (h) to provide where feasible "integrated training", i.e. make use of the execution of projects to train the personnel who will be operating and managing them;

- (i) to expand significantly their contribution to the training of specialists from developing countries;
- (j) to expand assistance to developing countries for the establishment and implementation of integrated socio-medical services;
- (k) to encourage the establishment of health-related enterprises, including pharmaceutical, suitable to the climatic, ecological conditions of developing countries and designed to fulfil the objectives of these countries in their health programmes.

7. The developed countries agree to explore with developing countries the kinds of actions which could be appropriately taken to give developing countries timely access to infrastructure goods produced by the industrialized countries. To this end the developed countries agree to consider possible measures for providing priority treatment in financing and supply of equipment and services for infrastructural projects in developing countries.

Africa

8. The CIEC participants acknowledged that the African continent is particularly disadvantaged with respect to infrastructure, not only in such fields as transport and communications but also in social and economic infrastructure generally. They also agreed that the lack of such infrastructure is a serious impediment to such highpriority goals as expanding food and other agricultural production as well as providing social services to both the rural and urban populations.

Accordingly, the participants called on donor countries as well as international financial institutions to join African developing countries in examining their efforts in this regard, with a view to increasing to the extent possible the volume, quality, and effectiveness of resource flows to appropriate social, economic, and physical infrastructure in African countries during the coming decade.

Responding to the ECA Ministerial Meeting's call for launching the African Transport and Communication Decade (1978-1987) which would be aimed at concerting effective action during the coming decade to improve economic and social infrastructure in Africa with particular emphasis on transportation and communications, the Participants recommended that the Secretary General of the UN arrange a conference to be held in Africa as early as feasible in 1978, under the joint ECA-ADB auspices in cooperation with the World Bank, the UNDP, and other appropriate institutions, and donor countries, in order to help define both the objectives of this Decade and ways to mobilize efforts and means to achieve them. The participants called on the competent international organizations and on the industrialized countries and developing countries able to contribute, to concert their efforts for this purpose.

E – INDUSTRIALIZATION, TRANSFER OF TECHNOLOGY, INVESTMENT AND TRANSNATIONAL CORPORATIONS

I – INDUSTRIALIZATION

1. Industrialization Goal

The countries participating in CIEC confirm their determination to take the necessary measures to implement effectively their undertakings in terms of the Lima Declaration and Plan of Action to accelerate the industrialization of developing countries, thus making an effective contribution to maximizing their industrial development and to the achievement of the objective set forth in the Lima Declaration and Plan of Action, which called for increasing the percentage share of developing countries in total world production to the maximum possible extent and as far as possible to at least 25 % of total world industrial production by the year 2000.

2. Adjustment Assistance

[The participants in the CIEC agree that the establishment of new and improved forms of relationship between developed and developing countries within a liberalized world trading system which takes into account the interests of all countries in particular those of developing countries and that an overall approach to industrial cooperation should include the urgent adoption and strengthening by developed countries of adjustment assistance policies and measures, which would encourage their domestic industries to move progressively out of lines of production in which they are less competitive internationally and alleviate adverse effects on industry and labour thus leading to structural adjustments in the developed countries and re-deployment of productive capacities for such industries to developing countries while taking into account the economic, social and security interests of the developed countries.]

(The participants in the CIEC agree that the establishment of new and improved forms of relationship between developed and developing countries within a liberalized world trading system and an overall approach to industrial cooperation should include, where necessary, the urgent adoption and strengthening by developed countries of adjustment assistance policies and measures, including labour market policies, which would enable their domestic industries progressively to move into more viable lines of production and which would alleviate adverse effects on industry and labour, allowing thereby structural adjustments in the developed countries and allowing the developing countries to make full use of long-term comparative advantages, while taking into account the economic, social and security interests of the developed countries.)

3. New Industrial Capacities

Developed countries participating in CIEC, in order to contribute to the objective of the establishment of new industrial capacities in the developing countries, in particular raw materials and commodity processing facilities in those countries that produce those raw materials and commodities, agree to assist and contribute towards setting up such new industrial capacities with reason-

nable prospects of viability by taking the necessary measures and formulating policies for industrial development.

In this context, the system of continuing consultations should play a useful role.

4. Access to Markets

[Developed countries agree, *inter alia*, on the following measures:

— To eliminate policies and measures designed to protect their uncompetitive industries and to provide unrestricted access to their markets for manufactured and semi-manufactured goods from developing countries in order to enable long-term planning of industrial development in the developing countries and to stimulate industrial investment in these countries, to contribute to the realization of their maximum potential for industrial development.]

(The participants in the CIEC consider that industrial co-operation should be complemented by appropriate measures in the field of trade policy. The industrialized countries agree that specific measures to be undertaken by them be aimed, *inter alia*, at improving access to their markets for manufactured and semi-manufactured goods from developing countries in order to facilitate long-term planning of industrial development in the developing countries and to stimulate industrial investment in these countries, to contribute to the realization of their maximum potential for industrial development.)

5. Unido Consultations

The countries participating in CIEC confirm their determination to actively support and effectively participate in the system of continuing consultations within UNIDO which should be fully implemented at all appropriate levels and in close cooperation with other relevant international bodies and with national representation as decided by each government or otherwise arranged between governments and UNIDO.

