

# the **OECD** **OBSERVER**



**SCENARIO  
FOR  
DEVELOPMENT  
STRATEGY**



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# A POSSIBLE SCENARIO FOR THE DEVELOPMENT STRATEGY

by John P. Lewis,  
*Chairman, OECD Development Assistance Committee (1)*

The North-South dialogue is in a difficult period right now. The "77" have been deeply disappointed with the yield of negotiations since 1974. At the same time, many of their present leaders realize that the expectations with which they began were unrealistically high. Many of the OECD negotiators are tired. For years they have been chipping away on a number of fronts — commodities/Common Fund, multilateral trade negotiations, debt, codes of conduct, IDA replenishment, IMF conditionality, and some results of sorts lately have been emerging. These are less than the "77" wanted, but they have been costly enough to achieve so that the developed countries' reserves of nervous, bureaucratic and political energy for a new push are temporarily depleted.

On both sides the specialists in North-South dialoguing find their fora awkward, their constraints cumbersome, and their audience slipping away at the very time when the international calendar has provided for an 18-month-plus surge in formalised North-South talk.

What the situation has driven many reasonable negotiators on both sides to do is simply to adopt a mannerly, time-marking posture for the remainder of the present North-South round. At UNCTAD V, for example, the substantive agreements were thin and preliminary. The preoccupation of participants was to sustain a civilised, non-strident mode of discourse; their decisions, typically, were to consign issues to further negotiation.

As a lasting mode for coping with stalemate, almost surely such a no-win scenario will not work. As was already evident at UNCTAD V, extremists at the fringes of the two sides are spoiling for confrontation. On the OECD side, for example, there is no question about the urgency of curbing inflation. But there are participants in the policy debate so exclusively committed to the accomplishment of this single objective — by demand-restraining means — that they are unprepared to entertain any other subjects, including incremental accommodations of the needs of the "77", until this "prerequisite" is firmly in hand. Similarly, at the outer edge of the "77" there are counsellors convinced that any scope for incrementalism and temporising in North-South transactions is past. The hour for radical action, they argue, is at hand.

If the moderates on the two sides persist along a no-win path, such voices are likely to take over — with harsh words leading to harsh policies as North and South each retreats inward, inflicts penalties on the other, and perhaps together disrupt the international economy beyond early repair.

## Mutual Interest

During the past two years we have had a chorus emphasizing the intimate interdependence of First and Third World economic affairs.

Many spokesmen have been drawing attention to the scale of OECD exports to developing countries, rediscovering the gains from trade, and advertising the potentials for mutual gains in such realms as foreign private investment and technology transfer. Interest has blossomed in three-cornered arrangements among OPEC, OECD, and developing countries that can redound to the advantage of all parties. There have been repeated calls for Keynesian Marshall Plans that, by pumping more loans to developing countries, would rely on the latter's import orders to reflate the OECD economies, with (some have argued) minimal inflationary effect.

When these mutual-benefit claims come, as many of them have, from development promoters, they deserve to be audited with a measure of scepticism. One can suspect that, frustrated in their efforts to sell the development priority on its own merits, the promoters have been casting about for more appealing arguments. The fact is there has been a good deal of this. The mutual-benefit claims have been too sweeping, facile and indiscriminate, and in the process the thesis has been discredited in some policy quarters.

However, the mutual benefits theory was embraced by developing country spokesmen at Manila. Indeed, it has on balance gathered official supporters at least as fast as analytical brick-bats. The fact is that there is a core of powerful convergent interests between developed and developing economies. To sort out these genuine convergences is one of development policy's basic needs at present.

Of the three sectors most commonly cited in which developed and developing countries share self-interest in expanding the output of the latter — energy, food and raw materials — *energy* is an open and shut case. It is the claimant for priority attention which has most sharply escalated. Most of the North and most of the South share a self-evident interest in expanding developing countries' energy production (both non-renewable and renewable) along lines that development co-operation can importantly assist.

The case of *food* production is almost as clear. Few serious analysts doubt that existing production trends will lead to global food shortages before the end of the century if the effective demand of the Third World is pushed up, not only by the minimum population growth that is *likely* but by the minimum income growth and improvements in income distribution that are *desirable*. Nor is there much doubt that, in terms of real resource costs, the easiest, most globally efficient places in which to get the extra outputs needed to close these prospective gaps will be some of the poor-country regions in which the underlying physical conditions are favourable and the scope for improvement is still very great. Thus, as to developing-

(1) This article is based on the first part of the 1979 Report of the Chairman of OECD's Development Assistance Committee.



country agricultural promotion, the interests of OECD consumers who want to avoid longer-term food-price inflation clearly coalesce with those of developing countries, who want, not only to eat, but to achieve a closer approach to food self-reliance.

*Raw materials* are a slightly trickier case. The developing countries, jealous of the prerogatives and opportunities of

proprietaryship, are not swept off their feet by developed countries' demand for access and for reliability of supply. However, with the desirability of more orderly, price-smoothing arrangements for commodity marketing now having been accepted in principle, and with greater pragmatism about foreign private investment and transnational companies beginning to crop up on both sides of the dialogue

## ODA TO SELECTED DEVELOPING COUNTRIES BY SOURCE, 1978

Per capita income (\$)		TOTAL		DAC Bilateral \$ million	Multilateral \$ million	OPEC Bilateral \$ million
		\$ million	% of GNP of recipient			
<b>150 *</b>	<b>LLDC's</b>	<b>3,805</b>	<b>9.2</b>	<b>2,159</b>	<b>1,319</b>	<b>327</b>
—	<i>of which to countries listed:</i>	2,330	—	1,416	692	223
91	Bangladesh	952	14.9	666	259	27
114	Mali	153	20.9	93	56	4
159	Niger	151	17.7	78	57	16
297	Sudan	293	5.4	113	127	53
199	Tanzania	424	12.2	332	91	1
114	Upper Volta	154	19.2	97	58	—
386	Yemen Arab Republic	203	8.7	37	44	122
<b>190 *</b>	<b>OTHER LOW-INCOME COUNTRIES</b>	<b>7,320</b>	<b>3.3</b>	<b>3,927</b>	<b>2,481</b>	<b>912</b>
—	<i>of which to countries listed:</i>	6,847	—	3,698	2,338	911
136	Burma	272	6.2	157	115	—
341	Cameroon	184	6.4	117	64	3
312	Egypt	2,266	15.8	860	897	508
154	India	1,285	1.2	670	431	184
304	Indonesia	626	1.3	541	58	27
272	Kenya	242	5.3	184	58	—
271	Mauritania	214	48.6	40	67	107
194	Pakistan	664	4.0	379	217	68
424	Senegal	219	9.3	122	88	10
203	Sri Lanka	241	11.1	216	121	4
166	Vietnam	328	3.6	208	120	—
125	Zaire	306	6.1	204	102	—
<b>1,000 *</b>	<b>MIDDLE-INCOME COUNTRIES</b>	<b>6,549</b>	<b>0.5</b>	<b>4,225</b>	<b>1,349</b>	<b>975</b>
—	<i>of which to countries listed:</i>	3,770	—	2,551	444	773
2,918	Israel	900	7.9	900	—	—
708	Jordan	394	16.3	119	35	239
808	S. Korea	171	0.5	136	22	13
1,246	Lebanon	180	3.9	22	37	121
571	Morocco	276	2.6	180	62	34
484	Papua New Guinea	299	20.6	274	24	—
453	Philippines	248	1.1	165	83	—
900	Syria	414	5.1	35	40	339
414	Thailand	239	1.2	149	88	2
863	Tunisia	291	5.2	253	14	25
1,112	Turkey	176	0.4	154	22	—
448	Zambia	182	7.1	164	17	—
—	<b>CONSTITUTIONALLY ASSOCIATED RECIPIENTS</b>	<b>1,376</b>	<b>6.8</b>	<b>1,345</b>	<b>31</b>	<b>—</b>
—	<i>of which to recipients listed:</i>	804	—	792	11	—
2,900*	Reunion	377	25	371	5	—
3,700*	Martinique	235	18	232	3	—
2,800*	Guadeloupe	192	20	189	3	—

\* Secretariat Estimates



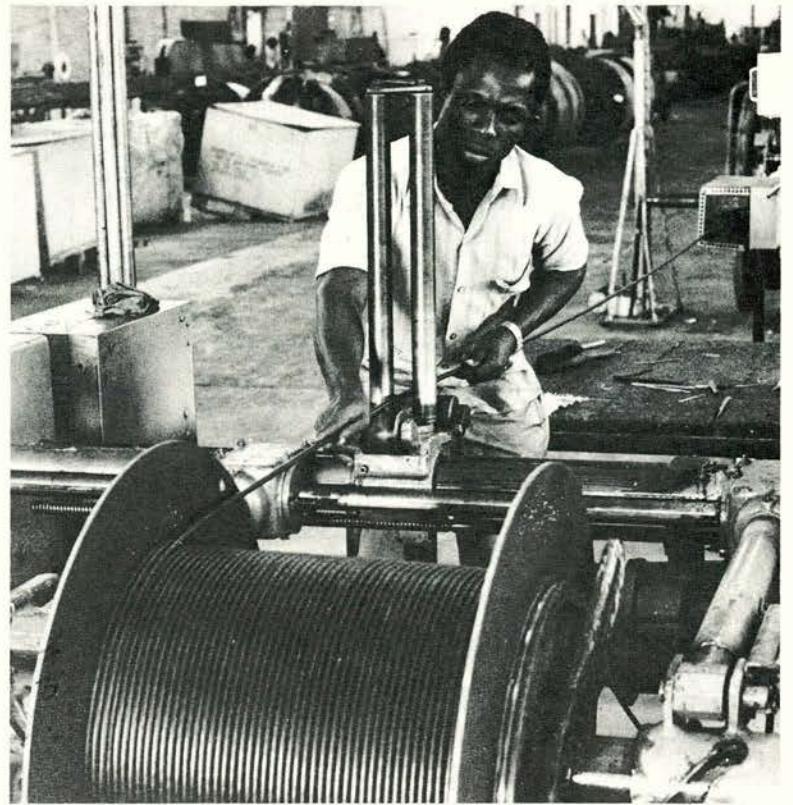
(about costs as well as benefits, rules and responsibilities as well as rights), here too the prospects for convergence are good. Suppliers and users share an interest in mutually acceptable transactions that augment investment in materials production.

### Middle-Income Countries — Trade and Transfers

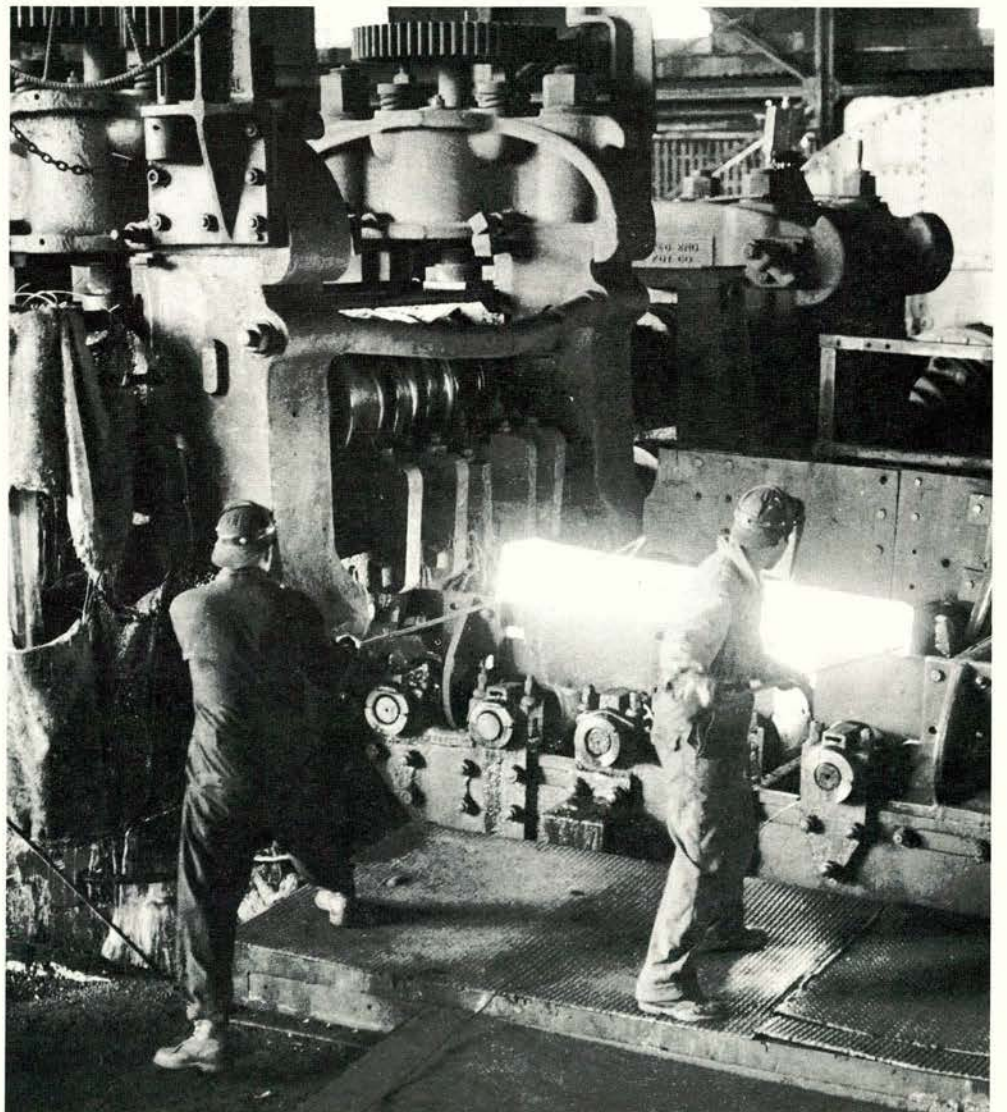
The macro-economics of mutual interest are slippery and more confused but has the potential to generate fresh policy energy from both sides provided that the basic convergences can be clarified.

The conventional advocacy of the massive transfers approach (i.e. increased non-concessional aid to the middle-income countries which will accelerate their buying from the industrialised countries) reaches the right answer but gets there by the wrong route, thereby blurring and slighting the strongest set of economic self-interests that Northerners and Southerners share. The trouble with the massive transfers thesis as it is most commonly understood is that it is too simplistically Keynesian. It puts the cart before the horse.

In its crudest version this thesis assumes that the flows to the developing countries can be willed or designed to come home to roost in the form of more export orders to those beleaguered, often sickest OECD firms and industries which have the largest unused capacities. But this simple demand therapy, even in less extreme form, misses what many analysts now regard as the core of present OECD growth problems which consist of that complex which economists lump together as "supply-side" issues — rigidities, inefficiencies, weak competition, internal and external protectionism of various kinds, all of which sap gains in productivity. The argument is not merely opaque



*For the middle-income countries: trade and transfers. Above: Production of metal cable in Nigeria. Lower left: South Korean textiles. Lower right: Mexican steel works.*





to these supply side issues. It is positively hostile to needed structural adjustments. It amounts to crypto-protectionism.

Plainly, the economic policymakers of North and South need a better theory than this of mutually beneficial interdependence. Just as plainly, one is available — augmented transfers as a temporary facilitator of *trade* and as an incentive to efficiency and hence growth in both North and South. In this way safeguarded and augmented transfers can become a pivotal part of a convergence scenario.

But for different reasons, neither Southern nor Northern policymakers are seizing this rationale with the urgency it deserves.

The “77” have good reason to be impatient. For 150 years prior to 1950 their forebears watched the Northern countries widen out a lead in average per capita economic welfare over them that was wholly unprecedented historically. They had a remarkable lot of catching up to do. Moreover, it was not unnatural for them to perceive that history had rigged the game against them, that (putting matters in Myrdal-Prebisch terms) there had, indeed, been a centre-periphery dynamic at work.

### *The Practical Considerations*

But it could be argued that the “77” do themselves a disservice by not recognising more clearly that a further unleashing of the international market mechanism at this juncture is the most promising means for moving towards their goal of a new international economic order. Apart from the theoretical arguments (and there has been increasing appreciation of the social efficiency of market processes in developing and socialist countries as well as the industrialised “market” economies themselves in recent years), it is the practical case for greater developing-country reliance on market processes that is compelling; what the developing countries — especially the middle-income countries — want in the way of an international division of labour is actually what the market will deliver, if only it can be allowed to work. Moreover, being decentralised and self-adjusting, market processes are always pushing in their mostly pro-efficiency, structural-change directions between rounds of political negotiations.

But the decisive practical consideration is that the existence of a true and accessible alternative almost surely is illusory anyway. A command approach to the problem implies a global authority structure that simply does not exist — and in a system of 150 jealously sovereign nation states, will not exist for the foreseeable future. The market is the only *main* mechanism available for implementing structural change, and the “77” would do well to make the most of it.

Now for the qualifications. All markets are to some minimum extent “managed” by authority. In the existing international market, management has, *de facto*, been centred in the advanced economies. What the “77” can be expected, and indeed are trying, to do is to alter that management, removing as much of the anti-developing-country tilt from as many of the tilted market rules and conventions as possible.

Yet the self-interested bias of the developing countries should be to limit market-softening interventions. Their first inclination may be to concentrate on which exceptions to the rule of the market they want on their own behalf — generalised trade preferences, infant industry protection, various security-related exceptions, measures to screen out consumer imports perceived to be carriers of unwanted lifestyles, and selective screening of imported technologies and of the transnational companies and other agencies that bear them. But surely the strategic thrust of the developing-country concern in this area should be, instead, to bargain for minimal and declining intervention from the side of the developed countries.

Since the very tightness with which the OECD countries rhetorically embrace the market abstraction may have tended to turn many of the “77” against it, directing preachments about the benefits

of trade at OECD governments may seem redundant, but our countries are caught in an ambivalent situation. On the one hand, there is no question about their collective endorsement of pro-open-market principles and many of their recent actions, including the Tokyo Round negotiations, have been animated by these principles.

But the other side of the picture, of course, is that there have been a number of opposite cases very recently — in textile products, in electronics, steel and shipbuilding, for example. In selected manufactures of great importance to the developing countries, trade obstructions have been initiated, increased and/or broadened.

The hidden agenda of OECD policymakers in the early 1980s should be to open their systems by every honourable and politically viable means to the astringent challenge of developing-country competition. If they should be so motivated, they will also need to design measures that cushion and mitigate the social costs of structural adjustment — for humane as well as political reasons. Yet the principal balm to the particularised and localised pains of adjustment would be provided by the accelerated growth that the expanded trade would permit. There is a chicken-and-egg phenomenon: trade needs growth but also growth needs trade. Instead of backing reluctantly into post-Tokyo Round trade negotiations on grounds of high principle, the impulse of the OECD negotiators should be to converge enthusiastically with those of the “77” who have also come more clearly to appreciate the usefulness of the international market. The Tokyo Round ended a chapter but not the book.

Nothing in a convergence agenda built around the further opening of North-South trade need be taken to imply disinterest in, let alone hostility to, the opening of markets that the developing countries can find among themselves, individually or collectively. On the contrary, even if every economics minister in the OECD countries became a rabid champion of deprotection, there would be practical, time-phased limits to their absorptive capacity for developing-country exports.

### *The Real Role of “Massive Transfers”*

The newly galvanised purpose to open markets could also be facilitated importantly, probably critically, by supplemental finance. “Massive transfers” would enter into a mutual-interests strategy, in large part as a means for widening the political opportunities for reaping the gains from trade. The developing countries would need additional external funding further to gear up their productive capacities. On the OECD side, governments, convinced that further liberalisation was essential therapy for the medium- and longer-term health of their economies but seeking to relieve the cure of some of its bitter initial taste, could be greatly helped by a quick pick-up in exports to developing countries financed by these transfers. Transfers would help keep an increased openness to developing-country exports from having current-account balance-of-payments effects that might alarm the industrialised countries’ financial communities. The positive political resonance of the new programme could be improved by providing direct benefits to a variety of OECD export industries (and to their respective labour and management constituencies). If, as now seems likely, greater pragmatism all around permitted expanded overseas direct investment to become a significant part of the additive transfers package, then these forces also could be built into trade liberalisation’s supporting constituency.

To keep the scenario honest and “un-puffed”, two caveats must be entered. First, it would require, on the part of liberalisation-bent governments, more active and effective efforts to mobilise their supporting exporter and private-investor constituencies — as countervailants to protectionist pressures — than governments typically have succeeded in making in the past.

