

THE OUTLINE OF A
"DEVELOPMENT SURCHARGE" ON OIL -
A Proposal to Help Poor Third World Countries⁺

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1. INTRODUCTION

Demands for new international relations expressed by developing countries (DCs), scientists and concerned people have never gained wide-spread approval in industrialized countries (ICs). After the first shock following OPEC's successful price-policy or the call for a New International Economic Order at the Sixth Special Session of the UN General Assembly had been overcome, however, arguments brought forward against demands of the South were altered. While the first period after 1973/1974 was characterized by rather blunt arguments against new ideas denouncing them as blasphemous war-cries of international class war¹, a touch of sophistication was added recently.

In 1974 President Ford of the United States saw no other help against attempts to follow the "OPEC-example" but to threaten to stop sales of wheat to DCs needing it to feed their people. Nowadays the welfare of the South seems to be of paramount importance to those who try to prevent changes. Great pain is taken to prove that e.g. a Common Fund would be detrimental to DCs themselves or that price increases for commodities, indexations and similar measures might hit fellow-DCs much harder in the end - facts these countries themselves might overlook but which are fortunately seen by the developed world². Authors like Kreinin and Finger are thus afraid that price rises would only benefit ICs since DCs-sales to the North account for less than 25 % of the value of world production in commodities on the UNCTAD-list. Most of the income derived from supporting measures would therefore be transferred within the North³. They conveniently overlook the fact that all price stabilizing schemes, like e.g. under the umbrella of a Common Fund, would only

⁺) For valuable help in providing the necessary data I am indebted to the Statistics Unit of OPEC

cover those parts of production that enter international trade and commodities mainly exported by DCs⁴.

The main target of so much - not always well founded - philanthropical reproach is not difficult to find. Since oil has been the only commodity so far the exporters of which have been capable of implementing an aspect of the New International Economic Order (NIEO), OPEC can easily be identified as the scapegoat responsible for nearly any adversities and setbacks in the international economy. It is no wonder that philanthropy blooms in a crude way when the discussion centres on oil. Many a politician of the North has finally found hidden sympathies for the poor pointing out that oil-importing DCs have been the main sufferers from oil-price adjustments. The value of such statements, given the present policy of ICs, can appropriately be characterized by quoting an Indian diplomat, L.N. Rangarajan: "While this is eminently true, when somebody like Dr. Kissinger says so it becomes suspect - because his motivations for saying it are suspect."⁵

The fact that DCs successful in rising their export-prices to a more remunerative level automatically affect their fellow DCs is, of course, a problem but it would be a misleading conclusion to abandon therefore any thoughts of change. Since the share of DCs in world imports of commodities is small - their own consumption being even smaller - a solution can be found for this dilemma. It is the purpose of this paper to outline a possible solution for oil that avoids laying the burden mostly on the shoulders of oil-importing DCs without having exporters pick up the bill.

Although OPEC-countries have shown a high degree of solidarity to their fellow-DCs by increasing their aid commitments considerably, such a solution should not imply redistribution within the Third World but a transfer of resources from North to South. This paper will try to show how the impact of higher oil prices could be balanced by increased financial flows to the South. The necessary money should be raised by a small surcharge on the exports of the respective commodity, in this case oil. This "tax" on exports could be called "development surcharge", or "development tax".

The outline given below will not be a "model" in the sense often used in economics but a very simple formula. Elaborated models, nice as they are on the blackboard, are not always equally useful in practice. It will be shown that the surcharge proposed is relatively small and within the possibilities of the ICs. This will be illustrated by numerical examples. Before going into details, however, it seems necessary to deal shortly with the effects of oil-prices on net-importing DCs. Since this topic has so often been used for biased statements some clarifications are necessary.

2. THE EFFECTS OF OIL PRICES ON NET-IMPORTING DEVELOPING COUNTRIES

It is a well known fact that oil-imports of DCs are comparatively small in proportion to ICs-imports (this is, by the way, the case with all important commodities). They are only a small percentage of world and OPEC exports. As Dr. Shibata points out, only around 10 % of OPEC-exports go to DCs, 75 % of these exports being concentrated on not more than 10 countries⁶. The World Bank also speaks of a relatively small consumption of commercial energy in DCs⁷.

Even a small percentage in world trade does, of course, not preclude that oil imports might be a substantial burden on some countries, given sufficiently small earnings of foreign exchange. Oil, however, is not the only thing DCs have to import. To quote a recent study by GATT: "The overall trade deficit of the non-oil developing countries grew steadily from \$ 15 billion in 1973 to \$ 40 billion in 1975. The largest part of this increase resulted from an increased deficit in manufactures, essentially in trade with industrial countries; the rise of the deficit in fuels, while substantial, was relatively less important. Between 1974 and 1978, the overall deficit of non-oil developing countries levelled off, the further rise in the manufactures deficit being offset by a higher surplus on trade in non-fuel primary-products. In 1979, however, the overall trade deficit increased once again reflecting a sharp rise in the deficit on trade in both manufactures (to \$ 71 billion) and fuels (to \$ 21 billion)."⁸

Even if one excludes net-exporting Non-OPEC-DCs, from this group (which GATT includes to non-oil developing countries) the combined deficit of these countries is estimated at "nearly \$ 35 billion", viz. less than half the deficit in manufactures alone.

The situation is aggravated by the fact that, although OPEC countries have obviously tried to encourage imports from fellow DCs, these countries have but few goods to export. Exports to OPEC have boomed from 1.5 billion \$ (average 1971-1973) to \$ 7.6 billion in 1975 but OPEC countries still have to import mainly from the North given present structural restrictions. The surplus of manufactures trade of non-oil developing countries was thus "almost totally offset by a deficit in trade with the Eastern trading area throughout the period examined."⁹

Manufactures, however, are not the only item which has to be bought from the North. Food is another item which has to be imported by some DCs and is

sold dearly. The policy of the US government of subsidizing non-cultivation of large areas of farm land (e.g. 15 % of US farm-land in 1972 before the "great shortage") has been a very successful strategy of rising grain prices. It may, by the way, be added that while OPEC has always been accused of monopolistic practices like cutting down production - which actually never happened in the case of oil - the US was seldom blamed for the case of food.