6. UNIDO as a Specialized Agency

The participants in CIEC confirm their determination to co-operate actively and positively in order to implement without delay the decision to convert UNIDO into a specialized agency and to make a new commitment to resolve the outstanding issues, within the framework of a plenipotentiary conference to be convened by the Secretary General of the United Nations as soon as possible and not later than the second half of 1977.

7. Technical Assistance

The countries participating in CIEC agree to adopt a more integrated approach co-ordinated with the long-term programmes of developing countries, in implementing their commitments made bilaterally, in international fora, and *inter alia*, in terms of the Lima Declaration and Plan of Action on technical assistance to back up the developing countries' industrialization. In this context, UNIDO should play its role and carefully monitor its programme in the field of technical assistance.

8. UN Industrial Development Fund

The participants welcome the establishment of the United Nations Industrial Development Fund as decided in the General Assembly Resolution 31/202.

In accordance with General Assembly Resolution 31/203, countries may pledge contributions, during the Pledging Conference of the Fund, to enable the Fund to reach a desirable funding level of \$ 50 million yearly, in order to fulfil its role as defined in the above-mentioned Resolutions without delay.

II – TRANSFER OF TECHNOLOGY

1. Industrial Property

The participating countries in the CIEC agree that the Paris Convention for the Protection of Industrial Property should be revised in WIPO, taking fully into account the interests of the developing countries. This should be done along the lines agreed at UNCTAD in Resolution 88 (IV) and with due consideration of the conclusions of the experts of developing countries as recommended in operative paragraph 3 of that resolution.

They further agree that developed and developing countries should cooperate fully and effectively so as to conclude as soon as possible the ongoing process for the revision of the Paris Convention.

2. Transfer of Technology

The countries participating in CIEC reconfirm their support of UNCTAD Resolutions 87 (IV) and 89 (IV) and agree accordingly to take the necessary measures so as to ensure the early and effective implementation of these Resolutions.

They support the convening of the United Nations Conference on Science and Technology for Development.

III – INVESTMENT AND TRANSNATIONAL CORPORATIONS.

[Private direct investment should make a substantial contribution to development in terms of transfer of technology, managerial and other associated skills, increasing output, employment, and strengthening the balance of payments.

1. Developed countries agree to take the necessary measures, policies and incentives to encourage their enterprises and investors:

(a) to enter into joint venture arrangements with developing countries seeking such arrangements;

(b) to contribute substantially to the utilization and development of local physical and human resources of developing countries through financial surveys and pre-investment studies, setting up training and research organizations and providing adequate training for local personnel in the application of modern technology;

(c) to give export orientation to their operations in developing countries when this accords with the policies, priorities and plans of the latter. Such export orientation should include all steps of the integrated marketing process.

2. Developed countries undertake not to impose any restrictions, including fiscal and financial measures, for balance of payments or other reasons on the freedom of their companies to engage in foreign investment operations in developing countries.

3. Developed countries agree that their investors operating in developing countries shall be subject exclusively in all their activities to the national jurisdiction of the host country, to its laws and regulations, and in cases of litigation, to the jurisdiction of the host country. Host countries should not be expected by developed countries to grant their investors preferential treatment, nor shall the latter be necessarily eligible to privileges and advantages granted to the local investor in the national interest.

4. The participating countries agree that:

(a) there is an urgent need to formulate a Code of Conduct for TNCs, as a means of ensuring, *inter alia*, that the TNCs play a positive role in international economic relations;

(b) this Code of Conduct should be guided by and should reflect the interests of the developing countries expressed in various fora, including the principles approved by the UN General Assembly in resolutions relating to the establishment of the New International Economic Order; in particular it should reaffirm the inalienable right of each State to freely exercise full permanent sovereignty, including possession, use and disposal, over all its wealth, natural resources, and economic activities, as well as to regulate and supervise the activities of transnational corporations within its national jurisdiction and to take measures to ensure that such activities comply with its laws, rules, and regulations, and conform with its economic and social policies;

(c) the drafting of the Code should have priority in the tasks of the Commission on Transnational Corporations. The main part of the resources and efforts of the Commission on Transnational Corporations and of the Information and Research Centre on TNCs should be concentrated in the elaboration of the Code of Conduct in accordance with the already existing calendar of two years, in such a way that the Code of Conduct is concluded in 1978;

(d) The Code of Conduct should have a compulsory character and be legally binding and in no way be a simple declaration of principles. It should apply exclusively to the transnational corporations, that is, it should be a body of norms directed to regulate the activities of such enterprises, and not the relations between them and the governments under whose jurisdiction they operate. It should not be applicable to the public or multinational enterprises established by or among developing countries, including those established within their integration and economic cooperation schemes, with a view to accelerating their economic growth and in defence of their primary commodities and economic resources.

5. The participating countries agree on the urgent need to fully and effectively implement the relevant provisions of UN General Assembly Resolution 3514 (XXX) on corrupt practices of TNCs.

6. Developed countries agree to urgently adopt necessary measures to safeguard the interests of developing countries against the malpractices of their enterprises and compel them to fulfill their contracted obligations or to fully compensate for any damage or prejudice they may cause to the host country in this respect.

7. Developed countries agree to actively contribute to give real content and substance to an effective and structured system of comparable information and research to facilitate and enable the dissemination of information on the activities of the TNCs, including their accounting practices, and the implementation of technical cooperation programmes, which would reinforce the developing countries' capabilities in formulating policies, evaluating the impact of the TNCs in their economies and ensuring that the activities of those enterprises be consistent with the host country's development objectives and priorities and with its national interests.

