

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

OD(80)39

COPY NO 46

7 May 1980

CABINET

DEFENCE AND OVERSEAS POLICY COMMITTEE

THE REPORT OF THE BRANDT COMMISSION

Memorandum by the Secretary of State for Foreign and
Commonwealth Affairs

1. I attach a note prepared by officials on the Brandt Commission's Report on North/South relations. The officials' assessment and conclusions are at paragraphs 18-24.

2. The Brandt Report is attracting attention both in this country and internationally. The last European Council took note of it in a favourable sense. The Economic Summit in Venice is likely to touch on it; some participants seem attracted by the Report's proposal for a North/South Summit, though so far no one has taken the lead on this. In Parliament, there has already been a debate in the Lords and a Private Members' debate in the Commons. Almost all speakers, from both sides of the House, gave strong endorsement to the Report. In these debates the Government did no more than accept the Report's analysis of the grim outlook for developing countries and undertake to study its recommendations. But we have now yielded to pressure for a more extensive debate in the Commons, which may be in early June, at which we shall have to take a position. We have also agreed to give the Commons Select Committee on Foreign Affairs a memorandum by the end of May.

3. Apart from the severe economic difficulties of developing countries, relations between North and South have assumed a new importance since the Soviet invasion of Afghanistan. We want, if we can, to build on Third World condemnation of the Soviet action and to

/demonstrate

2A
demonstrate to the developing countries that, both politically and economically, their closest interests lie with the West and not with the Communist countries. This argues for adopting as positive an approach as we can to the Brandt Commission's appeal to put North/South relations on a better footing.

4. The officials recommend, however, that we should not endorse the Report's recommendations in their entirety. Many of these would involve unacceptable new burdens on public spending, against the trend of recent decisions. Others form part of the rhetoric of the 'new international economic order', which we have resisted as unsound and unproductive. Our approach may therefore have to be selective and in places critical. But I hope that, in public at least, we can make the most of those points where we can support the Brandt Report, if only in part. We should acknowledge that it admits the importance of private sector activity and of the contribution developing countries themselves must make, even though it does not go far enough on either point. On energy, the Report's ideas for an understanding with OPEC over more stable prices and supplies are sensible. This idea is being studied separately by officials, who should report to us shortly.

5. Even so, I expect that we shall be exposed to considerable pressure to go further in endorsing the Report's proposals. This pressure will not only come from that part of our own public opinion whose imagination has been caught by the Brandt prescriptions. It will also come from our Western partners whose greater resources will allow them to respond more sympathetically than we can to initiatives and demands that cost money.

6. The Government has made clear since taking office that its first priority must be to get our own economy back into good order. This is the best contribution which Britain can make to improving the world economic situation. For this reason, we have accepted that aid must bear a substantial share in the necessary reductions of public spending. But I hope that, as we get our economy right at home, we shall be able to play a more active role in the Third World, particularly in those areas of political or strategic importance to

us, and plan for increases in aid, both in volume and as a proportion of GNP. If we can indicate this now, it will help to head off pressure to do more in the context of the Brandt Report, and limit the damage to our own interests which our aid reductions might otherwise cause.

7. In the light of this, I recommend that we endorse the officials' note and its conclusions, while seeking to present our attitude to the Brandt Report in as positive a light as possible.

C.

Foreign and Commonwealth Office

7 May 1980

Background

The Independent Commission on International Development Issues was originally suggested by Mr Roger Handberg. The Commission, which began work in 1977 under the Chairmanship of Herr Willy Brandt, comprised 10 well-known figures from both developed and developing countries. Sir Edward Heath and Dr Eydieoth Kvernber are believed to have played leading roles.

The Report is essentially an effort at political persuasion. Many of the remedies proposed are familiar from past or proposed cut forward by the South in their campaign, dating from 1974, for a New International Economic Order. But the Report's comprehensive approach, the level of its membership, and their success in reaching a consensus, have combined to give the Report considerable public impact in the UK and elsewhere.

The Report argues that the prospects for many developing countries are so bad that there is a strong case not only on moral grounds, but on grounds of mutual interest, for the industrialized countries to take urgent and substantial steps to alleviate strains that can only lead to increasing instability. The concrete needs of the North, particularly for capital goods, together with the underused capacity in the North, are a strong economic case for a massive transfer of resources to the South which would both alleviate suffering and stimulate the world economy to the benefit of both sides.

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

THE REPORT OF THE BRANDT COMMISSION

(Note by Officials)

Introduction

1. The Brandt Commission's Report was published on 7 March and has received considerable attention, mostly favourable, from the media. There was a Lords debate on 12 March and a debate in the Commons on a Private Members Motion on 28 March. Following considerable pressure for a further Commons debate in Government time the Leader of the House has conceded a debate at a date yet to be fixed. The Report itself will no doubt be drawn on by developing countries in North/South negotiations.

2. This paper outlines the background and the economic context. It goes on to describe the main conclusions of the Report and give a general assessment. Annex B analyses the Report by chapter, giving a summary of the arguments and recommendations, and adding the comments of officials. Ministers are invited to take note of the Report and to give guidance to officials in preparing a detailed line to take in Parliament, with the public, and in North/South negotiations.

Background

3. The Independent Commission on International Development Issues was originally suggested by Mr Robert McNamara. The Commission, which began work in 1977 under the Chairmanship of Herr Willy Brandt, comprised 18 well-known figures from both developed and developing countries. Mr Edward Heath and Mr Shridath Ramphal are believed to have played leading roles.

4. The Report is essentially an effort at political persuasion. Many of the remedies proposed are familiar from earlier proposals put forward by the South in their campaign, dating from 1974, for a New International Economic Order. But the Report's comprehensive approach, the level of its membership, and their success in reaching a consensus, have combined to give the Report considerable public impact in the UK and elsewhere.

5. The Report argues that the prospects for many developing countries are so bad that there is a strong case not only on moral grounds, but on grounds of mutual interest, for the industrialised countries to take urgent and substantial steps to alleviate strains that can only lead to increasing instability. The desperate needs of the South, particularly for capital goods, together with the underused capacity in the North argue a strong economic case for a massive transfer of resources to the South which would both alleviate suffering and stimulate the world economy to the benefit of both sides.

6. Nevertheless, about five-sixths of the Report's recommendations would involve action by the North, either alone, jointly with the South, or in international bodies. Thus while the Report asserts that its recommendations would lead to mutual benefit, the balance of the Report tends towards Northern sacrifice and Southern gain. The initial effect on the UK of many of its proposals would be to impose further strains on our economy.

7. Although it is convenient to discuss less developed countries as a group, in fact their circumstances differ widely. A number, mainly in South East Asia and in Latin America, have substantially improved their living standards over recent decades. In others economic growth has tended to be offset by increasing population, while others, in Africa and elsewhere, have suffered from internal and other factors, including their own economic mismanagement, which have hindered their development. However, in the period between 1973 and 1979, the LDCs taken as a whole were still making considerable progress. The prospects of many of them have been seriously worsened by the oil price increases of 1979.

The Present Economic Context

8. Although the Brandt Commission was set up in 1977, the tone of the report very much reflects these latest developments. At the same time, however, the report glosses over the extent to which OPEC is responsible for the sombre prospects of a significant number of LDCs. OPEC has made it more difficult for them to pay for the imports they need, while at the same time making it more difficult for industrialised countries to help them. A large scale transfer of resources from industrialised countries to OPEC is now taking place: the report does not mention this.

9. As far as the immediate future is concerned, we can agree with the report's pessimistic outlook for the world economy. Indeed, since the authors have not taken full account of the 1979 OPEC price increase, their forecast of a 2% growth in the OECD area over the next 12 months is too optimistic. Their forecast of an increase in the non-oil LDCs current account deficit of just under \$20 billion between 1978 and 1980 also looks too optimistic. Our own forecast is for about a \$30 billion increase allowing for a fall in LDC imports. But circumstances vary widely. A large part of the higher oil bill will fall to the more advanced countries who may be able to borrow to finance their deficits - though as a whole LDCs can expect exceptionally low growth both in their GNP and in their exports.

