



General Assembly

Distr.
GENERAL

A/38/209
23 May 1983
ENGLISH
ORIGINAL: ENGLISH/FRENCH

Thirty-eighth session
Item 78 of the preliminary list*

DEVELOPMENT AND INTERNATIONAL ECONOMIC CO-OPERATION

Letter dated 20 May 1983 from the Permanent Representative of Luxembourg
to the United Nations addressed to the Secretary-General

I have the honour to inform you that the Council of the Organization for Economic Co-operation and Development held a meeting at the ministerial level on 9 and 10 May 1983.

Since Luxembourg had the honour to preside over this meeting, I respectfully request you to publish the enclosed communiqué as an official document of the General Assembly under item 78 of the preliminary list.

I am sure that the contents of the communiqué are of definite interest in the context of the above-mentioned agenda item and may prove useful for the initiation of a fruitful exchange of views.

(Signed) Paul PETERS
Ambassador
Permanent Representative of Luxembourg
to the United Nations

* A/38/50/Rev.1.

ANNEX

COMMUNIQUE

1. At its meeting on 9th-10th May, the Council of the Organisation for Economic Co-operation and Development at Ministerial level agreed on a medium-term approach to sustaining and broadening the economic recovery now under-way. They agreed that increased sustainable non-inflationary growth in the OECD countries now must be aimed at in order to reduce the present very high levels of unemployment.
2. Ministers recognised that the powerful economic linkages among countries and regions imply a collective responsibility to shape policies so as to strengthen the international trading, monetary and financial systems.
3. Accordingly, their governments intend to:
 - Take advantage of the room for growth, which is now emerging in an important part of the OECD area, to promote job creation and higher employment.
 - Continue to reduce inflation and overcome structural impediments to improved economic performance.
 - Make use, individually and collectively, of the favourable conditions provided by economic recovery to reverse protectionist trends.
 - Work to resolve international debt problems in a trade-expansionary way as recovery and adjustment by debtor countries proceed.
 - Provide more effective help to the poorer developing countries.

4. The meeting was chaired by Madame Colette Flesch, Vice-President of the Government of Luxembourg, Minister of Foreign Affairs, External Trade and Co-operation, Minister of Economy and Middle Classes. The Vice-Chairmen were Mr. Shintaro Abe, Minister for Foreign Affairs of Japan and Mr. Kurt Furgler, Federal Counsellor and Head of the Swiss Federal Department of Economic Affairs. In addition to reviewing their economic policies, and trade relations among Member countries, Ministers considered the difficult situation of the developing countries and the policies needed if they are to benefit from economic recovery. They discussed the dialogue with the developing countries, in particular preparations for UNCTAD VI. Ministers also reviewed East-West economic relations.

5. Finally, Ministers heard a report by Mr. William F. Birch, Minister of Energy of New Zealand, on the results of the Ministerial Meeting of the Governing Board of the International Energy Agency, held on 8th May, 1983, in Paris. They took note of the study, Energy Requirements and Security, prepared by the Secretariat, and of the discussions on it, and endorsed the conclusions set forth in the Annex to this Communiqué.

THE TRANSITION TO SUSTAINED GROWTH

6. Ministers welcomed the further achievements in reducing inflation. They are very concerned, however, about the high and rising levels of unemployment. It is therefore encouraging that signs of an up-turn have now emerged in several OECD economies. While uncertainties and risks remain, Ministers agreed that prospects for continuing recovery are better than they have been for several years, and that ensuring the transition to sustained non-inflationary growth and higher employment is the central task of policy.

Common Policy Principles

7. Ministers agreed on the following policy principles for all Member countries:

(i) Policies need to be set firmly in a medium-term framework to make clear the steadiness of policy intent. This will, of necessity, call for flexibility in the implementation of policies when circumstances require.

(ii) Pervasive economic linkages mean that the ability of individual countries to achieve domestic policy objectives depends importantly on the policies and performance of others. It is important for the consistency of policies that each Member country take account of the international implications of Member countries' policies taken together. /...

(iii) The achievement of greater exchange rate stability, which does not imply rigidity, is a major objective and commitment to be pursued. In this context they noted and welcomed the principles set out in the agreement by finance ministers of seven Member countries, announced in Washington on April 29th, 1983.

(iv) Improved economic performance and higher employment require a balanced use of macro-economic and structural policies. Growing room emerges as inflation diminishes and supply-side responsiveness increases. To this end:

- Macro-economic policies should be consistent with medium-term objectives of inflation control and steadier real growth; some countries have found a nominal income framework helpful in this respect.
- Policies to increase the profitability of job-creating productive investment are required.
- Collective bargaining should take account of the need to promote investment and to maximise the scope for higher employment without inflation.
- Positive adjustment policies are necessary to enhance competition and the flexibility of markets, and to improve the allocation of resources.
- Labour market policies are important to alleviate the burden of unemployment, particularly on young people; targeted programmes, including training, can help to deal with the problem of structural unemployment.
- Facilitating stronger social consensus can in many countries play an important role in achieving the necessary balance of policies.

8. While these policy principles are common to all Member countries, Ministers recognised that countries are in diverse situations. Not all countries have been equally successful in establishing the preconditions for better economic performance. Appropriate policies therefore differ in emphasis from one country to another.