8. The participating countries agree on the urgency to adopt as soon as possible and not later than 1978 a set of multilaterally agreed equitable, legally binding principles and rules for the control of restrictive business practices, in particular those of TNCs, having adverse effects on trade and development of developing countries, which are to be negotiated within UNCTAD.]

(1. Measures by developing countries to enhance industrial cooperation.

The participants in the CIEC consider that, insofar as the developing countries wish to obtain foreign industrial inputs, it would be in their interest to provide adequate conditions for international industrial cooperation. The developing countries, therefore, agree to:

A. Clearly state the conditions under which industrialists can operate, clearly defining the rights and duties, the objectives and priorities of the host country's industrial policy, as well as the applicable legal and tax provisions;

B. organize administrative structures responsible for managing industrial policy which take account of industry's inherent needs;

C. provide sufficiently stable domestic business and cooperation conditions, through appropriate judicial structures, and guarantee and arbitration arrangements;

D. develop policies which can increase the contribution of foreign industrial inputs to the national economy, such as policies to ensure the efficient utilization of indigenous skilled and semi-skilled manpower, and to mobilize domestic financial resources, while bearing in mind the desirability of promoting an environment which will attract additional investment.

The participants also emphasized the value of increased cooperation among developing countries as an important element in maximizing efforts towards their accelerated industrialization and contributing to their economic and industrial self-reliance. Developing nations, therefore, agree to continue to increase cooperation among themselves; including the development of national and regional industrialization policies designed to enable the nations involved to make the most efficient use of their financial, labour and natural resources.

2. Role and responsibilities of participants in Industrial Cooperation

The participants in the CIEC affirm in this connection that each country is free to choose its development model and, in particular, the degree of its economy's integration in the world economy. It is up to each country to fix the framework and determine the priorities for its industrial policy. This applies in particular to policy-making on the respective role of the State and the private sector, sectoral and regional policies, and the conditions applying to economic operators. Each country has the right to ask foreign contributors to respect the course it has chosen to follow and provide assistance which fits in as far as possible with its development plans.

The participants in the CIEC expressed a common recognition that a large part of industrial activity is the responsibility of commercial enterprises which are, within certain limits, free to operate their organisations, governed mainly by economic considerations. The participants agreed that, depending on the political, social and economic structure of each country, there are limits on what can be accomplished by direct government action in the field of industrial cooperation.

They reaffirmed, therefore, the desirability for governments to encourage all appropriate means of facilitating industrial cooperation and agreed that particular efforts should be made to increase the degree of cooperation between nations and the industrial enterprises, both public and private, of industrialized countries.

The participants in the CIEC recognize the fundamental role which international cooperation between governments has to play in creating a general framework suited to industrial cooperation and international investment and a climate of mutual confidence.

3. The participants of the Conference agreed that all developed and developing countries should cooperate internationally to encourage the positive contributions which private foreign direct investment can make to economic and social progress in developed and developing countries and to resolve, as feasible, difficulties to which its various operations may give rise. Developed and developing countries should cooperate with the UN Commission on Transnational Corporations, in particular, in the elaboration of a code of conduct, and with the ECOSOC in its efforts to develop an international agreement to combat illicit payments.)

F – SPECIAL ACTION*

1. To help meet the immediate needs of individual low-income countries, in particular LLDCs and other countries most in need, facing general problems of transfer of resources hampering their development, which have a special need for additional aid in appropriate forms and on concessional terms, the developed country participants agreed that special action should be taken with the widest possible participation, parallel with their overall efforts to increase ODA.

2. The developed country participants are ready to contribute to this Special Action Programme, subject to legislative approval where necessary, \$ 1 billion

which would be provided to the recipient countries, as additional and, as far as possible, quick-disbursing aid through multilateral channels, or through bilateral assistance or debt relief, all of comparable quality. In the light of the limited capacity of the low-income developing countries covered by the Special Action Programme to service borrowing on harder terms, the developed country participants agreed that their contributions should be highly concessional, aiming at IDA terms overall. Appropriate arrangements would be made among donors for the co-ordination of the Programme.

3. Developed country participants specified that their contribution to the Special Action Programme would be as follows:

a) Australia's contribution to the Special Action Programme will be \$ 18 million. It is envisaged that this will be given partly in the form of an additional contribution to IDA, and partly bilaterally, in the latter case in the form of grants to countries eligible as IDA beneficiaries which are experiencing the problems to which Special Action is directed. The precise form which this bilateral assistance would take would be decided by the Australian Government in consultation with the beneficiaries involved and in the light of the desirability of the assistance being quickly disbursable.

b) The Government of Canada will contribute \$ 51 million to the Special Action Programme. The principal portion approximately \$ 35 million — results from the immediate conversion to grants of all existing ODA loans extended by Canada to least developed countries. (This \$ 35 million is the present value of these loans, whose face value amounts to approximately \$ 254 million.) Further, Canada will provide an additional \$ 16 million contribution in multilateral (including IDA) and bilateral aid to least developed and other developing countries most in need.

c) The EEC will provide \$ 385 million to a special account of the IDA to be allotted as additional quick-disbursing aid to those individual countries, in particular among LLDCs and MSAs, whose development prospects have been seriously reduced by external factors and which face general problems of resource transfers, a situation which may lead to difficulties in implementing their debt service. The Community will make further suggestions to the Association on how the resources in the special account would be used.

d) Japan will contribute to the Special Action Programme by additional, highly concessional and quick disbursing bilateral assistance amounting to \$ 114 million. The countries to which this additional effort is to be devoted will be low income countries.

