

Bulletin

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Supplement 5/82

Memorandum on the Community's development policy

Commission
of the European Communities

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The Community's
development policy

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Summary and conclusions

Development policy is a cornerstone of European integration, being increasingly important at every stage.

With the Community facing the challenge of a period of economic crisis and the prospect of further southward enlargement, it is time to take stock of the achievements of development policy in order to affirm and refine its objectives and geographical scope and reconsider ways and means.

While for a part of the Third World's population average per capita incomes have increased, over 2 000 million persons have experienced a stagnation or, more commonly, a decline in income over the past 10 years. At a time when the global negotiations appear to be stalled, world public opinion is becoming aware of the structural imbalances between North and South, certain developing countries' inability to repay their debts having made this evident in a new and worrying fashion at Toronto.¹

This amply justifies the concern expressed by the European Parliament and public opinion in the ten Member States for efforts to combat hunger and assist development, particularly in the light of the forthcoming negotiations for renewal of the Lomé Convention.

On the strength of these considerations, the Commission herewith presents to the Council and Parliament proposals for the principles and general guidelines which should direct the course of Community development policy for this decade. It invites both bodies to endorse its conclusions on the aims, methods, institutional framework and resources such a policy should have.

Objectives

1. The following objectives must be pursued if the developing countries, and in particular the poorest among them, are to achieve lasting, autonomous development:

- help countries to apply development policies based on self-reliance;
- help people attain food self-sufficiently by providing support for active rural development policies and for the framing of economic policies which promote food production;
- help to develop human resources and foster awareness of the cultural aspects of development;
- develop independent capacity for scientific research and technical applications and the use of the whole range of science and technology in the service of development;
- systematically exploit all natural resource potential;
- restore and preserve the ecological balances and control the growth of urbanization.

2. The Community will continue to promote international economic cooperation, bilateral and multilateral, by:

- establishing and consolidating between Europe and its partners durable contractual relations based on solidarity and mutual interest;
- introducing via the North-South Dialogue 'a new system of international economic relations based on the principles of equality and mutual benefit as also to promote the common interest of all countries';²
- contributing towards the strengthening of economic relations between developing countries ('South-South cooperation').

Methods

3. In its development activities, the Community will seek ways to take political dialogue beyond mere negotiations on projects to be financed. The Community respects the sovereign right of beneficiary countries over the use of the resources it puts at their disposal; it also considers it has a right and a duty to engage in a dialogue with the

¹ Thirty-seventh Annual Meetings of the Boards of Governors of the International Monetary Fund and of the World Bank, 6-9 September 1982.

² UN General Assembly resolution 34/138.

governments of those countries concerning the effectiveness of the policies it is supporting. Such a dialogue is being tried out for the first time with regard to food strategies. The Community also believes it should look again with the ACP States at ways to help them improve their capacity to administer aid better.

4. In support of consistent food strategies, the Community will, among other things, deploy food aid which, emergencies apart, should be integrated into its development activity instead of existing as an end in itself.

5. The Community will supplement food aid with funds allocated according to the same criteria in all cases where other types of action and the supply of agricultural inputs would be more suitable (e.g. in the form of agricultural inputs or support for structural measures).

6. As regards cooperation in fields of mutual interest (mineral resources, energy, industry, fisheries, etc.), the Community will seek ways of ensuring more consistent use of existing instruments, or of reforming them, in line with strategies worked out jointly with its partners. The Commission will in due course be presenting communications on these various questions.

7. The Community and the Member States will maintain a continuous process of coordination and harmonization to improve the coherence and efficacy of their assistance to developing countries and the consistency of their internal and external policies with their development and cooperation policy.

The institutional framework

8. The Community confirms the special importance it attaches to the cooperation links set up with the ACP countries under the Lomé Conventions and will expand the joint development work undertaken within that framework. The Community is willing to organize its relations with the ACP countries under a framework convention of unlimited duration. It will take as its basis the institutional system already established with them in order to help them reverse the trend towards ever greater dependence on food imports and ever

greater poverty and to contribute to their development.

9. Recognizing that the stability and prosperity of the Mediterranean developing countries are linked to their own political and economic interests, the Community and its Member States will contribute to their development by every means available and undertake to honour the commitments undertaken in the cooperation agreements. Further, the Community is willing to organize its relations with the southern Mediterranean countries, in the course, within the framework of a comprehensive region-to-region convention.

10. The Community is willing to improve the content of the cooperation agreements with developing countries in Asia and Latin America, in particular by making available under these agreements certain funds to help carry out specific operations of mutual interest.

11. The Community will continue its development activities outside the framework of the agreements, concentrating its efforts in places where it can help fight poverty and hunger by means of financial assistance for rural development in the poorest countries and the poorest communities within them. In order to make such aid more effective the Community will endeavour to programme operations on a multiannual basis.

12. Often, development operations cannot be fully effective unless they are undertaken over several countries concurrently, in the areas of trade relations and industrial cooperation. In its cooperation ties with the various groups of developing countries, the Community will continue to press for the necessary regional aspect of development work to be taken into account; it will adjust its cooperation instruments to give greater weight than in the past to this important factor, with the aim of building up complementarity and contributing to the economic balance of regional groupings.

13. On the multilateral front the Community and the Member States will improve the effectiveness of their work within the multilateral development financing bodies by jointly defining and implementing a European position in those institutions. In this connection the idea of financial participation in certain multilateral

institutions by the Community as such should be examined.

In the North-South context, with particular reference to the global negotiations, the Community will endeavour to promote achievement of the objectives adopted by the European Council in June 1981¹ and subsequently broadened.

Means

14. The Community will set itself a development aid target level of 1% of Community GNP and will try to achieve it by stages over the next 10 years, in order to affirm the continuity of its operations and to make them more predictable.

15. Money allocated by the Community to development aid will henceforth be brought together in a single budget framework, to reflect the uniformity and consistency and improve the flexibility of Community development policy in both its forms:

(i) contractual (Lomé Convention and Mediterranean agreements, instruments incorporated in cooperation agreements with other developing countries);

(ii) autonomous (financing operations by NGOs, aid to non-associated developing countries, emergency aid in line with the Commission's proposals, food aid and support for food strategies, support for scientific research of benefit to developing countries, operations under cooperation agreements where not financed on a contractual basis).

16. The Community will seek every possible means of increasing the flow of non-budget money to the developing countries by mobilizing money on the capital markets and encouraging private investment. It will examine the possibility of putting its own borrowing capacity directly at the service of developing countries.

In the shorter term, a more liberal interpretation of Article 18 of the EIB's Statute could enable the Bank to undertake operations in developing countries linked to the Community by cooperation agreements to finance operations of mutual interest.

17. The establishment of the European Monetary System (EMS) and the extension of its currency unit, the European currency unit (ECU), could be used as a stabilizing factor for developing countries or groups of countries willing to take it as a reference.

18. The Community's first priority in the trade field is to keep access as open and predictable as possible, especially where the arrangements are based on a contract negotiated with its partners.

19. As regards commodities, the Community will continue, as in the past, to work at the international level for the stabilization of commodity markets.

20. When the Lomé Convention comes up for renewal, the Community is willing to review with the ACP countries the Stabex and Sysmin systems and the sugar, bananas and rum protocols, in the light of experience, in order to improve their effectiveness.

¹ Bull. EC 6-1981, point 1.1.10.

Introduction

Development policy is a cornerstone of European integration.

For as long, indeed, as there has been a European Community it has made a contribution towards development and this, over the lifetime of successive conventions, has grown into a comprehensive policy of cooperation worldwide, following the course charted at the Paris Summit in 1972¹ and since amplified by Council resolution in 1974.²

The policy is an important one because of the institutional, financial, technical and trade resources it deploys; because of the number of countries it reaches; because of the novel forms of international cooperation it has pioneered. Today it is a manifestation of Europe's identity in the world at large and a major plank in the Community's external policies generally; it is an earnest of solidarity with poorer countries, of awareness that international interdependence has a political and humanitarian dimension as well as an economic one, and that industrialized and developing nations have mutual interests; it is unrivalled for continuity, consistency and responsiveness to the facts of international life. Some adjustments are needed, in recognition of the diverse circumstances in which it has been formulated and built up, and of the far-reaching changes which have taken place in the international situation; a comprehensive review of Community development policy and its achievements is necessary so that we can reaffirm its aims and geographical scope and look afresh at methods and resources.

For a variety of reasons 1982 marks a watershed in Community policy, and the time is ripe for such a review.

(i) Taking stock of the first two development decades it becomes clear that resources have either been inadequate or they have been misused. A recent World Bank report makes it clear that the impact of development aid in sub-Saharan Africa, where the Community has prided itself on being most active, has been particularly disappointing. FAO and WFC forecasts point to further problems in store.