Besides food and manufactures DCs have to pay:

- for the "services" of multinationals - \$ 15 billion of (officially) remitted dividends and profits in 1979¹⁰;
- for technology - El Zaim estimates a sum of \$ 9 billion of direct costs in 1980¹¹;
- transport and invisibles;
- and last but not least to service their foreign debt. This alone amounted to roughly \$ 72 billion in 1979 while nearly \$ 90 billion were estimated for 1980 by OECD-sources¹². Considering that some countries have - according to the World Bank - debt-service ratios of more than 30 % - Mexico (59.6 % in 1978) and Bolivia (48.7 %) being extreme cases - one has to shift oil imports into the right proportions.

Since many DCs are more dependent on other energy sources than oil "The Economist" called the problems of non-commercial energy "the real energy crisis" for most developing countries¹³. With African countries getting between three quarters and 90 % of their total energy from fuels like firewood, charcoal, crop residues or animal dung, while Asian DCs get more than half their energy needs from these sources, the shrinking of forests and ecological problems are - according to The Economist - a much bigger problem than commercial fuels like oil, especially for the poor.

The real price of oil, it should be noted, has not risen so considerably as nominal prices have since ICs keep real crude prices down through inflation of export-prices of manufactures. By mid - 1979 e.g. OPEC was thus only capable of defending the real prices of 1974. At the beginning of 1980, when the nominal average price was around \$ 30 per barrel, the real price in 1972-Dollars was not more than slightly above \$ 10 per barrel¹⁴. The deflator used for this calculation by the World Bank is, however, rather too low than too high since manufactured export prices are used to give a correct picture of the terms-of-trade of OPEC but OPEC's imports have frequently experienced higher inflation rates than other countries' imports. Accusations of OPEC's forcing up prices are therefore not well founded. It is true that net importing DCs have suffered from inflation, but it is very simplistic to blame OPEC for this.

OPEC, finally, has been a generous donor of aid. Even in 1978, when import prices had nearly eroded OPEC's current account surplus, more than \$ 4.3 billion were given as aid by this group of DCs. While their total gross natio-

nal product (GNP) was less than 6 % of the OECD countries, their official development assistance (ODA) amounted to more than 20 % of OECD-ODA in 1978. Economically speaking this aid can be interpreted as a form of self-taxation by OPEC. Exporters who are selling their commodities are in fact exchanging ore or crude for currency, mostly Dollars; "good oil for bad Dollars" so to say if this income is not spent at once. Giving away part of this revenue is thus equivalent to granting part of the resources.

Looking at OPEC's rôle in the North-South context the question why OPEC is so often blamed for economic problems of fellow DCs can easily be answered. This is a deliberate strategy of breaking Third World solidarity. By blaming successful exporters for price rises while not mentioning the rôle of the industrialized world it is obviously hoped to keep future price increases lower. This strategy has led to an odd numbering of country-groups. Terms like Fourth, Fifth or even Sixth World were invented to create the impression that there is no common interest of the South. By stressing existing differences as much as possible it has been tried to split the South. The recipe is quite simple: if realizing parts of the NIEO-like more remunerative prices for national resources - can be instrumentalized for breaking up the ranks of NIEO supporters, better international structures will never be achieved.

3. COMPENSATION OF NET-IMPORTING DEVELOPING COUNTRIES: AN OUTLINE OF A POSSIBLE SOLUTION

The idea of an international "tax" to finance poor countries' development needs is not quite new. It has been mentioned by Gunnar Myrdal some time ago, although no further elaboration was given on how this system should be established or how it should work¹⁵. Recently both politicians, like Julius Nyerere, and international commissions, like the Brandt-Commission, have revived this idea. This Commission recommended a tax on international trade, specifying "internationally traded crude oil"¹⁶ as one of the items that should be taxed. The Commission clearly states that ICs would have to bear most of the burden but thinks such a solution nevertheless necessary. Although it strongly recommends arms-trade as an activity also to be heavily taxed, the Commission suggests that international trade in general "offers some attraction for raising revenues"¹⁶ both because of its volume and because of the simplicity to collect a (small) surcharge. UNCTAD mentioned a suggestion for instituting "a two-tier system of pricing in favour of least developed countries. But in view of the practical difficulties involved in the implementation of a two-tier pricing system, serious consideration could perhaps be given for a compensation scheme in favour of the least developed countries for increases in the price of oil."¹⁷

The outline given in this article, has first been presented in the Journal of the Bangladesh Institute of Law and International Affairs some years ago¹⁸. At that occasion there were, however, no empirical figures given to show the approximate amount of such a surcharge. Since oil is the only commodity where exporting countries have been capable of remarkably rising its price over the last years and the only traded good where Third World countries might have enough strength to press towards such a solution, the case of oil has been taken. As can be deducted from my statements on the effect of oil prices on DCs this commodity was not chosen because increases in oil prices are considered the main reason for the economic problems of net-importing DCs. It must be stressed as well that the proposed "development surcharge" will finally be in the long term interests of ICs too.

Since charging different prices to firms located in different countries is at least bothersome to implement, a scheme of international "price discrimination" has to work indirectly by some kind of international "revenue-sharing". As countries that import and export the same commodity will both benefit and suffer from price increases, net effects, viz. net-imports are used. In the case of only one commodity this net effect is

$$(p_1 - p_0) \left(\sum_{n=1}^k (q_n^i - q_n^j) \right)$$

where p_1 is the new price,

q^i are the imported quantities and

q^j are the quantities of exports of this commodity by each of the k net-importers.