e) Spain will contribute \$ 2 million to the Special Action Programme in the form of bilateral project aid and technical assistance on conditions which are similar to those of the IDA, directed to countries which are in more serious economic difficulties.

f) Sweden's main contribution to the Special Action Programme would aim at the alleviation of the immediate balance of payment and resource transfer problems hampering the development of the poorest countries and will consist of the cancellation of debt service for the five year period 1977/78 - 1981/82 with respect to development credits extended by Sweden to least developed and most seriously affected countries. This contribution amounts to 120 million Swedish Crowns. In addition Sweden will make available quick dis-

bursing bilateral programme aid to countries under the Special Action Programme on a grant basis amounting to 10 million Swedish Crowns. The total Swedish contribution is equivalent to \$ 29 million.

g) The Swiss Government will contribute, subject to parliamentary approval \$ 26 million to the Special Action Programme by converting Switzerland's outstanding official aid credits to lower income countries into grants.

h) The US will contribute to the Special Action Programme through additional funding in its regular bilateral development assistance programmes. The Administration will seek Congressional approval for increased aid which by FY 79 would result in an extra \$ 375 million of assistance to low income countries over present levels. The countries for which this additional effort will be undertaken is the group eligible for lending by the IDA.

4. The developed country participants called upon other donor countries to make parallel contributions of comparable quality to the same range of recipient countries under the Special Action Programme.

5. Donor countries providing or institutions channeling assistance under the Special Action Programme should report on the implementation of the above to the IMF/IBRD Development Committee.

* This text which was presented by the Group of 8 at the final session as constituting an agreement among its members, is placed here following the texts on Development which were negotiated in the Conference.

IV – FINANCIAL AFFAIRS

A – FOREIGN DIRECT INVESTMENT, ACCESS TO CAPITAL MARKETS AND OTHER FINANCIAL FLOWS

PRIVATE FOREIGN DIRECT INVESTMENT IN DEVELOPING COUNTRIES AND DEVELOPING COUNTRY ACCESS TO CAPITAL MARKETS

I. GENERAL CONCEPTS

1. The countries participating in the CIEC recognize that foreign private capital flows and investments play an important complementary role in the economic development process, particularly through the transfer of resources, managerial and administrative expertise and technology to the developing countries, the expansion of productive capacity and employment and the establishment of export markets. They, accordingly, consider that the conditions that govern or influence international capital movements – and in particular the transfer of financial resources to the developing countries – should be improved.
2. The countries participating in the Conference recognize that a close relationship exists between the continuity of investment flows and the conditions under which such flows are admitted and treated. The participating countries also consider it very important that the developing countries be allowed improved access to capital markets and that foreign investments in developing countries be consistent with their national development plans and policies.

II. PRIVATE FOREIGN DIRECT INVESTMENT IN DEVELOPING COUNTRIES

3. The participants of CIEC recognize that in the exercise of their sovereignty the countries concerned determine the role that foreign private investment may be called to play in the development process and define the conditions under which foreign investment would be able to participate in this process.
4. It is also recognized that the key to achieving and maintaining an adequate flow of capital lies in the maintenance of an appropriate mutually created investment climate.

In this context it is desirable to establish a suitable framework to encourage and facilitate foreign investment and its harmonious integration and contribution to the development plans and policies of host countries. It is important in this respect to state the conditions which it would be desirable to meet and the measures it would be desirable to have implemented by all parties seeking to have productive and satisfactory cooperation in this field, meeting in a fair and equitable way the interests of all parties involved, and thereby contributing to the establishment of a stable and equitable climate for foreign investments.

5. The participating countries identified the following elements which, to the extent attained, contribute to a favorable climate for private foreign direct investment:

- transparency or clear definition of national policies, laws, regulations and administrative practices significantly affecting private foreign direct investment.
- stability of the above policies, laws, regulations and administrative practices of government.

Necessary changes to be made in the light of evolving circumstances in an orderly way with proper regard to the rights of investors established at the time.

- non-discrimination and national treatment for foreign investors. The right of a host country to regulate the establishment of foreign investment, including prohibitions or limitations on the extent of foreign investment in specified sectors remains unaffected;
- timely and unrestricted transfer of the income from investment capital and repatriation of capital when the investment is terminated]. Nothing affects the right of a host country to adopt appropriate remedial measures in the event of balance of payments difficulties] (, except in so far as restrictive measures of limited duration are required by exceptional balance of payments difficulties.)

[– fair and equitable treatment of the investor's property. In case the host country expropriates or nationalises the property of a foreign investor appropriate compensation should be paid.]

(– fair and equitable treatment of the investor's property. In case the host country deprives, directly or indirectly, a foreign investor of its property, prompt, adequate and effective compensation should be paid. Any such deprivation should be exclusively for a public purpose, non-discriminatory and in accordance with due process of law.)

[– Disputes between a host country and foreign investor shall be resolved in accordance with the national legislation of the host country by its own courts of law except in those cases where the hostcountry government freely chooses to submit the matter to international arbitration. In all cases arbitration proceedings and standards should be transparent and mutually satisfactory to both investors and host government.]

(– Disputes between a host country and a foreign investor shall be resolved rapidly, in accordance with the above principles and with the procedural standards called for by international law; access to international arbitration shall be available. Where possible, the procedures to be followed should be agreed upon before any dispute arises. In all cases, arbitration proceedings and standards should be transparent and mutually satisfactory to both investors and host government. The IBRD's Center for the Settlement of Investment Disputes is an important institution in this regard.)