(ii) The persistence and depth of the world recession and the high level of unemployment in Europe make it difficult for the Community or its Member States to do more, quantitatively or qualitatively, for development in the Third World; but conversely, it is becoming increasingly plain that only economic revival in the developing countries, where that same recession has halted growth, can pull Europe out of its crisis.

(iii) The prospect of a 12-member Community once Portugal and Spain have joined means that we must ask ourselves not only where the Mediterranean policy – and policy on Latin America, too – is to go from here but, more specifically, whether the Community should or can run a policy aimed at closing the gaps in standards of living between its own central and peripheral regions in tandem with a policy designed to foster the development of the Mediterranean countries.

(iv) The determined efforts and advocacy of Europe's first directly elected Parliament have enhanced knowledge and awareness of such issues. Parliament has repeatedly appealed to the Community to make more resources available, particularly to combat hunger.

(v) The problems the Community is currently experiencing in fulfilling the objectives it set itself for the North-South Dialogue³ are forcing it to contemplate the crisis in the multilateral cooperation system, which in turn means that it must give more urgent thought to the future of its own direct relations with developing countries, both individually and as groups. The breakdown in the multilateral machinery reflects – and this is a problem – substantial differences of opinion be-

¹ In the words of the final communiqué, 'The Community is well aware of the problem presented by continuing underdevelopment in the world. It affirms its determination, within the framework of a worldwide policy towards the developing countries, to increase its effort in aid and technical assistance to the least favoured people. It will take particular account of the concerns of those countries towards which, through geography, history and the commitments entered into by the Community, it has specific responsibilities'.

² Bull. EC 7/8-1974, point 1201 *et seq.*

³ First report on Community policy in the North-South Dialogue, adopted by the European Council in June 1981; second report adopted by the Council at its meeting on 7-8 December 1981 (Bull. EC 6-1981, point 1.1.10; Bull. EC 12-1981, point 2.2.17).

tween the developed countries when faced with the exigencies of dialogue with the South.

(vi) The meeting of 22 Heads of State or Government in Cancún, Mexico, in October last year raised long-deferred hopes of concrete action on the North-South Dialogue and global negotiations. One year on, we have to recognize the problems that are involved in such an undertaking by reason of its sheer scale, and make an effort to provide something of a response wherever possible, particularly since the South is worried by the ever-increasing preoccupation with East-West confrontation, and, seeing no worthwhile prospects elsewhere, may be tempted to fish in troubled waters; but it would not be the only loser.

(vii) Negotiations between the Community and the ACP States 'to examine what provisions shall ... govern relations' between them once Lomé II expires are due to start on 1 September 1983. Before putting proposals for a negotiating mandate to the Council in the first half of next year, the Commission would like to involve Parliament, the Council and the Economic and Social Committee in a debate to work out in broad terms the kind of development policy the Community wants to pursue. This should give our partners a clear picture of our basic objectives, the framework we envisage and the resources we are prepared to commit before they actually face us across a negotiating table.

By clarifying and amplifying its policy in this way, the Community would be responding to the demands of a changed international situation, the needs of the countries which are its partners, and the voice of its own public opinion. It would also be creating the conditions of the new departure which is needed if current world tensions are not to be exacerbated, economically and politically, to a point where no really acceptable way out remains.

1 – 20 years of development aid: the verdict

After two decades of development efforts, the verdict must be that while continued faith is justified, there is no room for complacency.

Development in the Third World

Faith in the development process receives a boost from the virtual doubling in 20 years of real average per capita incomes in a number of developing countries, which between them have populations totalling 1 000 million. More significantly, life expectancy at birth in those same countries has markedly improved, rising from 53 years in 1960 to 61 years in 1979. Adult literacy has also made remarkable strides.

But a yawning gap has opened up between these middle-income countries and the poorest nations, where incomes have barely stayed ahead of population growth. The real per capita incomes of another 2 000 million people (including India and China) increased by no more than USD 70 in those same 20 years, while incomes in the industrialized countries went up on average by USD 5 080! In the past 10 years per capita incomes in the poorest African countries have actually fallen by 0.4% a year.

In 1980 750 million people, a third of the Third World's population (not counting China), were living, or rather existing, in absolute poverty; millions of people are starving, and millions of children are suffering from malnutrition which can handicap them permanently.

Overall, food production in the developing countries has kept pace with population growth, but the numbers suffering from malnutrition in southern Asia, Central America and sub-Saharan Africa have increased, with the trend becoming more marked in Africa in the latter half of the 1970s. At the same time the natural environment in the Third World has been steadily deteriorating, helping to plunge people still deeper into poverty.

This is neither a cyclical nor a strictly localized phenomenon, and it is a problem for the Community in particular because over half of the world's poorest people are linked to it in a special relationship. Whether we like it or not, we have a responsibility.

However, the developing countries' overall dependence on food imports is increasing, because of increased demand in the middle-income countries, the rapid pace of urbanization in all developing countries, and the deterioration of the environment. Grain imports had risen from 25 million tonnes gross at the beginning of the 1960s to 80 million tonnes by 1978-79 and look set to

top 200 million tonnes by the year 2000. Many countries are going to have to choose between food and oil imports – not an easy choice.

Though eloquent, these few statistics cannot give a detailed picture of what is happening worldwide. But broadly speaking the international situation has deteriorated even if there has been a certain amount of scope for a fortunate few countries to exploit the potential of the system.

- The liberal trading system, which has by and large been kept going despite growing protectionist pressure, enabled fast-rising NICs to quadruple their exports of manufactures between 1970 and 1980 despite flagging world demand.

- Oil-exporting countries, having tipped the terms of trade in their favour, managed to increase the purchasing power of their exports by a factor of 3.8 between 1970 and 1980. There are no grounds for thinking that today's unsteady market, the discovery of new oilfields, or OPEC members' indebtedness, herald any substantial reversal of that trend. Countries with oil reserves will probably still be in a strong position. The same cannot be said of countries with other types of mineral resource; weak commodity prices are causing virtually insoluble problems for their economic equilibrium and vital investment programmes, and their indebtedness is reaching intolerable levels.

- The surprising flexibility displayed by the international banking system enabled oil-importing countries with a certain borrowing capacity to weather the first oil shock without any serious slowdown in growth, but at the cost of devoting a much larger proportion of their earnings from goods and services exports to debt servicing. In the 1970s the developing countries' external indebtedness increased sixfold, and debt servicing costs tenfold!¹

Broadly speaking, however, it is the poorest countries which have been hardest hit by the deteriorating international climate; from 1970 to 1980 their terms of trade with the industrialized countries declined by 16%, substantially reducing their purchasing power on the world market. The crisis has therefore accentuated the differences between developing countries, the poor countries which missed out on the growth of the 1960s now being threatened with regression.

Official development assistance (ODA) is of crucial importance to those countries; as the main

source of finance for their external deficits, it effectively regulates the size of those deficits. The flow of aid has increased, but not sufficiently to absorb the impact on poor countries of the world recession; over the 20 years, the increase in ODA (2.7% a year in real terms) has just barely stayed ahead of population growth rates. And aid does not go to those who need it most; in 1979 middle-income countries were receiving bilateral aid to the tune of USD 12 per head of the population, against USD 5 a head for the poorest countries!

One might be forgiven for thinking that the point of aid is not to put an end to intolerable hardships, but to fund the safest, most profitable investment. To some extent, this paradoxical state of affairs is actually a result of the very underdevelopment, in poorer countries, which aid is meant to alleviate. Development aid has traditionally been used to finance capital projects and is thus more easily absorbed by countries which already have a sound economic and administrative infrastructure, and domestic policies conducive to the development of indigenous productive capacity. Nevertheless, there is no escaping the fact that aid donors have not always been able – or willing – to adopt an approach that would help the governments of poor countries to set up workable institutions, or encourage methods of administration and development policies capable of making the most of local resources.

This merits reflection. If it turns out that sustained assistance and an original type of relationship cannot rescue certain countries from their state of predevelopment; if, as a result, those countries are acquiring neither the most basic infrastructure, nor the most vital training nor any capacity for independent administration, one would be forced to the conclusion that aid was serving merely to keep them in wretchedness. Below a certain threshold of effectiveness and relevance, aid becomes an evil, for it nourishes illusions and encourages passivity. There are countries that are

¹ Since 1973, the developing countries' external debt has increased practically fivefold and now amounts to nearly USD 500 000 million. Nor does this figure include very short-term debt: it should be noted in this connection that many countries, especially since 1980-81, have borrowed massively on a very short-term basis. The bulk of the developing countries' external debt is concentrated in the relatively richer developing countries. The 10 most heavily indebted countries – comprising five net oil exporters and five newly industrialized countries – account for 60% of the total debt.

being driven outside the community of nations in this way, with no real hope of ever joining in, yet no doubt they too have potential which, if rightly exploited, could transform their prospects.