Depending on whether one wishes to finance the amount of price increases times the new quantities (at time 1) or the amount of price increases times net-imports before the new price has been established, one can take q_1 or q_0 in the equation.

To the new price p_1 a surcharge should be added, big enough to cover all the increase in import-costs of net importing DCs stemming from price increases. To avoid market disruptions all buyers buy at the same price but net importing beneficiaries are refunded both their surcharge-payments and the amount of the price increase times the quantities bought.

These sums should be given to the governments to finance their development plans and not to individual firms since this would lead to competitive distortions which industrialized countries are not likely to accept - especially under present conditions. Apart from ameliorating the balance of payments situa-

tions of concerned DCs this scheme does not interfere with the market, or with whatever is called "market" in international trade. It hinders petrifying of structures since firms still have incentives to cut expensive inputs by switching to other technologies. ICS, clearly, shall not be eligible as beneficiaries of this scheme.

Depending on how high costs the international community is prepared to take, different p_0 can be assumed - e.g. prices of 1972, 1974 etc. - or different groups of DCs can be eligible, e.g. Least Developed Countries (LLDCs), Most Seriously Affected Countries (MSACs) or all DCs except the so called Newly Industrializing Countries (NICs). Refining centres, viz. countries merely processing oil for re-export shall not be considered since they can pass price increases easily on to other countries. Their own domestic consumption is just a small fraction of their imports.

In the numerical example given in this paper I shall use 1972 prices as p_0 , which is definitely a rather expensive solution compared to e.g. gliding averages or the 1970-1975 average which could serve as a base too. This choice was made deliberately to show that even under these assumptions the total sum necessary would not be prohibitively high. It would, in fact, if added to present aid performances of the DAC-countries, not even have been sufficient until 1979 to make ICS reach the 0.7 % ODA target promised so long ago.

The quantity used will be the quantity of current net-imports, viz. apparent consumption, of net importers for each year. Again, this leads to the most expensive variant. It should further be said that, since prices of Arabian Light 34, the marker crude, are used not average prices, these sums have but an illustrative character to give an impression of how big the needed finance might be.

The collection of this "international value added tax" would be simple. Exporters collect it per barrel exported and give this money to a central institution which in turn distributes it according to the share of net-imports. Such an institution need not be created but this administrative task could be performed by existing organisations like e.g. UNCTAD. In any case, it should be an institution where DCs are not too strongly dominated by the North. Net importing DCs should participate in the fixing of shares by means of a body like a council of advisers created for this purpose, comparable with institutions of the STABEX-scheme. Especially big net-importers among DCs should be members of such a council.

4. THE AMOUNT OF DEVELOPING COUNTRIES NET-IMPORTS

As already mentioned DCs' net-imports of crude oil and of refined products are comparatively small. There are exceptions like some NICs and the refining centres. These centres, where refining is a major branch of economic activity but mainly done for re-exporting, not for domestic consumption are usually small islands or harbour towns. Most frequently mentioned are Singapore, the Bahamas, Puerto Rico and Trinidad and Tobago. The latter is, by the way, also a net exporter. Others are the Netherland Antilles or the US Virgin Islands. These countries are not considered in the following deliberations for the sake of simplicity. To give an example of the importance of these refining centres in world trade it can be mentioned that e.g. Trinidad and Tobago, the Netherland Antilles, Puerto Rico and the Virgin Islands accounted always for more than 50 % of Latin American imports, much more than e.g. Brazil. In the case of Singapore this country's exports are second only to Indonesia (crude and refined) accounting often for nearly two thirds of exports of refined products in the Asia and Far East region.

Apart from African, Asian and Latin American countries Cyprus, Malta, Turkey and Greenland are included. These four countries make up group 6 (WES) in Table 1. Greenland's imports are small, 3 370 Barrels/day on an average, and have not been omitted although the status of Greenland as a DC might be doubted. They serve as a proxy for countries that are obviously too small to be mentioned like Vanuatu, St. Lucia or St. Vincent. Greenland's net-imports are likely to be somewhat lower than the sum of these countries' net-imports but may be used to narrow the small difference between the 107 countries of Table 1 and all DCs. China is not included, nor is Hong Kong.

The net-imports of DCs minus refining centres are shown in Table 1 by country-group and year. It should be noted that only five countries - Botswana, the Comoros, Malawi, Bhutan and the Maldives, are LLDCs but not MSACs. Six countries, Cameroon, Egypt, Burma, Malaysia, Zaire, Mexico and Peru, have become net-exporters after 1974. Obviously they profited from higher oil prices which made their own reserves economically recoverable or at least more profitable. Egypt, of course, was strongly influenced by political decisions.

All African net-importers have - except in 1978 - imported less crude and refined products (net) than Denmark imported alone. In 1978, Denmark imported 365 000 bbl/d compared to 367 300 bbl/d of African net-imports. The Federal Republic of Germany, France or Italy have always net-imported more than the whole ASI-group. The US has usually net-imported roughly double as much as all DCs of Table 1 together.

The middle part of Table 1 shows total net-imports that might be called "apparent consumption" of crude and refined products of DCs as percentages of world

and OPEC exports of crude and crude and refined products. Since some countries are known as sellers of sometimes quite substantial amounts of fuels to ships and airplanes (thus re-exporting to ICs), domestic consumption is at least slightly lower. Similar problems - oil re-exports contained in other exports - are encountered in the case of NICs. This will be dealt with later. The figures shown in Tables 1 and 2 are therefore, as already mentioned, rather too high for real consumption than too low.