Second, it must be noted that the transfers part of the present scenario would not solve, it might temporarily aggravate, the problem of developing countries’ exports lagging behind the transfers to these



countries. But it is precisely in this sense that a near-term expansion of transfers would be catalytic. In order to get developing-country exports to the OECD countries moving again as they should, and back into better balance with the net flow of transfers from North to South, yet a further dose of transfers is needed.

The first part of the breakthrough advocated here requires some statesmanship and political courage — on the part of the “77” in overstepping anti-market ideology, on the part of the OECD countries in coping with protectionist pressures. But most of all it simply requires clarity of vision. It is available for immediate implementation.

## Low-Income Countries — The Greatest Challenge

The second prong of the scenario — more aid for the poorest countries — is more difficult budgetarily. But it is essential.

There is no need to rehearse the statistics delineating the lowness of incomes in these countries, their malnutrition, under-employment, infant mortality, short life-expectancy, illiteracy, and the rest. What must be emphasized, however, is that the relative backsliding of these poorest countries, already evident during the 1970s, is, under the best forecasts with existing policies, projected to continue to the end of the century(2).

The prospect of a drastic, prolonged further sharpening of global dualism, in which a majority of the world's people, including those of the middle-income countries, all progress substantially, while a massive minority at the bottom gets left farther and farther behind, has a nightmarish quality. Its more obvious implications are too distasteful to be contemplated comfortably, so we have thrown up a whole series of conceptual defences. Some contain a measure of truth. But on balance they do not wash — singly or collectively.

## Eight Defensive Theories

*Theory No.1: The statistics delineating the plight of the poor countries, especially the income-per-capita figures, are misleading; things are not as bad as they imply.* This is true. Transnational comparisons of incomes, where values are converted at official exchange rates, tend to understate the purchasing power of incomes in the poorer countries. But on the basis of proper purchasing power comparisons, the picture of disparities changes only in degree and does not significantly change the identity of countries in the bottom third of the income list.

*Theory No.2: Because the task of bringing the low-income countries up to the level of, say, Switzerland or Kuwait turns out to be so difficult — and perhaps impossible without pulling down countries at the top — the idea should be abandoned. In the poorer countries human betterment will have to follow very different paths. They should not be encouraged to copy Western or East European styles of modernisation. Instead, they should evolve their own indigenous modes of social betterment that do not have heavy resource requirements.* As practical counsel for the poorest countries, this is mainly humbug. They are indeed, and wisely, turning away from slavish, uncritical mimicry of the industrialised countries. But there is no way their designs for humane progress, however indigenous, can be pursued without relatively massive advances in average individual material welfare. The peasants of Mali and Bihar have no desire to subsist on diets of greater psychic serenity.

*Theory No.3: If the upper tail in the income distribution of a poor country is higher than the lower tail in a rich country (i.e. if some people in Nairobi are better off than some people in Newark), this vitiates the case for transfers between the countries.* Pragmatically, this is a justifiable reason for a donor's effort to steer its assistance to a poor country's poor. But as a rationale for opposing inter-country transfers, it is either sophistry, or remarkably parochial.

*Theory No.4: The OECD governments may be tempted to say,*

*though not seriously persuaded, that the next round of efforts should be taken mainly by the wealthier OPEC countries, who are in a relatively easier resource position, and/or by the centrally-planned economies, who thus far have done so little.* Greater contributions to poor-country requirements by these other blocs are surely to be encouraged. But to condition further DAC efforts on such other inputs would ignore the overwhelming predominance, still, of the income and product capacity of the industrialised market economies.

*Theory No.5: A number of DAC donors are tending to adopt a fifth defensive stratagem — to assume that the problem of the poorest countries can be adequately addressed by concentrating on the so-called “least-developed countries”.*

There is no real question about the urgency of the needs of these 31 countries “elected” on the basis of their low per-capita incomes, low degree of industrialisation and low literacy. But the LLDCs are mostly quite small countries collectively accounting for only 19 or 20 per cent of the population of the “low income countries” as defined for the purposes of eligibility for IDA loans. Moreover, it is the larger low-income group, not just the LLDCs, whose performance has been lagging.

When donors deploying scarce ODA concentrate heavily on the LLDCs, they therefore tend to neglect the demographically larger part of the global poverty problem represented by such countries as India, Pakistan, Sri Lanka, Kenya, Burma, and Indonesia (which, despite its modest holdings of oil per capita, is still very poor).

The strategic need for development policy to mount a thrust of priority support to a considerably larger set of neediest populations than those of the LLDCs alone seems so clear that the international community should concentrate its mind on solving the far from trivial puzzles involved. Moreover, the line-drawing problem is exaggerated. As long as the guidelines adopted by different agencies fell within the range at present bounded, say, by the World Bank's “low-income” (\$300 in 1977) at the bottom, and the Bank's IDA cut-off (\$580 in 1977) at the top, there would be no harm in some definitional diversity.

*Theory No.6: The outlook for the poorest countries, sad as this may be, is so bleak and unpromising as to warrant little external investment.* This is quite unjustified. In some countries and areas, to be sure — Southern Africa is an example — internal and/or regional political turbulence postpones or diminishes progress on economic and social development. But poor-country regimes overall probably have a clearer view of their own development needs and priorities, a keener interest in internal social justice, and a more pragmatic and seasoned, albeit independent, style in dealing with external actors than ever before.

In most of the poor countries in Asia, where the local population/resources balance is more unmistakably critical than in Africa, a demographic transition has begun although it will long require strong, continued, positive pushing. Most of the poorest countries have considerable potential for expanding their outputs of non-renewable and/or renewable energy, and a number have substantial raw materials potential awaiting further investment.

In both South Asia and Africa, however, the key to development prospects during the balance of the century lies in agriculture. The reason that careful projections, by the World Bank and others, of likeliest developments to the end of the century anticipate that vast amounts of “absolute poverty” will still remain at that time in the world's two great poverty regions, each predominantly rural, is precisely the limited growth expected in agricultural production.

But, on the other hand, major and continuing breakthroughs are

(2) Facing the Future, *the Interfutures' report*. See OECD Observer No. 100, September 1979. Also World Bank, *World Development Report*, 1979.





*For the poorest countries — more aid  
poor in India. Above right: Poverty  
in Kenya. Below: A food-for-work*







Above left: Mother Teresa, 1979 Nobel Peace Prize for her work among the very in the Sahel. Below left: An aid project involving the production of dried vegetables project in Bangladesh.



not impossible. They have happened before in particular crops such as wheat, and the most recent developments in India (to a considerable degree also in Bangladesh) are cause for great hope. Irrigation has been expanding by one million hectares a year, fertilizer consumption has been growing by 20 per cent annually, agricultural extension has acquired new vitality over wide areas, and rising yields have been spreading from wheat to rice and other crops.

African agriculture is a different and perhaps more complex, particularistic, and difficult case, but both South Asia and Africa have underlying physical resources for agriculture that are still being grossly underexploited. A prime target for their governments and for the international community generally should be to add a percentage point to the agricultural growth rates the forecasters are now projecting for the rest of the century — to move them from 3-3½ per cent per annum to 4-4½ per cent. This is an extremely ambitious goal. But it is not beyond reach. And nothing could have a more profound effect on narrowing the imbalance between the poorest countries and the rest of the world.

*Theory No. 7: The capacity of the poorest countries to absorb more aid is narrowly limited. However much they may "need" additional resources in some generalised economic sense, the poorest countries do not have operative capacity (administrative and otherwise) at the ready to use much more aid than they are already getting — witness the build-up of aid pipelines.*

This contention engages some real problems, but its defensiveness is particularly conspicuous. First, to ask what would happen if all DAC donors snapped to a 0.7 per cent level of performance tomorrow is irrelevant. Collectively, on the most favourable assumptions, there is little or no chance of their doing that much in the foreseeable future. As to the poorest countries, an extremely ambitious target might involve a doubling of current share-of-GNP flow of the donor countries; and that, again most ambitiously, would be over the space of several years. There is every prospect that, if absorptive capacity is subject to improvement, it can stay a step or two ahead of volume.

Second, the absorptive capacity problem can be, and is being, worked on.

Third, much of the problem is donor-created, partly via cumbersome accumulations of regulations, standards, conditions, clearances, and other procedures, partly by failures to provide a mix of forms of assistance (project, non-project, commodity, local-cost funding, etc.) that matches the recipients' needs, partly by project designs that, instead of relying on, and reinforcing, indigenous administrative systems, disrupt the latter.

*Theory No. 8: In any event the 0.7 per cent ODA target is a wholly arbitrary norm.* A good reply to discomfited donors who ask "what is so great about 0.7 per cent?" might be, "what is so great about the metre?". The metre is important, not because of some forgettable relationship to the circumference of the globe, but because it is a metre: it is an accepted unit of measurement. Much the same is the case with the 0.7 per cent target. In origin, it was essentially arbitrary, and attempts to build up precisely and elaborately calculated justifications of the target in terms of the external resource gaps that need filling for the achievement of postulated developing-country growth rates are unpersuasive.

Rather, what by now has made the 0.7 per cent target a relevant and important artifact of development policy are, first, its usage (it has been accepted as a desideratum by most DAC Members and all developing countries), second, the fact that it points the *direction* in which, by common consent, the ODA/GNP ratio needs to move and, third, its statement about the needed extent of the needed movement — large. Compared with the dangers of undershoot, the dangers of overshoot are minimal. →



# DAC HIGH-LEVEL MEETING APPROVES GUIDELINES FOR IMPROVING AID IMPLEMENTATION



*Emile van Lennep, Secretary General of OECD and John P. Lewis, Chairman of OECD's DAC and of the High-Level Meeting.*



*Jan de Koning, Minister for Development Cooperation of the Netherlands, and L. van Gorkom, Ambassador, Director General International Cooperation, Ministry of Foreign Affairs.*

**T**he Development Assistance Committee (DAC) on the occasion of its eighteenth High Level Meeting of 19th and 20th November, adopted a set of guidelines for aid implementation as an outgrowth of a careful review of existing procedures and practices and certain disbursement difficulties that have occurred during the past few years. This follows the adoption, earlier this year of DAC Guidelines on Local and Recurrent Cost Financing. An essential conclusion of the DAC's work is that recent disbursement difficulties are not basically

due to longer-term absorptive capacity constraints in developing countries. Although there are limiting factors to rapid resource absorption in developing countries, donors can contribute to the removal of short and medium-term constraints.

The work on DAC Guidelines for Improving Aid Implementation is part of a continuing effort by DAC Members to improve the quality and effective use of their aid. In establishing these Guidelines the DAC has benefitted from informal consultations with developing countries, and substantial agreement has

## A Strategy for Attack

The conclusion to which this discussion has built up is that it is time for aid donors to stop rehearsing the reasons why provision of substantially more assistance to the larger set of the poorest countries is unfeasible and to start figuring out how to do it.

The collective DAC aid performance, by its own collective standards, is depressing. Most members of the Committee endorse the 0.7 per cent of GNP target. In practice, DAC donors, bilaterally and multilaterally, are providing just half this amount: 0.35 per cent. Further, DAC Members in principle agree that ODA, being a scarce resource, should be concentrated on the poorest countries. In fact, mainly because of various political pulls on Members' allocations, only half the available ODA goes to the poorest countries. Hence concessional transfers to the poor countries are little more than one quarter of what the donors' own collective theory says it should be.

Some donors will prefer, and find they have the reserve political capacity and determination, to take on the issue of more ODA frontally, and simply propose relatively large — but absolutely small — increases in their general aid budgets. This action is what might be called an orthodox "good-donor" response. It is to be devoutly hoped most donors can give it. But in fact, given the radically different internal political environments in which different donors find themselves, all will not be able to follow this model. To contrive an adequate collective response, we shall have to do a good deal of patching and piecing. The present plea is for greater readiness to accommodate diversity among the modes, styles, and foci of the aid given by different donors than normally would be consistent with preferred doctrines of development assistance.

Some diversity will give no one pause. But there are some difficult cases. For examples, we continue to be assaulted by proposals for new special funds — for food production, for science and technology, for the Common Fund second window, and so on. But in many ways special vehicles, funds, and single sector programmes are bad medicine. They may entail administrative redundancy and be awkward for recipients; they tend to confound the inter-relatedness of development processes and the needed comprehensiveness of sound development programming. And yet in a period when we are scrambling to piece together an adequately expansive response to the low income countries, special-fund proposals deserve the benefit of the doubt when

- their subject is self-evidently of high priority
- most of their benefits would in fact flow to the low-income countries, and
- they promise to extract net additional resources from even a significant minority of donors.

Similarly, some donors are persuaded that they, their parliaments, and their publics would have a greater disposition to invest in programmes targeted quite tightly on such specific dimensions of welfare as nutrition (via better food production and distribution), primary health, and primary education. In the same vein, some are expressing considerable early interest in some of the "newer approaches" to poor-country aid that lately have been suggested. The tendency is to centre on the need for more concrete undertakings, tied to a priority theme whose nature and benefits can be more easily comprehended by donor publics and parliaments. Such thematic



# VEL MEETING PROVING AID IMPLEMENTATION



*Mark Eyskens, Minister for Cooperation and Development of Belgium.*



*Lise Østergaard, Minister without Portfolio of Denmark, and Hans Tabor, Ambassador, Permanent Representative to OECD.*

emerged between senior officials of donor and recipient governments about areas of desirable improvement in aid implementation. These include:

- assisting recipients in the strengthening of their administrative capacity
- maximising the efficiency of project and programme implementation
- improving donor administrative structures
- ensuring continuity and predictability of aid flows

- bringing more variety and flexibility into aid delivery mechanisms
- working together to improve the effectiveness of aid implementation.

It is hoped that these guidelines will be useful for further dialogue between developing and developed countries in competent international fora concerned with aid implementation. The DAC itself will be continuing work on aid implementation on a regular basis.

programming, while mindful of the broad sectoral aspects of development, could home in on sub-issues of particular concern to particular regions — on water management in one case, rural transportation in another, the problems and potentials of the self-employed, the suppression of a particular disease, and so on.

Yet again, in casting about for means to fund expanded assistance to the low-income countries, some donors more than others will be driven towards advocacy of greater reliance on such non-traditional funding sources as seabed royalties, altered patterns of SDR distributions and perhaps even experimental international taxes.

It is clear that if, in stretching hard to mount a quantitatively adequate response to the poor countries over the next several years, we do contrive a kind of do-it-yourself mosaic of diverse modes and styles, some careful collective monitoring, for example, within DAC, will be needed to sustain minimum coherence. We may also need some additional collective guidelines.

Under these circumstances, the question arises: might DAC Members usefully adopt a percentage-of-GNP norm for ODA to the low income countries? In line with what has been said already, a figure of 0.35 per cent or 0.40 per cent might be appropriate. The present suggestion is that Members should attempt to complete the basic upward push in the level of aid to low-income countries by the middle 1980s.

A tabulation of where individual DAC Members now stand vis-à-vis one or other of the figures hypothesised would endow the discussions with too much formality. But, as they do their own arithmetic, nearly all will find that such a norm would be in fact very demanding. Even of DAC's four "front-runners" only one at present

has as much as 0.40 per cent of its GNP flowing to low-income countries. But even though the absolute amounts involved are not, by some standards, formidable, a significant and difficult collective move needs to be made. Precise calculations of the increment needed would be specious. However, in order-of-magnitude terms, a doubling of the GNP share going to the low-income countries by the middle of the 1980s probably would be a reasonable goal.

The United Nations Committee for Development Planning has proposed as a kind of cornerstone of global development strategy for the balance of the century the proposition that per-capita incomes in the low-income countries should double by the year 2000. The per capita growth rate required (3½ per cent) would mean a total growth rate for these countries on the order of 6 per cent — about 1½ percentage points more than the present forecasts, and much closer to what is anticipated for the generality of developing countries.

Very roughly, such a step-up in low-income-country performance (if it is extended to the whole group) might call for a corresponding step-up in annual investment that would average \$20-\$30 billion in real terms over the 20-year period. Doubling the aid input in share-of-GNP terms, i.e. raising the amount for the poorest countries on the order of \$10-\$12 billion in 1978, probably is the minimum that a distinct acceleration of development in those countries could be expected to require.

The first hurdle, in attacking such a need, is to decide that it is thinkable. What is at issue is about 1/600 of donors' GNP, about 1/200 of their collective government expenditures. The sum is not *per se* unthinkable.



# ENERGY CONSERVATION

## Results and Prospects

By 1985 the IEA countries could be saving between 10 and 15 per cent of their total energy consumption if they follow a vigorous and systematic energy conservation policy. This figure, given by Ulf Lantzke, Executive Director of the International Energy Agency, explains why the IEA declared October "Energy Conservation Month": to give a new impetus to government action on conservation and to heighten public awareness of the problem. An IEA report, just published, reviews results obtained by IEA countries and suggests ways of improving them. The following article summarises its content (1).

### ENERGY CONSERVATION PROGRAMMES

#### Information and education

Since the success of an effective energy policy depends on the scale of public support and co-operation, conservation campaigns are a key element in the energy policies of most countries (Table 1). However important public information and education may be, only six countries (Austria, Canada, Germany, the Netherlands, Sweden and the United Kingdom) had stepped up the information effort at the time of the 1978 review; most had not or had even reduced it.

#### Industrial sector

In the IEA countries, industry accounted for around 40 per cent of total final energy consumption, although the figure varied considerably from country to country (Table 2). Between 1960 and 1973 industrial consumption of energy grew by 4.3 per cent a year, but in 1977, it was lower than in 1973. Industrial demand for energy was expected to grow faster than demand in other sectors — by an average of 4.5 per cent per year between 1977 and 1985 and 3.5 per cent between 1985 and 1990.

Industrial energy conservation programmes vary considerably (see Table 3). *Grants* and *subsidies*, may be used to provide energy consultants for small businesses, to encourage energy-conserving capital investment or to insulate industrial and commercial buildings. In Canada, Ireland, Japan, Sweden and the United States, the government pays up to 50 per cent of the cost of R and D which can contribute to energy conservation on the part of private firms. The European Community provides incentives for demonstration projects.

To be effective, *loan* schemes must carry attractive interest rates. In New Zealand and Norway, however, firms have shown an interest in loan schemes with normal lending conditions because it enables them to borrow in a money market situation that is very tight.

*Energy pricing and taxing policies* are crucial to the success of an energy conservation strategy (Chart A). Prices act on energy demand in the short term by affecting the use consumers make of the equipment they already have and in the long term in their choice of equipment. Since in general energy conservation mea-

sures will only be implemented if anticipated savings in monetary terms exceed investment costs, energy should be priced at its replacement cost (long-term marginal cost). Energy taxes, in addition to encouraging conservation through the price mechanism,

(1) Energy Conservation — 1978 Review, IEA, OECD, Paris, 1979. Both the report and the article present the record of IEA's medium- and long-term conservation programme and refer to measures taken early enough to be included in the 1978 IEA country review. The detailed country-by-country figures are those on which that review was based. Since then a number of additional measures have been taken, some of them in connection with the short-term 5 per cent oil-saving target adopted in March. Both new conservation measures and progress towards the target are currently being reviewed by the IEA.

2. EN

	Total Primary Energy (TPE)				
	1960/ 1973	1973/ 1977	1977/ 1985	1985/ 1990	1960/ 1973
Austria	5.1	1.3	4.4	3.1	5.6
Belgium	4.8	1.2	3.0	2.3	6.3
Canada	5.2	2.3	3.3	2.6	5.0
Denmark	6.2	0.3	0.2	2.9	5.2
Germany	4.7	-0.4	3.3	1.9	4.5
Greece	12.1	3.9	7.4	5.4	12.0
Ireland	4.6	-0.1	8.0	4.4	5.9
Italy	7.8	1.1	4.6	4.0	7.9
Japan	10.3	0.9	6.1	3.8	10.8
Luxembourg	2.9	-5.2	2.4	1.9	2.5
Netherlands <sup>1</sup>	8.3	0.7	4.5	1.9	10.3
New Zealand	4.4	4.6	4.2	3.4	3.6
Norway	6.2	0.1	3.7	2.4	6.2
Spain	8.4	4.6	4.0	3.9	11.7
Sweden	4.3	1.6	2.3	1.6	4.1
Switzerland	5.4	1.2	1.6	2.4	4.8
Turkey	8.0	6.9	10.2	5.6	10.7
United Kingdom	2.2	-1.3	1.6	1.7	1.8
United States	4.3	0.8	3.0	2.9	3.2
IEA Total	5.0	0.8	3.5	2.9	4.3

(1) Since the preparation of this report, the Netherlands Administration 1980 as compared with the figure in the table. (2) Including non-ener Sources: Energy Balances of OECD Countries and IEA 1978 Review of



## 1. PUBLICITY CAMPAIGN BUDGETS



**Information media:** leaflets, pamphlets, brochures, manuals, posters, stickers; press, radio, television, cinema; slides, films, stamps; advertising; exhibits; seminars; etc...