Another thing which holds poor countries back, or drags them down, is political, social or military destabilization. Conflicts of one sort or another have further impoverished many parts of the world and created refugee populations, and it is not always clear whether the instability is a cause or a consequence of poverty. Both, no doubt.

Most of the international crises which have flared up in the Third World over the past 20 years, always excepting the conflict in the Middle East, have been in areas where there is abject poverty.

But to take this analysis, with its well-established arguments, a stage further, does this mean we have to question the very purpose and machinery of development aid? There has been a failure to appreciate just how frail and vulnerable the developing countries are, particularly the very poor, and initially all efforts should be geared to helping them to survive at all. Development is not a question of providing the tools, however superior their quality, but of getting a country, a region, a town, to feel the need for those tools and hence the desire to shape them and the ability to master them.

Development aid along these lines may generate fewer big contracts for the donor countries' firms in the short term, but by spending on people just a fraction of what is invested in bricks and mortar, we will have a better chance of equating a structure with its actual function.

International economic cooperation

Development aid does not operate in a vacuum, and the international order of which it forms a part can amplify or stifle its effect.

A particular disappointment in these two development decades, then, has been the failure of the North-South Dialogue: the non-event at Cancún, the stalled global negotiations and the IDA¹ crisis are symptomatic of this.

From Unctad I in 1964 via the CIEC² to the 1981 Cancún Summit, there has been an endless stream of conferences, charters and resolutions, but rather less in the way of tangible progress. The variety of institutional frameworks adopted –

open conferences on specific topics, select conferences, summits and so on – has simply made the thing look like a technical exercise divorced from any political goal.

Progress has of course been achieved in certain specific areas – the International Monetary Fund (IMF), with such instruments as its compensatory financing and extended facilities, has become more responsive to the needs of the developing countries, the World Bank's resources have been increased, a system of generalized preferences is operating, certain debts have been written off. But most agreements which have been reached are merely symbolic or exhortatory, as with the Common Fund or the development strategies.

Responsibility for this state of affairs is shared. The developing countries themselves, with a natural desire to play up their political solidarity, have tabled one demand after another in the quest for a 'new international economic order', which has generally borne a closer resemblance to a millenary vision than to a coherent strategy. By politicizing the debate – an inevitable development, admittedly – they have triggered off political reactions and rhetorical debates and risked seeing the really urgent issues ignored.

The East European countries have consistently remained aloof from the North-South debate, preferring to ascribe the Third World's problems to the legacy of colonialism and bringing their military and ideological weight to bear in bilateral dealings rather than being prepared to shoulder the responsibility of participation in the establishment of a system of multilateral cooperation which would glaringly show up their shortcomings in the trade and aid stakes. This quite unjustifiable attitude places a severe strain on the whole North-South Dialogue issue, transforming it into a West-South Dialogue and all too often producing hateful situations where development aid (West-South) comes into conflict with ideological and strategic support (East-South), thus replacing the North-South Dialogue by an East-West confrontation wholly alien to the ends of development assistance.

¹ The International Development Association, an affiliate of the World Bank.

² Conference on International Economic Cooperation (Paris, 1975-77).

The United States, which, unlike the Soviet Union, has always been a prime mover of the multilateral cooperation system, is now concentrating on the East-West dimension of international issues to the extent that it regards the Third World merely as an area of masked superpower confrontation and prefers to conduct its relations with those countries in terms of bilateral influence, apparently ignoring the major contribution its wealth and economic dynamism could make to the North-South Dialogue.

The Community has a fundamental interest in the existence of a stable, well-regulated and predictable system of international relations. As a political and mercantile power, it is naturally concerned to promote a system which speaks the language of interdependence rather than conflict, and in that sense its interests are the same as those of the developing countries. The Community and the developing countries can play significant roles only in a world at peace. In the event of war, they would in all probability be cast as victims or provide the battlefields. The Community therefore cannot acquiesce in postponement of the North-South Dialogue *sine die*. It cannot afford to let East-West confrontation, which is a matter of power, take precedence over that dialogue, which is a question of development.

In establishing its network of contractual relations with some groups of developing countries, the Community has been acting in a similar spirit, working towards a more harmonious and secure system of international relations which is more consistent with the interests of all concerned. Between its Lomé policy on the one hand, dealing with a specific group of developing countries, and its North-South policy, addressed to all of them, on the other, the Community should find a place for a wider application of the North-South doctrine which it has formulated.

In the course of two development decades which have seen remarkable economic and technological advances, in which millions of people have attained higher living standards than ever before, in which world peace has been preserved despite the outbreak of local conflicts and astronomical arms spending, incomes in the poorest countries have obstinately refused to rise, the number of those living in absolute poverty and suffering from hunger has increased, and the international community has failed to give the developing countries full member status – with all the rights and obligations that entails – in an effective

system of multilateral cooperation. An awareness of these failures shapes the Commission's proposals for the future of Community development policy, and imposes on the Community, even in the toils of recession, a duty to do what it can to boost the effectiveness of action it has already taken and demonstrate that North and South can work together for development that is interdependent, unequal but in the interests of both.

II – The Community's development policy to date – an assessment

In 1971 the Commission sent to the Council a memorandum the title of which – 'Pour une politique communautaire de développement' (Memorandum on a Community policy for development cooperation)¹ – was chosen deliberately in response to a perceived need. Up to then, the Community had merely acquired the instruments of development policy without having defined a policy as such. As a result of the impetus given by the 1972 Paris Summit, the range of Community instruments has been increased considerably, but it is still open to question today whether Community activity in the development field has really acquired the coherence and consistency of a policy.

Within Community development policy, it is possible to distinguish four major areas, each with its own specific historical background.

1. The Lomé policy, the oldest and most fully developed area, has its origin in the desire manifested in 1963 by 18 newly independent African countries to replace the colonial links binding them to various Member States by an agreement negotiated with the Community.

The articles of the Treaty of Rome put the Community on the road towards an entirely new system of international relations. Surely no one could have foreseen at the outset the strength that would be acquired with the passage of time and experience by an agreement that signified the end of an era, an agreement that was to become with Yaoundé and Lomé a unique political, economic and institutional edifice.

¹ Supplement 5/71 – Bull. EC.

The Lomé system is and remains an original system in that it establishes a special relationship between a group of industrialized countries and a group of developing countries on the basis of a collective contract negotiated on an equal footing, administered jointly, and covering the economic, financial and trade facets of that relationship. It is original in that once the pact has been concluded the relationship is sustained by an entire institutional system involving not only the executives but also the parliaments. The ACP-EEC Council of Ministers and Consultative Assembly are forums where two groups of countries together seek to ensure optimum implementation of a policy jointly defined for five years, though it is in fact renewable.

2. In the implementation of its Mediterranean policy, the Community took the Lomé model as its basis. It in fact went beyond that model in certain respects, since, with the exception of the financial protocols, the agreements with the Mediterranean countries are of indefinite duration, but it was not able to give them the solidity and political value of a collective contract; the Mediterranean agreements are merely a series of bilateral agreements. What is more, a double question mark now hangs over these agreements: firstly, the conditions under which these agreements have been applied have already revealed that their technical and financial clauses are of little value if their commercial clauses are not rigorously observed; secondly, enlargement to include Spain and Portugal could further exacerbate the difficulties that have led to the present situation. Conceived of as instruments of international relations, the Mediterranean agreements will retain their rightful place and significance in an enlarged Community only if Europe has the capacity and will to draw up and implement an overall Mediterranean policy making this area one of the main stages on which its destiny will be acted out.

3. The cooperation instruments linked to the common policies (generalized preferences, participation in commodity agreements, food aid) have become part of the arsenal of means of action available to the Community as a result of the international extensions of the common commercial and common agricultural policies.

4. The aid system set up by the Community on a unilateral basis; this comprises emergency aid

reflecting the moral obligation to express solidarity with the victims of disasters, participation in the financing of projects promoted by non-governmental organizations, whose activities show that development cooperation is not solely a matter for governments, and lastly and most importantly 'financial and technical aid to non-associated developing countries' – an expression which is a poor translation of its purpose given that the aid in question is geared to the poorest countries of Latin America and Asia and has as its main objective – besides the promotion of regional cooperation – assistance to boost agricultural and food production.

The whole structure is impressive:

In trade terms: The Community is the developing countries' main trading partner.¹ Its customs tariff is, on average, one of the lowest in the world, and the customs duties on products of particular interest to the developing countries have over the past 20 years recorded a much more pronounced downward trend than the duties on other products.

