Overseas Development Institute

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Briefing Paper

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THE PARIS CONFERENCE ON INTERNATIONAL ECONOMIC CO-OPERATION (CIEC)

The Conference on International Economic Co-operation, more widely known as the North-South Conference, has been meeting in Paris since December 1975 and is scheduled to finish its discussions by December this year. Is it any more likely to have achieved something other than international conferences recently held on development issues? This briefing paper will set out the background information on the conference on participation, structure and programme as a basis for tackling this question. It cannot, however, be understood in isolation. Much of the ground covered parallels and duplicates the work of UNCTAD, GATT and other international bodies, and its performance can ultimately be judged only in this broader context.

Participation

The twenty-seven participants are intended to represent three interest groups. They are:

developed countries: Australia, Canada, EEC*, Japan, Spain, Sweden, Switzerland, USA.

OPEC: Algeria, Indonesia, Iran, Iraq, Nigeria, Saudi Arabia, Venezuela.

other developing countries: Argentina, Brazil, Cameroon, Egypt, India, Jamaica, Mexico, Pakistan, Peru, Yugoslavia, Zaire, Zambia.

The third group was included because of OPEC insistence that the conference should not confine itself to oil issues as originally planned by the USA, which was looking for a producer-consumer dialogue. In a significant expression of the common front it has adopted with the non-oil developing countries, OPEC demanded that they participate in the conference, and that non-energy issues of interest to them be examined. However, the first group did manage to hold down the number of ldc participants, to prevent the meeting being swamped by their sheer number and becoming a platform for the reiteration of a wide range of frequently conflicting objectives on the lines of some international conferences. It is now generally agreed that limiting the numbers so severely has been helpful to the progress of discussions, although it has not removed important points of difference between the first and second/third groups. Another significant omission from the list of participants is that of the communist countries, which are represented at UNCTAD.

* The EEC is represented jointly by the EEC Commission

Structure

After two preparatory meetings (in April and October 1975), the Ministerial Conference in December 1975 set up four commissions whose deliberations constitute the main activity of the conference. Each contains fifteen members, with ten from the second/third groups, and each with two chairmen, from the first and second/third groups. The commissions, with their co-chairmen, are:

Energy: Saudi Arabia and the USA.

Raw Materials: Japan and Peru.

Development: Algeria and the EEC.

Finance: the EEC and Iran.

(The co-chairmen of the conference itself are Canada and Venezuela).

The commissions began their work in February 1976, and it was intended that they should reach decisions or recommendations for presentation to a ministerial conference in December 1976. This would constitute the end of the full conference since no permanent secretariat is envisaged. All decisions and recommendations were to be arrived at by consensus, ie there would be no voting on resolutions. Until July it was not clear how the conference would deal with the general development issues. Debate was in general terms and calculated to await the outcome of UNCTAD IV. However, at its mid-point (July 1976) at a series of key official meetings, matters came to a head over the drawing up of an agreed work programme for September-December, which was marked by disagreement on two major points (see below). The co-chairmen were then instructed to consult with the participating governments to try to break the deadlock before the scheduled re-convening of the conference, in late September.

Programme

The alliance of OPEC and the other developing countries has meant that a wide range of topics has been submitted by participants for consideration by the four commissions. The developmental subjects were picked from among those which have featured on the agenda of other international conferences – above all UNCTAD – and the commissions were enjoined, from the beginning, to keep in close touch with the work in these organisations. However, the emphasis has been different. Discussion on development has been very general, designed to energise these other fora rather than reach agreement in Paris.

Under the *energy* heading, participants have proposed studying means to promote security of supply of oil and oil products, co-operation in the long-term development of energy supply and in its rational use, and the protection of the purchasing power of energy export earnings (a joint proposal from Algeria, Saudi Arabia, Brazil, India, Iran, Venezuela and Zaire). The USA has proposed the establishment of an International Energy Institute to study the availability of energy resources, especially in developing countries not currently exporting oil.