- behaviour by foreign investors as good corporate citizens of the host country, by respecting the sovereignty and the laws of the host country having jurisdiction on them and acting consistently with the declared policies and the priorities of the host country and endeavouring to substantially contribute to the development of the country, in particular endeavouring, consistent with sound commercial practices, to contribute to expand exports, create employment, train domestic technicians and managers, utilize domestic raw materials and other inputs, finance their operations with foreign resources, apply modern technology suitably adapted to domestic conditions, have a

favorable impact on domestic prices and the quality of goods produced and in other ways act in accordance with interests of the host country.

6. Developed country participants stated that they would endeavour to respond positively, through bilateral or multilateral channels as appropriate, to requests from developing countries for technical assistance designed to provide nationals of developing countries with economic, technical and legal training concerning foreign investment matters.

7. Developed country participants agreed to strengthen and develop, as appropriate, the public and mixed financial institutions in capital exporting countries that can act, inter alia, as promoters of, associates in and/or financiers for investment projects in developing countries.

8. Joint ventures are recognized in appropriate cases to be a desirable form of private investment under which foreign private capital and technology would be associated with the host countries' enterprises and local entrepreneurs. The extent of foreign participation in individual projects shall be determined by each developing country in the light of its development needs, policies, legislation and other relevant factors.

9. All participants agreed to promote the concept of triangular investment operations in which the technology, equipment, and management skills from one country, developed or developing, are combined with capital from another country, in order to carry out productive investment projects in developing countries.

10. More generally the participants of the Conference agreed that home and host countries together should strengthen their cooperation in the field of international investment.

11. The participants of the Conference agreed that all developed and developing countries should cooperate internationally to encourage the positive contributions which private foreign direct investment can make to economic and social progress and to resolve, as feasible, difficulties to which its various operations may give rise. Developed and developing countries should cooperate with the UN Commission on Transnational Corporations, in particular in the elaboration of a code of conduct, and with the ECOSOC in its efforts to fulfill its mandate to develop multilateral and other proposals to control and eliminate illicit payments.

12. The International Finance Corporation should be encouraged to continue to take equity positions in new investments in developing countries and thereby play a catalyzing role by bringing to the participants in these projects the benefits of the technical and organizational expertise of that organization. The recent increase of I.F.C.'s capital should enable that organization to increase its activities.

III. DEVELOPING COUNTRY ACCESS TO CAPITAL MARKETS

13. The countries participating in CIEC pledged to support efforts to expand further developing country access to and capability to utilize private capital markets on a sound basis.

The participants recognized that in pursuing that objective the important factors to be considered include, *inter alia*,

- a) the market perception of the creditworthiness of developing countries;
- b) restrictions and obstacles hindering the access of developing countries to capital markets;
- c) the lack of familiarity on the part of some potential private lenders in regard to the economic situation and prospects of developing countries;
- d) the need of developing countries for technical assistance and information on capital market conditions;
- e) possible measures international financial institutions could take to improve capital market access.

14. In this regard the participants noted and indicated their support for recommendations contained in the Press Communiqué of the Development Committee of October 3, 1976, concerning the liberalization of capital market regulations and measures to improve the access of developing countries to those markets. The participants urged all capital market countries to implement the Committee's recommendations, to the extent feasible by December 1977, taking into account the balance of payments situations of the individual capital market countries and the need to assure adequate investor protection.

15. The participants welcomed the decision of the IMF Board to include in its regular consultations of their staff with the capital market countries concerned, a review of the progress of the respective countries in implementing the Development Committee's recommendations. The participants were of the opinion that in its consultations on this subject, particular attention should be given to the restrictive effect of the following:

- a) Authorization and approval requirements for security issues;
- b) The use of issue calendars;
- c) Fixed ceilings on foreign borrowings;
- d) Constraints by strong currency country governments on their banks being lead managers for issues in third countries;
- e) Security registration requirements;
- f) Limitations on foreign investments by institutional investors.

The participants recommended that the results of the IMF consultations with respect to capital market access be made available on a regular basis to the Development Committee for review and evaluation and be included, as appropriate, in the IMF Annual Report.

16. The participants recognized the need to coordinate the implementation of present and future technical assistance activities in the field of capital markets and recommend that the Development Committee ask its Working Group to consider the usefulness and feasibility of establishing an information system on capital markets attached to an existing international financial institution.

17. Capital market developed countries stated that they are willing to provide technical assistance to interested developing countries for improving their domestic capital markets and financial institutions.

18. The participants in CIEC recognized the important role that co-financing can play in providing additional private capital for developing countries and urged expanded use of co-financing by the international and regional banks.

19. Participants in CIEC welcome the results of the work of the Development Committee in regard to access to capital markets by developing countries. In this connection, they emphasized the need for expeditious implementation of the recommendations of the Committee. In particular, CIEC supports the efforts by the Committee to:

- complete its work on the subject of multilateral guarantees including the possible role of existing international financial institutions using their existing powers of guarantee for borrowing by developing countries in the expectation that additional resources will result from these arrangements;
- complete its studies on the proposed International Investment Trust which would have the role of improving portfolio investment flows to developing countries and also of facilitating the placement of long-term bond issues at appropriate terms;
- explore with the international financial institutions the possibility and prospects of placing part of the portfolio of the international financial institutions with investors including institutional investors as a step towards increasing capital flows to developing nations and facilitating private sector participation in providing projects for finance in developing nations;
- complete the efforts of its Working Group in consultation with the IFC to develop detailed arrangements for a long-term technical assistance and market education programme to promote developing countries' bond issues;
- encourage the implementation of the Working Group's recommendations regarding action on reporting systems on international stocks and flows.