	Million \$		\$ per capita			Million \$		\$ per capita			Million \$		\$ per capita	
	1977	1978	1977	1978		1977	1978	1977	1978		1977	1978	1977	1978
Austria	0.07	0.55	0.01	0.07	Ireland	0.03	0.07	0.01	0.02	Spain	0.66	0.62	0.02	0.02
Belgium	0.03	n.a.	0.003	n.a.	Italy <sup>2</sup>	1.70	1.15	0.03	0.02	Sweden <sup>1</sup>	1.70	1.93	0.18	0.23
Canada <sup>1</sup>	4.55	6.49	0.20	0.28	Japan <sup>1</sup>	3.50	n.a.	0.03	n.a.	Switzerland	0.20	0.20	0.03	0.03
Denmark	0.52	0.52	0.10	0.10	Netherlands	2.30	2.60	0.16	0.19	United Kingdom <sup>1</sup>	1.70	3.68	0.03	0.07
Germany	0.63	5.46	0.01	0.09	New Zealand	0.17	0.23	0.06	0.07	United States <sup>1</sup>	2.00	1.00	0.02	0.01
Greece	0.03	n.a.	0.003	n.a.	Norway	0.06	0.08	0.01	0.02					

1. Fiscal Year. 2. Only public funds allocated by the Ministry of Industry.

Source: IEA 1977 and 1978 Review of National Programmes.

## ENERGY CONSUMPTION: HISTORICAL AND PROJECTED

Annual Growth (%)											Share of TFC <sup>3</sup> (%)					
Industry <sup>2</sup>			Transport				Residential and Commercial Sector				Industry <sup>2</sup>		Transport		Residential and Commercial Sector	
1973/1977	1977/1985	1985/1990	1960/1973	1973/1977	1977/1985	1985/1990	1960/1973	1973/1977	1977/1985	1985/1990	1977	1990	1977	1990	1977	1990
-4.0	3.5	3.2	7.3	0.2	2.8	1.9	6.1	4.8	5.6	4.7	40	37	21	20	38	43
-5.7	2.3	2.7	5.2	2.7	4.1	3.9	4.9	-0.3	2.4	0.9	51	49	16	20	37	31
2.0	4.3	2.3	5.9	3.9	1.9	1.2	5.6	0.5	2.0	2.8	38	43	29	23	34	34
-2.7	2.5	3.0	8.0	0.7	2.3	3.1	6.7	-0.3	-0.9	2.4	22	26	23	25	54	49
-4.0	3.1	1.7	5.8	1.7	1.3	1.2	6.5	-0.6	3.1	0.9	42	44	18	16	40	40
2.2	7.3	4.3	8.7	6.0	4.8	3.3	12.9	-2.0	7.6	5.9	42	44	34	26	25	30
5.0	15.7	5.9	9.2	2.9	4.6	3.3	4.1	-1.4	1.9	0.0	30	57	27	24	41	19
0.4	3.6	4.1	8.5	1.7	3.4	2.7	9.4	0.3	4.0	2.9	46	47	20	20	32	33
2.0	6.3	3.6	9.8	2.2	4.1	2.9	15.0	-1.6	6.1	4.0	56	58	17	18	24	24
-6.4	2.4	1.5	6.4	7.0	4.5	2.6	6.5	0.3	2.7	3.1	69	72	11	11	18	17
1.2	5.1	3.2	7.8	3.9	4.1	0.9	9.0	0.6	3.3	1.8	42	47	16	14	40	39
6.1	4.7	4.3	5.5	2.5	1.4	2.7	5.4	-5.0	3.7	3.8	39	44	37	29	28	27
-0.9	5.4	2.7	5.1	0.7	4.3	0.9	5.5	1.1	3.9	3.0	43	46	19	19	31	34
0.6	3.2	3.7	8.4	5.3	2.6	2.1	6.2	7.5	5.5	5.8	54	53	28	23	21	24
-2.8	3.9	1.4	4.7	3.9	1.4	-0.3	6.1	0.4	-0.1	0.1	42	50	17	16	41	34
-3.0	0.3	2.6	8.2	-0.5	2.6	1.2	9.0	-0.3	1.7	2.2	30	27	25	26	49	47
9.9	18.4	7.7	8.7	11.0	4.2	8.3	17.9	2.8	8.0	2.8	23	44	26	19	51	37
-3.5	2.9	2.6	3.0	0.3	1.8	1.1	0.8	0.6	0.3	0.7	43	50	21	20	28	30
-2.1	4.3	4.4	4.3	1.9	0.8	2.0	3.8	0.6	0.7	1.1	33	40	33	30	34	29
-1.2	4.5	3.5	5.0	2.1	1.5	2.1	5.0	0.4	1.9	1.7	38	45	28	25	34	30

has prepared a new forecast with a one per cent reduction in growth rates for 1977/85 and a roughly seven per cent reduction in TPE for 1985 and gy uses. (3) Total Final Consumption.

National Programmes.



... IN THE INDUSTRY SECTOR													... IN THE RESIDENTIAL AND COMMERCIAL SECTOR															
	Financial Fiscal Incentives			Reporting Auditing			Information, Advice/ Assistance			Other measures				Financial/Fiscal Incentives					Building codes					Appliance efficiency				
	Grant/Subsidy	Loan	Tax incentive	Target setting	Reporting	Auditing	Information/ Publication	Meeting/Seminar	Advice for small & medium sized firms	Award	Restructuring	CHP (2)	Waste/ Waste heat	Taxes	Removal of Sales Tax	Discount on Taxable Income	Subsidy/Grant	Loan	New Homes	Existing Homes (1)	Federal/Public Buildings	Maximum Temper- ature Air	Maximum Temper- ature Water	Prohibition of Bulk Meter	Energy Label : Mandatory	Energy Label : Voluntary	Standard	Maintenance
AUSTRIA																												
BELGIUM																												
CANADA																												
DENMARK																												
GERMANY																												
GREECE																												
IRELAND																												
ITALY																												
JAPAN																												
LUXEMBOURG																												
NETHERLANDS																												
NEW ZEALAND																												
NORWAY																												
SPAIN																												
SWEDEN																												
SWITZERLAND																												
TURKEY																												
UNITED KINGDOM																												
UNITED STATES																												

(1) Guidelines or voluntary standards (2) Combined heat and power production.

Exists      Planned or in preparation      No measures

Source : IEA 1977 and 1978 Review of National Programmes.

generate revenues which can be used to provide incentives to energy-saving investment. However, caution is needed in using this instrument as progressive rates and high energy taxes could increase the cost and reduce the competitiveness of domestic industry.

Nine countries had *energy audits* but only three had intensive or comprehensive schemes: Spain, where companies consuming more than 2,000 tons of oil equivalent per year must reply to an audit questionnaire; Canada, with its "*National Energy Bus Programme*" providing computer-equipped buses to check energy use and give on-the-spot energy conservation advice; and the United Kingdom, whose *Industrial Energy Thrift and Audit Schemes* establish accurate information on energy use and advise industry on effective conservation measures

## Transport

Transport accounts for about one-quarter of final energy consumption (Table 2). Between 1973 and 1977 consumption increased at an average of 2.1 per cent per year, much more slowly than before the oil crisis. (This figure was more than 5.5

per cent between 1968 and 1973). Forecast growth rates were 1.5 per cent a year between 1977 and 1985 and 2.1 per cent between 1985 and 1990.

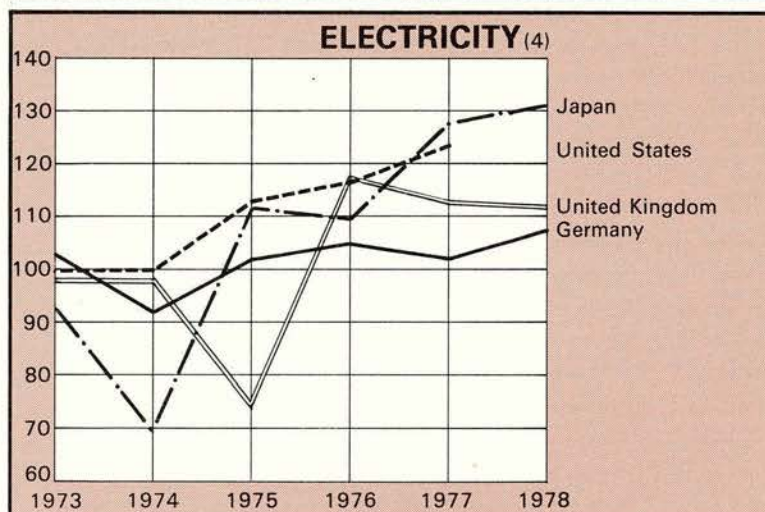
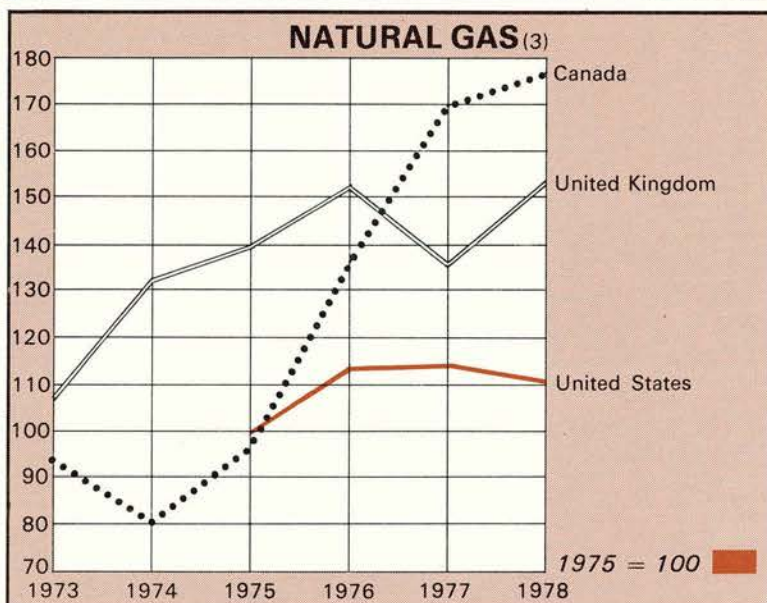
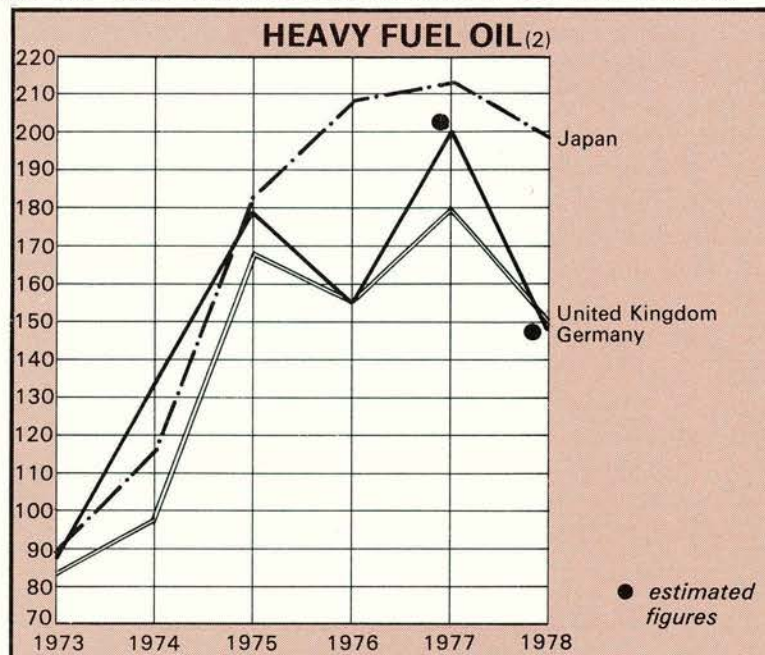
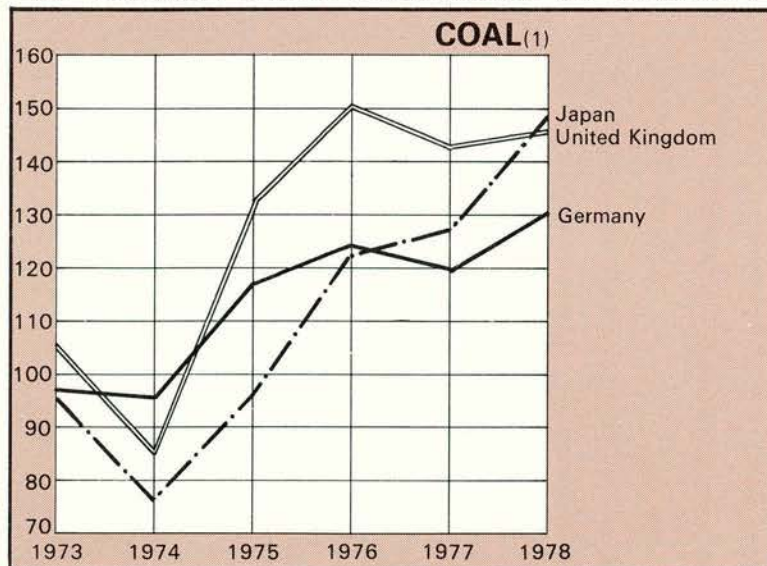
*Mandatory fuel economy standards* have been adopted in countries where cars do not use motor fuel economically. In the United States, minimum fuel economy standards have been set for passenger automobiles manufactured after 1977. The standard is progressively more stringent each year and is to reach 27.5 miles per gallon (667 kcal/km) in 1985. In Canada, similar standards have been announced by the Federal Government, to take effect in 1980 and 1985.

In Germany, car producers have agreed to improve fuel efficiency by not less than 10 per cent by 1985 and in Japan some 1978 cars which met that country's stringent emission standards showed more than a 20 per cent improvement in fuel economy over 1975 models.

The EEC is considering the adoption of *energy labelling* for new cars driving under normal conditions ("Europa Test"). Labelling is already compulsory in Sweden, the United States and the United Kingdom, and some auto producers apply a voluntary labelling scheme in Canada and Japan



## A. ENERGY PRICE EVOLUTION OF MAJOR FUELS IN THE INDUSTRY SECTOR (in real terms)



(1) Steam coal washed 0-10 mm (average of prices paid by all industrial consumers)

(2) Annual consumption of 5,000 tonnes

(3) United States: annual consumption of  $750 \times 10^6$  kcal

Canada: no specification of volume of consumption

United Kingdom: annual consumption of  $5\,000 \times 10^6$  kcal

(4) Annual consumption of 15 GWh, except United States: 200,000 kWh

Since the oil crisis, the authorities have taken new steps to improve and expand urban and intercity *public transport*. Even so, and in spite of substantial public subsidies, the role of public transport in personal travel has declined. It can probably be increased significantly only by restricting the use of private cars but such measures are unpopular and not likely to be introduced on a large scale.

*Car pooling* offers many advantages. It provides direct savings to users (Table 4) and may lead to a reduction in the number of cars per family. By reducing vehicle-miles, it also — and proportionately — diminishes air, noise and aesthetic pollution. However, car pooling does increase total journey time, and involves a loss of independence and privacy, which many car owners will not accept easily as long as the cost of solo driving is low. Government initiatives to encourage car pooling had been taken in only four countries (Germany, Sweden, the United Kingdom and the United States), but similar proposals were being studied in seven other countries.

Progressive *taxes* that increase with engine size — and sometimes with the car's weight — are used in practically all IEA countries. These forms of taxation, as well as the motor fuel tax,

## 4. RETAIL PRICE OF 1 LITRE OF PREMIUM

on 1st May 1979 - US\$

0.62	Switzerland
0.60	Italy
0.57	Netherlands
0.56	Belgium
0.55●	Japan
0.53	Austria
0.52	Germany
0.48	Sweden
0.37	United Kingdom
0.27●	Canada
0.19	United States

● on 1st January 1979



seem to have a potent effect on the fuel economy of cars in use, but for the most part existing measures were implemented for fiscal reasons long before 1973 and have generally not been viewed as part of energy conservation.

The promotion of *diesel-powered cars* (more efficient than standard motors) can be a way of increasing fuel efficiency. In many IEA countries, (Belgium, Ireland, Italy, Japan, the Netherlands, Norway and Sweden) diesel oil is much less heavily taxed than petrol. In some of these countries, however, the sales tax on the autos themselves is much higher than on petrol-fuelled engines.

*Speed limits* save energy and increase road safety although it is difficult to quantify the savings. All IEA countries adopted strict speed limits to save energy during the acute energy crisis and for the most part kept them after 1974 but at a somewhat higher level. The point is that, to ensure public acceptance, speed limits must be set at reasonable levels and supported by effective public education programmes.

### Residential and commercial sector

The growth rate for energy demand in the residential/commercial sector for the IEA between 1973 and 1977 was relatively low—0.4 per cent per year compared with an annual 5 per cent between 1960 and 1973 (Table 3). Energy demand in this sector was expected to increase by only 1.9 per cent per annum from 1977 to 1985 and 1.7 per cent between 1985 and 1990.

The effectiveness of the various energy conservation measures taken in this sector (Table 3) is still uncertain in many cases: their application is too recent for any feedback on their impact. At least five to ten years will be needed for significant changes to be achieved in this sector.

Most countries foresee *financial or fiscal incentives*. The construction of new housing is frequently subject to building codes which cover the consumption of energy. For existing houses, directives or voluntary standards are foreseen in seven countries.

### Decentralised renewable energy

Although most government measures to make greater use of renewable sources at a local level have been directed towards research, development and demonstration, a number of countries have taken steps to accelerate commercial introduction of such sources or are considering doing so.

The United States gives tax credits of 20 to 30 per cent up to a ceiling of \$2,200 for solar heat/power installations in homes. In addition, a solar energy loan programme and a demonstration programme on solar energy in Federal buildings were proposed to Congress and has now been approved. In Germany, 25 per cent of the cost of solar collectors in buildings is available in the form of grants or tax credits.

In New Zealand, the interest-free loan scheme, available for retrofitting existing homes, covers solar water-heating systems. Sweden provides grants and loans for the installation of similar systems in both existing and new buildings. In Canada, exemptions from Federal tax for energy-conserving equipment includes heat pumps. Supporting measures to stimulate the wider use of renewable energies, mainly solar energy, are being introduced in some countries including Austria and Greece.

Experience to date in many IEA countries shows that the economics of conventional conservation measures are, for the



time being, better than the economics of renewable energies. In the long term, however, with the successful completion of R and D programmes, renewable energy is expected to make a significant contribution to energy balances in IEA countries.

### District heating and combined heat and power production

District heating, in the IEA countries, is included in energy





Above left: A meter permits the consumer to benefit financially from reduced heat setting. Below left: Insulation of housing. Below right: Instruction on energy conservation for car drivers in France.



conservation, particularly joint production of heat and power. Moreover district heating and combined heat and power production can be based on practically any fuel — coal, municipal or industrial waste, household refuse, and heat or gas generated by industrial processes or incineration plants — and can thus be an effective method for replacing oil.

