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Association policy: Agreement in Jamaica

Intereconomics


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International Monetary Policy

Recycling of Arab Funds

Now that the "mini reform" of the world monetary system has been completed, the solution of the problem of the oil states' high foreign exchange proceeds should be given priority. Most of the surplus Arab funds have so far been placed on the Euro markets. According to first estimates, at least $20 bn of the oil states' proceeds are said to have already flown into international financial markets where they were again at the disposal of the oil consuming countries. No doubt, this development must be welcomed for it mitigates partly the balance-of-payments difficulties of the consumer countries. However, it cannot be the only answer to the problem of neutralizing the oil states' foreign exchange surpluses. In that case the international financial crisis would become inevitable indeed. The reason for this is that the banks involved would very soon be no longer in a position to make the enormous sums available which are required for balance-of-payments financing, for they have already now nearly reached the administrative and economic limits of their business.

Another important reason for paving new ways of solution is that the states most affected by the oil crisis, i.e. the poorest developing countries cannot obtain funds from the Euro markets to finance their balance-of-payments deficits, so that this type of "recycling" of oil moneys will primarily favour the industrial states. But in order to help the developing countries as well, it is absolutely necessary to institutionalize, at least partly, the redistribution of the oil states' foreign exchange surpluses, be it in the form of development banks or within the framework of the IMF.

The solution of this problem must no longer be delayed by the responsible politicians in the hope that everything will come right, for otherwise the break-down of the Bretton Woods system might have been a prelude only.

Common Agricultural Policy

Another Case of Bankruptcy

The temporary ban on all beef imports into the EC has again laid bare the bankruptcy of the common agricultural policy. Last year it was the butter mountain which had to be disposed of — now it is the beef mountain. Both were stacked up by the same mechanism — inordinately high state-guaranteed prices and a commitment to buy in undetermined tonnages through import and storage centres. There is another parallel between the two "mountains": today as last year the surplus goes to the Soviet Union — albeit with the difference that billions were lost over the butter deal through grant of special terms while now, true to the mentality of the "market organizers", the special terms have become the rule. The advocates of this kind of agricultural policy are even advancing economic arguments to defend it — it is cheaper to pay subsidies in order to get rid of surplus stocks than to build new cold-storage depots.

The consumer is always the one who has to foot the bill — first for laying in stocks, next for removing them, and finally for premiums paid for withholding cattle from slaughtering. The import stop on beef is also hitting the South American export countries — Argentina, Brazil, Uruguay and Paraguay. At times of shortage they were asked to supply beef to the EC. Now they have to find new customers and adjust their production to the changed conditions. After a certain time the phenomenon of the "hog cycle" will cause beef supplies to tighten again. Premiums will once more be paid for breeding and slaughtering cattle, but as before they will come too late. The consumer will again be asked to settle the account when shortages cause another upsurge in prices. One hardly dares to venture an answer to the question what else has to happen before this kind of agricultural policy is subjected to the review which was promised as early as 1969 at the summit conference in The Hague. kw.

Association Policy

Agreement in Jamaica

In their negotiations in Kingston, Jamaica, at the end of July the nine member states of the EC and 44 developing countries in Africa, the Caribbean and the Pacific area have made considerable progress towards a new association agreement to replace the Yaoundé and Arusha conventions which are due to expire at the beginning of next year. It looked several times as if the negotiations would fail, either because of divisions on important issues between the Europeans or else because of the unrealistically high de-
mands of the developing countries, but a large
measure of agreement was reached in the end
on all the basic questions. In Brussels the work
can now be continued more quickly.

For the 44 developing countries a break-through
has been achieved in trade relations insofar as
the EC in Kingston for the first time conceded
to the associates free access to Community mar-
kets for a major part of their trade without ob-
taining corresponding commitments from their
side. The question of reciprocal concessions by
the association partners, which was still playing
such a big role in Brussels a year ago, has thus
been cleared away at last.

The conference decision that a system for the
stabilisation of the widely fluctuating proceeds
from raw material exports by the developing coun-
tries to the EC is to be established must seem
all the more remarkable because the proposals
to this effect which the European Commission
presented in April 1973 were at that time still
denounced as a plot against the free order in the
world economy. Measured by the notions of the
developing countries, the amount to be made
available for this purpose on a revolving basis
will admittedly be rather small, but concrete com-
mitments have been made, and these are surely
worth more to the Third World than the non-
committal declarations of intent only too well
known from other conferences.

North Sea Oil

New Industries for Norway

The Norwegian Government is currently trying
to make sure in good time of public influence on
the mineral oil and natural gas of the North Sea
by obtaining a substantial proprietary interest and
essential control rights for the state. Statoil, the
national oil corporation, plays an important role
in these efforts. The company is to submit annual
reports on development and further plans to the
Norwegian Parliament in future, thus ensuring
parliamentary control. Of general significance are
also the efforts to secure influential proprietary
rights for the state in the processing industries
which depend on oil — as in the case of Norsk
Hydro and the petrochemicals centre of Rafnes.

The purpose of these developments is obvious:
What matters to the Government is that the rich
oil resources should be used sensibly and pro-
ductively since industrialisation has not yet gone
very far in Norway. The design for the future
utilisation of the oil and gas is indicated by the
projected industrial set-up. For the medium term
the first phase of an industrial sector based on
oil and gas has already been determined in broad
outline. The petrochemicals centre of Rafnes is
to be developed first, with the liquid gas from the
Ekofisk field to which Statoil is entitled providing
its raw material basis. Another chemical centre
is already featuring in the official planning which
extends up to the early eighties.

The offshore oil and the proceeds from it pose a
great problem for the four million people of Nor-
way. The problem is not so much how to use the
potential wealth as how to maintain economic
stability in the face of rising earnings. By 1980
they will, according to estimates, account for
12—14 p.c. of the GNP; two-thirds of the output
are to be exported. From the point of economic
stability one can therefore only welcome timely
public planning and efforts to safeguard the con-
tral and proprietary rights of the state.

Export Credits

An End to Cut-Rate Competition

The industrialised countries seem to have their
first chance of reaching agreement on minimum
terms for export credits. The OECD countries in-
tend to lay down uniform conditions for the grant
of export credits so as to prevent, or at least
moderate, the destructive international competi-
tion in the terms of credit. At their recent confer-
ce in Washington the representatives of the EC,
USA and Japan achieved decisive advances con-
cerning minimum interest rates and maximum
length of export credits and the OECD Council
has since amended the OECD arrangements
for export credits for shipbuilding and television
satellite ground stations.

The minimum interest rate is to be 7 p.c. in future
and the maximum credit period will be 8½ years.
That exceptions are envisaged for developing
countries may be considered a positive feature;
the general view is that developing countries
should be allowed credits for up to 10 years.

It is not surprising that the “objective“ criteria
for the identification of developing countries are
still presenting some difficulty. There is of course
the OECD Development Committee’s list of coun-
tries but it includes the oil countries with high
per-capita incomes which ought presumably to be
excluded from the preferential treatment. A uni-
formation of criteria would be wholly desirable
in the context of a viable world economy but the
greatest care should be taken to treat exceptions
really as exceptions and not to allow them to be-
come the rule as has happened several times
with international agreements.