'Emergency Programme'

10. The Report's recommendations are wide-ranging and many are of a long-term nature. It argues that its recommendations form a package which cannot be untied. But it also presents 'an Emergency Programme 1980-85' for urgent action, drawing on four areas of immediate relevance as follows:

(a) A large scale transfer of resources to the LDCs to combat hunger and poverty, promote industrialisation and accelerate the development of new resources and commodities. Inter-alia the rich countries must commit themselves to reaching the aid target of 0.7% of GNP by 1985. Larger sums are implied elsewhere in the Report, but not for the immediate future and not all from official aid sources.

Comment: The Report argues that this would help relieve the problems of the developing countries and, by stimulating the world economy, would help to take up underused capacity in the industrialised countries. However, the Report was evidently written with growth as the sole economic consideration in mind; and without taking enough account of the impact of recent increases in oil prices. The increase in LDC's net oil import bill since the recent oil price increases is itself about equal to the total of net transfers of official aid from OECD countries (£19 billion in 1978); and what is happening at present is a massive transfer of resources from both developed and non-oil developing countries to OPEC. This will continue for some years.

Industrialised countries will therefore be severely limited in their ability to offer increases in aid given the likely economic conditions up to 1985. (For the UK economic constraints offer no prospect of increased aid; indeed the opposite is the case.) Such increases would conflict with efforts to curb public spending as part of our wider effort to control inflation - an objective which itself is in the interests of developing countries. If the only objective were to maintain or expand economic activity, industrialised countries could do this, if they chose, by stimulating their economies by more direct methods. But their policies of giving first priority to dealing with necessary adjustment to oil price increases, and the problem of inflation, would be weakened by additional stimulus whether coming from higher exports to LDCs financed by increases in official aid, or from more expansionary domestic policies. Only when the adjustment has been made and inflation is brought under control will a sounder base exist for the expansion of world trade to the benefit both of industrialised and developing countries.

(b) An International Energy Strategy The Report suggests 'an accommodation' between oil consuming and producing countries in order to 'ensure more secure supplies, more rigorous conservation, more predictable changes of prices and more positive measures to develop alternative energy supplies.'

Comment: The prospect of such a bargain is being considered separately by officials at Ministerial request.

(c) A Global Food Programme designed to raise production in the third world, increase emergency food aid and establish a system for long-term food security.

Comment: We agree with the basic aims. But many of the measures recommended would involve increased flows of official aid or greater access to Northern markets for the agricultural produce of the South. We are in favour of reduced agricultural protection. But the CAP supports European agriculture partly by means of levies on imported temperate foodstuffs. The scope for action is therefore inevitably limited and depends on the agreement of all the Member States of the Community.

(d) Reform of the International Economic System

(i) Reform of the International Monetary System. A start on the series of measures, some radical, which would be intended to ease the burdens of adjustment for LDCs, expand international liquidity and increase LDC participation in decision-making.

Comment: Many of the measures proposed are a repetition of extreme NLEO proposals. While we cannot agree to the revolutionary changes proposed in the Report we do accept the need for evolutionary change to the International Monetary System and are actively engaged in the continuous process of adapting the lending programmes of the IMF and World Bank to changing world conditions. Most of the proposals are addressed to the International Community, not individual Governments. We could agree with a number of the recommendations: indeed some are currently the subject of negotiations at the relevant international bodies.

(ii) Reform of the Trade Sector to strengthen the position of commodity producers, improve the international investment regime and reduce protectionism.

Comment: It would be difficult for us to accept the call for further liberalisation of access to Northern markets or for active restructuring by developed countries. The Report undervalues Northern efforts such as the MTNs. Moreover the charges of protectionism are exaggerated. While we accept structural adjustment as an inevitable and continuing process resulting principally from the operation of market forces (including competition from LDCs), the extent of the interventionist role proposed for governments and the degree of international supervision envisaged in the Report are incompatible with present Government policies.

11. The Emergency Programme addresses itself to a limited range of measures to be taken in the period 1980-85. Initial discussion will inevitably focus on this Programme and it may well be drawn on by the developing countries during the round of Global Negotiations to be launched at the UN Special Session later this year. But the recommendation of the Brandt Report as a whole cover a full range of issues covering the period up to the year 2000. In the long run even larger transfers of resources to the LDCs are foreseen and major structural alterations to the world economic system proposed. Comments on the full range of Brandt Report recommendations are given in the Annex to this Paper.

12. In its conclusion, the Report calls for a Summit of World Leaders from North and South (including the East and China). This would be limited to 25 participants. Its aim would be to reach an understanding on the central issues of the Report and provide guidelines and a new impetus for future negotiations. The Prime Minister was sent a copy of the Report by Mr Ramphal, drawing her attention to the recommendation for a summit. The proposal has also attracted public support from Dr Waldheim and Chancellor Schmidt (although the latter has been rather negative in private). For the time being, the idea appears to have stalled. But there are reports that the Jamaican Prime Minister, Mr Manley, is trying to generate support within the Non-Aligned Movement and, according to Dr Waldheim, the Mexican President, Dr Lopez Portillo, and the Austrian Chancellor, Dr Kreisky, are discussing the idea of an informal limited summit immediately before or after the UN General Assembly. Ministers have so far taken a discouraging and non-committal line in public. They have said that Summit meetings must be carefully prepared lest the risks outweigh the advantages and that there is a danger of raising expectations that cannot be fulfilled. But they have not ruled it out since, if the idea were to gain acceptance, we might wish to attend.

General Considerations

13. There are two important issues mentioned in the body of the Report which perhaps deserve more prominent treatment; they are not included in the Emergency Programme.

- (i) The role of non-concessional capital flows in financing LDC deficits and their economic development deserves more prominence than is given to it in the Report. This is not simply a question of more bank borrowing by LDCs: some LDCs are already in danger of default and for others, the burden of debt repayments means that they may be unable to finance desirable projects offering good rates of return. The type and terms of finance need to evolve. The IBRD and other regional lending bodies can play an expanded part here. Greater recourse to IMF finance would help spread the burden of risk, as would measures to encourage an increased flow of direct investment (including the energy field).
- (ii) The need for more self-help by the LDCs themselves. The Report devotes a chapter to this mentioning for example, the need for land reforms. But it does not question the pursuit by many LDCs of extravagant social programmes, prestige industrial projects and military expenditure. The LDCs could also do much more themselves to stimulate increased private sector flows.

14. The Report also devotes a chapter to the need for disarmament. It argues that a diversion of funds, manpower and technical skills from the military field to development assistance amounting to a few percent of the total would transform the prospects of the LDCs. But the Report shrinks from apportioning responsibility or from pointing out that it is the Soviet bloc which spends the highest proportion of GNP on arms and the lowest on aid.

Aid Policy Considerations

15. The Parliamentary statement on overseas aid in February recognised that aid continues to be an essential element in development especially for the poorest countries, and said that greater weight in the allocation of UK aid would be given to political, industrial and commercial considerations alongside developmental objectives. In order to give more room for manoeuvre in bilateral aid - where these objectives can be implemented most easily - the share of multilateral aid would be examined critically. The overall level of aid, however, must be dependent on the state of the British economy and the need to strengthen it. The recent Public Expenditure White Paper shows a planned reduction in the level of overseas aid of 14% in real terms between 1979-1980 and 1982-83.

16. As outlined above, the Brandt Commission recommends a substantial increase in official assistance and more predictable flows through long-term commitments and 'automatic revenues' such as a levy on international trade. They regard attainment of the UN 0.7% of GNP aid target as the most urgent step, recommending the adoption of a timetable for achieving the 0.7% target by 1985 and raising it to 1% by the end of the century. In addition, they endorse earlier G77 proposals for a more restrictive definition of official aid (excluding,

/for

for example, aid to Dependencies or high income countries). They propose that a greater share of official aid should be channelled multilaterally; automatic revenues to go through a possible new World Development Fund. They also emphasise the need for more help to the poorest countries, especially for programmes attacking the roots of poverty, and for more flexible types of aid.

17. Nearly all of the recommendations in the Emergency Programme would be unacceptable to the UK under the aid policies recently agreed by Ministers. The Government has accepted the UN 0.7% of GNP aid target, but on the basis that there is no timetable for achieving it; progress towards it is dependent on our financial and economic circumstances. With the sharp reductions planned in the future levels of aid, it is likely that our performance against the target will decline. Changes in the definition of official development assistance would exacerbate this trend. International taxation measures go against the principle of national sovereignty and the right of Governments to determine the allocation of revenue between competing priorities. The proposals on the kinds of aid - a greater multilateral share, quicker, disbursing forms, categories of recipients - also open up the possibility of conflict to varying degrees with the Government's aid strategy.