Table 2 shows the corresponding daily average values for LLDCs, MSACs and those countries that are members in at least one of the two groups. This third group (LLDs MSACs) is nearly identical with MSACs as far as net-imports are concerned. Since these countries are so often mentioned in international declarations as deserving special preferences and special treatment because they suffer from special disadvantages, their net-imports are separately shown. One should assume that the international community - including the North - should be prepared to help these groups, especially so as the amounts needed are relatively small. Their net-imports are nearly non-existent, less than net-imports of Belgium and Denmark together or, in 1978, 11.2 % of US net-imports. The financing of such small amounts, around 2-3 % of world or OPEC exports, should be easily manageable if one really wanted to do so.

The NICs pose, as already mentioned, another problem. The North might well argue that subsidizing these countries which are already "nearly developed" and are considered strong competitors by ICs would help them to become even more competitive. Although one can argue about such views they are quite likely to be held by the North since ICs have already often considered stopping preferential treatments for these DCs. Even the idea was put forward of making one of the members of this group a member of OECD. It can thus be safely assumed that the North will be less inclined to subsidize net-imports of NICs than of other DCs. It is, in fact, difficult to say which part of NIC-consumption is for domestic use and which part goes into products made for exports to the developed world. To answer this problem input-output tables for these countries are required since only the percentage used domestically has real effects on these countries while the percentage that is re-exported embodied in other goods does not affect them. Cost increases that affect all countries can easily be shifted on by increasing export prices.

The problem is how to define a NIC. In recent literature this label is not always given to the same countries. While OECD defines 11 countries as NICs¹⁹, the World Bank names 16²⁰ and the Brandt-Report 12²¹. Argentina, Brazil, Hong Kong, the Republic of Korea, Mexico, Singapore, Taiwan and Yugoslavia are on all three lists. Greece, Portugal, Spain, Columbia and the Philippines are at least on two lists. Given the difference between European and non-European countries - Greece is e.g. already a member of the EEC - it makes sense to omit all European countries from the NIC-group. None of these countries

Table 1: Net-Imports of Crude Oil and Refined Products of the Third World, the Least Developed and the Most Seriously Affected Countries (in 1000 bbl/d and percentages)

| Country-Group ^{a)} | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979* |
|---|---------|---------|---------|---------|---------|---------|---------|
| AFR | 362.6 | 376.5 | 352.0 | 328.8 | 347.3 | 367.3 | 396.5 |
| ASI | 1 297.6 | 1 322.5 | 1 341.3 | 1 490.6 | 1 648.6 | 1 929.7 | 1 944.2 |
| LAM | 1 283.6 | 1 244.4 | 1 253.7 | 1 388.9 | 1 386.9 | 1 601.9 | 1 664.3 |
| MEA | 61.3 | 68.0 | 74.5 | 84.9 | 75.7 | 93.8 | 97.0 |
| OCE | 13.7 | 17.9 | 17.8 | 18.7 | 18.3 | 18.9 | 21.3 |
| WES | 194.5 | 215.3 | 220.7 | 273.0 | 312.9 | 380.2 | 393.3 |
| Total | 3 213.3 | 3 244.6 | 3 260.0 | 3 584.9 | 3 789.7 | 4 391.8 | 4 516.6 |
| <hr/> | | | | | | | |
| Total as percentage of | | | | | | | |
| World's Crude-Exports | 10.18 | 10.35 | 11.43 | 11.17 | 11.73 | 14.04 | 14.10 |
| OPEC's Crude-Exports | 11.66 | 11.90 | 13.55 | 13.05 | 13.71 | 16.83 | 16.83 |
| World's Exports of Crude and Refined Products | 7.92 | 8.16 | 9.10 | 9.01 | 9.36 | 11.03 | 11.02 |
| OPEC's Exports of Crude and Refined Products | 10.89 | 11.13 | 12.72 | 12.22 | 12.89 | 15.70 | 15.65 |
| <hr/> | | | | | | | |
| LILDCs (bbl/d) | 137.4 | 137.6 | 147.0 | 155.5 | 180.0 | 178.7 | 198.8 |
| MSACs | 725.2 | 780.3 | 732.9 | 712.7 | 791.8 | 851.0 | 890.1 |
| LILDCsMSACs | 728.8 | 783.8 | 735.8 | 716.4 | 795.9 | 855.0 | 896.4 |

| | | | | |
|-----------------------|--------------------|--------------------------|-----------------|----------------------------|
| a) AFR-Group: | Mali (x) | ASI-Group: | Bolivia (NEX) | Lebanon |
| Angola (NEX) | Mauritania (x) | Afghanistan (x) | Brazil | Oman (NEX) |
| Benin (x) | Mauritius | Bangladesh (x) | Chile | Syrian Arab. Rep. (NEX) |
| Botswana | Morocco | Bhutan | Colombia | <u>Yemen A.R.</u> (x) |
| Burundi (x) | Mozambique (x) | Brunei (NEX) | Costa Rica | <u>Yemen P.D. Rep.</u> (x) |
| Cameroon (x, NEX) | Namibia | Burma (x, NEX) | Cuba | OCE-Group: |
| Cape Verde (x) | Niger (x) | India (x) | Dominican Rep. | Fiji |
| Central Afr. Rep. (x) | Rwanda (x) | Dem. Kampuchea (x) | El Salvador (x) | Gilbert-Tuvalu |
| Chad (x) | S. Tome + Principe | Korea | Grenada | Papua N. Guinea |
| Comoros | Senegal (x) | <u>Lao P.D. Rep.</u> (x) | Guatemala (x) | Solomon Is. |
| Congo (NEX) | Seychelles | Malaysia (NEX) | Guyana (x) | Tonga |
| Djibouti | Sierra Leone (x) | Maldives | Haiti (x) | <u>W. Samoa</u> (x) |
| Egypt (x, NEX) | Somalia (x) | Mongolia | Honduras (x) | WES-Group: |
| Equatorial Guinea | Sudan (x) | Nepal (x) | Jamaica | Cyprus |
| Ethiopia (x) | Swaziland | North Korea | Mexico (NEX) | Greenland |
| Gambia (x) | Tanzania (x) | Pakistan (x) | Nicaragua | Malta |
| Ghana (x) | Togo | Philippines | Panama | Turkey |
| Guinea (x) | Tunisia (NEX) | Sri Lanka (x) | Paraguay | |
| Guinea-Bissau (x) | Uganda (x) | Taiwan | Peru (NEX) | |
| Ivory Coast (x) | U. Volta (x) | Thailand | Suriname | |
| Kenya (x) | Zaire (NEX) | Viet Nam | Uruguay | |
| Lesotho (x) | Zambia | LAM-Group: | MEA-Group: | |
| Liberia | Zimbabwe | Argentina | Bahrain (NEX) | |
| Madagascar (x) | | Barbados | Jordan | |
| Malawi | | | | |