In addition, the Community is the world leader in the provision of trade preferences for the developing countries. The most comprehensive systems (Lomé, Mediterranean) enable the countries in question to compensate in part for their low level of international competitiveness, while the generalized preferences system, which permits almost the same volume of preferential imports from over 100 countries, but principally from seven of that number, was a major and imaginative innovation. Although it has had undoubted political impact, its effectiveness remains limited by the uneven use the beneficiaries make of it.

In financial terms: The Community's development policy mobilizes financial resources which amounted in 1980, counting only official development assistance, to 10% of the total disbursed by the Member States (which total itself represented 50% of total aid disbursed by the OECD countries in 1980).

¹ Imports of manufactured products from the developing countries accounted for 1.35% of Community GNP in 1980 compared with 1.13% for the United States and 0.58% for Japan (even in the case of textiles, the Community market is twice as open to imports as that of the United States or Japan); for agricultural and food products, the corresponding figures are 0.90%, 0.45% and 0.47% respectively.

The expansion of Community aid proper has been remarkable in several respects: in volume terms, aid increased by a real 7% per year during the 1970s; accordingly, it should reach an annual commitment rate of over 1 500 million ECU in 1981. From the viewpoint of the instruments used, diversification has been rapid: on top of the Yaoundé and Lomé Conventions have come food aid (30% of total disbursements), financial and technical aid (Article 930 of the budget), the aid provided via non-governmental organizations, emergency aid, aid for trade promotion and regional cooperation, etc. The result has been to make the geographical spread very much wider: after concentrating almost exclusively on Africa in the early 1960s, 65% (average for 1972-79) of Community financial aid now goes to Africa compared with 35% to the rest of the world.¹ Generally speaking, the proportion of Community aid earmarked for the least developed countries is greater than the average proportion of the Member States' bilateral aid going to those countries.

However, before proposing a blueprint for the development of the system of relations between the Community and the developing countries, it is worth comparing the characteristics peculiar to that system with the bilateral systems implemented by the Member States and also with the multilateral institutions of which the Member States are members and which they help to finance.

The Community is not a multilateral development institution: being the expression of a European identity, the Community development policy embodies geographical preferences; although it is a manifestation of solidarity with certain developing countries, it also reflects the Community's economic interests in the organization of its relations with countries on which it depends for the security of its supplies and its markets. This sets it apart from the global or multilateral institutions.

At the same time, the Community development policy is distinct from the Member States' bilateral policies, and is seen as a separate entity by the countries benefiting. It is not an 11th policy superimposed on the 10 others. It is the expression, not multilateral but collective, of a Community which has neither the attributes nor the ambitions of a State but which nevertheless has great capabilities. The Community conducts policies which affect the Third World to a greater

extent than could surely be achieved by its development policy alone. The Community is seen as a responsible actor on the international stage and as a natural forum for concerting and coordinating the Member States' national policies and positions.

This development policy is increasingly becoming the expression of the fundamental objectives assigned to it by European public opinion. For Europe to be able to recognize itself in its collective action to promote development and find an identity through that action, it is therefore necessary that the Community development policy should clearly reflect the priorities which the European Parliament has forcefully voiced on a number of occasions, notably in the resolutions concluding its debates on development and hunger in the world.

It is on these specific features of the Community development policy that the Commission intends to base its proposals to the Council for a redefinition of the policy's objectives and a review of its methods and instruments.

III – Objectives for the 1980s

An investigation of the specific features of the Community system as it has been built up over the years suggests two approaches for Community policy towards the developing countries:

- (i) action to promote the self-reliant and sustainable development of those countries, and in particular of the poorest, which have been left behind during two development decades;
- (ii) action to promote original forms of international economic cooperation, both at the level of direct relations between Europe and developing countries or groups of developing countries and also the North-South level.

These approaches are by no means mutually exclusive, but they do make it possible to demarcate areas of action which, albeit consistent with one another, are none the less very different.

¹ By comparison, Africa accounts for around 45% of the Member States' bilateral aid.

From the results of two development decades and the experience acquired by the Community, the Commission draws the conviction that it is in these two areas that it is necessary to strengthen the specificity of Community action, define its priority objectives and regiment its resources.

In the light of the foregoing, the Commission proposes adopting the following main objectives:

(a) *on action for development*

- the development of societies capable of defining and implementing development models based on self-reliance and of participating actively in the international economy;
- food security, involving support for the definition and implementation of economic policies which promote food production and for the application of an active rural development policy;
- the development of human resources;
- the development of independent capacities for scientific research and technical applications and the use of the whole range of science and technology in the service of development;
- the systematic exploitation of all natural resource potential;
- the restoration and preservation of the ecological balances and control of the growth of urbanization.

(b) *on international economic cooperation*

- the establishment and consolidation between Europe and its partners of durable contractual relations based on solidarity and mutual interest, in particular in the industrial, energy and mining fields;
- the introduction via the North-South Dialogue of a 'new system of international economic relations based on the principles of equality and mutual benefit as also to promote the common interest of all countries';¹
- contribution towards the strengthening of economic relations between developing countries ('South-South cooperation').

It is the role of the Community, as stated in the preamble to the Treaty of Rome, to follow these two complementary paths in order to 'preserve and strengthen peace and liberty'. It will employ all the instruments created for the attainment of this twofold objective, development aid and

economic cooperation being able to assist one another in many cases.

IV – Action for development: methods and areas of application

The assessment that has been made of two decades of development and of Community action clearly shows that the pursuit of the objectives which the Community sets itself requires, over and above the quantitative aspects – which must not be neglected – a qualitative improvement in the means deployed in the various areas of action.

Methods of development action

To step up development action requires more than a mere increase in aid resources.

Even so, an increase is very necessary. In the case of sub-Saharan Africa, for example, a recent World Bank report concluded that aid must be doubled in real terms during the 1980s simply to avoid a zero or negative overall per capita growth rate.

However, to double the amount of aid without making any policy changes would be no guarantee of success. In the light of experience and changes that have occurred in the world and the developing countries themselves, the time has come to stop and think again.

The transfers made have not only been inadequate in terms of volume, but have too often been unsuitable or even in some cases positively dangerous. Food aid, necessary though it is, sometimes discourages local production and alters consumption habits, particularly since it tends to become merely a kind of regular assistance to the balance of payments; in the administration of their financial aid, donors incline towards financing projects that are clearly identifiable though not necessarily adapted to the needs or integrated into the economic and social fabric of the recipient country. Aid in this case does more to benefit undertakings in industrialized countries

¹ UN General Assembly resolution 34/138.

than to help to create local networks of small and medium-sized enterprises. The transfers of technology which it sets in train cause more trauma than real progress.

That is why, all in all, and through lack of an examination of the situation in sufficient depth, external aid has not achieved the full effect sought by donors or recipient countries; while aid needs to be increased, it must also be adapted to local requirements.

The countries of the Third World are also partly responsible for the disappointing results; the reasons include administrative difficulties and the priority given to the machinery of State, to the towns, to large-scale projects and to the élites trained in the North. Prisoners of the short term, rare are the governments which have succeeded in defining a policy and sticking to it. With little inclination to enter into regional cooperation and slow to see the need for trade to promote complementarity between neighbouring countries, they have frequently sought special relationships with powerful partners and tried to model themselves on those partners rather than looking to themselves, their land, culture, neighbours and human resources for the means to fashion their future.

The solution is not for donors to impose stricter conditionality on external aid. Nor is it an answer to transfer to the governments of the recipient countries sole responsibility for implementing and administering the aid they receive.

It is absolutely essential that, between rigid conditionality imposed by financing bodies and the irresponsibility of non-conditionality, ways be found of achieving a political dialogue between external providers of funds and local decision-makers and that such a dialogue should go beyond the process of mere haggling or simply discussing the technicalities of schemes requiring financing.

Ultimately, governments of countries receiving Community aid have the sovereign right to determine their priorities; they decide on how to use their own resources and those which the Community places contractually at their disposal. However, the Community participates with the governments in a dialogue concerning the effectiveness of the policies which they ask the Community to support and the relevance of such policies in terms of the general objectives of the Community's development policy.

Except in cases where human survival is in question, in which case aid is provided immediately, Community assistance should aim to reinforce policies freely chosen by governments, policies designed to improve the standard of living of the local population, ensure autonomous and sustained economic development and lead to flourishing societies. This is inverted conditionality since the condition upon which continued support is predicated is that the government concerned should continue in the direction which it has itself decided to follow.

In this approach, which aims to give greater coherence to external flows and internal policies, the government has sole responsibility for determining the policy which it intends to pursue. In agreement with the Community and on the basis of a probable scenario, it identifies the problems which may be encountered during the implementation of that policy. The Community undertakes to lend assistance to resolve such problems so that the policy defined may be pursued; it also undertakes to ensure that its instruments have the necessary flexibility and can react with the necessary speed to cope with the reality of a policy in the making.