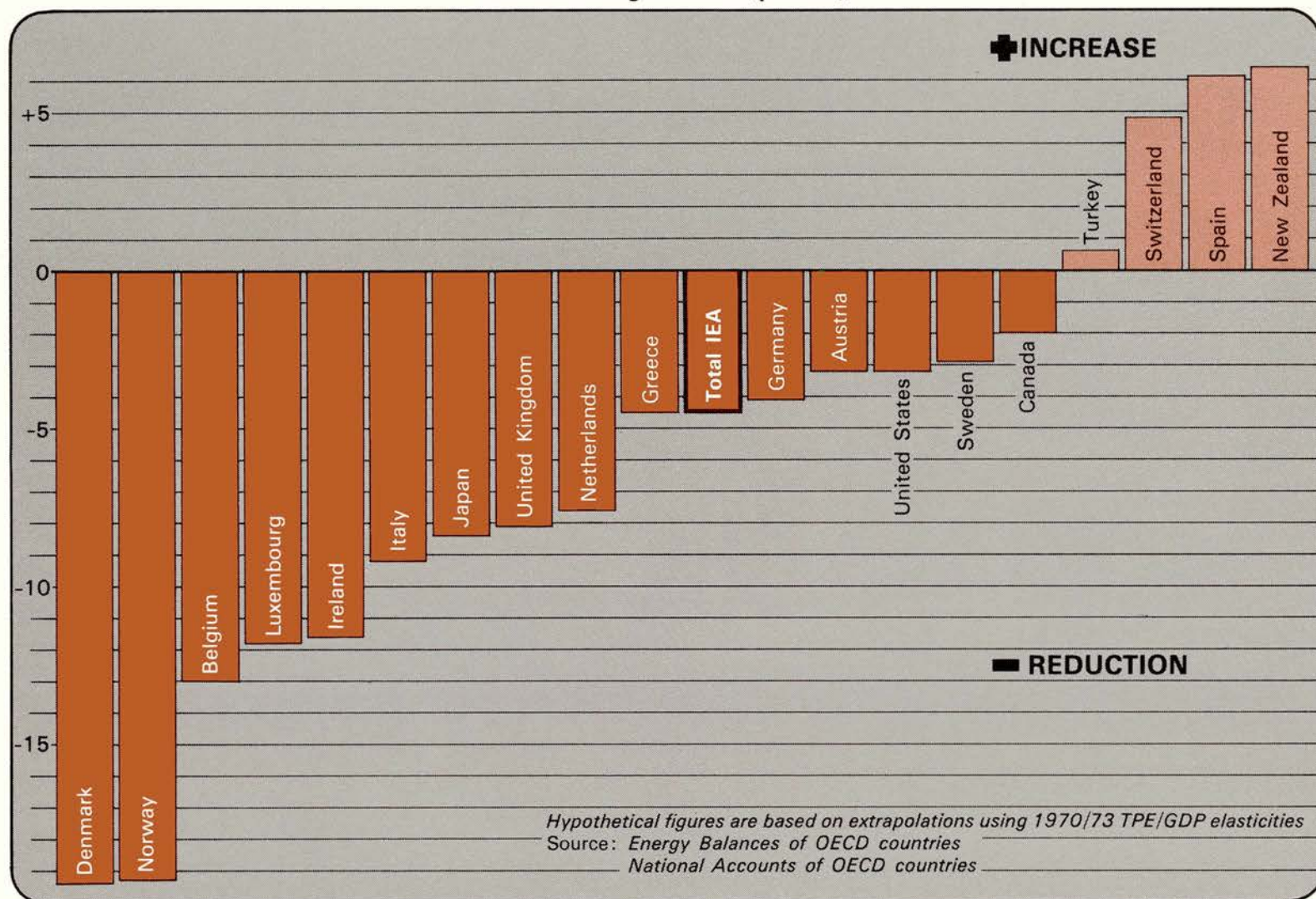
In 1977 only two countries used district heating on a significant scale: Denmark (about 30 per cent of all residential and commercial use) and Sweden (15 per cent). Some countries have

virtually no district heating because of geographical position and climate (Greece, Italy and Spain). Three countries use it little because of competing energy distribution systems — natural gas in the Netherlands and the United Kingdom and electricity in Norway. In other countries district heating is often confined to a few local networks in densely populated areas. Combined heat and power production is widely used in several countries: Denmark, Germany, the Netherlands, Sweden and the United Kingdom. →



## B. ENERGY CONSUMPTION

Estimated change 1974-77 (per cent)



Direct government support for district heating based on combined heat and power production is given in Denmark, Germany and the Netherlands. In Sweden, district heating systems have priority on the capital market. In Austria, Canada, New Zealand and Switzerland, support for combined heat and power production is linked to incentives for the use of household refuse as a fuel or the use of industrial waste heat.

### EVALUATING PERFORMANCE

Only a very general quantitative assessment of energy conservation achievements and potential is possible because of limited data and difficulties in separating out the effects of energy conservation measures from economic development, structural differences, geographical and meteorological conditions, energy factors and other factors. However, the combination of these elements forms a good basis for judging a country's energy conservation programme.

#### Conservation programmes

Although there has been a sharp reduction in the growth of energy demand since 1973, there is wide discrepancy in the scope and comprehensiveness of the energy conservation

programmes put in place since that date. The IEA has made the following assessment of the state of Member countries' conservation programmes in 1978.

#### Progress made

*Denmark, the Netherlands and Sweden* were judged to have strong and quite comprehensive conservation programmes which were being implemented effectively. Public funding had been maintained at a high level and is essential for future success, together with close monitoring of programme results.

*Canada, Germany, Italy, Japan, New Zealand, Norway, the United Kingdom and the United States* were said to have put into effect conservation programmes which represent an important step in the right direction but still needed reinforcement. Germany and the United Kingdom had made good progress in implementing incentive programmes in the residential and commercial sectors. Other sectors, especially transport, needed strengthening. In Norway, public funds allocated to conservation had been reduced since the last review cycle (1976), and electricity prices in industry were lower than in any other IEA country. New Zealand had made progress with respect to building codes and loan schemes, but energy prices had decreased in real terms, and petrol prices were lower than in European countries. In Japan, the submission to the Diet of the Energy Conservation Bill (passed in June 1979) was judged an important initiative. The effectiveness of energy conservation measures in Canada and the United States was hampered by oil pricing regulatory policies



## 5. ENERGY CONSUMPTION: TPE/GDP ELASTICITIES<sup>1</sup>

	1960-73	1977-85	1985-90
Austria	1.02	1.26	0.85
Belgium	0.95	0.76	0.58
Canada	0.98	0.83	0.69
Denmark	1.38	0.05	0.72
Germany	1.04	0.82	0.54
Greece	1.57	2.04	1.20
Ireland	1.08	1.36	0.89
Italy	1.51	1.05	0.90
Japan	1.00	1.05	0.76
Luxembourg	0.68	0.84	0.50
Netherlands	1.61	1.29	0.60
New Zealand	1.09	1.73	1.04
Norway	1.26	1.09	0.81
Spain	1.13	1.06	0.99
Sweden	1.08	0.52	0.59
Switzerland	1.28	0.60	0.88
Turkey <sup>2</sup>	1.33	1.24	0.68
United Kingdom	0.71	0.49	0.62
United States	1.05	0.76	0.90

1. Bonn Summit Target: 0.80 by 1985, accepted in 1978 by the United States and the European Communities.

2. Based on 1977 Submissions.

Source: IEA 1978 Review of National Programmes.

which maintain domestic prices below prevailing international levels. In the United States, significant progress had been made on gas prices. These last three countries will need to strengthen their efforts, IEA's report says. Canada and the United States mainly through pricing policies and Japan through vigorous incentive schemes and, if necessary, mandatory measures.

Austria, Belgium, Greece, Ireland, Luxembourg, Spain and Switzerland still had not adopted significant energy conservation measures apart from information campaigns. Public funds and government personnel allocated to energy were very modest. The efforts of these countries were certainly inadequate.

Overall, the outlook for further substantial improvements in the energy demand picture was clouded by the failure of the IEA countries as a group to make substantial progress in developing and implementing new conservation measures, the report notes.

### Prices and taxes

Many IEA countries are reluctant to allow energy prices to increase or to tax energy because of the effect on domestic inflation and industrial competitiveness. Such reluctance continues to weaken IEA's energy conservation strategy. In many countries, gas prices and electricity tariffs still reflected average rather than long-run marginal costs; declining block rates were still widely applied.

### Energy consumption per capita and per unit of GDP

Energy demand/output ratios such as total primary energy consumption (TPE)/GDP are often used as indicators of the overall energy efficiency and intensity of an economy. However, they are not an exact measure of energy conservation potential because, among other things, they do not distinguish between differences due to the structure in which energy is used and those due to efficiency in energy consumption. The same can be said for total primary energy consumption per capita ratios. A small figure

might indicate that energy is used efficiently in a given country or point to the fact that the country is economically less-developed.

Care should therefore be taken when using these ratios. More detailed analyses, based on specific energy consumption data for the most important energy uses, are needed to assess energy conservation potentials more accurately.

Nevertheless, there are wide differences between IEA countries in energy consumption per capita and per unit of GDP (Table 5).

The growth of energy use compared to the growth of GDP elasticity of energy consumption provide a way of monitoring progress in energy efficiency, especially if they are backed up by more disaggregated indicators such as energy consumption per ton of crude steel output or motor fuel consumed per ton/mile or per mile. TPE/GDP elasticities have therefore been used to make a first approximation of energy savings results achieved in IEA countries since 1973.

1960-1973 TPE/GDP elasticities were used to estimate a hypothetical energy consumption for 1974-1977. These estimated values were then compared with actual energy consumption for the same period. The differences between actual and hypothetical values can be taken as a rough indication of the reduction in energy demand achieved since 1973.

The energy demand reductions implied in these figures suggest that the IEA's energy conservation *performance* had been fairly successful in that larger energy savings have been made each year. This performance reflects in large part the response of energy markets to higher prices and perhaps an increase in public awareness.

Using the same analyses for individual countries, the results vary widely. Ten countries (Belgium, Denmark, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway and the United Kingdom) showed actual demand figures significantly lower than the hypothetical consumption. For five countries (Austria, Canada, Germany, Sweden and the United States) actual demand was only slightly below (4.5 per cent) hypothetical demand, while in four other countries (New Zealand, Spain, Switzerland and Turkey), actual demand was higher than or equal to hypothetical demand.

### Follow-up to Tokyo Summit

## CREATION OF AN INTERNATIONAL ENERGY TECHNOLOGY GROUP

The Governments of Canada, France, Germany, Italy, Japan, the United Kingdom and the United States, as foreseen at the Summit Conference held in Tokyo on 28th and 29th June, 1979, have created an International Energy Technology Group designed to be linked to the OECD/IEA.

The group will review the actions being taken or planned domestically by participating countries to commercialise promising energy technologies and report on the need and potential for international collaboration, including financing. In carrying out its mandate the group will consider putting forth options and recommendations in a number of specific areas.

The group will be composed of high level officials from the governments of the countries indicated above and from other Member countries which are in a position to contribute to the purposes of the group and wish to participate. It will complete its work and submit its report by 31st March, 1980.



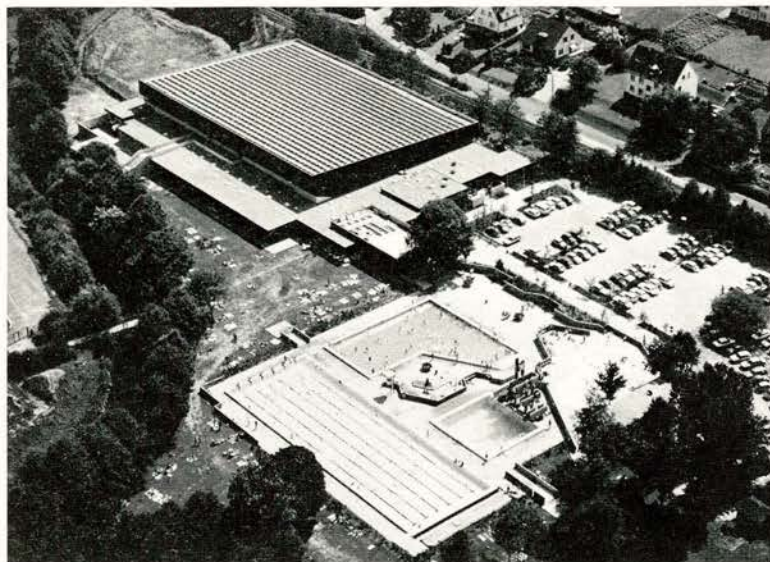
# ENERGY CONSERVATION RESEARCH<sup>(1)</sup>

**T**he term "energy conservation" generally calls to mind turning down thermostats, turning off lights and driving slowly. But in order to attain a more ambitious level of energy savings, whole new energy-conserving technologies need to be devised and implemented. In their own national programmes, IEA countries spent \$382 million in 1978 on conservation R, D and D (research, development and demonstration). The IEA has launched 15 cooperative multilateral projects in energy conservation R, D and D. Some of them can already serve as prototypes of efficient energy use. A few examples follow.

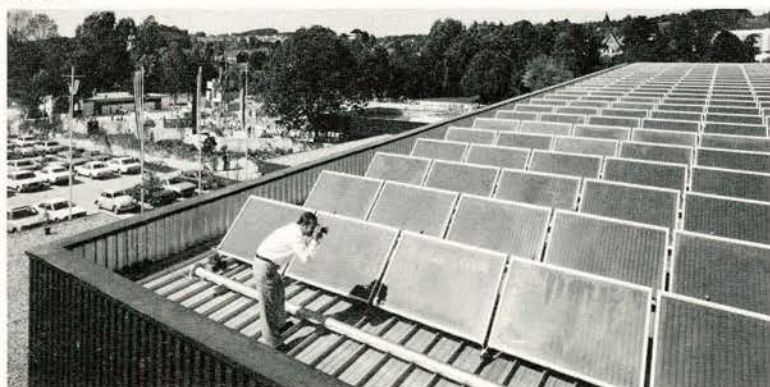
## Large-Scale Heat Storage

This work focuses on new techniques for storing large quantities of heat and subsequently releasing it at times of seasonal demand. The heat often comes from processes like the generation of electricity and would otherwise be wasted.

- Mannheim, Germany is the scene of an IEA cooperatively funded undertaking: waste heat from a nearby electricity generating station will be stored in a 30,000 cubic meter, insulated,



*This sports complex in Wiehl, Germany is an IEA energy conservation project. The swimming pools are heated and the skating rink frozen through a system of solar collectors, heat pumps and heat exchangers. The solar collectors are located on the roof of the skating rink, as shown below.*



man-made lake and then extracted from the lake water to heat homes during the winter. Construction of the lake is slated to begin in May 1980.

- In Sweden, researchers are examining the storage of heat from various sources — mainly solar and waste heat — in a natural body of water that has been insulated.
- Sweden, Denmark and the EEC are studying heat storage in a geological formation called an aquifer.

## Heat Pumps

Heat pumps offer possibilities for increasing the efficiency of home heating. They can produce three times the heat of an ordinary electric resistance heater for the same energy input by extracting heat from one area and depositing it in another. They can also be used for cooling; in fact, the ordinary refrigerator and freezer work on the principle of a simple heat pump.

Nine Member countries are currently demonstrating heat pumps that are commercially available today for residential heating and cooling. Coupled to these heat pump systems are innovative thermal storage systems.

- A project in Esslingen, Germany is demonstrating that heat extracted from river water by a large heat pump system can satisfy virtually all the space heating and domestic hot water requirements for a complex of three high-rise buildings.
- Ireland is investigating a system using air as the heat source with short-term storage in water to meet the space and water heating requirements of a typical dwelling.
- Another project in Germany is demonstrating the application of heat pump technology in a large sports complex where a heat-pump system simultaneously creates ice for the skating rink and heat for the building. Sixty to eighty per cent of the building's heating needs are filled by heat recovered from water during ice-making; the rest is extracted from the ground and from well water. The project, located in Wiehl, also uses the ground as a medium for heat storage. Heat stored in the ground during summer and fall can be extracted up to four weeks later for warming the sports facility. In addition, during the swimming season solar panels on the roof heat the water of the several outdoor swimming pools and the showers.

## Energy Cascading

Power stations and factories give off large amounts of heat that is usually wasted. Energy cascading technologies could take this heat and put it to work generating more electricity, providing heat for industrial processes and heating commercial and residential buildings.

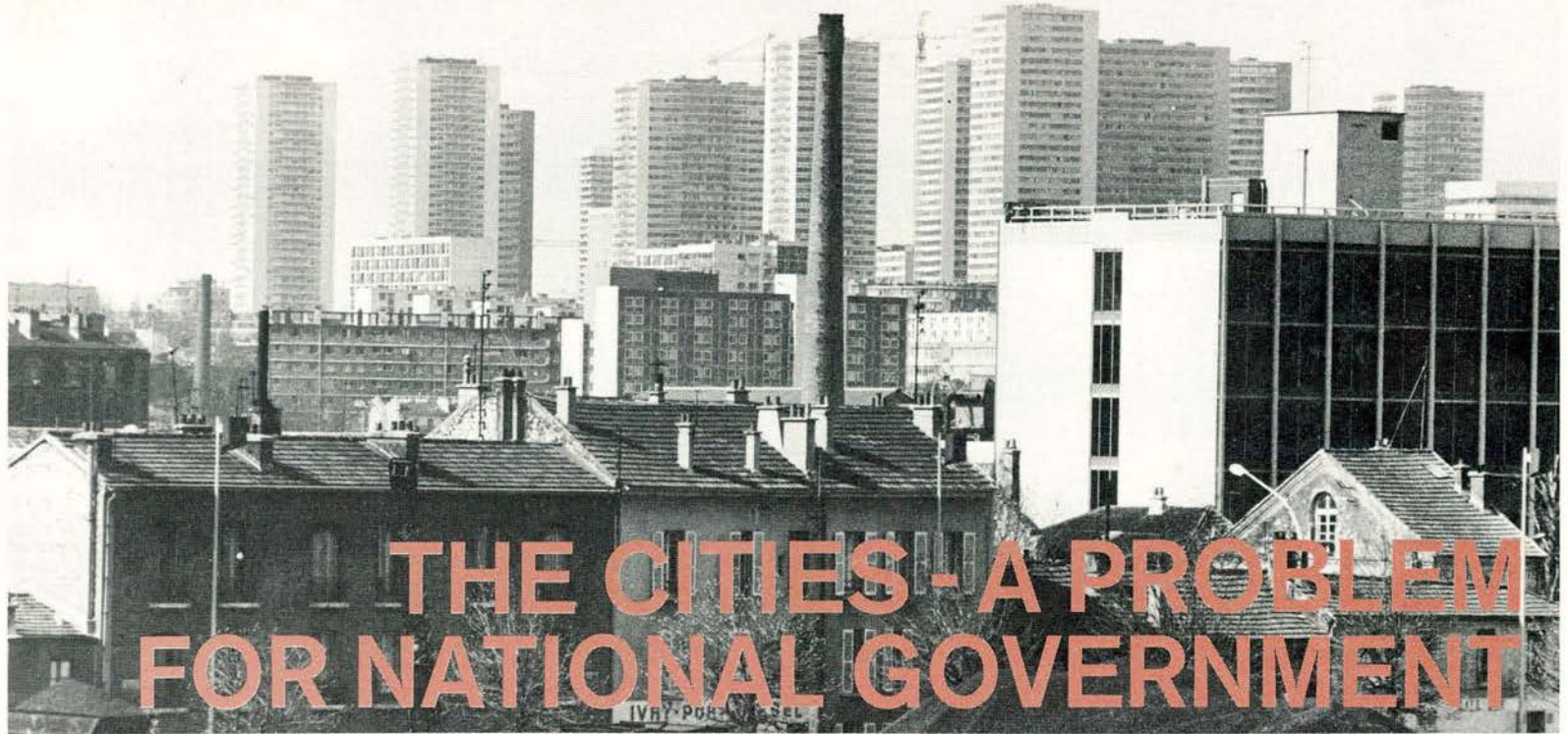
Nine countries have funded a technological assessment and market study of seven types of energy cascading technologies. They have determined that these efficient technologies do have important markets in Western countries and have outlined other possible IEA R and D projects to overcome the barriers to their commercialisation.

## The Industrial Sector

Finally, recognising that industry accounts for 40 per cent of all energy consumption, the IEA is developing projects in key industrial areas such as pulp and paper, iron and steel, and food processing. Four countries have already begun co-operative research on new, energy-efficient, ways of making cement.

<sup>(1)</sup> More information is available in Energy R, D and D: IEA Activities 1978-79 available free of charge from IEA.





**O**ECD Member countries have already reached a very high degree of urbanisation. The fact that a majority of their inhabitants are concentrated in urban areas — and the persistence of this trend — is without doubt a basic determinant of our societies' evolution. This concentration is not an independent development but is related to patterns of production, consumption and trade. The urban phenomenon affects lifestyles and value systems, so much so that what we think of as the "quality of life" depends to a great extent on the quality of the urban environment. But what happens in cities also has a feedback on economic and financial relationships.

The process of urbanisation seems at times to be spontaneous, a force which escapes from local or even central government control. Cities go through stages of explosion or implosion. One may spill over in disorderly fashion onto the surrounding space; in another the city core may lose its vitality and succumb to blight. In some well known cases the process may lead to serious financial crisis and create problems for the entire country. Here and there the problems of health, the environment and public safety may be acute.

Thus urban concerns, which normally are the responsibility of the local authorities, have inevitably become governmental concerns. Since nearly all OECD countries are affected to varying degrees, national as well as international efforts must be directed not only to analysing the issues but to finding effective solutions.