Countries marked with (x) are MSACs, underlined countries are LLDCs; NEX after the name marks net-exporters (1979).

*) Estimates

Source: Data from OPEC

Table 2: Net-Imports of Crude Oil and Refined Products of LLDCs and MSACs in Percentages of World and OPEC Exports

| | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979* |
|--|------|------|------|------|------|------|-------|
| LLDCs: Percentage of | | | | | | | |
| World Crude Exports | 0.44 | 0.44 | 0.52 | 0.48 | 0.56 | 0.57 | 0.62 |
| OPEC Crude Exports | 0.50 | 0.50 | 0.61 | 0.57 | 0.65 | 0.68 | 0.74 |
| World Exports of Crude and Refined Products | | | | | | | |
| OPEC Exports of Crude and Refined Products | 0.34 | 0.35 | 0.41 | 0.39 | 0.44 | 0.45 | 0.48 |
| MSACs: Percentage of | | | | | | | |
| World Crude Exports | 2.30 | 2.49 | 2.57 | 2.22 | 2.45 | 2.72 | 2.78 |
| OPEC Crude Exports | 2.63 | 2.86 | 3.05 | 2.60 | 2.86 | 3.26 | 3.32 |
| World Exports of Crude and Refined Products | | | | | | | |
| OPEC Exports of Crude and Refined Products | 1.79 | 1.96 | 2.05 | 1.79 | 1.95 | 2.14 | 2.17 |
| LLDCs MSACs: Percentage of | | | | | | | |
| World Crude Exports | 2.31 | 2.50 | 2.58 | 2.23 | 2.46 | 2.73 | 2.80 |
| OPEC Crude Exports | 2.65 | 2.88 | 3.06 | 2.61 | 2.88 | 3.28 | 3.34 |
| World Exports of Crude and Refined Products | | | | | | | |
| OPEC Exports of Crude and Refined Products | 1.80 | 1.97 | 2.05 | 1.80 | 1.97 | 2.15 | 2.19 |
| | 2.47 | 2.69 | 2.87 | 2.44 | 2.71 | 3.06 | 3.11 |

*) Estimates

Source: Data from OPEC

is by the way in OPEC's lists of DCs. For Hong Kong the relevant data were not available to the author; Mexico is a net-exporter and Singapore a refining centre, so that only six countries remain in a somewhat stricter definition of net-importing NICs. By taking only countries that classified as NICs on at least two lists countries the "status" of which might be seriously doubted are not considered. Although their respective imports vary considerably the remaining six NICs make up the bulk of DC-net-imports, more than 40 % in each year after 1973. Their percentage has been increasing to nearly 50 % during the last years of the time series. Brazil alone accounted for roughly 20 (!) % of all net-imports, ranging between a minimum of 19.4 % in 1974 and 22.0 % in 1976. In 1978 and 1979 this country had higher net-imports than the LLDCs MSACs-group.

Apart from these NICs only India, Thailand and Cuba had net-imports of more than 100 000 bbl/d - a fact which underlines the high concentration of imports.

Table 3 shows the percentages of net-imports of DCs minus these six NICs in total Third World net-imports. By multiplying the values of the last line times the respective percentage-shares of world and OPEC exports given in Table 1 one gets the percentage shares of the DCs-NICs-group. While, for instance, total Third World net-imports were 11.02 % of world exports of crude and refined products in 1979 (15.65 % of OPEC exports), the value for DCs-NICs was (11.02) (0.5151), viz. 5.68 % of world and 8.06 % of OPEC exports. Even under such restrictive assumptions as to which countries qualify as NICs the remaining net-imports of other DCs are quite small. Especially with regard to the NICs, however, it must be said that the country grouping used in this article does not imply that these countries are any less members of the Third World than any other DCs. Politically, however, it will be easier to reach agreements on helping LLDCs or MSACs with such a surcharge than DCs that are classified as NICs. This is the reason why such a differentiation was done in this paper.

5. THE AMOUNT OF THE SURCHARGE

If all costs were picked up by ICs, the amount of the surcharge, expressed in percentages of world or OPEC exports, would be:

net-imports of beneficiaries as % of total exports

imports of ICs expressed in % of total exports

being thus slightly higher than the values given in Tables 1 and 2 .