The conceptual and organizational work required of both parties is considerable. In this context, the Community will have to re-examine with the countries which receive its aid the ways of helping them to strengthen their administrative capacity for managing that aid, as well as the ways of enabling the Community aid to be programmed predominantly on the basis of each country's basic national development priorities and the priorities common to regional units.

The Community embarked on this path when, in conjunction with a number of African countries, it initiated on a trial basis an exercise to bolster their food strategies.

The difficulty of this approach militates in favour of carrying out a limited number of experiments. These should be carefully monitored by the Commission and the Member States jointly responsible; but this work of definition, now being carried out in relation to the food sector, should apply equally in other contexts, notably the energy sector. The developing countries' oil bill has direct and indirect consequences that are too great for energy self-sufficiency not to be given any less prominence than food self-sufficiency. Likewise in the industrial sector,

where, before aiming to become major exporters, local undertakings should first ensure that they can satisfy the basic domestic needs which at present are not being met.

According to these principles, aid would not be superimposed on an alien reality, but would tend to become an integral part of a policy which, as a result, would be more likely to succeed.

Development and cooperation

Besides those areas where external aid is intended to enable fragile or weak economies to develop, there are also areas in which development action can more clearly take the form of an exchange of advantages.

Four examples may be cited; in time there may well be others, but they will be based on the same principles.

The first example concerns fisheries, an area in which the Community has insufficient fishery products for its own consumption while at the same time having excess production capacity in terms of fishery vessels. Many of our developing partners have the same food deficit, but others have considerable resources in their waters which they are unable to exploit rationally themselves.

Moreover, the activities of ships under foreign flags are often carried out without any effective control, without sufficient attention being paid to the reconstitution of stocks and without adequate benefit being derived by the coastal States either for their economy as a whole or to improve their food balance.

The fisheries agreements concluded between the Community and a number of ACP countries in recent years already aim to raise the formal level of the relations between the coastal countries and foreign flag operators and to ensure that both sides' interests are respected. However, it has to be said that because of the limited scope of those agreements (reflecting the low level of Community fishing activities in the ACP zones) and the small number of projects financed by the EDF or via other Community instruments a start has yet to be made on the problem of a prudently self-centred development of the fishery resources of the Third World coastal States.

A new policy based on mutual interest remains to be defined in which Europe's technical and

productive capacities would be involved in the development of local fisheries and appropriate distribution networks, the fishery products being intended for the local market, for the processing industries or for large-scale export in order to ensure the maximum overall economic benefit.

However, there is another area of much greater importance, namely development of the mineral resources of the developing countries to which Europe is bound by special links. Provisions do already exist, as in the case of Sysmin and the possibility of EIB operations. Nevertheless, a real policy still has to be worked out. The problem must be put in simple terms: of all the world's major industrial powers, Europe is one of the poorest in terms of mineral resources; of all the vast mineral reserves in the world Africa's have been the least explored and worst exploited. Action based on this dovetailing of needs would not preclude similar operations with the countries of Latin America and Asia whenever this reflected the two sides' mutual interest.

Mutual interest in the increased exploitation of resources under improved conditions of security and concertation cannot hide the fact, however, that an initial analysis is not encouraging, showing that the countries with mineral wealth have not always been able to use their resources to advantage to promote their own development. The exploitation of mineral and oil resources has had adverse political, social and economic effects, run counter to national development and led to agricultural decline. Volatile world prices are not the only factor responsible. The wealth provided by the subsoil is nothing more than opportunities which must be exploited to produce growth.

Moreover, in the countries to which the Community and its Member States make financial contributions, the rational exploitation of subsoil resources and external aid could work together to the mutual advantage and to produce a greater impact.

We must imagine between a country possessing mineral resources and the Community the coordinated use of Community instruments whereby mineral exploitation, land-use planning and development will be covered by a consistent approach which also guarantees the flow of supplies to the Community and its Member States.

No less important is the energy field. The Commission feels that the energy problems of the industrialized world and the developing countries

are interdependent in nature, and indeed are often similar and complementary. For the Third World, which has two thirds of the world population but accounts for less than 20% of total world energy consumption, the solutions to the energy problems are crucial not only for economic growth and improvements in the standard of living, but also for the survival of a sizeable proportion of the population.

Moreover, certain of those countries possess energy resources which are often insufficiently developed and could contribute towards covering a proportion of their demand and even supplying new resources to the industrialized world.

Because of its special relations with a large number of developing countries, and the special responsibilities that flow therefrom, the Community is already applying itself to the establishment of cooperation with certain developing countries in the energy field. It intends to develop that cooperation in the future.

The fourth example concerns industrialization. This has been a myth in the eyes of newly independent countries and has proved successful only in a few cases. And yet it has been accorded priority, against the evidence of the past. In the West, agricultural development provided the basis for industrial development; however, in some developing countries it was thought that a scenario omitting agriculture was possible. The disappointments have been cruel. As for the Community, it has offered to open its frontiers to the industrial products of certain developing countries, but where, with Community assistance, a country has started exporting, limits have been placed on its market access. This kind of conduct cannot be repeated without risk. What Europe needs is an industrial development policy which takes account of the progress in the Third World. It is entitled to say no to unrestricted or unconditional access, but must endeavour to organize its own restructuring at a predictable tempo.

Here a pause for reflection is called for. Industrialization of the Third World may serve three purposes: to meet domestic and regional needs, to process local raw materials and to exploit cheap labour markets. So far, the emphasis has been on the third aspect. The first two are more promising.

Hence, development and cooperation link up and are complementary even if they require differen-

tiation for the convenience of analysis. Blurring the distinction makes the political approach unintelligible, but emphasizing it makes the effort ineffectual.

Areas of application

The pursuit of the basic objectives proposed by the Commission runs up against geographical constraints, as the Community cannot claim to cover every corner of the globe where development action is desirable. The fact that funds (even if they are increased) are limited dictates that Community action be concentrated where its effectiveness is most assured, i.e. in areas where the strength of the European presence, the experience acquired and the responsibilities assumed in the past have given rise to a special obligation.

Africa is the first area for Community development action, particularly the poorest African countries, whose economic record and growth prospects stand in stark contrast with results achieved elsewhere in Africa and the Third World.

These poor countries account for 54% of the population of sub-Saharan Africa. Their total population will rise from 190 million in 1980 to over 330 million by the end of the century. Just in the past 10 years, their food production per head of population has fallen by around 10%.

Imports of cereals have increased accordingly, and over 20% of those imports are now financed by food aid. These keep the towns – whose population is doubling every 10 to 12 years (and already accounts for 20% of the total population) – supplied with food which the rural sector is no longer able to provide. Such imports are responsible for introducing largely artificial patterns of consumption and economic practices into a process of urbanization which is becoming potentially explosive and uncontrollable.

The Caribbean and Pacific countries, though characterized by less acute poverty and a generally more favourable development of their economies, are none the less experiencing the same deterioration in their food balances. In addition, their whole development effort is conditioned by their insularity and, for many of them, by the small area of their territory – in some cases spread over extensive archipelagos.

Faced with these problems, the Community, which has forged with the African, Caribbean and Pacific States a unique model of cooperation, must assume the responsibilities that flow therefrom. With the ACP countries it must use the institutional system of Lomé in order to reverse the trend towards greater food dependence and impoverishment. It is necessary to create the conditions for lasting development taking account of the interdependence between development, the environment, population and resources. The same effort must be made to exploit the ACP States' mineral and energy resources in the service of their development and to encourage on a regional basis forms of industrialization which are both internationally competitive and geared to meeting domestic requirements.

Without in any way usurping the decision-making powers of individual States, the Community must, through its analyses of the situation and the resources it intends to deploy, convince Africa that its future depends primarily on the mobilization and nurturing of peasant labour, development of the huge land resources available and protection of the currently endangered vegetation. It is not sufficient for Europe merely to spend money on Africa; it must ensure that the policies applied enable a possible future to take shape.

Another important area for development action is the Mediterranean, which is linked to the Community by the cooperation or association agreements but first and foremost by virtue of geography and historical ties. The Community, in the implementation of the overall approach established in 1972, and in the application of the association agreements, has demonstrated its willingness to participate in the development of its Mediterranean partners, while respecting their individual political philosophies.

The sociological, ecological and economic context is not the same as in the case of Black Africa, but the development problems, particularly in respect of agriculture, are considerable and are increasing as the population expands. If those problems are to be solved a new impetus must be given to financial cooperation which, while under no circumstances being able to replace the trade commitments entered into by the Community in the context of the agreements, remains a basic pillar of the Community's role in the Mediterranean.