For the *raw materials* commission, the following topics were suggested for study: 'the demand and supply conditions of raw materials in respect of the development needs of developing countries, including the revalorisation and protection of the purchasing power of developing countries' export earnings' (joint proposal by seven countries, referred to above); methods to attain stable and remunerative prices for raw materials and to stabilise ldcs' export earnings; a 'firm relationship' between the prices of raw materials exported by developing countries and those of the goods they import from developed countries; conditions appropriate for international commodity agreements, the forms of such, and the ways of sharing the financial burden involved; methods to enhance production capacity worldwide and the long-run supply of basic materials, and the means of promoting joint action to meet the capital, management and technology needs involved; and the establishment of an International Fund for Agricultural Development.

Under the *development* heading the participants proposed consideration of a wide range of issues to be discussed in general terms, overlapping with the work of other commissions. Specifically the joint statement referred to 'trade (access to markets for the products of developing countries); accelerated industrialisation; the transfer of technology; the development of agriculture; the development of infrastructure; the problems of the supply of food and fertiliser (with special attention to devising measures for ensuring adequate supplies of food and fertilisers at reasonable prices to developing countries); special and urgent attention to the question of the grave difficulties of the Most Seriously Affected; and the need to increase present assistance to meet their pressing requirements'.

The role of financial transfers in the development process was proposed for study in both this commission and the *financial* commission. In some ways the latter's field of study could be seen as supplementary to work under the three foregoing headings. Recommendations were made to examine the 'recycling' problem, the financial implications of international commodity arrangements and export earnings stabilisation schemes, and the financing requirements of investment projects, food imports, and higher agricultural production in developing countries. Several countries proposed study of ways to increase the flow of concessional funds to ldcs, and also to deal with the chronic payments deficits of many developing countries, including the rescheduling of debt.

The deadlock

All these were proposals for study, and when sufficiently broadly framed could be agreed to by all participants. However, there has been, from the outset of the conference, a significant difference between the view of the first group and that of the second/third group on the *raison d'être* of the discussions. The former on the whole stressed the value of dialogue, as such, in stimulating co-operation on common problems and in defusing potential conflicts. The proposals put by this group tended therefore to be widely drawn and neutral, in the sense that they did not commit the sponsor. The second/third group, on the other hand, was increasingly concerned that concrete steps be taken on specific policies, and consequently that the conference commissions should focus on detailed recommendations. This concern appeared most clearly at the meetings of senior officials in July, which could be said to mark the watershed of the conference, and helps to explain the current deadlock. The failure to settle on a work programme for the remainder of the conference turns largely on the formulation of two items, relating to the maintenance of the purchasing power of developing countries' export earnings (ie indexation) and ways of dealing with their debt problems. The co-chairmen must now devise some formulation which does not prejudice the outcome of the conference (to satisfy, in particular, the USA), and yet is specific (to maintain the interest of OPEC and the developing countries in continuing the conference).

Debt

Of the major developmental issues being debated in the three non-energy commissions, commodities fall to be dealt with at a common fund conference and while the conditions and size of the OPEC contribution may be a critical factor in the future of the fund, CIEC is unlikely to be the main forum for negotiation. CIEC will, however, look at debt in more detail. It is moreover an issue directly related to the energy crisis in as much as the liquid petrodollar assets of the oil producers have served in substantial part as the deposit base for the expansion of commercial bank credit to the ldcs which rose from \$2 billion to \$10 billion from 1970-76. This helped them to survive the recession but it also imposed a heavy debt servicing problem.

At UNCTAD, the main ldc demand was for a general debt conference which could suspend or reschedule repayments of both commercial and official debt. A second demand was for immediate relief for the poorest ldcs. Neither point was conceded at UNCTAD nor has there been discernible support for UNCTAD's idea of a multilateral agency for refinancing external debt. The developed countries' line has been to avoid unilateral default which could trigger off a collapse of banking institutions: some major western banks now have 25% of their loans in ldcs. More specifically, their aim has been to isolate debt problems on a case by case basis, recognising the differing positions of the debtor countries: middle-income heavy borrowers like Brazil and Mexico which are not seeking rescheduling and are more concerned about maintaining their credit rating; cases of mismanagement (Zaire, Indonesia and Argentina); poor oil importers (India, Bangladesh, Tanzania); and temporary hard-luck cases resulting from harvest failures or a commodity price slump. The industrialised countries have also stated their policy of treating debt relief as an alternative, not as a supplement, to present concessional aid flows, with the implication that the richer ldcs (which are most indebted) would benefit at the expense of the poorest from generalised debt relief. Given the wide disparities of interest between ldcs (and between them and the net creditor OPEC countries), it is difficult to see a general solution emerging.