Assessment

18. The Report has concentrated public interest on its two major contentions; that the economic difficulties facing many developing countries are extremely serious and growing, and that action to assist the LDCs would be of mutual benefit. Whatever view is taken of the various proposals in the Report the first of those contentions is undeniable. The Report's contention that remedial action should be based on mutual benefit rather than unilateral demands is welcome. But we question whether the Report has in fact adopted this approach. While its proposals are presented in a more balanced way than is usually found in the context of the North/South dialogue, it is still heavily biased towards measures to be taken by the North and in the main reflects well-worn G77 arguments.

19. In addition, the Report does not draw the conclusion that the very economic problems which they describe - in which sharply rising oil prices are a major factor - make it difficult for developed countries to respond to calls for increased transfers of resources. There must in any case be doubt whether its economic prescriptions would be effective in promoting growth without weakening our efforts to reduce inflation. Many proposals in the Report, if implemented, would require extra public expenditure, sometimes in very large amounts. There are some unwelcome new proposals such as development levies on international trade for military expenditure. There are large areas of the Report which would not involve identifiable expenditure such as measures in the monetary, trade and energy fields. Nevertheless many of the proposals would be just as unacceptable as those which call for substantial increases in public expenditure.

20. For the reasons given above it is clear that we cannot subscribe to the Commission's proposals as a whole. But our interests would not be served by publicly condemning the Report out of hand. A strong negative approach by the West would dissipate LDC goodwill towards us at a time when we would wish to take advantage of the

Soviet invasion of Afghanistan. We would wish to demonstrate to those third world countries who may be reappraising their relations with the Soviet Union that they have a closer community of interest with us than with the Soviet bloc. A selective approach would minimise this difficulty. There are areas of the Report that we can support, such as proposals for more stable energy prices and more efficient food production in developing countries. We can also welcome certain other trends in the Report, while arguing that they should have gone further, eg on private investment and the responsibilities of developing countries themselves. But we shall of necessity have to express reservations, particularly about the massive transfer of resources and related demands for major and time-bound increases in aid volume.

21. Few other governments have given a significant public reaction to the Brandt Report; privately the mood seems to be one of caution. Like us, most Western governments will feel unable to endorse the complete Brandt programme. But all attach importance to their relations with the Third World and will wish to appear constructive both in their direct reaction to the Report and when the subjects covered in it are discussed in the North/South dialogue. Most other Western countries will find it easier than the UK to respond to the Brandt Commission proposals. Most are increasing their spending on official aid and are not subject to such severe domestic economic constraints as ourselves. We may come under pressure from our Western partners to do more; they may argue that our economic problems are insignificant compared to those of the South, and that the existence of North Sea oil gives us a better outlook for the future.

22. While we should aim, as far as possible, to keep in line with our Western partners, there will be limits to our ability to do this. We should not wish to obstruct the efforts of others. We may therefore have to make national reservations on occasion, opting out of collective decisions. But we would have to accept that there might be resultant damage to our political interests, not only with respect to developing countries, but also as regards our Western partners.

Conclusions

23. This paper has sought to identify the main issues of the Brandt Report and place them in the context of the current domestic and international economic situation. A great many of the Report's recommendations will give us considerable difficulty. We must therefore seek to avoid a situation in which the proposals would be dealt with as a package. Instead we should aim to deal with them individually on their merits as they are raised in the relevant fora. Meanwhile the Commission's Report has attracted a good deal of public and Parliamentary attention and it will be necessary to agree on a general line to take in public. This stance should not be more enthusiastic than that of our main OECD partners, since we will be more constrained than/by our economic position. It will, however, need to take account of domestic political aspects as well as the need to minimise any damage to our political relations with countries in the third world.

24. This paper therefore recommends that our public line should be as follows:

/(a)

- (a) To welcome the fact that the Report has drawn attention to the very serious problems confronting the developing countries; to welcome also the stress on seeking mutual benefit; but not to endorse the complete programme of proposals.
- (b) To adopt a selective approach to the Commission's proposals, commending some (eg on energy), questioning others (eg 'massive transfers of resources') and recommending greater attention to others (eg private investment and the task of the developing countries themselves).
- (c) To seek solidarity of a common Community and Western response; but to recognise that others may wish to go further than we can, so that national reservations may sometimes be required.
- (d) Not to encourage the idea of a North/South Summit, but to be ready to participate if it gathers momentum.

the

Foreign and Commonwealth Office

April 1980

CONFIDENTIAL

ANNEX*

BRANDT COMMISSION REPORT:

Summary of Argument, Recommendations

Comments of Officials

- Chapter 1 North-South: The Setting
- Chapter 2 Dimensions of Development
- Chapter 3 Mutual Interests
- Chapter 4 The Poorest Countries
- Chapter 5 Hunger and Food
- Chapter 6 Population: Growth, Movement and the Environment
- Chapter 7 Disarmament and Development
- Chapter 8 The Task of the South
- Chapter 9 Commodity Trade and Development
- Chapter 10 Energy
- Chapter 11 Industrialization and World Trade
- Chapter 12 Transnational Corporations, Investment and the Sharing of Technology
- Chapter 13 The World Monetary Order
- Chapter 14 Development Finance: Unmet Needs
- Chapter 15 A New Approach to Development Finance
- Chapter 16 International Organizations and Negotiations - An Overview
- Chapter 17 A Programme of Priorities

*The contents of this Annex have been agreed by officials in the Whitehall Departments concerned.

Chapters 1, 2 and 3

SUMMARY OF ARGUMENT

1. Report outlines gaps between North and South. Traces post-war problems of development up to oil crisis 1973. Oil price increase has underlined need for transformation of world economy. Sombre future: continued poverty and hunger; world stagflation; international monetary disorder; mounting debts; protectionism; major tension between countries competing for energy, food and raw materials; threat to environment; and overshadowing all, the arms race.
2. But trends above not inevitable. Need for restructuring of world economy but not all at expense of one side. The North needs structural change to cope with changing pattern of resources and technology. Significant dependence on trade with South. South depends on North for finance, technology, and markets. Needs increased self-reliance stemming from industrialisation.
3. Present North/South dialogue suffers from 'demands' and 'concessions' mentality. Should be opportunity for partnership. Conflicts, eg on relative prices, financial and monetary systems, perceived partly because of short term approach. Need for increased information on problems of development to remove misconceptions on 'threats' and 'costs' to North and South.
4. But, in fact there is growing mutual interest in change. Development needs a responsive international environment. Gains for all in a new 'order of international economic relations'. Present international environment hostile to poor, eg commodity terms of trade fluctuate thus preventing rational planning; in any case they are in long term decline. Oil exporters have their own problems of structural adjustment, as do NICs. Moral and practical case for reforming world economy and ensuring transfer of resources to benefit of developing countries. Need for human solidarity and international social justice strengthened by hard-headed interests of rich countries.

SUMMARY OF ARGUMENT

1. Report restates case for providing assistance mainly to poorest. Severe long term constraints on LDC's ability to develop. Situation deteriorated in 1970s. Immediate programme for structural and ecological change needed. Guaranteed additional resources over 15-20 years to attack cost of poverty. Importance of regional cooperation. Cannot be imposed but can be strengthened by external resources.
2. Fundamental need for water control and management. Cost benefit studies of major schemes needed. Aid agencies should support them if viable. Research needed into new crop varieties and soil management. Institutional reforms of land tenure required. But Asia has particular problems with landless: not solved by tenure reforms. Irrigation, flood control and industrialisation necessary.
3. Improved health essential for development. Disease eradication through international aid. Destruction of forests leads to soil erosion and lack of wood leads to diversion of manure for fuel. Major need for concerted reforestation. Improved transport required. African Transport and Communications Decade needs substantial support.
4. Systematic survey for developing mineral resources lacking. Partnership with TNC's should be encouraged to exploit resources. But LDC's must maintain control.

RECOMMENDATIONS

1. Action programme, including emergency and longer term measures, for poorest. Should include water and soil management; health care and disease eradication; afforestation; solar energy development; mineral exploration; development of infrastructure including communications. Extra \$4 billion required per year over next 20 years at special concessional terms. New regional coordinating machinery needed for funding and planning. Greater technical assistance.