Table 3: Net-Imports of Crude Oil and Refined Products of 6 Newly Industrializing Countries
(in 1 000 bbl/d)

| | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 ^x |
|--|---------|---------|---------|---------|---------|---------|-------------------|
| Argentina | 74.8 | 71.2 | 62.6 | 74.2 | 69.9 | 69.3 | 75.5 |
| Brazil | 658.6 | 630.3 | 652.7 | 789.7 | 772.7 | 950.1 | 982.7 |
| Colombia ^{a)} | --- | --- | --- | --- | 5.9 | 6.4 | 17.9 |
| The Philippines | 173.8 | 181.9 | 186.3 | 205.2 | 208.1 | 241.6 | 222.4 |
| Rep. of Korea | 284.3 | 266.5 | 321.3 | 354.6 | 410.2 | 569.6 | 577.0 |
| Taiwan | 177.7 | 190.5 | 185.4 | 285.8 | 302.0 | 311.5 | 314.4 |
| Sum | 1 369.2 | 1 340.4 | 1 408.3 | 1 709.5 | 1 768.8 | 2 148.5 | 2 189.9 |
| DCs minus NICs | 1 844.1 | 1 904.2 | 1 851.7 | 1 875.4 | 2 020.9 | 2 243.3 | 2 326.7 |
| DCs minus NICs as percentage of DCs' Net-Imports | 57.39 | 59.26 | 56.80 | 58.36 | 53.33 | 51.08 | 51.51 |

^{x)} Estimates

a) Colombia was a net-exporter until 1977

Source: Calculated from OPEC-data

If e.g. DCs-net-imports are 11.02 % of total world exports of crude and refined products, like in 1979, the necessary surcharge would be 12.38 %, viz. 11.02/88.98. If all prices go up 12.38 % this would mean that ICs are paying the 11.02 % of world exports which are identical with DCs' net-imports and that the additional increase to 12.38 % can be refunded to the beneficiaries as well. If, however, only 11.02 were cashed as a surcharge, the beneficiaries would still have to cover a small amount of their own imports - 1.2 % of world exports before the price-rise. As can be seen from the data, the total surcharge would be significantly lower than what most ICs charge as value added taxes in their own countries. It seems even possible that a group of exporters like OPEC could force such a surcharge upon buyers and distribute the revenues to the beneficiaries.

If, however, only price increases should be refunded the necessary surcharge is smaller. Again this will be illustrated by a short example. If all price-increases after 1972 were to be refunded - which is a very strong assumption - so that the price per barrel would be still the same in nominal US-Dollars to the beneficiaries as it was in 1972, the effect is not intolerably high. As is shown in Table 4, this solution would only in 1979 and if all DCs were eligible as beneficiaries have led to ODA-commitments of more than 0.7 % of OECD-GNP if these sums had been added to actually paid ODA. In 1979, the target of 0.7 %, promised so long ago, would only have been surpassed by some hundredths of a percent. Picking up only the net-imports of (DCs minus NICs) would have added up with actually given ODA to 0.533 % in 1979 - "comfortably" below the 0.7 target. If one assumes a price of \$ 32/barrel, this would have driven up actual ODA plus surcharge for all DCs to roughly 0.95 %, about what, Sweden, Norway or the Netherlands gave in 1979. The price of 2.479 \$ (of 1972) is, of course, very low.

Table 5 shows which percentages of total exports of crude and refined products would be necessary as subsidies if nominal values of Table 4 had to be covered. Since the respective quantity times the price of 1972 is still to be paid by the beneficiaries, these percentages are lower than the ones given before in Tables 1, 2 and 3. For calculating Table 4 the official selling prices of Arabian Light 34 were applied. For the years 1972 and 1973 posted prices had to be taken since official selling prices were not available.

It can, of course, be doubted whether these sums are correct. It may well be said that they are rather too low. If DCs had to pay higher prices for their oil they are, but it should be remembered that this example is purely illustrative. If one, however, adds \$ 4 087 million (= \$ 2.479. q₁₉₇₉) to the \$ 24 441 mill. for 1979 in Table 4 this sums up to \$ 28.5 billion. The deficit on trade in fuels for non-OPEC-DCs has been estimated at \$ 21 billion for 1979 by GATT. If Mexico and other net-exporters of fuels are excluded the combined deficit is given with \$ 35 billion for the same year²². Assuming that all fuel imports

Table 4: Subsidies for Crude Oil and Refined Products Net-Imports of LLDCs and MSACs in Millions US \$ and as Percentages of OECD-GNP (Stabilizing at 1972-Prices)

| | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 ^x |
|----------------------------|--------|----------|----------|-----------|-----------|-----------|-------------------|
| In mill. \$ | | | | | | | |
| LLDCs | 41.17 | 412.86 | 442.54 | 513.98 | 651.78 | 666.93 | 1 075.81 |
| MSACs | 217.31 | 2 341.25 | 2 206.38 | 2 355.72 | 2 867.10 | 3 176.04 | 4 816.79 |
| LLDCsMSACs | 218.39 | 2 351.76 | 2 215.11 | 2 367.95 | 2 881.95 | 3 190.97 | 4 850.89 |
| DCs | 962.87 | 9 735.27 | 9 814.18 | 11 849.34 | 13 722.41 | 16 390.75 | 24 441.67 |
| In percentages of OECD-GNP | | | | | | | |
| LLDCs | 0.001 | 0.012 | 0.012 | 0.012 | 0.014 | 0.012 | 0.017 |
| MSACs | 0.007 | 0.069 | 0.058 | 0.056 | 0.061 | 0.057 | 0.074 |
| LLDCsMSACs | 0.007 | 0.069 | 0.058 | 0.056 | 0.061 | 0.057 | 0.075 |
| DCs | 0.031 | 0.286 | 0.258 | 0.282 | 0.292 | 0.293 | 0.376 |
| OECD-Aid (ODA) | | | | | | | |
| in percentages of GNP | 0.30 | 0.33 | 0.36 | 0.33 | 0.33 | 0.35 | 0.34 |
| in billions of US \$ | | | | | | | |
| (current prices) | 9.4 | 11.3 | 13.8 | 13.8 | 15.7 | 20.0 | 22.3 |
| Actual ODA plus maximum | | | | | | | |
| surcharge in percentages | | | | | | | |
| of OECD-GNP | 0.331 | 0.616 | 0.618 | 0.612 | 0.622 | 0.643 | 0.716 |