20. The participants in CIEC encourage the international financial institutions to consider the possibility of geographical diversification in placing their reserves taking into account the need to preserve the liquidity and credit-worthiness of these institutions.

21. The participants in CIEC suggested that the Development Committee establish a time-table for its future work and for the work of its Working Group on Access to Capital Markets.

22. The participants of the Conference suggest that the Annual Reports of the World Bank, IMF, IFC and other concerned institutions contain a review of the action taken in the light of the various recommendations of the Development Committee on the general question of access to capital markets.

OTHER FINANCIAL FLOWS

1. Some participants at the Conference were anxious to emphasize and endorse specific proposals relating to international monetary issues. Other participants believed that this degree of specificity was inappropriate. In the light of these considerations, consensus was reached on the following.

2. The participants have considered the large and persistent payments imbalances and the financial problems that particularly affect many developing and some other countries. These problems need to be resolved within the appropriate framework of existing institutions. In this connection the Conference takes note of the analysis made by the Interim Committee of the IMF in Washington in April 1977 and agrees that the resources of the IMF should be increased. This will enable the IMF to play an increasing role in the financing of these imbalances and in the promotion of international adjustment in the framework of a stable and equitable world monetary environment.

3. The Conference strongly supports initiatives being taken by the IMF to establish a supplementary credit facility. In view of the urgent external financing requirements of many developing and other countries, it is hoped that the facility should be in place at the earliest date possible and available on terms and conditions which would facilitate its useability and the attainment of its objectives. Participants of CIEC were of the view that the terms of the facility should be such that they reflect a pace of adjustment having regard to the political, social and economic difficulties of the country in question. Financial assistance such as extended under such a facility is particularly important for countries where unavoidable payments problems are particularly large in relation to the size of their economies. The necessity of possibly continuing this facility should be reviewed when the Seventh General Quota Review comes into effect.

4. Fundamental to the agreed objective of the enlargement of the resources of the Fund is an adequate increase in quotas. The conference noted the decision taken by the Interim Committee of the IMF in this regard as well as with regard to the distribution of quotas. The Conference urges prompt action for an adequate increase in total quotas pursuant to the Seventh General Review.

5. Participants of the Conference expressed their hope that the IMF's study of the characteristics of the SDR and its role in relation to the purposes of the IMF, including its becoming the principal reserve asset, would be undertaken at the earliest possible opportunity with an openminded and positive view to an early decision.

6. The participants welcomed the fact the IMF is considering the advisability of a further allocation of SDRs and found it particularly satisfactory that this work will be completed early in 1978.

B – INFLATION

1. The States participating in the CIEC recognize that inflation disturbs the functioning of the international economic and monetary order and is damaging to the economic progress of both developed and developing countries. Control over inflation is therefore vital to the economic and monetary order.

2. [They observe that inflation originated in external and internal disequilibria, caused by excess demand pressures generated simultaneously in many

developed countries, in which excessive international liquidity, speculative capital movements, combined with large balance of payments deficits of reserve currency countries led to a sharp rise in the prices of manufactured goods, raw materials, food-stuffs, fertilizers and finally the realignment of oil prices which had been artificially reduced in real terms in the past two decades.]

(The participating States observe that the continuation of rates of inflation far above historical experience can be attributed to a number of inter-related factors whose relative significance will vary considerably from country to country. Such factors include excess demand pressures, the creation of excess liquidity, increases in the prices of raw materials, energy, fertilizers, manufactures and periodic shortfalls in the normal world production of food-stuffs, all of which produce external and internal disequilibria.)

3. Inflation accentuates national and international problems of income and resource distribution, exchange rate instability, balance of payments disequilibria and creates uncertainty that has harmful consequences. It perpetuates recession and underemployment and thus holds back the growth of the economies of developed and more particularly developing countries, of whom many have a specially heavy burden to bear.

[Inflation, combined with recession in developed countries, leads to a sharp decline in the real export earnings of developing countries. In order to protect their domestic economies against imported inflation, developing countries have to take the available measures and/or to pursue deflationary policies in order to cope with balance of payments deficits which requires sacrificing their development objectives.]

(Inflation, combined with recession, can lead to a decline in real export earnings. This can often lead to the sacrifice of development objectives because of the adjustment required to cope with balance of payments deficits.)

4. The participating States are determined to take all necessary measures to control [their domestic] inflation. They welcome the efforts already made to reduce domestic inflation. They are determined to continue this effort and to avoid (significantly) inflationary measures. They recognize the need to pursue these efforts in order to achieve steady economic growth and to ensure that development policies can be pursued on a sound and stable basis.

5. Control of inflation is a universal concern. The participating States note that, while developing countries and more particularly developed countries should make their contribution, countries differ in the manner and degree to which their economic policies affect inflation.

[Appropriate policies undertaken by developing countries are not effective in curbing internationally transmitted inflation without concrete anti-inflationary measures by developed countries whose economic policies have worldwide repercussions. Developed countries have the major responsibility of containing world inflation through the pursuit of appropriate demand management policies.]