COMMENT

1. Recognise need for intensive development programme in poorest countries. But economic and social underdevelopment make immediate programme aid on scale envisaged beyond absorptive and organisational capacity of LLDC's at present.
2. Endorse recommendation that irrigation and other projects should be subject to cost benefit analysis. But opportunity costs of financing large projects also important. F.A.O. advise that new jumbo projects advance agriculture more slowly than steps to use already cultivated land more intensely.
3. Cannot endorse particular estimates of resources required. Programmes should be set at maximum practicable in light of available resources.

4. LLDC action programme part of UNCTAD strategy. UK reservation on committing resources to this.
5. Creation of further special regional units needs examination in light of present experience.
6. Task force may not reconcile differing national interests of donors and recipients. Restructured Regional Economic Commissions should be given a chance to function before creating new machinery.

SUMMARY OF ARGUMENT

1. Poverty root cause of hunger. Major effort required to reduce poverty, produce more food and increase efficiency of distribution. World support needed for aid to agriculture; must reach rural poor.
2. Massive investment needed, particularly irrigation. Western farming systems not always appropriate. Need for agrarian reform. Must be flexible and targetted to particular circumstances. Development must be directed at local food needs. TNCs guilty of cash crops crop exports at expense of local supply. Improved storage needed. Importance of fish: conservation vital. Assistance to LDCs to develop EEZs.
3. Food supply not an isolated problem. Inputs for agricultural investment must be paid for by exports. Effective demand important as incentive to production.
4. Need for secure supplies. Arrangements needed for larger reserve stocks, price triggers and special measures for LDCs. Constraints on food trade by North increase instability; they must be reduced.
5. Fertilizer supply crucial. Need to introduce new crop technology.
6. North could release new supplies of food if practices changed eg lower meat consumption. Food aid will continue to be essential: continuity important. Food aid targets may need to be increased in line with plans for greater investment and intensive projects. Renewal of Food Aid Convention urgent.

RECOMMENDATIONS

1. End to mass hunger and malnutrition. Capacity of LLDCs to meet own food requirements must be expanded. Increase in development flows. Special attention to irrigation research, storage, fisheries.
2. Agrarian reform essential to put higher incomes in hands of poor.
3. Food security should be assured through International Grains Agreement, larger international reserves, establishment of IMF food financing facility.
4. Increase food aid.
5. Liberalisation of trade in agricultural products.
6. Expand support to international agricultural research.

/COMMENT

COMMENT

1. Agree with basic aims. But increased concentration on food would divert aid efforts from other sectors. Recommendations not new. Most accepted by UN on recommendation from WFC, FAO, UNCTAD etc. No mention of linkage between nutrition and problems of population growth.
2. Agree importance of agrarian reform. But internal political problem for LDCs, not for donors.
3. We support call for International Grains Agreement. Accept concept of larger international emergency reserves. But large stocks expensive. Should be based on variations in trade not production. Do not support call for IMF food financing facility, since it would breach principle of non-discrimination between members or groups of countries.
4. New food aid convention with higher minimum food aid obligations agreed on 6 March. UK will continue to play part in EC food aid programme but we are seeking to transfer our extra national share to other EC members.
5. Liberalisation of food trade would benefit UK as net importer. But trade in CAP products within EC competence. UK working in EC to liberalise but sensitive to views of EC partners.
6. UK will continue to support agricultural research. But aid programme constraints. Greater effort needed to disseminate existing technology.
7. Report biased against TNCs. TNCs play valuable economic role. Provide income essential for development.

Chapter 6 Population - Growth, Movement and the Environment

SUMMARY OF ARGUMENT

1. Present population growth very high. Two billion increase to year 2000, 90% in LDCs. But while rate slowing, stable population level not likely until next century at 8-15 billion (4 billion at present). Despite economic and social development helping to reduce birth rate, population programmes vital. Lessons of successful programmes eg China should be applied elsewhere.
2. Need for attention to migrant problems. Rights of migrants differ. Both migrants themselves and home countries receiving remittances greatly affected by recession.
3. Joint action needed on refugees to help recipient countries.
4. Doubts as to whether resources and ecological systems will meet needs of population. Renewables under great strain eg fish, wood. Recent increased attention on Environment. But conflict with economic factors. Need for environmental concern in economic planning. Need for international regimes to protect common resources eg seabed.

RECOMMENDATIONS

1. Development policies should include population programmes to balance needs and resources. Family planning should be freely available. International assistance must be increased.
2. Bilateral and multilateral agreement required on treatment of migrants: protect rights, stabilise remittances, mitigate hardship of unanticipated repatriation.
3. Rights of asylum and legal protection for refugees must be strengthened. International co-operation needed on resettlement.
4. International co-operation required to manage global environmental problems and common heritage. In particular, resources outside 200 mile EEZs should be under international control.

COMMENT

1. Delays in fertility reduction down to a net reproduction rate of one will result in an increase of 11% every decade in ultimate stable level of world population.
2. Agree analysis and recommendations on population and migration. But internal migration serious omission.
3. Agree recommendations on environment. We cannot agree to international control over continental shelf resources within national jurisdiction beyond 200 miles.

CONFIDENTIAL

Chapter 7

Disarmament and Development

SUMMARY OF ARGUMENT

1. Arms race grave danger to mankind. More arms merely make mankind poorer, not safer. Military spending \$450 billion per year. ODA \$20 billion. Transfer would transform prospects of LDCs. Not just diversion of essential funds but also manpower and technical skills.
2. Falacy that economies of North depend for health on arms production. Political not economic problem. Investment per job created greater in military field than civilian.
3. Need to prevent spread of nuclear weapon technology via civil nuclear programmes. IAEA inspection programme must be strengthened.
4. International disarmament talks, SALT MBFR etc, too slow; lag behind weapons development. Lack of courage by leaders. But only 20% of arms spending on non-conventional forces. Sales to South by North (both East and West) increasing. \$14 billion in 1978. Sellers of arms stimulate demand irrespective of real defence needs. Need for internationally agreed restraints on arms trade. Visibility essential. Potential for taxation of military expenditure on arms trade to finance development.

RECOMMENDATIONS

1. More public information on dangers of arms race essential. Negotiations on disarmament before new weapons developed. International agreements essential on nuclear non-proliferation. Role of UN peace keeping machinery must be strengthened to reduce individual needs for military expenditure.
2. Taxation of military expenditure and of arms trade should be examined as part of new principle for international taxation. Need for increased disclosure of information on arms exports. More research needed in converting military production to civilian uses.

COMMENT

1. Disparity between military expenditure and aid is regrettable from moral and humanitarian point of view. South would benefit from switch from military to aid expenditure. But report elsewhere shies off this suggestion in favour of an increase in aid, presumably on grounds that this is an East/West not a North-South matter.
2. UK committed to arms control and disarmament, proposed UN study on world-wide accumulation of conventional weapons in 1978, and welcomes Mexican initiative limiting arms supplies on regional basis.
3. Recent Western proposals in MBFR turned down by USSR.

/4.

4. Report ignores relative performances of East and West on arms and other aid (DAC 12:1. USSR 500:1 in 1977).

5. Report also tends to put blame on North whereas military demands of South are increasing. (Military expenditure three times aid received.)

SUMMARY OF ARGUMENT

1. Importance of domestic policies. Present structures reinforced by international factors but not always suitable. Lessons to be gained from successful developers.
2. New institutions and policies required to direct resources to poor within overall development goals. Need for priority to be given to agriculture (70% or more of poor are rural). Sustained increase in agricultural production necessary condition for economic growth. Input of development effort often needs structural change. Case for public works schemes especially in infrastructure, rural improvement, reafforestation, land reclamation etc. Need to upgrade technology.
3. Importance of social policies. Population planning, health, water, education.
4. Efficient planning and management essential. Employment of cost-benefit techniques, reform of price system to reflect opportunity costs, encouragement of participation.
5. Need for further economic co-operation between developing countries and increased role for regional integration schemes, development banks, etc. Trade within the South will increase division of labour, promoting specialisation and economies of scale. Compensate for protectionism in North. Other possibilities include management of common resources such as rivers, development of EEZs, communications, credit arrangements and technical co-operation. Emergence of LDC surplus countries (mainly OPEC) led to financial flows within South. Most so far channelled through banks. Scope for large increase in direct flows.