*Gérard Eldin, OECD Deputy Secretary General (1)*

*(1) Chairman of the meetings which paved the way for approval by OECD's Council of the Ad Hoc Group on Urban Concerns.*

*The problem of cities — what some would call the urban crisis — increasingly concern not only the inhabitants and their locally elected officials but also national governments. So as to investigate and analyse these problems in a way that will be useful to policy makers at this level, OECD has set up an Ad Hoc Group on Urban Problems, which will start its work early in 1980. The following article discusses some of the problems that face cities and the main lines of the programme which the Group is to undertake during its three-year mandate.*

### **The Decline and Growth of Cities**

Between 1950 and 1970, the OECD urban population (1) grew twice as fast as the total population, increasing by 51 per cent to reach 509 million, as against a rise of 26 per cent for the population as a whole, to 734 million. But in certain countries the trend towards urbanisation has slowed recently, in some cases dramatically.

*(1) According to each country's own definition.*



# POPULATION IN CITIES\* (in millions)

... 100,000–1,000,000							... More than 1,000,000					
1950	1960	1970	1980	1990	2000		1950	1960	1970	1980	1990	2000
31.55 <i>121</i>	43.52 <i>150</i>	47.01 <i>163</i>	52.69 <i>168</i>	51.89 <i>173</i>	54.27 <i>184</i>	North America	40.63 <i>14</i>	55.71 <i>18</i>	77.47 <i>28</i>	97.30 <i>33</i>	127.74 <i>43</i>	150.56 <i>48</i>
17.39 <i>63</i>	18.83 <i>63</i>	20.84 <i>71</i>	23.11 <i>73</i>	24.40 <i>73</i>	27.36 <i>79</i>	Northern Europe	22.97 <i>8</i>	23.95 <i>8</i>	25.36 <i>10</i>	26.07 <i>9</i>	29.02 <i>10</i>	31.57 <i>10</i>
25.19 <i>93</i>	29.55 <i>115</i>	32.44 <i>126</i>	39.42 <i>149</i>	42.07 <i>157</i>	44.64 <i>171</i>	Western Europe	17.98 <i>5</i>	27.34 <i>9</i>	34.22 <i>13</i>	37.85 <i>13</i>	44.59 <i>16</i>	31.33 <i>19</i>
14.05 <i>58</i>	15.57 <i>64</i>	21.13 <i>87</i>	24.51 <i>97</i>	29.73 <i>116</i>	33.52 <i>118</i>	Southern Europe	12.34 <i>6</i>	17.82 <i>8</i>	23.29 <i>9</i>	29.89 <i>11</i>	36.11 <i>12</i>	42.11 <i>13</i>
5.29 <i>22</i>	7.98 <i>46</i>	14.06 <i>73</i>	19.57 <i>98</i>	24.13 <i>111</i>	27.05 <i>115</i>	Japan	11.57 <i>3</i>	20.41 <i>5</i>	27.20 <i>5</i>	36.39 <i>6</i>	42.85 <i>6</i>	47.55 <i>6</i>
1.95 <i>7</i>	2.90 <i>10</i>	4.15 <i>12</i>	3.38 <i>12</i>	3.16 <i>12</i>	2.52 <i>11</i>	Australia/New Zealand	2.98 <i>2</i>	3.93 <i>2</i>	5.03 <i>2</i>	8.37 <i>4</i>	11.24 <i>5</i>	14.32 <i>6</i>
95.42 <i>364</i>	118.63 <i>448</i>	139.63 <i>532</i>	162.68 <i>607</i>	175.38 <i>642</i>	189.36 <i>678</i>	OECD Total	108.47 <i>38</i>	149.16 <i>50</i>	192.57 <i>67</i>	235.87 <i>76</i>	291.55 <i>92</i>	337.44 <i>102</i>
119.92 <i>471</i>	186.12 <i>726</i>	272.13 <i>1,042</i>	368.58 <i>1,368</i>	472.17 <i>1,725</i>	787.71 <i>2,232</i>	Rest of World	68.23 <i>33</i>	133.60 <i>60</i>	226.09 <i>90</i>	396.36 <i>150</i>	667.46 <i>232</i>	1,024.52 <i>312</i>

\* In italics: number of cities.

In one set of OECD countries, those long industrialised and urbanised such as the United Kingdom and some in Northern Europe and parts of North America, both urban and total population growth rates have slowed during the past ten years. Net migration into the older large central cities has dropped or even reversed, and when there has been net emigration it is the wealthier groups who have moved out. One main result of these trends, which seem likely to continue and spread, is the economic, social and environmental decline of older inner cities.

Some of these, the United States perhaps being the most obvious but not the only example, have already entered the post-industrial stage in which the old manufacturing settlement pattern is being radically altered.

In other countries or regions, in Southern Europe and Japan for example, cities continue to expand owing to natural increase and/or immigration. The costs of urban growth, if uncontrolled and unplanned, are high: excessive consumption of resources (notably land and energy), speculative increases in the price of housing and land, degradation of the environment, and the financial burden of providing infrastructure and services, even if population is expected to decline later on.

Hence the evolutionary path, and its social, environmental and spatial implications, will differ from country to

## WORK ORIENTATION OF OECD's

### How to Deal with the Problems of Urban Decline ...

- Fight environmental deterioration with emphasis on renovating houses and infrastructure.
- Attract new economic activities — small-scale non-polluting businesses for example — and rejuvenate existing productive capacity, taking advantage of the opportunity for energy conservation.
- Forestall urban decline with environmental and economic measures.
- Reduce, through anticipatory policies the social stress involved in both urban decline and urban renewal.
- Maintain at least minimum amenities and services in the inner city.
- Improve public safety, the lot of those harmed by urban decline and other social measures and increase mobility between different areas within the city, without sacrificing the efficiency of the urban economy.

### ... and Urban Growth

- Check urban sprawl and its environmental and financial costs, especially in medium-sized and small towns now experiencing rapid growth.
- Ensure adequate space, density and amenity standards in rapidly urbanising areas.
- Counteract rapid land and housing price increases.
- Promote, through anticipatory planning and management, environmentally sound and energy-conserving urban expansion.
- Reduce public subsidies for services and infrastructure.

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### The Role of Central Government in Implementing Urban Policies and Programmes...

- Increase local government autonomy without sacrificing national policy objectives.
- Improve the sensitivity of government programmes to indirect or unintended side-effects on cities.





## GROUP ON URBAN CONCERNS

- Increase joint public-private action in strategies for urban investment and management.
- Provide programmes at various levels — neighbourhood, municipality and region.

### ... and Managing Urban Finances

- Make the transfer of funds between different levels of government more flexible in order to meet rapidly changing revenue/expenditure demands.
- Provide alternative revenue options: taxation, user charges, pollution charges, privatisation.
- Provide alternative expenditure policies: performance evaluation and monitoring; sensitising programmes to public need.
- Debt financing: provide access to capital markets and other ways of meeting the growth of debt.

\*  
\* \*

### How to Mitigate the Impact on Cities of Structural and Cyclical Economic Change ...

- Increase interurban labour mobility and local retraining opportunities.
- Reduce urban unemployment with appropriate budgeting.
- Apply anticipatory counter-cyclical policies to urban economic activity; identify urban areas most vulnerable to recession.
- Coordinate national structural adjustment policy with local government development policy.

### ... and Harmonise Urban and Regional Policies

- Prevent regional incentives to industry and measures to encourage economic growth in inner cities from cancelling each other out.
- Use urban planning, financial and management measures to encourage regional economic development; special focus on urban poles of attraction.
- Discourage excessive immigration into large cities by stimulating decentralisation and balanced regional growth.

country. Some governments will have to check the decline of cities, while others must control their growth and/or sharply contain local expenditure. In some cases governments will have to deal with several conflicting trends at the same time. OECD's Ad Hoc Group will base its work on a number of priority themes (see inset).

### National and Local Policy — The Interaction

The action taken by national and local government has both a direct and an indirect impact on urban conditions. These conditions in turn affect overall national, social and economic development, although this interaction is not yet sufficiently recognised. The situation in some countries suggests that governments should carefully examine the effects of specific programmes and policies on urban development: housing programmes for example (how they are launched, what financial incentives they provide etc.) in large part determine the density and pattern of urban growth, and this in turn affects such matters as energy consumption. Similarly, national taxation policy often fails to take into account the disincentive effect it may have on the renovation of older dwellings and infrastructure and thus on the efficient use of existing urban resources.

During the 1980s governments will increasingly have to balance the role and



responsibilities of central authorities against local needs and ambitions. One focus of concern will be to assess the finances of local authorities and to co-ordinate their needs and expenditure plans with those of the nation as a whole. Joint public-private urban initiatives will also have to be expanded.

Most urban problems are related — either as cause or effect — to the cities' fiscal problems. In virtually all OECD countries during the 1970s, municipalities have faced increasing difficulty in matching urban financial resources to expenditure needs. Countries and regions experiencing rapid urban growth face the problem of extracting enough resources to augment existing public services and infrastructure. And in areas experiencing declining urban economies, the fiscal problem is probably even more acute: relying on the shrinking local tax base is usually a self-defeating strategy, and the constant state of "fiscal squeeze" exacerbates the problems of urban decline, creates further uncertainty in the general economic and political climate and necessitates ad hoc, make-do remedies on the part of central governments. Two types of programme might help in developing government actions in this field (see inset page 22).

### Cities and Economic Change

Beyond these concerns and central to the OECD programme is the relationship between urban and overall economic development. Macroeconomic policy has not solved the problem of selected impact — i.e. that some groups in some cities are more massively affected than others by changes in national and international economic structures. Difficulties caused by the adjustment of these structures in recent years have rapidly reduced the comparative advantage formerly enjoyed by certain urban regions — especially the heavily industrialised ones — resulting in the loss of job opportunities and the underutilisation of urban services and infrastructure.

The problem of uneven economic growth and development has traditionally been approached through regional policy — the allocation of government expenditure and incentives to business in areas of slow growth being the main policy tools. Now however the problem is complicated by the fact that the urban system is also growing unevenly, and that the disparities between cities do not always correspond to regional discrepancies. This can lead to conflicts in policy: assistance to a depressed city in an otherwise

dynamic region may have the unintended side-effect of further benefiting that region at the expense of others and vice-versa.

Two types of approach seem appropriate for dealing with this problem (see inset page 23).

#### *An experiment in the U.S.*

### **REVALITIZING NEIGHBOURHOODS THROUGH URBAN HOMESTEADING**

*Urban homesteading is a Twentieth Century adaptation of a technique used to help settle the United States through grants of land to citizens willing to live on it and to improve it. Its purpose is to help needy urban dwellers help themselves to achieve a better environment and to make their cities more viable economically. It involves the deeding of vacant publicly owned buildings in declining neighbourhoods to those who agree to repair, maintain and live in them or, in the case of homesteading's newest variation — shopsteading — to use them for an owner-operated business.*

*Homesteading is part of the neighbourhood revitalization movement that was begun, encouraged and administered by local governments. The buildings usually come into city hands in lieu of unpaid taxes or are transferred to cities for homesteading by the Department of Housing and Urban Development, whose property they have become through default on mortgages insured by the Federal Housing Administration.*

*The gain to participants, neighbourhoods and cities is considerable. Participants obtain the buildings for a nominal sum, often a dollar for houses and one hundred dollars for commercial buildings, and, in effect, buy their homes and shops with their labour. Neighbourhoods are revitalized not only by the return of derelict buildings to a useful life but by the construction of vestpocket parks, new public and private investment, a decline in crime and vandalism, and a new community spirit that has resulted in the establishment of neighbourhood food cooperatives and other community measures. Homesteading has also encouraged private institutions to finance inner city rehabilitation because they expect it to have a positive influence on the quality of life in the inner city and to add to the city's economic base.*

#### **Homes...**

*Urban homesteading was begun in the late 1960s by a few farsighted cities which, seeing it principally as a solution to property abandonment, committed local funds, energy and staff. They proved that homesteading does work in an urban context and generated considerable excitement throughout the country. Legislators, urban administrators and city planners became curious and then enthusiastic about adopting homesteading. Private financial institutions lent support through special loan programmes. Community groups endorsed homesteading programmes and rallied to support their inclusion in neighbourhood improvement campaigns.*

*By 1974, the concept had attracted enough attention and offered enough promise to be attempted at the national level. A Federal Demonstration Programme carried out by the Department of Housing and Urban Development (HUD) issued an invitation to cities and there were more than 60 applications for what had been planned as a 10-city demonstration programme.*

*By the end of 1978, 1,950 properties had been transferred to homesteaders; rehabilitation had been completed on 1,060. This clear evidence that a national programme was feasible — added to and continued strong local government interest — led to changing the programme a few months later from a demonstration programme to an operating programme, open to all cities in the nation.*

#### **... and shops**

*By then, the nation's first shopsteading programme, initiated by the City of Baltimore in December 1977 with the sale of 19 small commercial structures, mostly in that city's Union Square Historic District, had gained strong support from local merchants and residents. The merchants supported the project in the belief that abandoned storefronts in neighbourhood shopping areas hurt their business and the fact that neighbourhood residents were given a voice in the kind of businesses they wished to see established in the shopsteading structures.*



# THE TRANSFER OF TECHNOLOGY FROM WEST TO EAST

A substantial portion of Western exports to the East represents a transfer of technology (1). This fact is reflected in such statistics as are available (see Chart and Table). Western machinery and equipment (oil-drilling equipment, refineries, earth-moving and other kinds of machinery) and technology-intensive goods (such as computers, magnetic recorders, aircraft and communications equipment) have been exchanged against oil and gas, coal, timber, platinum, chromium, and other raw materials and a variety of manufactured goods.

But this is only the tip of the iceberg. The transmission of the skills with which to operate the equipment, the organisatio-

nal and other kinds of know-how, the technology embodied in processes and software cannot be measured. They can, however, be observed in the growing number of industrial, scientific and technical agreements between East and West and the growing number of framework or enabling agreements between governments. Intergovernmental science and technology agreements have been signed between the Soviet Union and Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Italy, Japan, the Netherlands, Norway, Sweden, the United Kingdom and the United States.

The extent of technology transfer can

also be seen in the expanding variety of agreements even though the details are often kept under wraps. The survey points to the existence of turnkey plants, mixed East-West companies, joint equity ventures (nine were reported by the end of 1976), co-production agreements, the purchase of licences and industrial cooperation agreements (some 1,000 of the latter have been reported involving virtually the entire spectrum of Western industry; see inset).

## A Historical Perspective

The idea of East-West scientific and technical cooperation has historical antecedents. Even before the Revolution, Western technologists, engineers and managers not only set up their own firms in Russia but participated in the management of Russian firms. During the 1920s Germany, Italy, the United States and France together accounted for 80.2 per cent of Soviet machinery and equipment imports; concessions to foreigners and technical assistance were a significant factor in Soviet economic development during that period. An interest in Western technology was maintained even during the "autarkic" days of the 1930s.

But with the onset of the Cold War, technology transfer was curtailed. Following the creation of the Council for Mutual Economic Assistance (CMEA also called COMECON) in January of 1949, the U.S. passed an Export Control Act (February), and in November of that year an informal Committee was set up by a number of Western countries to coordinate the restriction of technological flows. An indication of the compression that resulted is the fall in trade. Before World War II, Eastern Europe had exported almost 73 per cent of its goods to Western Europe, the United States and Canada. By 1953 that figure had fallen to 15 per cent, and the Soviet share was even lower.

But then the policy of "autarky" increa-

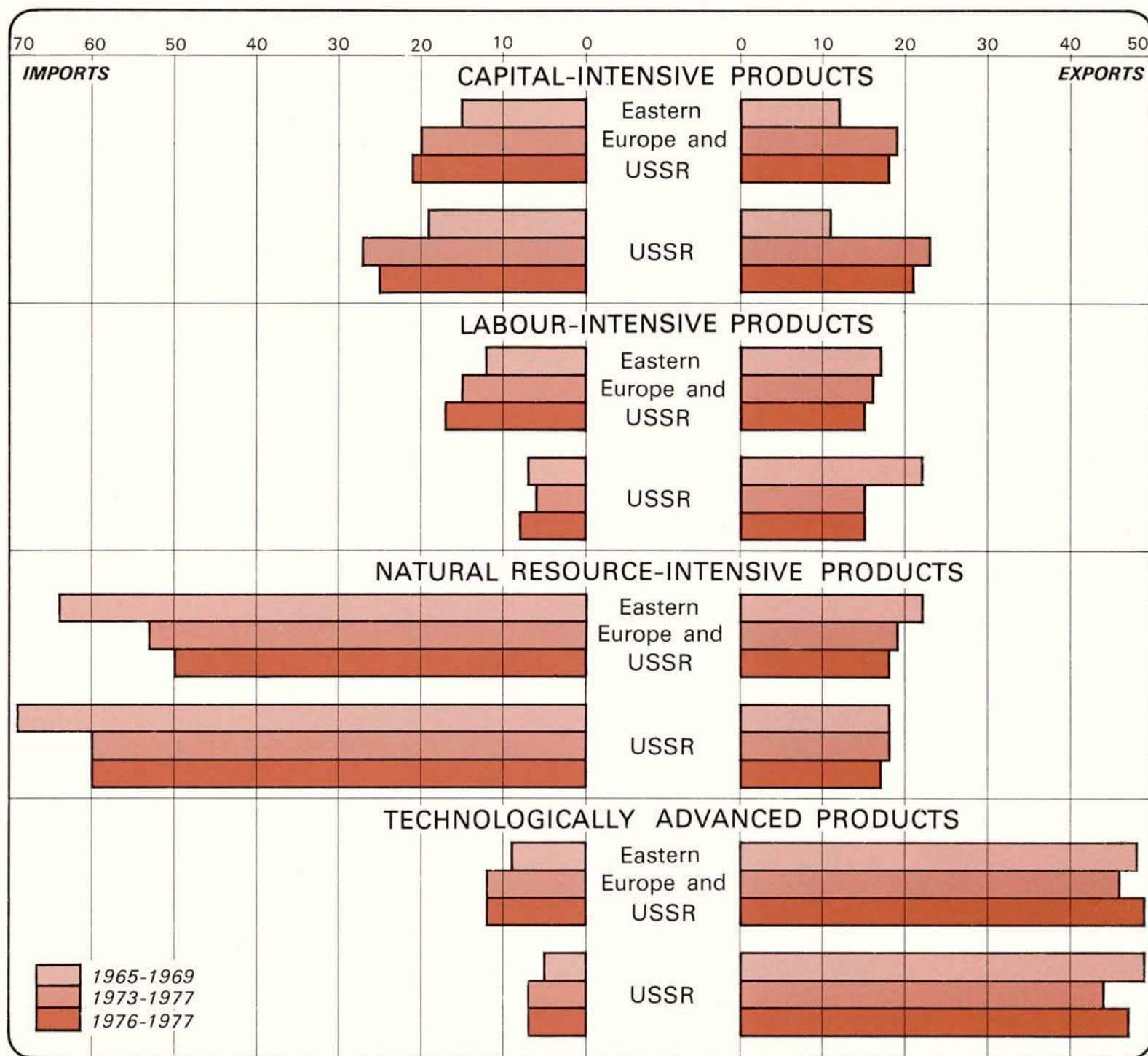


(1) Technology Transfers Between East and West to be published by OECD in the spring of 1980. The report is a compilation and critical assessment of the written evidence prepared by specialists in the field.



# WESTERN EXPORTS TO AND IMPORTS FROM EASTERN EUROPE AND THE USSR

Per cent — Total Western exports and imports = 100



Source: Economic Bulletin for Europe, Vol. 30, No. 1, pre-publication text. The definitions for this graph are as follows: Capital-intensive products: beverages, tobacco manufactures, iron and steel, road vehicles, petroleum and coal refining, soap and related goods, paints and allied products; rubber tubes and other articles, cement.

Labour-intensive products: stone, leather goods, wood manufactures, plywood and furniture, paper articles and printed matter, textiles (yarn, thread, fabrics and clothing), metal manufactures, non-metallic minerals and their products (concrete, structural clay products, glass and pottery products), heating, lighting and plumbing equipment, household appliances, tyres, railway vehicles, ships and boats, radio, television, office supplies, plastic articles, toys, sporting goods, jewellery and silverware, and miscellaneous consumer goods.

Natural resource-intensive products: agricultural products (excluding tobacco manufactures), natural rubber, wood, pulp, waste paper, paper, mineral fertilizers, sulphur, iron ore and concentrates, non-ferrous metal ores, coal, coke, briquettes, crude petroleum, natural gas, precious stones, pearls, non ferrous metals.