^x) (Except OECD-data) estimates

Source: Calculated on the base of OPEC-data
OECD-values from IBRD

Table 5. Necessary Subsidies in Percentages of Exports (The Case of Stabilizing at the Price of 1972)

| | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 ^x |
|---|-------|-------|-------|-------|-------|-------|-------------------|
| Necessary subsidies for | | | | | | | |
| DCs | | | | | | | |
| as percentages of world exports of crude and refined products | 1.97 | 6.27 | 7.00 | 7.07 | 7.49 | 8.88 | 9.44 |
| as percentages of OPEC exports of crude and refined products | 2.71 | 8.55 | 9.78 | 9.59 | 10.31 | 12.64 | 13.41 |
| DCs minus NICs | | | | | | | |
| as percentages of world exports of crude and refined products | 1.13 | 3.71 | 3.97 | 4.13 | 3.99 | 4.54 | 4.86 |
| as percentages of OPEC exports of crude and refined products | 1.56 | 5.07 | 5.56 | 5.60 | 5.50 | 6.46 | 6.91 |
| Conversion factor ^{a)} | 0.249 | 0.768 | 0.769 | 0.785 | 0.800 | 0.805 | 0.857 |

x) Estimates $\frac{P_t - P_{1972}}{P_t}$ shows per-unit-subsidies (differences between current and 1972-prices) as percentages of current prices/barrel and the relation between total subsidies and the value of all net-imports. Dividing the figures of Table 5 by the conversion factors gives total net-imports of the respective group as percentages of world or OPEC exports as results.

Source: Calculated from OPEC-data

are oil, the amount of Table 4 for 1979 is not much more than about 10 % too low if one takes refining centres into account.

Regarding Table 5 one can safely conclude that adding 10 or even 20 % would not alter the picture greatly. The percentages of net-imports in exports if all DCs are benefitting are 9.44 % of world exports or 13.41 % of OPEC exports of crude and refined products. (DCs minus NICs) accounted for 4.86 and 6.91 %, respectively, while the group LLDCs MSACs accounted for only 1.88 and 2.67 %, respectively. Even if 20 % are added 2.26 % and 3.2 % are not that terribly high. The surcharge itself, it should be mentioned, has to be slightly higher if net-importers are not to pick up part of the price-increase.

Furthermore it must be recalled that the OPEC Ministerial Meeting of 1979 in Caracas has "...reaffirmed its commitment to ensure that (the developing countries) do not incur prices beyond the official OPEC prices."²³ Even if it remains to be researched how effectively this reaffirmation could be put to practice so far, given the influence of big business, this too justifies to some extent the method of using official selling prices. Tables 4 and 5, however, disregard the fact that many crudes sell officially at a higher price than Arabian Light.

Finally, the daily averages of net-imports were used to calculate the values of total net-imports. In cases when impending price increases lead to higher demand this method overestimates actual imports. But, to repeat once again, the figures given were purely illustrative to show approximate dimensions rather than a "fine tuning". This should especially be kept in mind with regard to decimal places. It was, however, possible to show that such a system could have worked during the period 1973-1979 without undue burdens to the North. On the contrary, it might have helped ICs to come closer to the promised 0.7 % aid target.

The price of \$ 2.479 at which import-costs were stabilized in the example, is, of course, rather low. A higher price is much more likely to be chosen should this system ever come into being. Assuming higher prices, however, will only drive costs down.

The same purpose can be reached by other ways:

- Gliding averages of prices and/or quantities limiting benefitting imports. In that context one might think of four-year-periods like in the case of STABEX. This would slowly increase the amount of subsidized imports but lag behind actual values thus giving additional incentives to switch away from energy using investments. It could, therefore, be seen as a combination of energy-saving incentives and financing of further growth favouring technologies with a production-elasticity of oil consumption < 1.

- Taking fixed quantities of a year (e.g. 1972) or a fixed average of some years as the quantity which is going to be subsidized. This would enforce the incentives to save energy but could hinder further development somewhat more than the first proposal, unless the elasticity of oil-demand is negative for new technologies. It must, however, be kept in mind that the present energy waste of the US cannot be reached by all countries since the resources of this planet are too limited. Even the US will have to start to save energy.
- One may extrapolate past values to get the amount that is going to be refunded the next year while imports higher than these figures have to be borne by the importers themselves. Generally, ICs will favour solutions where DCs have to pick up a part of the increased oil bill as well.

6. WHY THE NORTH SHOULD PARTICIPATE IN SUCH A SCHEME

After explaining that it would be manageable to help the poor countries by covering their additional oil import bills and after showing that in the case of oil the necessary amounts are sufficiently small that OPEC alone (backed by fellow DCs) could force such a solution on ICs, it shall be shortly said why ICs themselves have good reasons to participate in such a scheme. These reasons cannot be elaborated further but will be mentioned rather cursorily. It must be understood that this paper is not, nor does it intend to be, an option for international economic warfare. It is, on the contrary, a plea for reforms within the present system to prevent future catastrophes.

The present international economic system is marked by growing indebtedness and growing poverty of the Third World. Since DCs-markets have developed more and more into important outlets of ICs' exports, the "importance of developing nations in stimulating the expansion of industrialized countries' exports in high productivity sectors such as machinery, transport equipment and chemicals, which make up 70 % of the manufactured goods imported by developing countries from the industrial economies"²⁴ has been stressed by the World Bank. One may safely say that DCs-importers have smoothed out recent economic recessions considerably. In extreme cases, like Japan, up to half a nation's exports are bought by the Third World. Since 1974 more than half of all publicized Eurocurrency loans - in some years even more than 60 % - was used by DCs to finance imports from the North (as well as for purposes like servicing debts). This export drive can only be maintained if some transfer of resources takes place. Although it can be shown that borrowing

by DCs could go on for quite some time - theoretically forever²⁵ - banks have already shown signs of fear and it is questionable whether they will be as willing to lend as they have been. It remains also to be seen whether borrowing DCs will and can go on like in the recent past - amassing debts to finance Northern exports.