RECOMMENDATIONS

1. Redistribution of productive resources and incomes necessary. Expansion of social services to poor, agrarian reform, development of rural areas.
2. Increased resources made available to 'informal' sector ie small scale private sector.
3. Promotion of education, in particular in scientific, engineering and technical management and economic fields.
4. Wider participation in development processes. Devolution, support for voluntary organisations.
5. Increase regional co-operation and integration. Expansion of preferential trade schemes. Untying of aid from North would greatly help. Establishment and extension of joint payments and credit arrangements.
6. Encourage direct flows of funds to NLDCs from surplus countries. Establishment of trilateral projects involving North.

7. Consideration of formation of mutual assistance organisation to promote economic co-operation within South and make participation in international fora more effective.

COMMENT

1. The general tone of this chapter is welcome. The argument is carefully phrased ('domestic policies lie within the national domain' and the Commission do not wish 'to suggest that changes in policy must be a prior condition for reforms of the global system') but nevertheless hard-hitting. Progress towards achieving the aims of the Commission cannot be made without significant effort on the part of the developing countries themselves.

2. Importance of domestic policy in LDCs could have been further emphasised; ODA can only play a complementary role.

3. Proposal to encourage direct flows from OPEC to NLDCs could ease recycling problems, if former were prepared to take the risks involved. Triangular deals with OPEC countries have long been supported by us but have proved difficult to arrange.

SUMMARY OF ARGUMENT

1. An expansion of processing in LDCs of agricultural and mineral commodities would help them diversify their industrial sectors and increase export earnings. But inhibited by trade policies of developed countries. (Tariff escalation, non-tariff barriers, freight rate escalation) Research and development on uses of natural products has lagged behind that on synthetics. Need for improvement of market promotion for natural products and in market structures in the LDCs. Adequate resources for this should be made available to Second Window of Common Fund.
2. Stabilisation of commodity prices in mutual interest of North and South. Fluctuations cause severe problems for LDCs dependent on one or two commodities. Where long-run decline in relative price due to market factors, adjustment assistance and export earning stabilisation more appropriate than price support. Low prices discourage investment, jeopardise long term supplies. Stabilised prices could help reduce inflation in North.
3. Greater efforts needed to conclude International Commodity Arrangements, (ICAs), and to increase their effectiveness. Absence encourages control and confrontation rather than co-operation. Greater determination needed to reconcile divergent interests and to provide finance for buffer stocks.
4. Negotiations for Common Fund must be concluded quickly with adequate finance for both national as well as international stocking.
5. Schemes to stabilise export earnings should complement price stabilisation schemes. IMF CFF and Stabex valuable but must be improved.
6. Recognition that natural resources finite. Pace and pattern of economic expansion must change. TNCs role questionable. Need for greater exploration in South. Agreements on exploitation of resources will encourage this. Developing countries must receive full share of benefits. Multilateral financing facility needed to provide loans and aid in high risk areas, for exploration, exploitation and development.
7. UN Revolving Fund for Natural Resources Exploration not successful. Lower repayment terms needed. LDCs discouraged by high repayments levied on successful ventures. Also Fund based on voluntary contributions from North. More contributions required.
8. Need for equity participation by LDCs in development of resources. Not available from World Bank or regional banks. New institution required. Also need for increased technical assistance.

/RECOMMENDATIONS

RECOMMENDATIONS

1. Greater participation by LDCs in processing, marketing and distribution of their commodities. Stabilisation of prices at remunerative levels urgent.
2. Removal of tariff and other barriers to LDC products. Fair transport rates. Abolition of restrictive business practices. Improved financial arrangements for processing and marketing.
3. Adequate resources for Common Fund to finance effective ICAs, finance national stocking and facilitate Second Window activities.
4. Rapid conclusion to individual commodity agreements. Improvement in compensatory financing measures called for.
5. New financial arrangements for developing mineral resources in South. Greater LDC participation. New financing facility to provide concessional finance for mineral exploration.

COMMENT

1. Report is inclined to accept without analysis the proposals in the NIEO and covers ground well trodden at UNCTAD and CIEC. We support general objectives on commodities, but with major reservations about the possibility and methods of achieving them. UK has promised to contribute to Second Window of Common Fund. Hope Common Fund established as soon as possible.
2. North have removed a number of barriers in context of MTN's and GSP and are generally committed to open trading system.
3. Agree attempts to keep commodity prices artificially high, damaging and that control of wilder fluctuations is of general benefit. But economic benefit to Southern countries from intervention to stabilise prices not proven and export taxes or minimum prices which are suggested as alternatives to ICAs face similar problems of determining appropriate price ranges.
4. Support conclusion of new commodity agreements where feasible, cost effective and mutually beneficial. But recognise that in practice such agreements are unlikely to prove possible.
5. We have supported successive improvements in IMFs CFF and we contribute to Stabex but with some reservations as to the benefit the latter gives to developing countries.
6. Although we accept the need for measures to increase mineral exploration and investment, the possibility of improving existing arrangements should be examined first. Arrangements could include insurance and guarantee provisions.

Chapter 10

Energy

SUMMARY OF ARGUMENTS

1. Fair distribution of oil and development of substitutes call for exceptional measures of international collaboration.
2. Long term aim of energy policy to reduce dependence on oil. But during transition no country can escape serious disruption if oil supplies drastically reduced.
3. North will have to alter life styles which are based on abundant energy. Need not have severe economic consequences. Consumers must set ambitious targets for energy conservation; eventually subject to international agreement and surveillance.
4. Many oil producers have good reasons for restraining expansion of their production. Accommodation between producers and consumers urgent.
5. Oil exploration in South must be expanded. Distrust between TNCs and LDCs major obstacle to exploration. General proposals on TNCs (Chapter 12) especially urgent in case of oil.
6. Production should be increased in North. Recently surplus producers have been urged to produce more while North maintained reserves.
7. Ultimately energy supply depends on renewables. But for rest of century exhaustible sources predominant. Problems over nuclear energy unsolved as yet; only partial contribution. Priority to hydro-electric development. Solar energy technology must be available to South on favourable terms.
8. Present differences over energy should not conceal important common interests; long term exploration and development, orderly transition away from oil, conservation, avoidance of abrupt price changes, protection of NLDCs. Need for continuing dialogue.
9. UN global energy research centre to be established to focus on information, research and projections. IFIs to increase financing of exploration and development.
10. NLDC require supply guarantees. Immediate need for extra finance to meet cost of recent oil price increases.
11. Emergency Programme for 1980-85 (from Chapter 17):
 - (a) Guaranteed levels of production unless circumstances beyond control.
 - (b) Major consumers committed to agreed targets to hold down consumption.
 - (c) Oil prices set in such a way as to avoid sudden increases and at levels (indexed) to give incentives for production and conservation.

- (d) Major investment programme in oil, gas and coal exploration in LDCs. Development of hydro-electric sources.
- (e) Industrialised and OPEC countries should agree on respective additional roles and lending capacities, both directly and as joint guarantors to meet the debts and deficits of the LDCs.

RECOMMENDATIONS

1. Orderly transition from high dependence on scarce, non-renewable energy sources.
2. Immediate steps towards international strategy as part of 'Emergency Programme'.
3. Prices should reflect long term scarcities. Orderly and smooth price changes to facilitate smooth development of world economy.
4. Special arrangements including financing assistance to LDCs.
5. Increased financing of exploration and development.
6. Creation of Global Energy Research Centre under UN auspices.

COMMENT

1. Report is well balanced and good main-stream statement of problems ahead. It is on orthodox lines as far as UK is concerned. It correctly emphasises urgency and magnitude of energy problems, especially for NLDCS. (No mention of wood fuel problems and deforestation in this Chapter but dealt with elsewhere.)
2. Welcome emphasis on need and scope for better relations between oil producers and consumers, and on the need to avoid large, sudden oil price increases, which are economically damaging, particularly to LDCS. Accept however that long-term trend of oil prices is upwards; problem is to ensure that the transition is orderly and not disruptive.
3. Reservations about concept of consumers setting internationally supervised targets for energy conservation. Real difficulties about ensuring equality of effort; and targetry by itself is not enough.
4. Do not accept that criticism in point 6 of Summary of Argument can be levelled at our own production policies.
5. Report understates the potential for nuclear power.
6. There is a case for an International Energy Centre concentrating on information exchange, economic and technical matters etc, but not one to coordinate research per se.
7. Agree with call for major investment programme in South. Not enough stress on private flows and necessary role of TNCs. Role of IFIs should be to stimulate and direct flows to sound projects.
8. Cannot accept shared lending/guarantee role for industrial and OPEC countries if this increases calls on aid programme. But concept could usefully be explored further.