In the case of other developing countries of Asia and Latin America, the very scale of their financing requirements means that the Community must concentrate on those countries and sectors to which a constant flow of official development assistance remains essential; a Community presence is imperative in those countries where its aid, along with that of other donors, can help to combat poverty and hunger. The Commission therefore recommends that the Community extend its aid programmes directed towards the poorest countries of Asia and Latin America, programmes mainly designed to promote rural development, to help the neediest sections of the population. To make this type of action more effective, the Commission considers it would be desirable to embark upon multiannual programming of the aid provided, independently of the funds intended to help implement the cooperation agreements, which are the expression of the traditional links which the Community maintains with the countries of Latin America and Asia (see p. 22 and 23).

In addition to these direct contributions there are those which the Community and the Member States make to multilateral development financing institutions (World Bank, IDA, regional banks) which devote a substantial share of their resources to development in Asian and Latin American countries. In view of the danger of curtailment of the scope of these institutions' activities, the Community and the Member States should act jointly to increase their resources and influence their methods of action.

V – The system of cooperation

Although world interdependence has grown steadily over the past 20 years, collective capacity to overcome insecurity – which should go hand in hand with such interdependence – has instead become weaker.

As the most deeply involved of all the major industrial powers in the workings of world economic interdependence, the Community shares with the developing countries a fundamental interest in the construction of a system of international economic cooperation that offers the participating countries a minimum standard of security and predictability. The policies pursued

to that end, on a basis of mutual interest, are complementary to action for development, the results of which are constantly in danger of being undermined by world economic instability.

Despite its unfinished state, the Community constitutes by its very existence a call for the reorganization of internal economic relations and a challenge to move away from the traditional framework of relations between nation States and gradually replace it with a system of relations between regional groups or major continental units basing their relations on the predictability and security of a contract negotiated between equals and administered jointly in their mutual interest.

The Community is neither a nation nor a State, but it is an actor on the world stage and cannot remain passive before the current trend of international relations. It supports the development of the North-South Dialogue as a means of achieving greater justice and regrets the resurgence of East-West confrontation as the sole mode of classifying and organizing the powers. Though a fully committed member of the West, whose values it shaped and defends, the Community cannot bring itself to look on the world in black-and-white terms. In defending the values of liberty and in following its natural inclination towards the workings of the market and enterprise, it also intends to preserve its own vision of the world.

Such is its constant endeavour.

Internally, this is the very essence of the Community, founded upon the Treaties. That is the thrust of the plan to make the EMS a factor for stability in the international monetary system. It is also the principle underlying the Community system of cooperation, most fully articulated to date in the Lomé Convention.

The Lomé policy

At the appropriate time the Commission will present proposals to the Council with a view to the adoption of directives for the negotiations due to open on 1 September 1983 between the Community and the ACP countries. The proposals will fall within the framework of the guidelines laid down in this memorandum.

But even at the stage the Commission proposes that the Council confirm the importance it

attaches to the cooperation links forged with the ACP countries, and also its readiness to continue and expand the joint action for development begun in this framework.

The Lomé cooperation framework serves the interests of the ACP countries: they demonstrated this by deciding, in the light of experience of the first Convention, to renew the contract while making a number of improvements. In an uncertain world, the security of access to the Community market and the predictability of financial assistance under the Lomé Convention help them to plan ahead. The Convention can and must be improved not only as a factor making for security but also as an instrument of development.

It is a framework that can also serve the basic interests of the Community inasmuch as the Community's own economic aims can be dovetailed with its partners' development objectives, particularly in the industrial, energy and mining fields.

But the action provided for in the Convention can only be developed over time. The Commission has therefore been looking at ways of bestowing greater continuity on a cooperation system which has the manifest support of the Community and the ACP but is thrown into the melting pot at each renegotiation.

The implementing arrangements and the financial provisions of the Convention will have to continue to be reviewed at intervals. But to call the whole system into question every five years¹ is to inject uncertainty into the objectives, the permanence of the guarantee machinery² and the security of conditions of access to the Community market, all to no purpose. Unnecessary confrontations are caused, when everyone knows from the outset that the Convention will be renewed in one form or another.

The Commission therefore proposes that the Community declare its readiness – if the ACP countries so wish – to negotiate with the ACP countries a framework convention for an unlimited period establishing the principles, objectives, key features and institutional machinery of their

¹ Every three years, in fact, given the length of the negotiations.

² For example, Stabex, Sysmin and emergency aid.

cooperation: this would not preclude protocols on sectoral or regional implementation, the duration of which would have to be tailored to their specific object. This would ensure a proper balance between continuity of a convention which remains a fundamental political instrument and the adaptability of its machinery in line with circumstances and differences in the situation of the ACP countries or in the way in which they evolve.

Such continuity would make it possible to undertake certain activities which are indispensable for development but for which lead times are long; the fight against desertification, the preservation of tropical forests, soil management and the management of natural and energy resources, the development of indigenous scientific and technical research capacity, the fight against the major endemic diseases – these are not tasks on which the Community and the ACP countries can embark without allowing themselves a more ample time scale than that of the five-year conventions and without giving themselves scope for action beyond the limits of national frontiers or even regional boundaries.

Are these long-term operations not precisely those that governments, at grips with immediate needs, sometimes tend to neglect? If EEC-ACP cooperation did not help to meet the cost and if resources for such major undertakings were not guaranteed as a matter of principle, development operations would soon become futile since the natural environment itself would already be destroyed.

With regard, finally, to extending the geographical scope of the future convention, the Commission hopes that ways will be found of enabling Angola, Mozambique and an independent Namibia to participate. Then the group of ACP countries would bring together – with the exception of one country – all of sub-Saharan Africa in addition to all the Caribbean and Pacific countries. But the diversity of the countries covered by the Convention constitutes a *de facto* argument in favour of a regionalized approach under the Convention. Without involving any departure from the framework convention suggested, the existence of forms of regional cooperation geared to practicalities can offer substantial advantages. There will be no question of regions being devised either by Europe or the Convention. But the European Community, drawing on its rich experience, may be able to establish the conditions for fruitful forms of regional coopera-

tion, though only time will tell whether they can or should be institutionalized or take on a political form.

In any case the Commission will propose in due course that the measures for encouraging regional cooperation, whether between ACP countries or between the ACP and neighbouring developing countries, should be further strengthened. In addition to the case of southern Africa, this will embrace European aid for development in the countries of Central America and the Caribbean, some of which belong to the ACP group, and the strengthening of cooperation with the Mediterranean countries.

The Mediterranean policy

On 24 June 1982 the Commission sent the Council a communication regarding overall Mediterranean policy for the enlarged Community.¹ With the prospect of Spanish and Portuguese membership, the Community must confirm that it has the will to honour the undertakings given to the Mediterranean countries, particularly as regards trade. The Community's commercial policy has an indispensable part to play – more important even than financial assistance – in giving these countries the means to develop, and their progress, on both the industrial and agricultural fronts, will depend on the quality of their cooperation with the Community.

Failing such cooperation, the Community would run the risk of a serious deterioration in its relations with its Mediterranean partners, threatening its own political, economic and social interests. In that event the financial protocols, which are nowadays vital adjuncts to cooperation but not its essence, would be resented as an attempt on the part of the Community to divert attention away from policy decisions detrimental to its partners' interests.

But the Mediterranean policy would be stronger and broader in scope if the Community's overall collective approach was matched by its partners: cooperation between the Community and the Mediterranean countries is set in a bilateral mould because of the divisions preventing the conclusion of an overall convention – like that of Lomé –

¹ Bull. EC 6-1982, point 1.2.1. *et seq.*

between the Community and all the countries of that region.

The Commission proposes nevertheless, as an act of faith in the future, that the Community declare its readiness to propose that all the Mediterranean countries participate in a collective contract as soon as circumstances permit. By so doing they would be joining the Community in affirming a common resolve for peace and independence from external forces, in a framework that would foster their economic growth and cultural contact.

The Commission does not underestimate either the difficulty of the operation or the time needed to carry it out successfully, but it refuses to accept as inevitable the confrontation which has turned the Mediterranean into a crisis area for the past 40 years. The Mediterranean can and must recover the major role it once had. The Community must be tireless in seeking ways of allowing all the Mediterranean countries to overcome their contradictions and cultivate their complementary aspects. In addition, institutional and operational links should be maximized between our existing agreements and the forms of cooperation – of whatever kind – which we already maintain or which we might establish with the remainder of the Arab world.