The problems of a system like the present were already seen by politicians more than half a decade ago. The Chairman of the US Senate Multinational Subcommittee, Frank Church, worried as early as 1976: "Congress could find itself forced to vote grants or other aid to debtor nations that are in danger of defaulting simply to preserve the stability of the US banking system."²⁶ Steps into this direction were already made: debts of some especially poor countries were cancelled and financial defaults were bridged by moratoria and ICs-governments' assistance. It is, however, quite clear that such grants will have to be made more and more frequently to prevent catastrophic defaults and to preserve the present system. It is, of course, possible to grant whenever it is absolutely necessary to prevent an economic crash. ICs favour this solution because it gives them power and leverage to decide whether and how much is given. Therefore, they are reluctant to agree to institutionalized solutions and prefer case to case trouble-shooting. The problem is only, whether one can hope that this kind of crisis management will always work, especially if the Third World disenchanted with the present attitude of the North takes a more and more hostile position. Fortunately, there are already some hints into the direction of an institutionalized transfer from North to South. The most notable example, by the way in a multilateral treaty, is STABEX.

The solution proposed in this paper is, of course, not the only possible solution. It would be a first and relatively cheap but indicative step towards a new understanding of international relations. It is in line with the proposals of the Brandt Commission or UNCTAD and it would definitely ease some of the strains that currently are tearing on the global economic system. I am, of course, quite aware of the difficulties such an idea will meet in international fora. But a system like STABEX would have encountered the same difficulties a decade ago - today it has been reality for some years. It was the reason of this paper to show a possible approach to present international problems and to stimulate discussions since things that are never thought are never done.

Notes

- 1) Cf. G.Haberler: The International Monetary System after Jamaica and Manila, in: Weltwirtschaftliches Archiv, 1/1977, p. 25.
- 2) Cf. the diverging views of M.Kreinin (UNCTAD's Proposal for a Common Fund - A Critical Appraisal) and K.Raffer (Is There a Common Interest in a Common Fund - A Neutral Observer's View) in: Internationale Entwicklung, 1979/IV, pp. 19ff.
- 3) M.Kreinin/J.M.Finger: A Critical Survey of the New International Economic Order, in: Journal of World Trade Law, 1976, p. 504.
- 4) Cf. UN Negotiating Conference on a Common Fund under the Integrated Programme for Commodities: Statistics of International Trade in Commodities Covered by the Integrated Programme for Commodities, 1970-1976, Dec. 22, 1978 (TD/IPC/CF/CONF/Misc. 10).
- 5) L.N.Rangarajan: Commodity Conflict, The Political Economy of International Commodity Negotiations, London 1978, p. 323.
- 6) I.Shihata: Statement, in: OPEC-Bulletin, February 1981, p. 22. Cf. also M.Mohiuddin Khan: Diplomacy and the New Economic Order, in: Law and International Affairs, Vol. 3, No. 1 and 2, p. 77.
- 7) World Bank: Energy in the Developing Countries, August 1980, p. 2.
- 8) Gatt: International Trade in 1979/80, Geneva 1980, pp. 8/9 (stressed by K.R.).
- 9) Ibid., p. 8.
- 10) OECD: Development Co-operation, Review 1980, Paris 1980, p. 164.
- 11) El Zaim: Problems of Technology Transfer - A Point of View from the Third World, Vienna Institute of Development, Occasional Paper, 78/6, p. 31.
- 12) OECD: 1980 Review, p. 219 (Table E. 2).
- 13) The Economist, 6-12 September 1980, p. 97.
- 14) World Bank: World Development Report 1980, Washington D.C., 1980, p. 14. Cf. also The Economist, March 31-April 6 1979, p. 49 and K.Raffer: "Ölkrise", Ölprofite und Energieversorgung - Ein Beitrag zum Rohstoffproblem Erdöl, in: M.Kopeinig/K.Raffer (Hg.): Aktuelle Beiträge zur Entwicklungspolitik, Wien 1980, pp. 24/25.
- 15) G.Myrdal: The Challenge of World Poverty, London 1970, p. 356.

- 16) North-South: A Programme for Survival, The Report of the Independent Commission on International Development Issues under the Chairmanship of Willy Brandt, London 1980, p. 245; cf. also pp. 122/123 and 284.
- 17) UNCTAD: The Developing Countries in the World Economy, Energy and Development: Increasing Third World Collective Self-Reliance, Vienna, 7-9 July 1980, p. 18.
- 18) K. Raffer: The New Economic Order: Problems and their Solution by Price-Discrimination, in: Law and International Affairs, January/July 1977, pp. 53 ff.
- 19) OECD: 1980 Review, p. 75.
- 20) World Bank: World Development Report 1979, Washington D.C. 1979, p. 87.
- 21) North-South . . . , p. 53.
- 22) Gatt, p. 9.
- 23) UNCTAD, p. 18.
- 24) World Bank, 1979, p. 23.
- 25) Cf. K. Raffer: Die Verschuldung der Dritten Welt: Eine gesamtwirtschaftliche Betrachtung, in: Wirtschaft und Gesellschaft, 4/1980; and K. Raffer: Rôle and Risks of International Banks in the Third World - A Critical Appraisal, in: Law and International Affairs, (Forthcoming).
- 26) Newsweek, November 29, 1976, p. 50.