SUMMARY OF ARGUMENT

1. Industrialisation of South central objective. Share in world manufacturing only 9% in 1977 (7% in 1960s). A 1975 UNIDO target of 25% by 2000 not beyond reach if positive commitment by all countries. Crucial task is finding balance between industrial and agricultural sectors.
2. Most countries start with import substitution. Viable long-term for those with large domestic demand. But switch to export orientated policies nearly inevitable for all. LDC manufactured exports growing. But require access to markets. South a growing market but West main market. Must not overlook East: import much lower proportion of manufactured goods from LDCs. Nevertheless, West principal outlet for future expansion.
3. Industrialisation of LDCs need not pose threat to North. Employment gains and losses well balanced. International division of labour needs continuous adjustment. Difficulties for particular sectors. But sensitive and imaginative handling by governments in North can overcome political and social problems.
4. Alarming signs of increased protectionism since 1974 recession especially in textiles, ship-building, footwear, steel and electronics. Result of understandable social pressures, But against interests of individual consumers in North. Imports from South can dampen inflation. Protectionism must be rolled back. Improved institutional machinery, new trading rules and principles.
5. LDCs not satisfied with Tokyo Round: too many exceptions, tariff reductions too small. Codes of conduct promising but must be respected. North too ready to invoke emergency restrictions clause of GATT or abuse system with non-tariff barriers. Stricter non-discriminatory system required linked to government adjustment measures. Orderly marketing agreements in North, eg in ship-building, steel etc., harm South: only acceptable if linked with internationally agreed compensation and sectoral change.
6. Positive adjustment must be pursued in North. Protective measures must be time bound. International consultations on restructuring. Retraining and compensation for affected.
7. Labour unions have important role and must adopt progressive attitudes.
8. Fair labour standards important. New trading rules also needed. GSP improvements. Bring GATT and UNCTAD closer with

/co-ordinating ...

co-ordinating body to link issues such as commodities and access to markets. In long-term, need for International Trade Organisation to encompass functions of both GATT and UNCTAD. Could cover all aspects of trade including TNCs, investment, taxation, state trading practices, transfer of technology.

RECOMMENDATIONS

1. Facilitation of industrialisation of LDCs.
2. Roll-back of protectionism. Positive and time-bound adjustment policies needed in the North. Improved machinery and rules. International surveillance.
3. Internationally negotiated safeguard measures only on basis of established need. Non-discriminatory, limited duration and subject to surveillance.
4. Generalised System of preferences to be eased, extended in time and made contractual.
5. Financial support and technical assistance to poorest to improve commercial infrastructure and facilitate participation in trade negotiations.
6. Internationally agreed fair labour standards.
7. Creation of International Trade Organisation. In meantime improvement of existing arrangements.

COMMENT

1. We agree on importance of industrialisation in the development process and on need to preserve open world trading system subject to reasonable safeguards. But Report unbalanced in suggesting widespread protectionism in North; under-values Northern efforts such as MTNs. We do not see value in targetry. Figures quoted depend on which LDCs included.
2. The Report does not properly address need for measures in the South - eg favourable conditions for foreign investment, opening of markets as economies strengthen.
3. While we agree that structural adjustment is an inevitable and continuing process, the recommendation implies intolerable degree of international interference in domestic affairs and a role for government which we would not recognise in a market economy. We cannot accept an obligation to adjust in anticipation of industrialisation in LDCs. Appropriate measures to facilitate adjustment may not be sector-specific, and we see difficulties in formal international undertakings on adjustment policies. Protectionism and adjustment not mutually exclusive alternatives.
4. Report acknowledges case for safeguard protection to avoid unacceptable disruption. Do not agree that Article XIX system abused or now ineffective. Agree in principle that safeguard action should be temporary and regressive. Could accept some additional disciplines and surveillance in GATT which did not rule

/out ...

out action in last resort by importing countries. We favour selectivity.

5. We agree the GSP should be liberalised and extended where possible. The Report is weak on reducing benefits of GSP for middle income countries and their progressive acceptance of full GATT obligations.
6. Application of fair labour standards test to GSP neither feasible nor desirable.
7. GATT budget already makes provision for technical assistance to LDCs and specific provisions of this kind exist in a number of MTN Codes. We need to know what needs not met in this way or by existing UN programmes and bodies.
8. Serious doubts about proposal to merge GATT and UNCTAD into new International Trade Organisation. No obvious institutional gap at present. UNCTAD not universally competent supervisory body as Report seems to imply. Specialised bodies necessary in many fields. IDCs should be encouraged to make better use of GATT.

4. Report stresses need for fair contracts. In international rights of workers, state but only with fair balance of equity leads to stability. Bilateral investment agreements where useful. Possible need for multilateral body to settle disputes.

5. LDCs efforts towards technological self-reliance need to be fully supported through international co-operation. Market for technology imperfect. Dependence of South on North gives them weak bargaining position. Possible need to reform patent legislation.

6. International co-operation required to ensure transfer of appropriate technology taking account of LDCs mix of factors of production.

7. Increase in transfer of technology required:

- (a) Increased flow of information on technology.
- (b) Greater contact for technical assistance.
- (c) International support for research into more efficient production, development and marketing of primary commodities.
- (d) Study of implications of new technology harmful to South's comparative advantage.
- (e) Greater expenditure in North on R&D concerned with South's problems.

SUMMARY OF ARGUMENT

1. TNCs active in all aspects of North/South relations. Control up to one third of total world production. In some sectors dominant. In mid-1970s \$8 billion per year direct foreign investment in LDCs, 12% of total flows. Concentrated in certain countries mostly those least needing aid. Thus private investment can supplement and complement aid, but cannot replace it. TNCs also major vehicle for technology flows.
2. Present LDC/TNC relationship prone to mutual suspicion, mistrust, which inhibit investment. Cause conflict, even political tensions over existing operations. Removal of distrust important to all sides.
3. More effective regulation essential to achieve global objectives of maximising benefits, minimising costs from transnational investment. Report proposes regime for international investment imposing contractual obligations on all parties concerning restrictive practices, treatment of TNCs in home and host countries, transfer price monitoring, co-operation over tax policies and fiscal and other incentives. Need to improve LDC bargaining strength.
4. Report stresses need for fair contracts. Eg Nationalisation rights of sovereign state but only with fair compensation. Equity leads to stability. Bilateral investment insurance agreements useful. Possible need for multilateral body to settle disputes.
5. LDCs efforts towards technological self-reliance need to be fully supported through international co-operation. Market for technology imperfect. Dependence of South on North gives them weak bargaining position. Possible need to reform patent convention.
6. International co-operation required to ensure transfer of appropriate technology taking account of LDCs mix of factors of production.
7. Increase in transfer of technology requires:
 - (a) Increased flow of information on technology.
 - (b) Greater support for technical assistance.
 - (c) International support for research into more efficient production, development and marketing of primary commodities.
 - (d) Study of implications of new technology harmful to South comparative advantage.
 - (e) Greater expenditure in North on R&D concerned with South's problems.

- (f) Greater use by aid agencies of local consultants and skills.
- (g) Aid untied from particular technology.
- (h) Effective co-ordination in technology where mutual interest is great eg resources, management of oceans, rivers, environment.

RECOMMENDATIONS

1. Effective national laws and international codes of conduct to govern sharing of technology, restrictive business practices and activities of TNCs.
2. An investment regime involving reciprocal obligations for home and host countries covering foreign investment, transfer of technology and repatriation of profits, legislation co-ordinated in home and host countries to regulate TNCs' activities; inter-governmental co-operation on tax policies and transfer prices; harmonization of incentives among host developing countries.
3. Bargaining power of LDCs with TNCs to be increased by technical assistance. Improved access to development finance.
4. Permanent sovereignty over natural resources. Nationalisation with appropriate compensation under international principles. More use of international mechanisms to settle disputes.
5. International regional and national effort to support development of technology in LDCs. Transfer of appropriate technology at reasonable cost.
6. Effort to develop appropriate technology in face of changing constraints regarding energy and ecology. Improved flow of information. Removal of restrictions on LDCs regarding choice of technology.