The Community's approach to this area, given its historical responsibilities, should go beyond development aid and commercial policy to try and create the conditions for a peace without which there can be no prosperity or security for anyone. The Community and its Member States should give the Mediterranean question a priority commensurate with what is at stake politically, backed up by the necessary financial and trade provisions. Between them the Community's Member States and special partners stretch along nine tenths of the shores of a sea whose waters are ruled by powerful outsiders, and it cannot avoid accepting a large measure of responsibility for the Mediterranean equilibrium, with the obligations that entails.

Relations with other developing countries

As the European presence cannot stop at Africa, the Caribbean, the Pacific and the Mediterranean, the Commission considers that guidelines are essential for a Community policy towards the

'non-associated' developing countries – a piece of Community jargon which is unfortunate to say the least. Even though the ACP or most of the Mediterranean countries do not look upon themselves as associated countries, the Community has fallen into the habit of putting an essentially negative label on its relations with the rest of the Third World.

As regards the countries of Latin America, geographical distance and passing tensions cannot affect their traditional links with the countries of the EEC, links which are taking on increased importance for their own development and for that of Europe given the prospect of enlargement to include Portugal and Spain.

For the Latin American countries, as for the developing countries of Asia, notably those in ASEAN¹ and the southern Asian subcontinent, the development of cooperation that has taken place in recent years must be consolidated and expanded by an increased effort in the field of aid for the least developed countries of the region and on a basis of increasingly balanced cooperation as regards the most advanced countries. In particular, the Community will continue to intensify its support for the regional cooperation efforts initiated by these countries.

The contractual framework of cooperation agreements such as those concluded with the ASEAN countries, India, Brazil and Mexico is designed to permit more intensive scientific and technical cooperation, industrial cooperation and consultations to foster the harmonious development of trade.

With this in view, the Commission considers that the Community should endeavour, in the light of experience gained, to work for greater enrichment of the contractual content of the agreements so as to give more substance and continuity to operations undertaken jointly and bring greater predictability to trade arrangements.

The Commission proposes that consideration be given to the possibility of injecting into the cooperation agreements a financial element, to be administered jointly, as a means of facilitating the joint preparation of schemes furthering the

¹ Association of South-East Asian Nations (Indonesia, Malaysia, Philippines, Singapore and Thailand).

objectives of the agreements (feasibility studies, technical assistance, industrial and trade promotion, preparation of investments and joint ventures, etc.).

Such steps will provide clear evidence that the Community does not want its policy of bilateral cooperation with the developing countries to remain fixed in an outmoded division between 'associated' and 'non-associated' countries; the Community will be serving both its own and its partners' interests by providing a stable institutional basis for the cooperation links it wishes to develop with certain regions of the Third World with which the Community is less closely involved but which it certainly does not intend to regard with indifference.

Such then, in broad outline, is the Community's plan for its relations with the Third World, governed by the twofold concern for cooperation and development, mutual interest and solidarity.

The ACP countries and the Community already constitute a unit in which the joint negotiation and management of common interests, the predictability of commitments and the diversity of instruments will be backed up by new provisions bringing permanence, diversification and flexibility to the service of development.

The Mediterranean is being called upon by Europe to rise above its disagreements, to take charge of its destiny and to seek out its points of complementarity. The proposed task will be long and difficult, but it is of historic importance. Its multiple aspects embrace a development effort affecting southern Europe as well as North Africa, and a cooperation effort whose full importance and arduousness are highlighted by Europe's new dimension.

The vast areas of the South which, with immense efforts, are rejecting underdevelopment as their historic fate, appeal to Europe to be their partner or in some cases bear witness on their behalf. For those areas, cooperation based on mutual interest could provide, even without vast expenditure, the means of forging profitable links beneficial for world peace.

Such is, in sum, the general system that the Community might propose to its many partner countries – each of which, numerous though they are, retains nevertheless in the eyes of the Community its own special individuality.

Community action at multilateral level

The purpose of this memorandum is not to propose new guidelines in addition to those set out in the paper on Community policy in the North-South Dialogue, which was adopted by the European Council in June 1981 and expanded in December of that year. That paper must continue to be the basis of concerted Community action in North-South negotiations.

There is one field, however, straddling North-South policy and development operations, in which the absence of Community policy or even of any common position of the Member States is having a serious effect, namely in the multilateral development financing institutions – the World Bank, IDA and regional development banks – for which the Member States nevertheless provide positive and continuous support and which are essential instruments of their presence in the Third World.

For nearly two years these institutions have been under considerable financial stress resulting from the United States Government's reconsideration of a number of its financial commitments. The new American policy, set out in a government memorandum published in February 1982, also embraces greater control over the institutions' development policies and the stalling of new projects such as the World Bank's energy affiliate.

The Commission proposes that the Member States and the Community, whose interests are threatened by this policy, adopt principles in common and coordinate their efforts to give expression to a European attitude in the institutions in question.

Financial participation by the Community as such in multilateral development financing institutions would, in conjunction with improved coordination among Member States, enable Europe's influence within such institutions to be strengthened.

VI – Resources of the Community's development policy

Financial resources: volume and growth

The overall amount of official development assistance disbursed by all the Member States

bilaterally, via Community channels and via multilateral institutions is considerable, accounting for half the aid flows provided by the OECD Development Assistance Committee (DAC) countries in 1981, that is half the official development assistance mobilized in the developed countries of the West.

Although their aid has grown by 5% per annum in real terms during the past decade, the Member States have still not collectively attained the target of 0.7% of GNP,¹ but they are getting close, the figure being 0.52% for 1981.

Community aid accounts for approximately 10% of the Member States' total aid, that is 0.05% of their combined GNP.

In the future, increases in Community aid could come about solely as a consequence of the negotiations to be conducted with the ACP and Mediterranean countries and of the annual discussions on budget appropriations.

The Commission, however, feels that the Community's desire to make development policy an essential aspect of the European enterprise would be better substantiated if the Community were able to set itself a target which would determine how the overall financial resources it intends to earmark for development aid are to develop and increase.

The existence of such a target would be likely to bring about a change in the approach to negotiations with the ACP and, where appropriate, other developing countries, which would involve attaching greater importance to substantive discussion of the objectives and methods of development cooperation and less importance to negotiations on resources, which, relevant though they may be at a formal level, are none the less frustrating.

The Commission proposes that the Community set itself the figure of 0.1% of the Community's GNP as its development aid target and that it attain that target in stages over the next 10 years.

By then, if the Member States collectively attain the 0.7% target, Community aid would increase from 10% (its 1980 level) of the Member States' total aid effort to 14%.²

The proposed target is ambitious although not unrealistic. It would make it possible to gear the increase in the amount of Community aid to the real increase in the Community's ability to

contribute, without, however, casting doubt on its desire to provide more money in line with what it can afford; lastly, it would authorize a reasonable increase in the rate of 'Communitization' of aid, leaving ample scope for the development of each Member State's own individual policies.

The proposed target is politically important as it would confirm the irreversible and progressive nature of commitments. It would make aid more predictable and hence more effective.

Furthermore, the Community, taking account of the fact that development will require more money than is available in the budget, could try to help third countries, including the non-associated countries, by making wider use of Community financial instruments based on recourse to the resources of the international capital market.

Currently, EIB loans are the only instrument available to the Community for channelling market resources to the developing countries. The Commission favours a liberal interpretation of Article 18 of the EIB's statute, so as to enable the EIB to undertake operations – notably in the energy and mining sectors – outside the ACP-Mediterranean area in other developing countries linked to the Community by cooperation agreements, whenever such operations are in the mutual interest of the parties concerned.

The Community could furthermore use its own borrowing capacity to the advantage of developing countries for the purpose of financing economically profitable projects in the mining and energy sectors.

The question should also be asked whether the Community should not take more coordinated action, either by itself or in the context of the appropriate international bodies, in serious balance-of-payments crises in countries with which it has close relations.

The Commission also urges that private investment's role in the developing countries should be defined more closely. Though far from being an alternative to official development assistance, direct investment can none the less play an appreciable complementary role in the develop-

¹ This target has been exceeded by the Netherlands (1.08% in 1981) and Denmark (0.73%).

² Or 20% should the Member States not improve on their present performance (0.5% of GNP).

ment process, provided of course that it ties in with the host country's development priorities. The Commission considers that the Community should suggest to the developing countries with which it concludes cooperation agreements the setting-up of a contractual framework to foster the development – in the mutual interest – of private investment. This supposes that financial and legal provisions to guarantee and regulate investment are adopted that reassure and encourage the private investor while offering the host country greater security. In order to get the process really moving, the very general provisions so far adopted in agreements between the Community and certain developing countries or groups of developing countries must be rendered more operational.

Lastly, the creation of the EMS and the development of its monetary instrument, the ECU, enable the Community to propose a factor of monetary stability to those developing countries and groups of developing countries which wish to use it as a reference.