Technologically advanced products: organic and inorganic chemicals, medicinal products, plastics and synthetic materials, miscellaneous chemicals, power machinery, agricultural machines, office machines, metalworking machines, special industrial machines, electric power distributing machinery, miscellaneous electrical apparatus, communication equipment, aircraft, instruments and related apparatus, photographic supplies, watches, clocks, ordinance and ammunition.



singly came under scrutiny, and since the late Sixties, in a context of "peaceful coexistence" then "détente", trade has expanded (particularly between 1972 and 1975). There has been an eight-fold increase since 1965 in Eastern imports from the West. Much of this has been grain and low-technology products, but imports of machinery and equipment have risen ten-fold.

### **Changing Attitudes in the East ...**

The slowing down of economic growth in the Eastern countries during the 1970s, the decline in labour productivity, an "alarming" capital/output ratio plus an innovation problem, especially in civilian goods, continued to lead Eastern planners to the import of Western technology. It was seen as crucial in the Soviet Ninth Five-Year Plan (1971-1975) which focussed on motor vehicles, (and in particular the Kama River Truck Plant), natural gas, oil, timber, metal extraction and processing, chemicals and agrobusiness. Even less ambiguously the Tenth Five-Year Plan (1976-1980) calls for the broader participation of the Soviet Union in the international division of labour and for foreign economic ties. The strategy of selective technology transfer in the Tenth Plan marks a change from the classical growth notion, based on increasing factor inputs, to a modern growth strategy based on high rates of technological progress.

Beginning in 1969 a major effort was initiated by the Soviet Union to integrate the CMEA economies. One aspect of this was the creation of "international economic organisations" — or what one author calls socialist multinational corporations — designed to make profits and to specialise production within the Eastern countries. During the Seventies the attempt to strengthen the CMEA has gone hand in hand with the emphasis on pursuing economic relations with the industrialised countries of the West.

A certain ambivalence permeates Eastern attitudes to technology imports which after all come from ideological rivals whose expertise is nonetheless seen to be an essential element in Eastern economic development.

### **... and in the West**

Western European countries, responding to the promise of new markets, took a flexible attitude towards export and import controls and initiated trade agreements with the East beginning in the mid-Fifties. The United States

## **HOW IS TECHNOLOGY BEING TRANSFERRED?**

**N**ew approaches to technology transfer not only provide for the delivery of entire factories but include provisions for continuous Western technical assistance. This represents a departure from the "once-and-for-all catching up" approach towards technology imports characteristic of the Stalinist era. For example, only a few dozen specialists were sent by the Ford Motor Company to work at the Gorky automobile plant in the 1930s, whereas some 2,500 Western personnel were sent to help construct the Zhiguli plant at Togliatti in 1966 and to train Soviet technicians in Italy under the FIAT contract.

### **Intergovernmental Scientific and Technical Agreements**

These are framework or enabling agreements, mostly concluded at the request of the CMEA countries, which facilitate but do not predicate the existence of private commercial contracts. They are usually valid for 10-15 years and are supplemented by annual protocols. They are often administered by a joint commission with a minister presiding on either side. In 1978 there were 250 such agreements, and they are becoming more and more complex receiving considerable publicity. This is true in France, for example, for the annual meeting of the Grande Commission Franco-Sovietique held annually at Ministerial level.

### **Industrial Cooperation Agreements**

Western firms and their CMEA partners agree to pool assets and coordinate their use in the mutual pursuit of complementary objectives. The form varies. Secrecy is maintained on both sides, hence relatively little is known about them.

### **Private Enterprise Agreements on Scientific and Technical Cooperation**

Little information is available on agreements which are confined solely to scientific and technical information.

### **East-West Licensing Transactions**

The sale of a licence often constitutes the first step towards broader cooperation. Out of 434 cooperation agreements in 1976, 183 were licence or know-how sales, mainly to the Soviet Union and Poland. Germany was the leading licensor. There is no precise information about the value of licences traded, but the balance of receipts seem to be heavily weighted in favour of the West, and the Eastern deficit is growing. A licence sold to one East European country may be used by another. Licences are heavily concentrated on the technically more dynamic industries — automatic machine tools, light chemicals, cars, aerospace, electronic equipment and data processing. An increase in this type of arrangement is foreseen, with Eastern European countries increasingly seeking to tie fees paid for licences to the export of products manufactured under the licence. This would be a major change since formerly payments were a lump sum or a fee based on domestic production under the licence.

### **Supply of Turnkey Plants**

This form of technology transfer has shown strong growth during the last decade, particularly in chemicals, steel and motor industries and is considered effective. Start-up assistance and training courses are included. The Soviet Union has been particularly interested in turnkey projects.

### **Co-production and Specialisation**

This is the most flourishing form of industrial cooperation. Partners may specialise in certain parts of a finished product or in the production of a limited number of articles in the production range so both can offer the full range. The technology is usually provided by one of the partners. Cooperative marketing arrangements are generally included. UN data for 1976 indicate that the chemical industry and mechanical engineering are the leading sectors.

### **Joint Ventures**

These are rare. Romania authorised them in 1971, Hungary and Poland, for some sectors, in 1972. Those permitted so far have been on a small scale.

### **Subcontracting, Joint Tendering (or Joint Projects) and Tripartite Cooperation**

The latter is the most prominent, enabling Western countries to lower the cost of associating with the East.



## COUNTERTRADE

*The term countertrade covers a range of tied transactions for which the settlement of all or part of the hard currency debt is made in the form of products from the East. There are three main types of countertrade: barter agreements, counterpurchases and compensation agreements.*

\*

*A. Barter agreements are one-time, short-term (two years at maximum) transactions in which the Eastern goods to be purchased are specified at the time the contract is signed. There is no flow of money. This kind of agreement is relatively rare.*

\*

*B. Counterpurchase transactions are agreements in which a Western seller provides the Eastern buyer with technology, plant or equipment and agrees to purchase Eastern goods equal to a percentage of the sales contract value. A counterpurchase transaction involves two separate, but inherently linked contracts — one for the sale of Western products, and a second for the purchase of the Eastern products. Normally the goods are not derived from or related to the Western export of technology, plant or equipment.*

### **How a Counterpurchase Functions:**

1. Western firm contracts for the sale of plant and equipment to the Eastern partner
2. Eastern partner negotiates with Western bank for credit
3. Western bank extends credit to the Eastern partner
4. Western firm delivers plant and equipment to Eastern partner
5. Western bank makes payment to the Western firm (full or part depending on the terms of the agreement)
6. Western firm contracts with Eastern partner for the purchase of Eastern goods
7. Western firm pays Eastern partner for commodity
8. Eastern firm repays Western credit
9. If the Western firm cannot use the Eastern goods, it may negotiate with a trading house to sell them
10. Eastern firm delivers goods either to the Western partner or to the trading house
11. Western firm receives goods or payment from trading house

\*

*C. Compensation agreements involve two separate but inherently linked contracts providing for the sale by a Western firm of technology, plant or equipment and the reciprocal purchase by the Western firm of Eastern goods. Usually, the Western partner purchases products derived from the technology, plant or equipment that it has supplied. The values involved in compensation transactions are usually much higher than in barter or counterpurchase agreements, and the compensation arrangement covers a far longer period (10-20 years).*

### **How a Compensation Agreement Works:**

1. Western firm contracts to sell plant and equipment to an Eastern partner
2. Western firm contracts to purchase some of the plant output (resultant products) once production has begun
3. Eastern partner negotiates with Western bank for credits with which to purchase Western plant and equipment
4. Western bank extends purchase credits to Eastern partner
5. Western firm delivers plant and equipment to Eastern partner
6. Western bank pays Western firm for deliveries
7. When production has begun, Eastern partner delivers part of the output to the Western firm
8. Western firm pays Eastern firm for deliveries of product
9. Eastern partner repays Western bank credit.

remained more restrictive for a longer time, using trade generally — and technology transfer in particular — as a “bargaining chip” to achieve foreign policy aims (the policy which came to be known in the 1970s as “linkage”). The

US also restricted the export of a larger number of items, basing decisions on whether or not an export will contribute to the “economic strategic potential” of the Eastern buyer as well as its military strategic significance; hence “strategic”

was defined more broadly by the U.S. than by other countries.

But US firms faced with increasing competition from West European firms — in part with US technology — found themselves in conflict with national interest as conceived by the government. The theme “if we don’t, others will” found support in government circles. In the second half of the Sixties the policy began loosening up. Criteria for granting export controls were adjusted to achieve closer conformity with standards already adopted by the other Western countries. Hundreds of items were removed from the U.S. unilateral lists, leaving a limited but flexible range of embargoed goods.

The passage of the US Export Administration Act of 1969 was a major turning point from export control to export promotion, bringing the U.S. closer to the working concept of controls previously adopted by other members of the coordinating committee. (A 1977 amendment declared that US export policy towards individual countries was not to be based exclusively on a country’s communist or non-communist status.)

By the time of the US/Soviet summit meeting in 1972, scientific and technical cooperation had become an important input into the US “linkage” policy. Basic principles agreed upon at that time gave rise to a scientific and technical cooperation agreement and ten companion agreements between the US and the USSR. This represented a quantum jump in the number of such arrangements. Thus the report notes, such cooperation resulted not from specific requests by scientists and engineers but from the basic foreign policy approach of the government.

In Western Europe, negotiations on a long-term preferential trade agreement between EEC and CMEA have been going on for years without reaching a conclusion.

For both the US and Western Europe, most restrictions on credit facilities have been lifted, and the trade that has developed is largely on the basis of Western credit.

Policy makers in the West like those in the East have demonstrated a certain ambivalence towards the expansion of economic relations, and this ambivalence is sharply focussed on the transfer of technology. It is not surprising then that technology-transfer policies should swing between encouragement and restraint depending on the political climate or that the debate has at times assumed the dimensions of a major controversy. →



## EAST-WEST\* TRADE IN MACHINERY

	Western Imports from the East (cif)					Western Exports to the East (fob)				
	Value \$ million	Percentage change over same period of preceding year				Value \$ million	Percentage change over same period of preceding year			
	1977	1974	1975	1976	1977	1977	1974	1975	1976	1977
Non-electrical Machinery of which : USSR	708 115	27	38	1	4	7,332 3,900	26	48	4	12
Electrical Machinery of which : USSR	366 41	21	16	11	19	1,670 733	46	38	- 5	27
Transport Equipment of which : USSR	708 192	- 10	34	12	39	1,239 731	87	109	- 10	- 16
<b>Total Machinery/Equipment</b> of which : USSR	<b>1,782</b> 348	<b>12</b>	<b>32</b>	<b>7</b> 16	<b>19</b> - 11	<b>10,262</b> 5,365	<b>35</b>	<b>55</b>	<b>0</b> 7	<b>10</b> 10

\* East : Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania and USSR. Trade between the Federal Republic of Germany and the German Democratic Republic has not been included in these figures.

West : OECD countries

Sources : Economic Bulletin for Europe, United Nations, vol. 28 and vol. 30, (pre-publication).



Above: FIAT plant in Poland. Below: Transistors are manufactured in Poland under licence from a French firm.







Western equipment installing the largest natural gas pipeline in the USSR. "Gas for pipe" exchange is an important feature of East-West trade.

The debate has revolved around such questions as whether technology contributes to strategic military potential simply by freeing up resources for military development or whether it diminishes this potential by reducing the incentive to autonomous development; whether or not trade with the East enables these countries to compete in Western markets; whether such trade improves employment or, by exporting productive capacity and importing goods, curtails jobs at home as some trade unions have argued at times.

### Technology Transfer and Debt

One of the biggest economic problems affecting East-West technology flows is that of payment. The Eastern debt has increased steeply in recent years: estimates put the figure at between \$35-46 billion for the end of 1976 and at \$52 billion in 1977. (The Soviet Union and Poland together were responsible for roughly two-thirds of it). This debt is directly linked to the transfer of technology since it stems from the mechanisms by which the transfer to the CMEA countries takes place. Western firms wanting to do business with countries suffering from a chronic lack of strong currency are forced to extend credit if they want to sell their machinery and other equipment. The need to give credit for such sales to the East is not disputed in the West. Indeed, there is some competition for contracts with the East.

The CMEA countries would seem to be doing what they can to minimise the debt by pressing increasingly for barter-like deals in their agreements with the West, and a great number of so-called "counter trade" or "buy-back" arrangements have sprung up (see inset). Some analysts think the CMEA countries are beginning to equate compensation with cooperation. OECD's report estimates that countertrade may account for as much as 35 per cent of Eastern exports to the West by the year 1980.

According to estimates of the UN's Economic Commission for Europe, one form of countertrade — compensation agreements — account for \$1.5 billion of exports annually from West to East. The other main form — counterpurchases — are thought to comprise a much larger share of this trade — from 20 to 38 per cent in recent years — and this form of trade seems to be on the increase.

Deliveries from Eastern countries under compensation agreements may be divided into two main groups. The first of these, accounting for a large share of value, consists of fuels (oil and gas), timber and other commodities easy to sell in the West. These commodities are usually supplied under long-term high-value compensation agreements and most of them are produced with the help of Western technology. Over the next 15 years it is thought that oil and gas, forestry products

and metals will account for some \$20 billion of the \$31 billion of compensation trade considered likely with the USSR. For the other CMEA countries, pride of place goes to goods from Poland — coal, copper and sulphur.

The other category of supplies under counterpurchase or compensation agreements consists mainly of "soft" products that are often difficult to dispose of and it is the extension of compensation agreements to these products that raises the crucial problem.

### The Future

Available evidence examined in the report suggests no diminution in the technological gap between East and West which is the driving force behind technology transfer, and hence the demand for Western technology is not likely to diminish. And, if increasing grain exports are added to the imbalance in the trade pattern, the crucial question is: how will it be paid for — by increasing debt or increasing exports and, if the latter, what kind?

Clearly no problems arise when the product exported to the West, whether under compensation agreements or not, is oil or gas. But such resources may be limited. The Tenth Soviet Plan (1976-80) foresees a relatively moderate expansion in Soviet energy exports because of mounting internal consumption and because of the difficulties being encountered in developing resources in Siberia. A recent US CIA report forecasts that growth in Soviet oil production will come to an end in the early 1980s, but estimates of future Soviet production cover a vast range. On the other hand gas exports are likely to increase, and this opens the possibility of "gas for pipe" exchanges. Platinum, aluminium, diamonds, chromium, nickel and timber could also find a ready market.

The problem as seen by the report is whether the Eastern countries can provide other exports which will be wanted by the West. Countertrade arrangements have enabled Eastern exporters to exert a certain amount of pressure on the West to accept their products even if the quality is not up to standard or the range wide enough. But this can only be a "make do" arrangement, the report judges. The real need is for greater international division of labour and a reorientation in East European countries' planning towards demand criteria. Such a reorientation would appear to be the only way to provide a long-term answer to the difficulties of financing technology transfers to the East.



# THE SOVIET AGRICULTURAL OUTLOOK

*Soviet agricultural output has traditionally varied greatly since it is subject to extremely unstable weather conditions. The fluctuations, however, had little impact on the world market until the early 1970s when the USSR decided to offset periodic production deficits of grain through massive imports, thus disrupting world grain markets.*

*The Soviet Union is expected to buy up to 30 million tonnes of grain on world markets over the coming year. This scale of importation — topping last year's USSR grain imports by some 15 million tonnes — represents more than 20 per cent of expected OECD grain exports and an important share of the world grain trade. The present Five-Year Plan and official declarations concerning future targets suggest that the USSR is attempting to reestablish self-sufficiency in agriculture, and in food production more generally. Whether or not these goals can be achieved in the near future has been examined in a recent report on the outlook for Soviet agriculture through 1985 (1), prepared by OECD's Agricultural Directorate.*

## Agricultural Growth Trends

The late 1960s witnessed a surge in the growth of Soviet agriculture, produced primarily by large capital investment in machinery, land improvement and fertilizer production, as well as considerable expansion of arable land. Gross output as compared with the previous five-year period increased by an average of 3.9 per cent between 1966 and 1970.

Over recent years, however, the rate of increase in investment has been slowing down, land expansion has virtually reached an upper limit, the labour force has been shrinking, and additional capital has produced diminishing returns.

As a result of these factors, the growth of agricultural output has been dropping. In 1976-77 it reached a low of 1.6 per cent as compared to the 1971-75 average of 2.5 per cent but is expected by the OECD to climb back to around 2.5 per cent annually over the years 1980-1985. This rate of increase would put annual agricultural growth about 1.5 per cent in excess of population growth. Animal production

has been growing faster than crop production (see Table 1) and will probably continue to do so.

## Consumption Patterns and Targets

The daily average caloric intake of Soviet citizens is close to that of inhabitants of the United States, but the composition of diet is quite different. Animal products supply only 25-30 per cent of caloric intake as against 40 per cent in the United States; almost half the calories in the USSR come from grain products and potatoes. It is, however, somewhat misleading to speak of an average Soviet diet because regional nutritional differences are considerable, due to the different crops grown and deficiencies in their distribution. →

(1) *The study is entitled Prospects for Soviet Agricultural Production in 1980 and 1985, with Special Reference to Meat and Grain. It is based on papers and discussions of the OECD Ad Hoc Group on East/West Economic Relations and Agriculture, as well as research at the Centre for Continental Agrarian and Economic Research of the University of Giessen, West Germany.*

## 1. INCREASE IN PRODUCTION OF SIX MAIN CROPS, MEAT AND MILK

	1964-1966 1959-61 = 100	1969-1971 1964-66 = 100	1974-1976 1969-71 = 100
Overall agriculture (valued at 1973 prices)	115	117	110
Grain	118	119	105.5
Cotton	126	116.5	124.5
Sugar beet	149	98	110
Sunflower seed	151	103	94
Flax	108	111	98
Potatoes	106	104	91.5
Meat	110	129	115
Milk	114	117	110
Non-grain feed (in oat units)	n.a.	109	112

## Soviet Output Statistics

*Soviet grain output is given in "bunker" terms — weight ascertained by the farms immediately after harvesting — while Western data show net weight after cleaning and drying. To translate Soviet yields into Western terms, various items must be taken into account, including weight decrease after the elimination of moisture and impurities and losses due to inadequate transport. The lack of adequate storage, drying and cleaning capacity presents particular difficulties since grain must sometimes be left in unsuitable facilities or in the open air while waiting to be dried and processed.*

*Annual losses to be deducted from Soviet output data may vary from 8 to 27 per cent of the total, though 13-16 per cent is a good basic estimate. It appears not impossible that some of these losses can soon be alleviated, adding some 5-10 million tonnes on average per year to the Soviet harvest by the mid-Eighties.*



On the whole, meeting basic nutritional needs no longer presents a problem in the Soviet Union. Rather, the challenge in upcoming years will be to satisfy rising consumer demand for more high-quality foods, especially animal products, fruit and vegetables. Real per capita income of the Soviet population in 1980 is planned to be about one-fifth higher than in was in 1975, and with the inadequate supply of manufactured consumer goods, the income elasticity of demand for meat and other high quality food is unusually high.

In addition, what people actually eat is still far removed from the "scientific consumption norms for an optimal diet" that the Soviet authorities have developed. And it has become a major socio-economic goal to bring the reality close to the norm by 1990, although that date is judged by OECD's report to be optimistic (Table 2).

In 1977, for instance, per capita consumption of animal products was only 57 kgs. as against a norm of 82 kgs. (This compares with a

consumption figure of 81.3 kgs. for Western Europe.) In view of current production patterns, it seems unlikely that more than 65 kgs. per head will be supplied by the mid-Eighties. (See Table 2.)

## Animal Production

Judging by statements of Soviet leaders, rapidly increasing livestock production has top agricultural priority. In fact, the Soviet "grain problem" — which forces the USSR to spend a huge share of its foreign exchange on cereal imports — is really an animal production problem. As herds grow and yields remain low for green crop, hay and pasture, a rising share of grain is fed to animals. The OECD study estimates that feed requirements will account for something like 60 per cent of the Soviet grain needs in both 1980 and 1985.

Increased livestock and feed production form the central focus of the Five-Year Plan for 1980 through 1985. The meat output goal (slaughter weight) for 1980 is 17.3 million tonnes (19.5 million tonnes for 1985). The OECD report, however, suggests that actual output will probably fall short of target by about a million tonnes in both 1980 and 1985. Low feed conversion ratios as well as unpredictable or inadequate feed availability form the major constraints on reaching Soviet output goals for meat.