(Countries whose actions have worldwide repercussions have a major contribution to make towards containing world inflation. Other countries not affect-

ing international inflation to the same degree can contribute primarily through adopting such policies as are available to them to restrain domestic inflationary tendencies.)

6. The participating States, recognizing that control over inflation is an important condition for steady economic growth agree that to restore growth with stability, the following policies and measures should, inter alia, be undertaken:

— [To pursue effective demand management through fiscal, monetary and income policies by developed countries particularly and by developing countries with due consideration to the responsibilities of the latter countries for their growth and development objectives.]

(To pursue effective demand management through fiscal, monetary and, where appropriate, income and selective policies by both developed and developing countries each to the extent of their abilities and in the light of their level of development.)

It is particularly important that developed countries whose actions have a worldwide economic influence adopt such measures, since they are essential to other countries in their own efforts to pursue to the extent possible non-inflationary growth and development policies.

[— To adopt, by developed countries whose economic policies have worldwide substantial economic influence, policies which take into account the need to control inflation.

— To help in a more balanced development of the world economy by continuing to ensure in appropriate forms substantial transfer of resources from developed to developing countries.

— Developed countries to intensify fair international competition and improve market access by removing trade barriers and other restrictions on exports from developing to developed countries.

— To prevent excessive expansion of international liquidity which would result from reliance on monetary financing of long term deficits.

— To create favorable conditions with respect to price structures especially as regards the undervalued exports of raw materials and primary products of developing countries entering international trade and to provide for necessary internal adjustments in developed countries for improvement in terms of trade of developing countries.

— To protect, in the light of imported inflation, the real unit value of export earnings of developing countries through appropriate means including, inter alia, the linking of changes in the prices of goods and services exported by developing countries to the changes in prices of goods and services imported by them as well as changes in exchange rates.

This could be one of the means at the disposal of the developing countries to counteract internationally transmitted inflation and stimulate developed countries to pursue policies which would contribute to non-inflationary economic growth with stability.]

(— The adoption, by countries with worldwide economic influence, including those with the ability to influence the market price of their own exports, of policies which take account of the need to control inflation.

— To the maximum extent possible, an increase in the allocation of resources to the investment sector and the adoption of measures to improve productivity; to achieve this aim less developed countries with limited domestic resources will continue to need the support of bilateral and multi-lateral aid donors.

— The fostering of continued liberalization and expansion of the international exchange of goods, services and capital, having regard to the particular interest of the developing countries, the assurance of the benefits of fair competition and the promotion of transparency and efficiency of markets involving private and other enterprises.

7. The firm pursuit of the measures detailed above will prevent resurgence of excess demand and creation of excess liquidity such as would lead to renewed inflationary pressures and would prevent the successful return to stable economic growth.)

C — COOPERATION AMONG DEVELOPING COUNTRIES

Measures of Support by International Organizations and Developed Countries for Economic Cooperation among Developing Countries.

The developing countries are adopting an increasing number of measures at the subregional, regional and interregional levels in order to expand and intensify their mutual cooperation, as one of the means for achieving their development goals. These measures constitute an integral part of the already existing programme for economic cooperation among developing countries (1) which depends primarily on the efforts of developing countries themselves. But however much the developing countries mobilize their own resources in the pursuit of their cooperation to further their economic and social developmental objectives, it will be difficult to achieve such objectives without concomitant action on the part of the institutions in the international community and the developed countries. The proposals submitted in the following paragraphs relate both to supportive policies and actions by international and regional institutions and organizations as well as by developed countries which should support and facilitate as appropriate the implementation of decisions on cooperative efforts among developing countries. These supportive measures would affirm the principle of interdependence; the growth and development of the developing countries and the prosperity of the international community as a whole depend upon the prosperity of its constituent parts.

The participants of CIEC agree to the following :

I — INTERNATIONAL ORGANIZATIONS

1. International financial institutions, while respecting their competence to develop their own lending programmes and activities, are invited to give their support to the programme of economic cooperation among developing coun-

(1) See the relevant resolutions and programmes of the Fifth Conference of the Heads of States or Governments of the Non-Aligned Countries, the Third Ministerial Meeting of the Group of 77 and the Conference on Economic Cooperation among Developing Countries, held in Mexico City from 16 to 22 September, 1976

tries, by measures, such as :

- a) establishing units with the purpose of promoting multinational projects of developing countries;
- b) establishing pre-investment funds for the preparation and promotion of multinational projects of developing countries;
- c) providing resources for giving loans for multinational projects of developing countries;
- d) making use of their resources for the equity and/or other forms of financing of multinational projects established by developing countries;
- e) stimulating, by giving financial support, the establishment of multinational projects of developing countries for the marketing and transport of goods and commodities;
- f) providing financing for joint economic development schemes and projects of developing countries at the subregional, regional and interregional levels;
- g) establishing new and expanding the existing export credit finance and export credit insurance schemes for increasing trade among developing countries, whenever feasible;
- h) supporting the establishment and strengthening of joint banks, funds and other financial institutions and regional financial markets of developing countries.

2. International financial institutions and other international organizations are invited to take appropriate measures to implement the agreement reached at the Seventh Special Session of the United Nations General Assembly to ensure that the developing countries obtain the largest possible share in the procurement of equipment, consultants and consultancy services.

3. The organizations of the UN system should devote a larger proportion of their technical assistance resources to projects connected with economic cooperation among developing countries, particularly when such projects include least developed countries, land-locked, most seriously affected countries and island developing countries and, where appropriate, to projects promoting the transfer of technology among them.