It could be to the advantage of these countries to limit the fluctuations in their currencies against European currencies and opt to take the ECU as an exchange reference, given that the fluctuations between currencies linked individually to the ECU would at the same time be reduced, which would contribute to greater intra-regional monetary stability. This trend would be favoured by the development of the EMS, which would enable the ECU to acquire progressively all the attributes of a currency, namely those of a unit of account, of an instrument for transactions and of a reserve asset.

The banks and other financial institutions in the member countries offer a growing range of loan and investment possibilities in ECU. Third countries can now denominate their commercial contracts and financial transactions in ECU and consider using the ECU as a means of diversifying their monetary assets.

Financial resources: budgetary unity and specificity of the instruments

The Commission proposes that all the Community's development aid funds should in future be brought together within the same budgetary framework, reflecting the unity and cohesion of the Community's development policy. This

would bring all the funds under the same budgetary procedures and the same controls, due account being taken of any specific rules applicable to them, and make them subject to the same public discussion.

The Community's development policy budget would then cover:

(i) contractual aid for the ACP¹ and Mediterranean countries, plus aid provided for under certain cooperation agreements concluded with other developing countries or groups of developing countries;

(ii) development aid applied by the Community autonomously, such as:

- the funds for financing operations with non-governmental organizations;

- aid for the 'non-associated developing countries', which is in fact rural development (and incidentally regional cooperation) aid directed towards the poorest countries in Asia and Latin America;

- aid for energy programming;

(iii) consumption and operating aids, which the Community must have available to help the developing countries cope with emergency situations or to support the development policies of governments grappling with exceptional difficulties.

Food aid, which is the Community's principal instrument in this third category, presents a problem. In terms of commitments it accounts for 40% of that part of the Community's development aid resources which are not made available to partner countries under contractual arrangements.

The Commission, which has undertaken a systematic evaluation of the effects of food aid on the recipient countries, will propose to the Council the changes suggested by its findings. Generally, this will involve arranging for food aid, except in emergency cases, to back up coherent food strategies instead of being an end in itself as is too often the case. The future food aid should be provided on terms which would permit the receiving countries to integrate this in their national food strategies. This implies that the food

¹ This would mean that the next EDF (including the Stabex and Sysmin appropriations) would be included in the budget.

aid will have to be of a more continuous nature. In order to make this aid as efficient and development orientated as possible, it should to a higher degree be linked to national development projects.

Once these changes have been made, it would, however, be paradoxical for this instrument, which is a double-edged weapon for development, to remain in fact the only instrument which the Community could apply autonomously to support a food strategy compromised by exceptional difficulties beyond the control of the government of the country in question.

The Commission proposes that food aid be supplemented by financial resources allocated according to the same criteria in all cases where alternative forms of action and the supply of agricultural inputs would be more appropriate (e.g. in the form of agricultural inputs or support for structural measures).

By aggregating its aid, calculating it as a percentage of its gross national product and laying down strict but flexible rules for administering that aid, the Community would be providing itself with the wherewithal of a particularly effective and original approach in the North-South Dialogue.

Trade and commodities

Since the terms governing access to the Community market are very important for the expansion of the developing countries' exports and their economic growth, the Community must, via its agricultural, industrial and commercial policies, assume the responsibilities incumbent upon it as the main outlet for the developing countries' exports. This is obviously in its interest, given the importance of the developing countries in the Community's external trade.

And yet as long as the world recession lasts, the Community will have only limited room for manoeuvre for pursuing trade liberalization. It is already the industrialized entity most open to exports from the developing countries and, moreover, the accession of Greece, and in due course that of Spain and Portugal, means that it is preparing to liberalize completely its trade with three countries still classed by international organizations among the 'newly industrializing countries'.

In this context, the Community's first priority is to make trade arrangements as predictable as possible, since this is more important to the partner countries, from the angle of the Community's credibility and the security of its trade flows, than any limited progress which might be made towards liberalizing trade.

Guaranteeing the predictability of trade arrangements is an even stricter obligation when those arrangements have been established by contract negotiated with the partner countries. The regional framework of preferential agreements is also the one in which there seem to be the best conditions for success because of two key features:

- (i) the duration of the undertakings on market access (a fundamental prerequisite for stimulating investment and creating new trade flows); in the case of the Mediterranean countries the undertaking is already for an indefinite period;
- (ii) the insertion of trade relations into a system of organized relations governing economic, industrial, financial (and even monetary) cooperation.

From this angle, the pattern of 'enlarging' the Community's trade relations would depend on the intensity of the overall economic links (existing or to be created) with each region:

- (i) maintenance of the ACP preferential arrangements for a long period, on the pattern of those applying to the Mediterranean countries, plus increased consultation to head off crisis situations;
- (ii) an effort to open up its markets through the GSP and to promote trade under cooperation agreements with developing countries or groups of developing countries, such as India, ASEAN, the Andean Pact;
- (iii) lastly, for the most advanced of the Asian or Latin American developing countries trade will increasingly develop on a basis of graduated reciprocity.

Predictability of trade arrangements is of interest primarily to countries which export agricultural and industrial products that compete with European goods.

The developing countries, whose economies depend on commodity exports, are victims of the market instability which, at times of crisis, reflects in an exaggerated manner the cyclical or chance variations in supply and demand.

The Community must continue actively to lead the search for ways of limiting the instability of commodity prices which is seriously affecting many developing countries and disrupting, often to an intolerable extent, their ability to manage their economies.

It will do so either at the international level, by participating in the negotiation of commodity agreements, or at the regional level, by seeking appropriate solutions with the consumer and producer countries directly concerned.

The Commission would also point out that it has already proposed the creation of another instrument to support the food strategies of those developing countries which do not depend exclusively on food aid for their cereals imports, namely long-term agreements. Such agreements could, by offering the developing countries the opportunity to secure their cereals supplies on commercial terms, for a basic component of their food strategies.

Lastly, the Commission is determined to propose that the Stabex and Sysmin systems and the protocols on sugar, bananas and rum be maintained for the ACP countries, subject to revision of their mechanisms in the light of experience in order to make them more effective. It will make proposals to the Council on this matter as part of its preparations for the negotiations with the ACP countries due to commence in 1983.

In the context of Unctad VI the Community should propose to the other industrialized countries that they join forces with it in extending the Stabex system to all the least developed countries.

Policy coordination and coherence

In their cooperation with the developing countries the Community and its Member States express themselves and act at three levels, and overall cohesion is sometimes lacking:

(i) The first level is that of the common and national policies which indirectly affect in one way or another the Community's relations with the developing countries (e.g. the common agricultural policy, European Monetary System, energy and industrial policies, export credits).

(ii) The second level is that of Euro-South relations, i.e. the Community's bilateral cooperation with developing countries, or preferably,

groups of developing countries (Lomé, Mediterranean agreements, General system of preferences, cooperation agreements with India, Brazil, ASEAN, etc.).

(iii) The third level is that of multilateral relations, embracing the North-South negotiating forums, where the European identity has been strongly asserted, and the international financial institutions which the Member States are involved in financing but where they do not exert the influence which they could obtain by means of closer coordination of their activities.

The Commission affirms the need for the Community and the Member States to strengthen, by means of constant coordination and harmonization, the cohesion and dynamism of their activities at each of these three levels as well as their overall cohesion in order to meet development and cooperation policy objectives.

For its part the Commission will be bent on seeing to it that the Community's internal and external policies dovetail with its development policy.

It intends to report periodically to the Council and Parliament on the progress made and difficulties encountered in coordinating bilateral and Community cooperation policies and on the consequences for the developing countries of the development of the various Community policies decided on by the Council.

Furthermore, it will take the initiative of proposing the strengthening, whenever appropriate, of the cooperation existing between the Member States, but also between the Member States and the Community, in specific development operations on the lines of the action currently being taken with regard to food strategies.

True to the effort made by the Community since its inception to promote development, strongly committed to the preferential links to be established between Europe and the Third World, aware of the value of the institutions and instruments worked out through concerted action in the course of time, attentive to the difficulties which the world economic crisis has imposed on the developing countries in particular, conscious of Europe's responsibilities in a world whose balance is threatened, continuing to attach great political value to the North-South Dialogue, the Commission proposes that the Council approve the guidelines of European development and cooperation policy set out above.

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Memorandum on the Community's development policy

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The Commission's memorandum on the Community's development policy contains no formal proposals pursuant to the Treaty. Its purpose is to map out new guidelines for cooperation between the Community and the Third World, to encourage wide-ranging discussions in the Council and Parliament, and to urge the Council to provide a framework within which the Commission will be able to draw up operational proposals – notably concerning the Community's position on the renewal of the Lomé Convention.

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