The amount of feed it takes to produce a kilo of meat or a litre of milk is much greater in the USSR than in the West. The "excessive" feed consumption of Soviet livestock can be explained by their physiologically unbalanced diet, lacking especially in digestible protein as well as other nutrients. For non-grain feeds, technical problems of harvesting, storage and feeding cause losses of nutrients and vitamins recently estimated at 20-30 per cent by Leonid Brezhnev. Production results from permanent grasslands have remained almost unchanged for the last 20 years.

Feed conversion ratios do, however, vary considerably, showing that some Soviet farms have reached technical standards that come closer to those of Western countries. For instance in 1971, some 9 kgs. of feed units were needed to produce one kg. of pork on average, but only 5.5 kgs were needed on the best farms. (Table 3.) In the West, on average, about 4.5 kgs would be required.

## Grain Production

In accordance with the official policy of augmenting animal production, feed grain has been progressively emphasised in comparison to other grains.

Total grain production planned for 1980 is 235 million tonnes, gross weight (see inset), but only an average of 215 million tonnes may be expected by that year according to the OECD study. The 235 million figure is not likely to be achieved until 1985. Annual Soviet grain output rose by some 50 million tonnes between 1965 and 1975 and continues to rise. Part of this growth can be traced to expansion of land area sown to grain; such area reached 130 million hectares and an upper limit during the 1970s. Future production increases will depend primarily on land improvement, fertilization and other technological improvements.

### • Land Improvement

Irrigation, drainage and the liming of acid soils constitute the major land improvement measures in the USSR. Grain output on improved land in 1980 was planned to total 22.8 million tonnes, or somewhat less than 10 per cent of all grain production. On the whole, though, grain yields on irrigated and drained land show "disappointing superiority" over the national averages but prove less susceptible to annual yield fluctuations.

In future, emphasis in grain production will probably come to be

## 2. FOOD CONSUMPTION : NORMS AND ACTUAL, 1977 (in kg per head, per year)

Products	Norms*		Actual consumption 1977	
	Variant 1	Variant 2	in physical units	in % of Variant 2 norms
Meat and meat products	49.3	82	57	69
of which : pork	—	28-30	—	—
Milk and milk products	378.5	434	322	74
of which : milk	—	164	—	—
butter	—	5.5	—	—
white cheese	—	7.3	—	—
cheese	—	6.6	—	—
Fish and fish products	18.2	18.2	17.7	97
Eggs (piece)	182	292.0	224	77
Animals fats	—	2.5	—	—
Sugar	32.8	36.5	42	115
Vegetables and melons	130	146	89	61
Potatoes	109	97	122	126
Grain products	140	120	140	117

\* Variant 1 is described as a consumption target for the immediate future, and in some items (meat, eggs, sugar, fish) is already being surpassed. Variant 2 presents the ideal for later years.

## 3. FEED CONVERSION RATIOS ON COLLECTIVE FARMS AND STATE FARMS, 1971 (feed units based on 1 kilogram of oats)

Feed units needed	Overall average of farms		On the best farms	
	Total Feed	Concentrates	Total Feed	Concentrates
For 1 kg of meat (gain in weight) :				
cattle	10.32	1.78	7.1	2.66
pigs	9.22	6.93	5.5	4.67
poultry	4.50	3.70	2.8	2.40
For 1 kg of milk	1.44	0.32	1.0	0.39
For 10 eggs	4.50	3.70	2.8	2.40





*Livestock production has top agricultural priority in the Soviet Union; feeding the animals causes most of the Soviet "grain problem."... The Soviets have relied heavily on fertilization to increase crop yield.*



placed on drainage of wetlands in the non-black earth zone rather than irrigation of arid areas, since a great expansion of irrigation would eventually necessitate diverting North Russian and Siberian rivers to the South which is running out of water. Even without such enormous projects though, both drainage and irrigation are extremely expensive.

### ● Fertilizer

The Soviets have relied heavily on fertilization to increase crop yield. If the present plan were to be fulfilled, the amount applied per hectare of grain sowings in 1980 would be almost double that of 1975. However, returns of grain output per unit of fertilizer input seem to be declining.

Soviet domestic fertilizer production trebled between 1965 and 1975 and is planned to double again, eventually reaching an annual output of 143 million tonnes by 1980. However, in the first years of the present Five-Year-Plan, production fell short of target, suggesting that this amount might not be achieved. To ensure an ample supply of phosphorous fertilizer base, the USSR has arranged for Morocco to supply them with large amounts of phosphoric acid and up to 10 million tonnes of raw phosphate a year during the 1980s.

### Non-Grain Feed

In the past, non-grain feed sources have generally been ignored by planning officials. But in years ahead non-grain feed could spur more growth in Soviet meat production than grain. Hay and pasture currently supply about 35 per cent of total livestock feed nutrients.

Judging by experience in North America, Soviet hay and pasture yields could probably be doubled.

Sizeable efforts towards increasing production of silage and haylage, grass meal and fodder are planned. But the huge capital outlays required for land improvement, fertilizer, harvesting machinery and storage facilities will constrain growth in this domain in the near future.

In the shorter term, major goals are to raise the production of protein concentrates and highly nutritive industrial pre-mixes including fish and whale meal, bone meal and grass pellets.

### Conclusion

If the Soviet Union can manage a grain output of 215 million tonnes in 1980 — considered a reasonable aim by the OECD study, though still 20 million tonnes short of the original Soviet plans — then large grain imports from the West might be gradually removed from the USSR's balance sheet. This conclusion, however, assumes that weather conditions will not be disastrous, that meat production will fall short of target by about a million tonnes in both 1980 and 1985, and that grain production will continue to rise to 235 million tonnes by 1985.

The Soviet Union, then, at the expense of the quantity of meat offered its consumers, does seem to be moving towards agricultural self-sufficiency. Grain imports may nevertheless continue to be required on a highly unpredictable basis to offset weather-related harvest shortfalls as in 1975 and again in 1979 and for re-export to other Communist countries.



# TOURISM IN THE OECD AREA

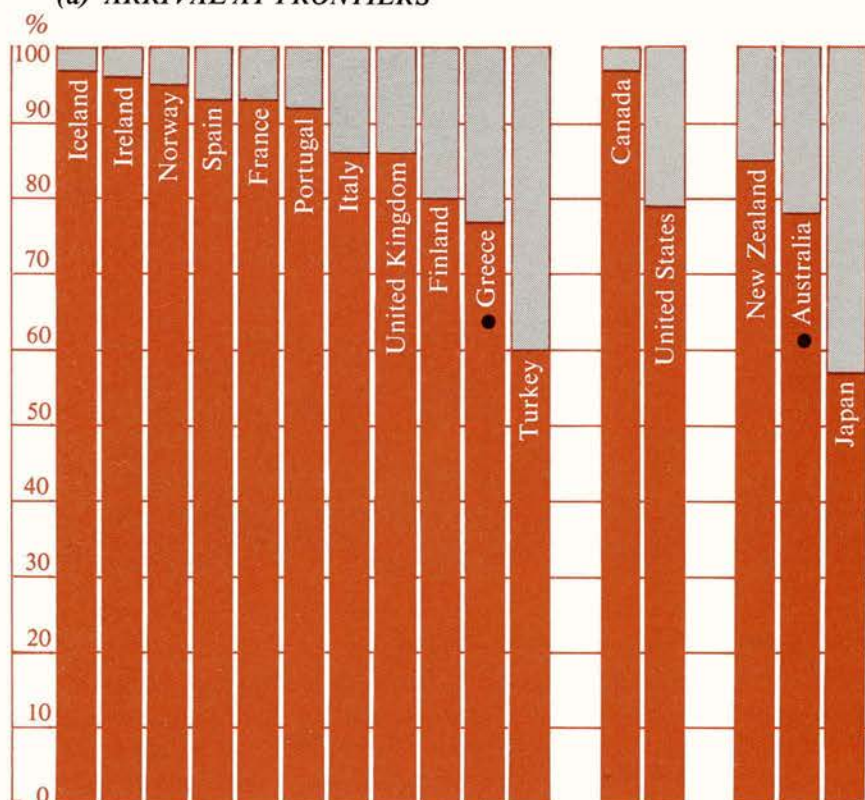
## *Increased Intercontinental Travel and Development of Regional Tourism*

**B**usiness trips and private travel combine to give tourism a major role in the economies of many Member countries. Topping US \$52 million in 1978, international receipts from tourism of the

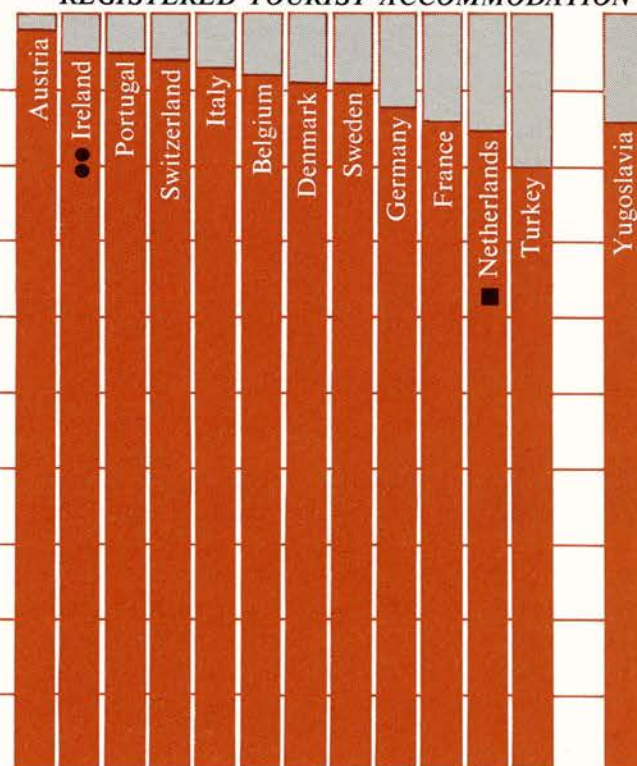
OECD countries accounted for some 80 per cent of world tourism receipts. Moreover in 1978 for all OECD countries (see chart A) foreign tourists from other Member countries accounted for a large

### A. SHARE OF INTERNATIONAL TOURISM IN OECD MEMBER COUNTRIES

(a) ARRIVAL AT FRONTIERS



(b) NIGHTS SPENT IN ALL FORMS OF REGISTERED TOURIST ACCOMMODATION



Tourists from ■ OECD Member Countries  
■ non-Member Countries

● 1977 figures  
●● estimate  
■ data available only for hotels



*Increased intercontinental travel... and development of regional tourism*



percentage of both arrivals at frontiers and nights spent.

The six per cent increase in these receipts over the previous year (in real terms) was higher than the rate of growth of GNP in the OECD area as a whole (3.7 per cent). The share of international tourism receipts in exports of goods and services and the share of expenditure in imports for the OECD area continued to increase in 1978 to reach 4.5 per cent and 4.9 per cent respectively (chart B).

One noteworthy development is that OECD countries are prospecting for customers throughout the OECD area, not considering as an obstacle the distances between Europe, North America and Japan/Australasia. Air transport can considerably increase the share of each of these three groups in the tourist market of the other two. The North Atlantic can be seen as a testing ground; new developments on this run in 1978 and 1979 could lead to major changes in the concept of international air transport. Popularisation of this type of transport through a substantial reduction of fares and the streamlining of ground and air services should, in the long run, lead to

a sharp expansion of international tourism throughout the OECD area (1).

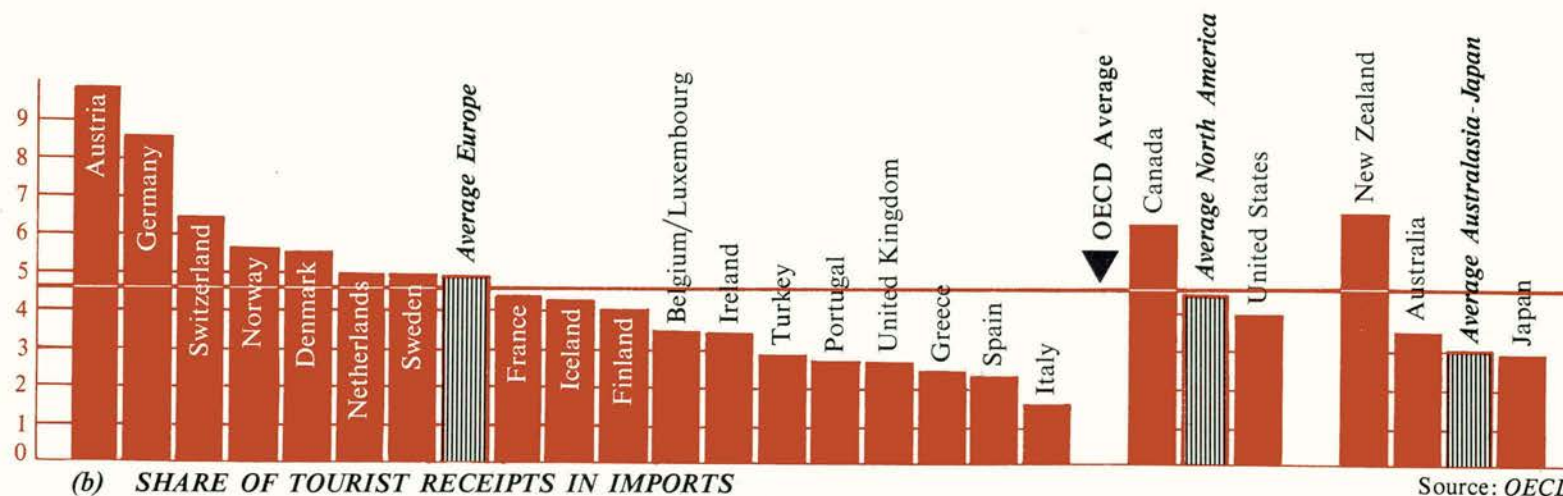
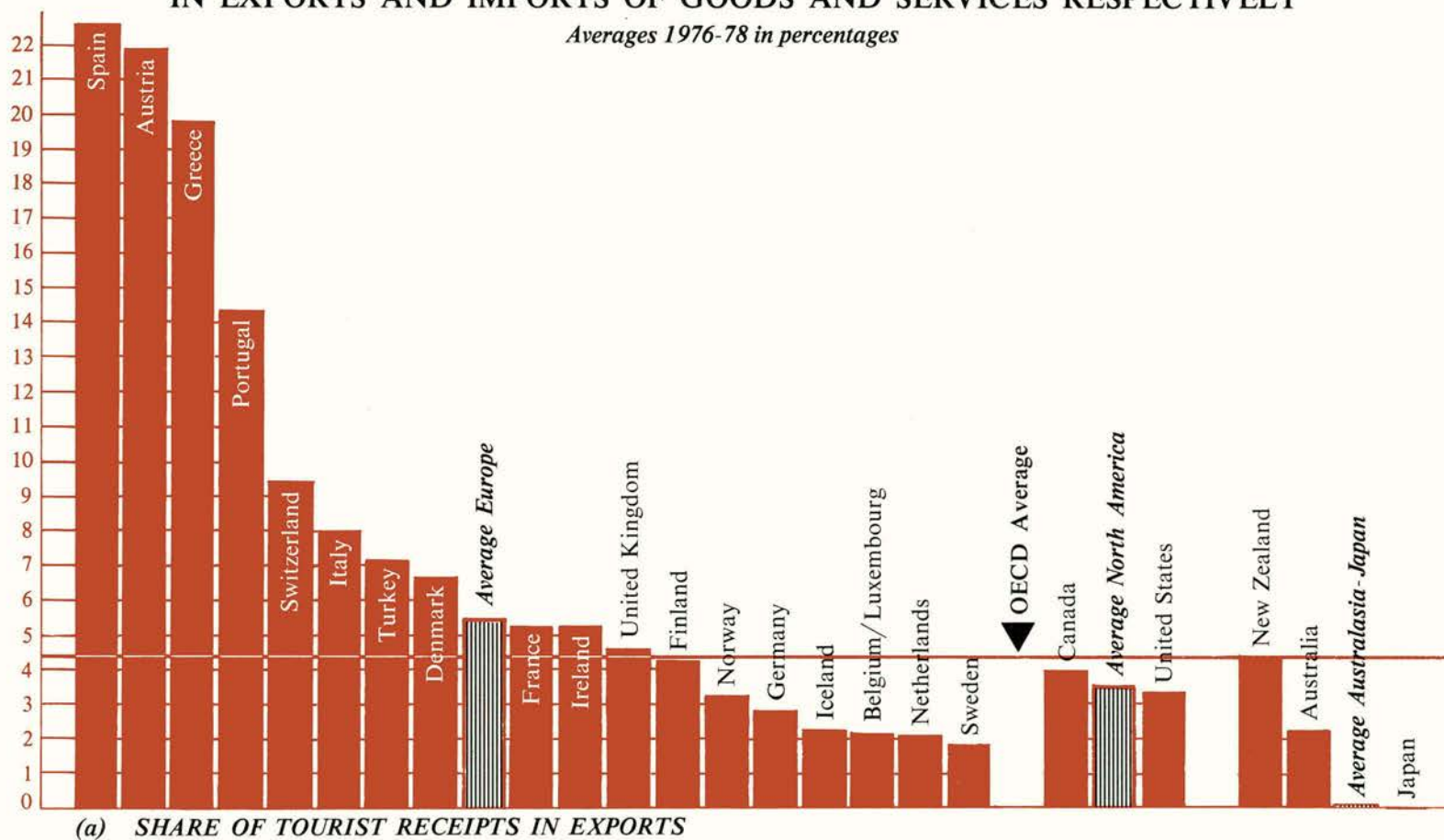
As a consequence, the competition that now takes place is between tourist-receiving regions as well as between countries. The increasing role of regions in promoting their tourism has, in turn, strengthened local co-operation between the public and private sectors. The most remote and least developed regions are thus more easily integrated into the overall economic activity of the OECD area.

Given the range of motivation, age-group and income level of tourists, Member countries have sought to improve the quality/price ratios of their tourist facilities to cater for the very different social-economic categories of tourists however they travel. They have also tried to make their tourism more internationally competitive. These two types of action explain in part the expansionary trend of both domestic and international tourism in the OECD area.

(1) See OECD recommendation on package tours which follows.

## B. SHARE OF INTERNATIONAL TOURIST RECEIPTS AND EXPENDITURE IN EXPORTS AND IMPORTS OF GOODS AND SERVICES RESPECTIVELY

Averages 1976-78 in percentages



Source: OECD



# INFORMATION AND PROTECTION OF TOURISTS' AIR PACKAGE TOURS

Air package tours — air transport combined with other services such as accommodation — may create problems for the consumer. By paying in advance a lump sum to the organiser of such tours, the tourist in effect acquires the right to a variety of services to be provided by different entrepreneurs at different times and places; for each there is a possibility of misinformation, misunderstanding or failure. Complaints regarding air package tours do not form a disproportionate part of consumer complaints, but the rapid growth in recent years of such tours and the problems encountered by tourists have caused some concern on the part of national authorities responsible for consumer policy and of those responsible for tourism.

It is for this reason that a mixed OECD Working Party — from the Committee on Consumer Policy and the Tourism Committee — has prepared a report which analyses these problems. Basing itself on the conclusions of this report, OECD's Council has recommended that: "Member countries which have not yet done so should consider adopting measures designed to improve the information and protection of tourists in connection with air package tours through statutory provisions or voluntary arrangements developed in cooperation with the travel industry" in accordance with certain guidelines which follow.

## Information Concerning Air Package Tours

### *Voluntary standards of information in advertising and promotional activities*

In most Member countries, general legislation prohibits deceptive advertising and unfair marketing practices and this applies also to the promotion of air package tours. As a complement to legislation, the preparation of voluntary codes of conduct in travel advertising has been found to significantly diminish problems of misinformation and to improve the quality of information upon which tourists can base their decisions. Where no voluntary standards exist or where they are deemed not to be satisfactory, Member countries should take positive action to establish standards for the marketing of air package tours.

### *Minimum standards of information in sales brochures*

Brochures should contain clear, comprehensive and accurate information to enable tourists to exercise informed judgments between competitors. In particular, they should include:

- the legal identity of the tour operator responsible for publishing the sales brochure and for providing the travel arrangements offered
- the means of travel including, where

possible, the name of the carrier, the type of aircraft and the type of flight (charter or scheduled)

- the destination and itinerary, where applicable
- the date, time and airport of departure and return
- the nature of accommodation and facilities offered
- any additional facilities or special arrangements
- the total price, together with a clear statement of the services included, period of application of the price, and the conditions under which the price can be amended
- the penalties for cancellation by the tourist
- the procedure for booking and the contractual conditions under which the booking should be made.