Prospects for the CIEC

Some formula will no doubt be found to keep the conference functioning and for work to be resumed in the commissions. While it is too soon to prejudge the success of the CIEC, however defined, and to indicate what if anything might succeed it, some interim judgement can be passed, bearing in mind its once-and-for-all character and its dependence on developments in other bodies.

First, on energy, the need for a multilateral consumer-producer dialogue has been supplanted effectively by a bilateral dialogue between Saudi Arabia and the United States. The recognition by Saudi Arabia of the need to moderate OPEC pricing policy in the interests of political and economic stability in the western oil consumers, combined with its uniquely powerful role within OPEC, have together removed much of the element of confrontation in oil consumer/producer relations. For their part, the industrialised oil consumers (especially the future producers like Britain), have tacitly accepted the need to prevent a fall in oil prices. In a recent change of direction, the United States Government has, apparently, acknowledged the inevitability of an oil price rise at the next OPEC meeting at Doha (Qatar) to compensate for the rising cost of OPEC imports. In the interests of protecting the value of investments in oil exploration and oil substitutes, one could even say that the major consumers are moving towards implicitly conceding the argument for preserving the real price of oil. It is likely however that CIEC could serve as the basis for on-going consumer/producer talks as well as for institutional cooperation possibly through the proposed International Energy Institute.

Second, the developmental issues being debated in the three non-energy commissions will ultimately be decided in the appropriate international negotiations; UNCTAD, GATT, the proposed common fund conference and others. What CIEC achieves will be measured by the extent to which it injects any greater sense of urgency, deriving from the fact of a more prominent and visible role by OPEC in CIEC than at UNCTAD. It is as yet far from clear whether the major OPEC 'low absorbers', Saudi Arabia and the Gulf States, which cannot spend their oil reserves except in the long term, and which have the muscle to bring pressure to bear on behalf of the poorer ldcs, have the inclination to do so. It was necessary in 1974 and 1975 to prevent the political isolation of OPEC, and of the Arab states in particular, and this has been achieved in CIEC by their support for Third World proposals and more concretely by aid programmes (but not by differential pricing as the poorer oil importers demanded). Those oil producers which argued most forcefully for measures to link the cause of the developing countries in general to that of OPEC (eg Algeria, Iran and Venezuela) are now beginning to experience balance-of-payments difficulty themselves, and have less bargaining power within OPEC. Moreover the 'low absorbers' happen to be most closely attuned to United States thinking in general, and seem at present unlikely to use their bargaining powers to achieve major concessions for the Third World, when this is peripheral to their own interests (relative to, say, preserving the solidarity of OPEC, or achieving political objectives in the Arab/Israeli dispute).

Within these limits, CIEC has some continuing intrinsic interest for all three groups of participants. For the *Third World* it is another opportunity to reiterate demands for a major redistribution of resources from the developed economies. Close association with the oil producers, at least superficially, strengthens its bargaining position. The poorer ldcs, however, run the serious risk that the end result of the dialogue will be a tacit consensus on oil prices between OPEC and the developed, which they will pay for in continuing high oil prices, but with little of substance conceded on debt, commodities or further aid. For the *developed countries* CIEC has been, so far, less traumatic than UNCTAD, though this may reflect the largely methodological character of discussions hitherto. CIEC is seen by the developed as continuing evidence of their willingness to engage in a 'dialogue' but in a less confrontational and more businesslike (because smaller) gathering than UNCTAD. The *oil producers* have an enduring, if now less urgent, need to submerge the issue of OPEC in the general case for improved commodity prices. This community of interest, albeit a limited one, should permit CIEC to proceed through to the Ministerial Conference in December.

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