4. The agreement reached at the 7th Special Session of the UN General Assembly to enhance the real value and volume of assistance to developing countries and the commitments in CIEC to increase substantially the regular lending of the World Bank and regional lending institutions should enable the international organizations inter alia to expand their role in supporting the efforts of the developing countries to improve and promote their mutual cooperation.

II – THE DEVELOPED COUNTRIES

For the purpose of contributing to the expansion and the intensification of cooperation among developing countries and thereby improving conditions for cooperation between developing and developed countries, the latter should :

1. Support efforts of cooperation among developing countries and abstain as appropriate from adopting any kind of measures or action which could adversely affect the decisions of developing countries in favour of the strengthening of their economic cooperation and the diversification of their production structures;
2. Support and facilitate as appropriate efforts of cooperation among developing countries with inter-alia the following measures :
 - a) give support, including financial support to programmes of economic and technical cooperation among developing countries;
 - b) contribute within their development assistance programmes for the promotion of joint enterprises of developing countries to the financing of feasibility studies, technological research and evaluation of available technology;
 - c) consider measures in furtherance of the programme of economic cooperation among developing countries to reduce further the interest cost of loans to recipient developing countries, particularly in the context of multilateral development financing;
 - d) support actions taken by international organizations with the aim of promoting economic and financial cooperation among developing countries;
 - e) facilitate the participation of developing countries on a subcontractual basis in projects undertaken by the developed countries in developing countries.

D – FINANCIAL ASSETS OF OIL EXPORTING DEVELOPING COUNTRIES

[CIEC recognizes the special effort being made by the oil exporting developing countries to satisfy the energy demand of the international community, particularly that of the developed countries. In responding to such a demand, by increasing oil production beyond national development requirements, the oil exporting developing countries have accumulated surplus financial assets which represent the depletion of a natural resource critical to their own development as well as to that of the world community.

CIEC recognizing such a special effort of the oil exporting developing countries and being convinced of the need for a special treatment for their public financial assets, recommends that actions be taken to protect such assets; in particular CIEC agrees that :

- a) In addition to intensifying their efforts to control inflation, the developed countries will provide financial instruments to protect the real value of the financial assets of oil exporting developing countries;
- b) The developed countries undertake to move with greater speed towards the establishment of a stable exchange rate system as well as to make arrangements to compensate oil exporting developing countries for losses resulting from significant fluctuations in the exchange rates of major currencies;
- c) The developed countries will give the oil exporting developing countries greater access to investment opportunities through *inter-alia* the removal of barriers, restrictions and constraints with respect to :

- i) acquisition of strong currencies,
 - ii) payment of interest on bank deposits,
 - iii) holding attractive debt instruments,
 - iv) permission and regulation of foreign bond issues,
 - v) acquisition and disposal of securities;
- d) The developed countries will give the public financial assets of oil exporting developing countries preferential treatment with regard to taxes on income and capital gains;
- e) The developed countries will safeguard the assets of oil exporting developing countries against *inter alia*:
- i) confiscation, freezing and any other coercive measures to deprive oil exporting countries of their investment and income therefrom,
 - ii) unwarranted restrictions on prompt conversion and transfer of investments and income therefrom from host countries' currencies into freely convertible currencies at agreed rates,
 - iii) any claim of a State to extend its jurisdiction to assets held with its subjects, banks, office branches and other establishments in third countries.]

(The participants in the Conference recognize that some oil exporting developing countries in order to accommodate world energy requirements and thereby contribute to world economic growth and stability have been maintaining production levels that, at current prices, yield external reserves in excess of their immediate national development requirements. Consequently, these countries have accumulated substantial stocks of publicly-owned external assets which represent the depletion of a natural resource of finite duration and which over time will become the basis for their economic development. The participants recognize that the external investment of these financial assets raises problems of particular importance for the oil exporting developing countries and for the international community.

The participants in the Conference took note that the oil exporting developing countries expressed their concerns about certain problems in managing these assets including :

- diversification of investment opportunities,
- the risk of erosion by inflation and large fluctuations in exchange rates,
- tax treatment,
- flexibility and freedom to acquire and dispose of assets and realize the income earned, and
- assurance of protection against arbitrary coercive measures by host countries.

Taking account of the need to deal with these concerns regarding external assets which are encountered in some degree by all countries and with the aim of furthering the harmony of economic interests, the participants in the Conference recommend that appropriate solutions of mutual interest should be sought. Among these, the participants suggest the following:

- a) in respect of access to financial markets and investment opportunities, which is, in most cases, already provided in large measure, industrialized

countries will endeavour to extend such access and opportunities if necessary and to the extent compatible with essential national interests; consultations could be useful to,

- improve the system of reciprocal information concerning rules applying to foreign investments,
- implement measures of industrial cooperation with a view to encouraging joint ventures for specific projects, especially those for the benefit of developing countries;

b) exploration of the possibility of extending the network of agreements on double taxation;

c) bilateral agreements on investment protection could be concluded and extended; in all cases foreign investment should be treated in accordance with the agreed elements on direct foreign investment set out in the text which appears earlier in this section of the Annex.

d) interested oil exporting developing countries could make greater use of the possibilities provided by obligations of the IBRD and regional banks in order to benefit from the guarantees offered by these investments.

Participants recognize that the fundamental requirement for alleviation of concern about the treatment of financial assets is an effective fight against inflation.)