COMMENT

1. Analysis of TNCs generally balanced and moderate. But understates positive contribution of TNCs to development and tends to imply that inter-affiliate arrangements (RBPs) are necessarily bad. Too much emphasis on role of governments and international organisations, too little on value of private enterprise.
2. Can accept general thrust of argument. Would welcome reduction in suspicion and tension. But overstates ability and responsibility of Western governments to intervene in policies of TNCs. Proposal for co-ordinated legislation on TNCs is impractical and would infringe individual countries' freedom to legislate to meet own particular circumstances and impose serious and unwelcome constraints on TNCs' freedom of action. This not conducive to flow of funds and technology. We can accept non-mandatory Codes of Conduct, but do not see them as step towards legislation.

Chapter 11

The World Monetary Order

3. Continued references to permanent sovereignty undermines confidence of potential investors. Compensation must be 'prompt, adequate and effective'.
4. Report refers constantly to "sharing" technology. As noted, North accounts for some 96% of all R&D expenditure. Most transfers of technology commercial. More realistic to concentrate on encouraging transfers on "mutually agreed, fair and reasonable terms and conditions" in recognition that they are likely to be commercially based for the foreseeable future. This is our line in UNCTAD negotiations on a Code of Conduct on the Transfer of Technology.

leaders and sound adjustment policies in individual countries.
 Role of various trading areas should be reviewed.

4. Central part to be played by the IMF becoming the principal reserve asset. IMF substitution essential vital to reduce reliance on individual currencies. Historical developments mean that IMF has not prospered. In particular they have not benefited from increased price of gold. IMF should be treated in non-inflationary manner solely in response to world liquidity needs. An allocation should be according to reserves held, with a larger IMF particularly those with heavy systematic reserves.

Gold should be further dematerialized in order to strengthen the IMF. IMF gold should not be used as collateral against which Fund could borrow on market and on-lend to IMOs.

Security of IMF account. Fund to Fund's resources only with conditionality. Conditionality necessary. But Fund has been too strict and inflexible with respect to policies required for disbursements. Repayment periods too short. Result: reluctance of IMOs to go to Fund. Fund should increase resources available at lower end of conditionality, extend repayment periods and take development objectives into account lessening conditionality. Should recruit more staff from IMOs.

5. IMF should be expanded and reformed. Removal of quota-based limits. Should recognize import price increases as well as export surpluses as grounds for access.

6. Destitution of IMF by North based on political relations at time of Bretton Woods. Fund should have broad-based leadership to manage monetary order, including IMOs and the Eastern bloc.

RECOMMENDATIONS

1. Reform of international monetary system urgent. Should be based on recommendations of Committee of XI.

Chapter 14 Development Finance: Unmet Needs

SUMMARY OF ARGUMENT

1. LDCs will have enormous financial requirements in next decades if they are to regain momentum of growth lost in 1970s. Rapid growth of private financing of balance of payments' deficits (40% of total in 1960, 70% in 1977) lead to heavy debt burdens. Amount and type of finance clearly inadequate and uncertain.
2. Relationships between borrowers and lenders deficient. LDCs should have greater influence. IFIs do not have universal membership.
3. Poorer LDCs rely on ODA. 0.7% of GNP target not met by North. OPEC have managed 1.6%. East's performance 'disappointing' (0.04%). Marked lack of political will. Budgetary and balance of payments' difficulties poor excuse. Political climate must change. Aid essential for survival of all.
4. Gaps identified call for fundamental changes. More concessional funds for LDCs. Longer maturities; more flexible loans, better access to capital markets for middle income LDCs. Restructuring of IFIs. LDCs for example require \$40 - \$54 billion per year in 1980s, twice present lending. In analysis by sector, Report quotes target figures e.g. \$20 billion per year for agriculture and food (IFPRI) \$200 billion by 2000 for industrialisation from UNIDO.
5. Nature of lending should change since it is unsuited to needs of LDCs. Most serious gap is in programme lending which is most flexible type and has greater local multiplier effects. But there is also a need for the refinancing of export credits provided by LDCs; financial support for economic integration between LDCs and financing for commodity stabilisation.

COMMENT

1. The Report's approach to the volume of 'unmet needs' rests on assumption on growth rates, terms of trade and investment/output relationships, all of which are subject to change, particularly over the long time scale of this Report. No discussion of how figures reached. But the Report is correct to argue the need for more programme lending and the refinancing of export credits provided by LDCs.
2. UK has consistently argued for increased programme lending by IFIs.

SUMMARY OF ARGUMENT

1. Key problem in world economy is disarray in world monetary order. Report traces development of world financial system from Bretton Woods to breakdown in 1970s. Outlines current problems.
2. Report suggests that monetary reform must take into account great expansion of private money and capital markets. Reform must be based on more stable exchange rates, greater symmetry in burden of adjustment as between deficit and surplus countries and an orderly expansion of world liquidity.
3. Stable exchange rates require greater security for asset holders and sound adjustment policies in individual countries. Role of private banking sector should be examined.
4. Central part to be played by the SDR becoming the principal reserve asset. IMF substitution account vital to reduce reliance on individual currencies. Historical developments mean that LDCs have low reserves. In particular they have not benefitted from increased price of gold. SDRs should be created in non-inflationary manner solely in response to world liquidity needs. But allocation should be according to members needs; should favour LDCs particularly those with heavy adjustment burdens.
5. Gold should be further demonetized in order to strengthen the SDR. IMF gold could then be used as collateral against which Fund could borrow on market and on-lend to LDCs.
6. Resources of IMF modest. Access to Fund's resources only with conditionality. Conditionality necessary. But Fund has been too strict and paternalistic with respect to policies required for adjustment. Repayment periods too short. Result: reluctance of LDCs to go to Fund. Fund should increase resources available at lower end of conditionality, extend repayment periods and take development objectives into account in setting conditionality. Should recruit more staff from LDCs.
7. CFF should be expanded and improved. Removal of quota-based limits. Should recognise import price increase as well as export shortfalls as grounds for access.
8. Domination of IMF by North based on political relations at time of Bretton Woods. Fund should have broad-based leadership to manage monetary order, including LDCs and the Eastern bloc.

RECOMMENDATIONS

1. Reform of international monetary system urgent. Should be based on recommendations of Committee of 20.

/2.

2. SDR should replace individual currencies as reserve asset.
3. Creation of new SDRs with distribution biased in favour of LDCs to assist adjustment process.
4. Agreement required on adjustment process which will not increase contractionist pressures in world economy. Should take into account longer term economic and social development. Surplus countries should also accept responsibility to adjust.
5. Extension and expansion of CFF.
6. Increased participation of LDCs in staffing, management and decision-making in Fund.
7. Further demonetisation of gold. Sale of IMF gold to subsidise lending to LDCs. Use rest to increase borrowed funds for on-lending.

COMMENT

1. Agree need for improvement of international monetary system. Greater exchange rate stability and responsible economic policies essential. We are playing positive role in discussions in IMF and elsewhere.
2. Agree that substitution account would help stability.
3. Agree IMF will need more funds in due course. We would consider more medium term lending. Creation of new SDRs via IMF quota increases underway. Skewed SDR distribution to favour LDCs would require amendment of IMF articles, with consequent problems.
4. Adjustment role of IMF vital. Further relaxation of conditionality would threaten credibility of Fund programmes. Recently revised guidelines adequate for flexible application to each case.
5. CFF has just been enlarged. We have reservations on some of Report's proposals for further reform.
6. No objection to more LDC members of IMF Staff provided standards maintained. But cannot accept role in decision-making beyond what their relative strength in the Fund would justify: would reduce effectiveness of Fund, its capacity to lend and its positive influence on private flows.
7. Role of gold in Fund being examined. Unwise to dissipate remaining gold holding. Use as collateral for borrowing might be acceptable.