### *Information on accommodation arrangements*

Tour operators should ensure that specific information on accommodation is readily available to tourists such as:

- year of construction of hotel or of last major renovation
- number of storeys and whether there is a lift
- number of beds or rooms
- sanitary facilities
- main voltage and heating system
- location of hotel and general surroundings





(e.g. proximity to a potential source of disturbance)

- relevant distances from the hotel (e.g. distance to beach)
- photographs, representative sketches or pictures of the rooms or location.

Where possible, other relevant information should be available, such as the grade of hotel where grading schemes exist.

Tourists should be provided with all information necessary to comply with national or international regulations, particularly with regard to visas, exchange controls, vaccination and other health regulations.

Tourists should be informed whether personal insurance exists for sickness, accident, baggage and cancellation due to personal illness. Details should be provided both by the tour operator and the retail agent. Tourists should be encouraged to have adequate insurance cover without this detracting from the liability of other contracting parties. Tourists should have the opportunity to insure against delays caused by factors outside the tour operator's control, e.g. strikes.

## Contractual Rights of the Air Package Tourist

### Travel contracts

Travel contracts for air package tours should conform to the following basic principles:

- all contracts should be in written form
- all contracts should either reproduce all the detailed information that sales brochures should contain or make reference to a distinctly identified sales brochure which conforms to the minimum standards of information
- all deposits paid by the tourist should be supported by a receipt from the tour operator or retail agent making clear reference to the agreed terms of the contract
- all contracts should give full details of place and procedure for the tourist to obtain redress in the event of unsatisfactory performance of the contract
- no contracts should include any terms unduly limiting liability of those carrying out the contract.

Member countries should, where possible, encourage the preparation of model forms of contracts by national travel trade associations in consultation with consumer representatives and government agencies. The model contracts should incorporate the principles referred to above and should be available for use by tour operators and retail agents.

### Variations in price

Tourists should be informed as soon as material alterations become necessary in the

price of the package tour. Retail agents and tourists who have made reservations should be informed of variations without delay and the following principles should be observed:

- a tour operator or retail agent should not make an additional charge to a tourist after the contract has been agreed unless he can show that the increase was unavoidable and due to circumstances which amount to *force majeure*
- a tour operator or retail agent should not be entitled to make any additional charge to the tourist for any circumstance whatsoever less than a minimum of 20 days before the date of the commencement of the tour
- in the event of a price increase prior to the period referred to above caused by circumstances which amount to *force majeure*, the tourist should be entitled to cancel the tour and receive a refund of all monies less reasonable expenses.

### Cancellation of the tour or significant variation to services by the tour operator or retail agent

In the case of cancellation of the tour or any significant variation to services, such as altering destinations, which is not clearly or specifically provided for in the contract and is made before the commencement of the tour, the tour operator or the retail agent should offer the tourist the choice of:

- an alternative tour of comparable standard if available, or
- a refund of all monies paid,
  - less reasonable expenses in the case of a *force majeure* situation,
  - plus reasonable compensation for disturbance in all other cases.

In the case of any significant variation after the commencement of the air package tour, the tour operator shall ensure that:

- the facilities subsequently offered are of equal or better standard; or
- an adequate refund is made,
  - less reasonable expenses in the case of a *force majeure* situation,
  - plus reasonable compensation for disturbance in all other cases.

Significant variations to the tour can result also from hotel and airline overbooking. Every effort should be made to avoid overbooking which delays tourists or causes substantial disruption. Member countries, in cooperation with the industry and consumer representatives, should give close attention to the question of adequate compensation for tourists inconvenienced because of hotel or airline overbooking.

### Minor variations in services

In the event that minor variations are made to the services, the tour operator should offer substitute facilities of an equal or

better standard, or adequate refunds or reductions on the total price of the package.

## Legal Responsibility, Complaint Handling and Redress Facilities

Many of the problems for tourists which occur after the air package tour has been completed could be resolved by a clear allocation of respective responsibilities between the retail agent and the tour operator. Member countries should consider whether there should be specific provision for the tour operator as the organiser of the air package tour to be made responsible for the correct fulfilment of the contract.

Member countries should ensure that machinery is developed by retail agents and tour operators to handle and resolve complaints.

Many problems occurring for tourists in connection with air package tours, particularly in foreign countries, are made worse by isolation or separation from traditional sources of advice or redress. Accordingly, tour operators should indicate, if possible, a responsible individual in the receiving country to whom tourists can turn in the event of dissatisfaction or need for advice.

Without prejudicing the rights of tourists to institute legal proceedings, institutional arrangements should be made to ensure that an independent complaints board or similar organisation is available to mediate or obtain redress expeditiously when complaints cannot be resolved by the machinery referred to above. In this connection, the availability of standard complaint forms would be desirable.

## Regulation of the Profession of Tour Operators and Retail Agents of Air Package Tours

In order to avoid the problems posed for tourists by failures of tour operators and retail agents of air package tours, high standards are required in the profession with particular regard to commercial probity, solvency and business conduct. Member countries should consider taking, where necessary, regulatory or other measures to ensure the observance of such standards.

The travel industry should ensure that, in the event that business failure occurs, sufficient funds are available through such measures as bonding, reserve funds or other schemes to minimize the loss to the tourist. Where the travel industry does not take adequate measures, statutory schemes to ensure compensation should be considered.



# CONCENTRATION AND COMPETITION POLICY

*Owing to its potentially harmful effects on industry behaviour and performance, concentration — both in the aggregate and in individual industries — is increasingly a central concern of those responsible for competition policy. The OECD has analysed the problems involved in a report based on official investigations in nine Member countries (1). The following article presents its main conclusions.*

High concentration and its consequences for competition raise fundamental questions of economic structure and efficiency which must be taken into account in the elaboration of competition policies. Competition is more likely to be impaired the more an industry is dominated by a few large firms since such a structure encourages the firms to act interdependently in making decisions regarding prices and output, thus leading to collusive price-fixing, market sharing or other kinds of restrictive practices.

Even in the absence of collusion, practices by individual leading firms in a concentrated market may have serious anticompetitive effects since by definition a significant part of the industry will be affected by such practices.

This static analysis involving the measurement of industry concentration is of course just a first step, though an essential one, in evaluating the state of competition. It is also necessary to examine other structural and behavioural features of an industry in order to determine whether anticompetitive effects exist. Competition is thus a multi-dimensional concept which includes not only factors such as the number of firms and their market shares but also inequality in size of firms, levels of output and price, innovation, and barriers to entry of new firms.

## High — and Rising — Levels of Concentration

Although concentration levels and trends are difficult to compare from one country to another because of different measurements, levels of aggregation and time periods used, the report notes that concentration in certain industries and countries (2) is already high and has been increasing, sometimes rapidly, in a significant number of them. Substantially more increases than decreases in industry concentration have occurred in Canada, Germany, Japan and the United Kingdom, and in the industries surveyed by the Commission of the European Communities in recent years.

Overall concentration (3) also appears to be fairly high and steadily increasing in most of the countries considered, if not at a spectacularly

high rate. For example, in Canada, the share of assets held by the 100 largest non-financial corporations increased from 38.6 per cent in 1965 to 40.1 per cent in 1973. In Germany, the share of sales of the 100 largest firms increased from 21.7 per cent in 1972 to 24.4 per cent in 1975. As to the United Kingdom, the share of the largest 100 manufacturing firms increased from 30 per cent of net output in 1958 to 40 per cent in 1972. Finally, in the United States, the share of value added accounted for by the 100 largest manufacturing firms increased from 23 per cent in 1947 to 33.4 per cent in 1976.

Since in several countries mergers are estimated to account for about one half of the increases in concentration; this rise in concentration levels has been one of the considerations favouring the adoption of merger control in certain OECD Member countries. In 1970, only four countries had a policy of controlling mergers — Canada, Japan, the United Kingdom and the United States. In the last six years four more countries joined them — Australia, France, Germany and Ireland — while proposals for controlling mergers or strengthening existing controls are under consideration in many other countries and in the European Communities

## Consequences

High levels of concentration may be beneficial if they reflect the growth of firms seeking to increase their size so as to achieve economies of scale at plant or firm level, resulting in lower costs and prices and higher output than would occur under sub-optimum size conditions. However, adverse consequences may emerge when concentration is at a high level. The optimum allocation of resources between industries may fail to be achieved. In a highly concentrated industry, prices will tend to be higher and output lower than in conditions of competition. Moreover, producers have a considerable degree of freedom in setting their selling prices and are more likely to set them at levels which allow the least efficient firms to survive than at those of the most efficient firms.

Where an industry is highly concentrated, particularly when there are barriers preventing new firms from entering the market, the lack of competition is likely to affect adversely the internal efficiency of firms. There may thus be a reduction in the pressure for the continuous improvement of processes and products, causing technical backwardness and impairing innovation. This may affect the international competitiveness of the firms in the industry. Furthermore, market power

(1) Canada, France, Germany, Ireland, Japan, Sweden, Switzerland, the United Kingdom and the United States, as well as the European Communities.

(2) As measured by the share held by a relatively small number of the largest firms (e.g. from 4 to 10) in a market or a given industry.

(3) As measured by the share in output or sales held by a relatively small number of firms (e.g. the 100 or 200 largest firms) in the economy as a whole or in a large segment of it, such as manufacturing industry.



resulting from high concentration may allow certain firms to make excess profits, thus adversely affecting the distribution of income.

## Concentration and Performance

The report presents the results of recent empirical work in some countries on the relationship between concentration and industrial performance. Most of these studies choose some measure of profitability as an indicator of performance. Although the results are not conclusive, a number of them point to a positive correlation between concentration and profitability. They do not, however, indicate that the largest firms in an industry are the most profitable and have not settled the question whether greater profitability reflects greater efficiency or whether it is the result of market power or other market imperfections. A balanced conclusion from these studies might be that oligopolistic structure as measured by concentration does have some effect on profitability, although it is probably small compared with other factors.

Various other studies have cast doubt on the justification for many mergers: economies of scale are not indefinitely available; some firms grow beyond the optimum size; some mergers therefore produce few or no benefits in terms of a more efficient use of resources.

More recently, concern with the overall or aggregate concentration level has been heightened by the large number of major conglomerate acquisitions. In countries such as the United States and Germany which have enacted strong controls on horizontal and vertical mergers it is the conglomerate acquisitions that tend to contribute increasingly to rises in aggregate concentration. It has been asserted

that conglomerate acquisitions benefit the economy by providing a means for invigorating an uninspired or inefficient company management. But available evidence in the United States suggests that conglomerate companies usually seek as take-over targets companies which are already profitable and led by sound management.

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The report stresses the need for regular and up-to-date data on both overall and industry concentration, as well as the use of internationally comparable measurements of concentration. The present range of yardsticks makes any international comparison difficult and the interpretation of the data will be influenced by such factors as the absolute size of a country's economy and the volume of its imports and exports. The report therefore suggests a number of steps to improve the collection, compilation and analysis of data on concentration.

Finally, the report suggests two possible new directions for competition policy which could be considered by countries concerned by the high levels of concentration. These countries should envisage adopting, strengthening or more effectively enforcing legislation relating to:

- the control of mergers, whether horizontal, vertical or conglomerate, which have adverse effects on competition, taking into account any other harmful effects that large mergers may have on the efficient functioning of the economy
- anticompetitive behaviour in highly concentrated sectors of the economy.

# COMPETITION POLICY IN REGULATED SECTORS

*Measures have been taken or proposed to place greater reliance on competition in regulated sectors – or even to re-examine the thrust of regulatory policy – in Canada, Germany and the United States. In France the lifting of price controls and the promotion of competition represents, to a degree, a move in the same direction. The policy of favouring regulation which prevailed in the Thirties and was continued throughout the early post-war period now seems to be giving way to a more market-oriented economic policy.*

*An OECD report (1) analyses the situation in regulated sectors especially energy, transport and banking. Based on the conclusions of this report, OECD's Council has just adopted a recommendation, directed to Member governments which favours a re-examination of regulatory systems and greater complementarity between competition and regulation.*

## The Reasons for Regulation...

In natural monopoly situations in which there is room for only one viable firm in the market because of economies of scale, technical or physical factors, regulation in effect serves a purpose similar to con-

trol of abuse of monopoly: the prevention of excessively high prices for instance, or discrimination in prices or services.

In some tightly oligopolistic sectors which are essential to the

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(1) *Competition Policy and Regulation*, Paris, OECD, 1979.



economic infrastructure, regulation or abuse control may be viewed as a necessary corrective to deficiencies in structure or performance. In such cases, regulation in the form of maximum prices may be justified to limit the market power of firms having few competitors.

Regulation in the form of minimum prices may also be seen as necessary to encourage investment in certain sectors, to contribute to safety and quality of operation, or to allow sufficient profits in compensation for losses resulting from unprofitable operations required for social reasons. Regulation of certain sectors may also be justified as necessary to maintain the effectiveness of regulations in competing sectors. This is the case for example with regulation of road transport in relation to rail transport.

### ... and the Costs

However, the report points out that any system of regulation entails certain inherent costs and disadvantages. These include the direct costs of carrying on the regulatory function, delays, loss of flexibility and the inability to create adequate incentives to cost-cutting and innovation. On the other hand, regulation may be beneficial when oligopoly or other competitive deficiencies lead, for example, to excessive prices.

The most frequently voiced criticisms are based on the costs to society of regulating sectors in which economic conditions are such that workable competition could be expected in the absence of regulation. Basically the costs of such regulation lie in the misallocation of resources which may result from arbitrarily determining significant elements of market structure and behaviour, especially the fixing of minimum prices.

The report points to five detrimental economic effects of some forms of regulation:

- increased costs of producing goods or providing services, by maintaining uneconomic plants or operations
- a shift in demand for goods or services from one industry to other industries
- prices above marginal costs, resulting in less production at a socially higher price
- competitive distortions in unregulated sectors where regulation involves differentiated pricing policies
- restricted incentives to innovate if pricing or investment controls are widespread.

### Competition Policy and Regulation: A New Mix

Industries subject to regulation are not always exempted from competition laws. Antitrust cases brought in several Member countries have shown that there is often a residual area of competition even in extensively regulated sectors. Conversely, regulation may often help to achieve the goals which are pursued by competition but which have not been attained because of a failure of the market mechanism to operate. Hence there is need to define and develop complementary policies for each regulated sector.

The report notes that the precise policy mix of regulation and competition varies from industry to industry and from country to country depending on a host of specific economic, social and political circumstances. These circumstances may also change over time, thus resulting in a new mix.



## THE FORMS OF REGULATION

Generally, the forms of regulation in energy, transport and banking, as well as in other sectors, include one or more of the following features:

- control, usually by licensing, over the entry of new firms, and in some cases over the right of existing firms to discontinue particular services
- regulation of prices and profits
- control over mergers
- regulation of the adequacy of service
- control over investment and financial practices
- public ownership.

### *OECD Council Recommendation:*

## COMPETITION POLICY AND EXEMPTED OR REGULATED SECTORS

Noting that economic sectors which are regulated by the public authorities and which are totally or partially exempted from restrictive business practices laws account for a significant proportion of national output in Member countries and that various Member countries have begun to re-examine the particular need for certain regulations or exemptions and, where feasible, to place greater reliance on competition and the enforcement of restrictive business practices laws.

Considering that the precise policy mix between regulation and competition depends on social and political as well as economic considerations but that regulation should dis-

place competition or restrictive business practices laws only to the extent necessary to achieve public policy objectives not obtainable through competition alone in the circumstances.

Recommends to the Governments of Member countries:

- to undertake, with the participation of competition authorities, reviews of regulatory regimes and of exemptions from restrictive business practices laws to consider:
  - whether the initial reasons or circumstances which gave rise to regulations, or to particular aspects thereof, remain valid under contemporary conditions
  - the extent to which those regulatory

regimes, or particular aspects thereof, have achieved their objectives, and the true social, economic and administrative costs, as compared to benefits, of achieving those objectives by means of regulation

— whether the same objectives could in fact be achieved under contemporary conditions by the operation of competition, subject to control under restrictive business practices laws, or by forms of government intervention which restrict competition to a lesser degree

- in undertaking the reviews mentioned above to take into account the experience of other countries in which specific policies regarding regulated sectors have been achieved with a reduction in the extent of



regulation or with a more extensive application of competition policies and competition laws

- where the reviews mentioned above indicate that regulation remains desirable to achieve public policies, or where public enterprises are involved, to consider whether increased competition and increased application of restrictive business practices laws, consistent with the objectives of regulatory policy, would be useful in alleviating the adverse effects which may result from extensive regulation. More specifically, they should:

- reconcile, as far as possible, existing regulatory schemes with their competition policy and restrictive business practices laws

- ensure that express or implied exemptions from restrictive business practices statutes are no broader than necessary to achieve the public interest objectives of the regulatory schemes

- exempt from the operation of competition laws only those restrictive activities of enterprises in regulated industries which are required or expressly approved by the competent authorities as desirable or necessary to achieve the purposes of the regulatory scheme

- to grant competition authorities appropriate powers to challenge abusive practices, including unfair discriminations and refusals to deal, by monopolies or cartels approved by the competent authorities particularly

where such behaviour is beyond the purposes for which the regulatory scheme was enacted

- to make efforts to detect non-filed or unapproved agreements which, although lawful if notified to or approved by the competent authorities, have not been so notified and approved; and to treat such agreements under appropriate restrictive business practices standards

- to provide adequate means of consultation and co-ordination of action between regulatory authorities and competition authorities so as to enable the latter to have a positive impact on the formulation and implementation of regulatory schemes and policies regarding issues directly related to restrictive business practices.

### *OECD Council Recommendation:*

## CO-OPERATION BETWEEN MEMBER COUNTRIES ON RESTRICTIVE BUSINESS PRACTICES AFFECTING INTERNATIONAL TRADE

In an important step forward in antitrust procedures, OECD's Council on 25th September 1979 adopted a Recommendation on "co-operation between Member countries on restrictive business practices affecting international trade" — i.e. agreements between enterprises for production and market sharing or the fixing of prices. Although the various procedures advocated by the Recommendation are voluntary, they can help the authorities responsible for dealing with competition matters in Member countries (1) apply — as they are coming to do more and more — the provisions of national legislation to those restrictive business practices which affect international trade. One of the main objects of the Recommendation is to facilitate the application of national legislation to restrictive business practices originating abroad or practised by enterprises established abroad.

In deciding to strengthen their co-operation in this field (2), Member countries have recognised that investigations of restrictive business practices and legal proceedings begun by one Member country are more and more likely to affect the interests of other Member countries. In addition, since the unilateral application of national legislation to acts by firms situated in

other countries may raise questions about the respective spheres of sovereignty of the countries concerned, the Recommendation also aims at smoothing out these difficulties.

### *Notification and Exchanges of Information*

The new Recommendation takes its three main instruments from a 1967 Recommendation which laid the foundations for co-operation between Member countries in this field. These mechanisms which have been applied in over 250 cases are:

- Notification: a Member country undertaking an investigation of restrictive business practices or legal proceedings will notify any country whose substantial interests are involved

- Co-ordination of Member countries' action to remedy the harmful effects of restrictive business practices which affect international trade

- Exchanges of information.

The new Recommendation makes a number of improvements to these already existing procedures. One vitally important addition is that all Member countries receiving a notification of an investigation or proceeding involving its interests now have the opportunity to present their observations to or enter into consultation with the notifying Member country. Another significant addition relates to exchanges of information between Member countries: it is recommended, subject to appropriate safeguards (e.g. to protect confidentiality) that the competent

authorities and firms of one Member country be allowed to disclose information to the competent authorities of other Member countries, unless such disclosure would be contrary to significant national interests.

### *Consultation and Conciliation*

The provisions concerning consultation and conciliation included in the new Recommendation are based on clauses of a 1973 Recommendation. If a Member country finds that its interests are seriously affected by a restrictive business practice of a firm located in another Member country, it may enter into consultation with the other country so as to get the latter to adopt appropriate remedial action.

In addition, in cases where a country considers that an investigation or proceedings being conducted by another Member country substantially affects its interests, a new kind of consultation procedure is specifically provided for: the concerned parties will examine the various possibilities for meeting the objectives of the investigation or the requirements of legal proceedings.

Under the terms of the Recommendation, Member countries will endeavour during the consultations to try to find a mutually acceptable solution and, in the event that none can be found, the Member countries concerned may, if they agree to do so, submit the case to the OECD Committee of Experts on Restrictive Business Practices with a view to conciliation.

(1) *The Commission of the European Communities is participating in these procedures.*

(2) *The Recommendation repeats the main points of two earlier Recommendations (1967 and 1973) and adds new provisions reported in this article.*





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