Chapter 15 A new approach to development finance

SUMMARY OF ARGUMENT

1. Needs identified in Chapter 14 can and must be met. Measures will accelerate development in South and stimulate economies of North.
2. North in worst recession since World War II. Annual productive capacity at least \$200 billion underused. At same time LDC current account deficit will be over \$60 billion in 1980. Co-existence of great needs in South and underused capacity in North suggests scope for large-scale transfer of resources based on mutuality of interests.
3. Recycling of funds to middle income LDCs reduced to impact of recession in 1974/75 (in 1975 alone EC exports to LDCs increased 25%). But at cost of LDC indebtedness. (By 1979, \$300 billion total accumulation). Recent oil price increases will require increase of \$300 - \$500 billion 1980-85. Major recycling and debt servicing needs on top of existing problems threaten whole political, industrial and financial structure. Doubtful that commercial recycling will cope. If incomplete recycling, world economy will slow down with serious effects.
4. Effective demand can be sustained by massive transfers to South. Econometric study shows \$20 billion per year transfer would increase exports of North by 3% per year. Fear of inflation in North overstated. Exports to LDCs encourage productivity and efficiency in long run. Most urgent target: 0.7% of GNP is aid. But also a case for making provision of ODA universal: level of aid to be determined by level of GNP, poorest exempt.
5. Efficiency of aid must be increased. Lengthen period of assured flow untying, increased grant component, greater channelling through IFIs, increased targeting to poorest. Attack on absorptive capacity of poorest priority.
6. Advantage of 'Automatic Revenues' over present uncertain system. Would decrease dependence of aid on political process. Possibilities include levies on trade, on arms trade, international investment, hydro carbons, durable luxury goods, military spending etc. Report advocates international trade levy because of volume and ease of administration. Also income from Global enterprises eg seabed authority. More automatic resources also possible through creation of SDRs and borrowing against IMF gold. All countries must share burden.
7. Reform of existing IFIs. Expand resources of World Bank eg change gearing ratio to 2:1 from 1:1. Strengthen regional banks. But also need to create machinery to deal with automatic revenues - new World Development Fund. Terms between IMF and World Bank acting on regional and sub-regional basis.

/RECOMMENDATIONS

RECOMMENDATIONS

1. Substantial increase in transfer of resources to LDCs for relief of poverty, food production, mineral exploration, stabilisation of commodities etc.
2. Donor countries' official aid should reach 0.7% GNP target as soon as possible. Universal provision of aid, automatic revenue transfers.
3. Improve IFIs by doubling of lending-to-capital ratio of World Bank; removing political conditions from IFIs; increasing role of regional institutions; increasing programme lending; use of the IMF's gold; increasing role of LDCs in decision-making.
4. Creation of new World Development Fund.
5. New facility for financing mineral and energy exploration and development.
6. Increased commercial flows to LDCs. IFIs to co-finance and provide guarantees.
7. Facilitate access to bond markets by LDCs.

COMMENT

1. Agree substantial transfers needed but question calculations. Problem of absorption not properly addressed.
2. UK's aid programme constrained by Public Expenditure considerations. Proposal for automatic revenues raise issues of national sovereignty. Levy chosen by Report would penalise those heavily involved in world trade. Profit from Seabed authority more aspiration than reality. Aid flows cannot be isolated from economic conditions nor from political debate; automatic universal revenue mobilisation therefore not acceptable. The inflationary implications of massive transfers have been too lightly dismissed.
3. There is already continuous process of review in IFIs themselves. Some of the proposals have already been examined. No doubt they will be examined again. Changes to be expected. But responsibility must continue to reflect financial stakes in each institution. World Bank is to review Report in detail. UK prepared to look carefully at proposal to change lending-to-capital ratio of Bank.
4. Given role of existing IFIs, no clear need for World Development Fund. Better to build on and increase use of existing IFIs. In any case, many questions to be answered on proposed functioning of new fund, not least its financing.
5. A new mineral and energy exploration facility would duplicate existing facilities made available by the international development banks. In any case, no room in UK aid programme to subscribe to such a facility.

CONFIDENTIAL

6. Increased private flows will depend chiefly on creation of appropriate conditions in LDCs. Co-financing already practised by IFIs. Guarantee schemes have proved ineffective in the past, but we are prepared to study new proposals.

7. There are no significant obstacles in the London market. We would welcome the opening up of other capital markets and trade.

SUMMARY OF DISCUSSION

1. IMF and IB system central to task of world development. But not established before emergence of LDCs as independent states. Need for both reform and innovation.

2. Essential that interest and lack of confidence in international conference be dispelled. Need to involve non-governmental bodies and individuals in dialogue.

3. Growth of interdependence and consequent modification of international meetings. Pressure efficiency of present system. Need for closer co-operation between international organizations, clearer objectives, more purposeful agendas, result-oriented discussions. More emphasis may be laid on practical and structural arrangements in future. World Bank group of 18 banks first priority.

4. Review existing structure - Group B, Group C, G77 needs identified. Bring about positive progress in negotiations and avoid political aspects. Negotiations should be targeted towards areas which benefit rather than unilateral concessions. In specific subjects sub-groups should be formed of interested countries to speed processes.

5. Goal for limited summit of North and South (including East and China) to reach understanding on major issues to World Bank. Prepare way for global negotiations, structural program of priorities (Chapter 17).

RECOMMENDATIONS

1. Policies, agreements and institutions in economic, monetary and financial fields guided by principle of universality.

2. Strengthening and improvement of IMF system and other international bodies. Monitoring by high level advisory body.

3. Review of present system of negotiations with aim of introducing more flexible, expeditious and result-oriented procedures.

4. Increased education and involvement of non-governmental bodies and individuals.

5. Use of limited summit meetings to effect a sense of consensus and change.

CONCLUSIONS

1. Universality, if defined (as in Chapter 17) as wide equal voting power, presents problems in relation to imbalances dependent on resources for funds may be withheld if consensus not achieved, and borrowing powers could be limited.

2.-4. No objection in principle. Most of it has been tried before. Ability of "Wise Men" to assist, not complicate, problematical.

5. Cautious. Expectations would be raised. Careful preparation would be necessary.

Essential last distance and lack of confidence in international conference in disguise. Need to involve non-governmental bodies and individuals in dialogue.

Need for interdependence and consequent proliferation of international meetings through efficiency of present system. Need for closer co-ordination between international organizations, states, multinationals, non-governmental organizations, etc. Need for external body to monitor activity and coordinate international and their work. (Searle's group of 12 experts from North and South and independent).

Present negotiating structure - Group B, Group C, GPP - needs improvement to bring about progress in negotiations and avoid adversarial approach. Negotiations should be organized towards mutual benefit rather than unilateral concessions. On specific subjects and groups should be formed of interested countries to speed processes.

Need for limited summit of world and South (including East and China) to reach understanding on central issues in North-South dialogue. Consider programs of priorities (Chapter 13).

RECOMMENDATIONS

1. Political, economic and legislative in economic, monetary and financial fields guided by principle of universality.

2. Strengthening and improvement of UN system and other international bodies. Monitoring by high level advisory body.

3. Review of present system of negotiations with aim of introducing more flexible, expeditious and result-oriented procedures.

4. Increased education and involvement of non-governmental bodies and individuals.

5. Use of limited summit meetings to advance cause of consensus and change.

COMMENT

Universality, as defined (as in Chapter 13) as wide equal voting power, presents problems in relation to institutions dependent on countries for funds (may be withheld if policies not approved, and borrowing powers could be limited).

SUMMARY OF ARGUMENT

1. In view of alarming prospects for future, urgent need for global approach to economic problems. Need for a new international economic order. Countries must eschew defensive, insular reaction. Mutual survival requires immediate start to reform.

RECOMMENDATIONS

1. Tasks for 80s and 90s: creation of economic environment for self-sustaining growth. See recommendations in previous chapters.
2. Emergency Programme for 1980-85.
 - (a) Large-scale transfer of resources to LDCs. Assistance to poorest and most threatened regions. Provision of financing for middle income LDCs.
 - (b) International energy strategy. Undertakings by all parties designed to achieve regular supplies of oil, rigorous conservation, more predictable and gradual real price increase, development of alternative and renewable sources.
 - (c) Global food programme. Increased food production, especially in LDCs with necessary international assistance, regular supplies of food including increased emergency food aid, a system for long-term food security.
 - (d) A start on major reforms to international economic system. Steps towards effective international monetary and financial system in which all can participate more fully; acceleration of efforts to improve developing countries' conditions in trade of commodities and manufactures.
3. A summit of World leaders. Limited to twenty five representing all groups. Aim to provide new focus for discussion; change climate of dialogue. Should concentrate on Emergency Programme.