National Policies

9. In a number of countries, accounting for about 70 per cent of OECD GNP, inflation is approaching the level of the 1960s. Confidence has strengthened; progress has been made in tackling structural imbalances; and activity, which has been weak, is now starting to recover. Further declines in real interest rates should be aimed at. For such countries, Ministers agreed on the importance of taking advantage of the room that has emerged for increased output and employment; in particular:

- As regards monetary policy, monetary aggregates should allow for output growth which is sustainable over the medium-term, with continued control of inflation, permitting a continued easing of interest rates. Current monetary policies are generally consistent with this approach. Targets for monetary aggregates should not be lowered in response to lower oil prices. Similarly, monetary policy should not accommodate any resurgence of inflationary wage and other income claims.
- Fiscal policy should be consistent with sustained non-inflationary growth, higher investment and higher employment. Structural budget deficits need to be reduced to make room for the investment needed to sustain growth and employment. Where future structural deficits loom large, it is important to act now to ensure that deficits on this scale will not materialise, thus permitting interest rates to ease. Given the strong international transmission of interest rates, such action would promote recovery in the world economy. The reduction of structural deficits should take care not to jeopardise economic recovery, and take account of the cumulative effects of simultaneous action in a large number of countries. Where measures to support activity are considered they should be designed to promote investment.

10. In some other countries, accounting for about 20 per cent of OECD GNP, further progress against inflation is required and structural impediments to better performance are more pronounced. As a result, growing room in the near-term is less. For such countries, Ministers agreed that perseverance with non-accommodating monetary policy is required, and structural budget deficits must be reduced further as part of a consistent medium-term approach. It is also particularly important that further efforts be made to reduce structural impediments.

11. In the remaining Member countries, despite serious efforts, inflation remains very high, while the international recession and chronic structural problems mean high rates of unemployment and underemployment. In such countries, Ministers agreed that limited flexibility of markets, structural imbalances, and difficulties in monetary and fiscal management are central problems, which must be addressed at their core. Improved economic performance remains primarily a task for domestic policies, although sustained recovery and lower interest rates in the OECD area, and an improving trade environment will make this easier.

TRADE, DEBT AND ADJUSTMENT

12. Ministers discussed the powerful linkages between growth, trade and debt which are now at work between creditor and debtor countries. They agreed on the importance of taking these linkages into account as fully as possible in the formulation of their macro-economic, trade and financial policies, and welcomed the work being done in the Organisation to help clarify the issues involved. They also recognised that the world recession had exposed problems of a systemic nature which need to be addressed.

13. Ministers noted that, during a period of severe and persistent economic and social difficulties, the world trading system has essentially been preserved. They recognised, however, that there has been a continuation and even extension of protectionist trade and domestic support measures to shelter weak industries and companies from the full impact of the recession and structural change. Such measures have contributed to slowing down the movement of resources into activities with greater growth and job-creating potential. A return to sustained growth requires more positive adjustment policies, more reliance on market forces and more productive investment.

14. Ministers agreed that, within the framework of their overall economic co-operation, strengthening the open and multilateral trading system is essential to support the recovery and the transition to sustained growth. They therefore agreed that the economic recovery, as it proceeds, provides favourable conditions which Member countries should use, individually and collectively, to reverse protectionist trends and to relax and dismantle progressively trade restrictions and trade distorting domestic measures, particularly those introduced over the recent period of poor growth performance. They invited the Secretary-General to propose appropriate follow-up procedures. At the same time, they agreed that the work programmes now under way in the GATT and OECD to improve the trading system and its functioning should be actively pursued.

15. Ministers welcomed the co-operative efforts being made by the International Monetary Fund, the Bank for International Settlements, the governments of the debtor and creditor countries and the private banks to preserve the effective functioning of the international financial system. They also recognised the determined efforts now being made by many debtor countries to adjust to a less inflationary world.

16. The groundwork has thus been laid for evolving a medium-term approach to resolve debt problems in a trade-expansionary way as the recovery proceeds. The aim should be to maintain the basis for a continued flow of savings through world capital markets to countries where they can be productively used. A first element in such an approach is to maintain normal disciplines between borrowers and lenders. A second is that international lending will best serve the interests of both borrowers and lenders if external finance is used to develop efficient economies capable of, and enabled to, compete in world markets.

17. To this end Ministers agreed on the need for further efforts by both creditor and debtor countries to:

- Sustain a supply of finance to debtor countries, in support of determined domestic adjustment policies, that is sufficient to maintain or restore adequate levels of essential imports.
- Work towards mutually reinforcing action, within the framework of existing international agreements, to establish more predictable and transparent trade regimes, to reduce trade barriers and to pursue more market-conforming domestic structural policies.

DEVELOPMENT CO-OPERATION, DIALOGUE AND UNCTAD VI

18. Ministers welcomed and shared the importance attached to world economic interdependence, dialogue and consensus in declarations by developing countries, most recently at Buenos Aires. They reaffirmed their readiness to work, in a spirit of understanding and co-operation, with the developing countries and other participants at UNCTAD VI next month with the aim of reaching a common understanding of current world economic problems. In particular, they looked forward to discussing the contributions which developed and developing countries can make to further constructive dialogue and co-operation to:

- Ensure that all countries benefit from the economic recovery now getting under way, and that economic and social progress can gain momentum in the developing world.

/...

- Continue to work together on development co-operation policies to tackle the fundamental problems of underdevelopment and poverty.

19. Ministers recognised that the world recession has created acute difficulties, in particular for most of the poorer developing countries. Meeting this challenge will call for difficult and courageous policies on their part. As recovery proceeds, these countries should benefit from increased export demand and higher commodity prices. But Ministers recognised that external support remains of crucial importance to facilitate the resumption of their longer-term development. They therefore agreed to:

- Maintain and, as far as possible, to increase their aid with a view to realising their commitments to the international aid objectives particularly for the poorer developing countries.
- Work together with the competent international institutions to assist poorer developing countries in implementing the difficult policy reforms required for adjustment and resumed development progress.
- Ensure adequate funding from all contributors of the multilateral development institutions, in particular the International Development Association.

20. Ministers agreed on the desirability of diversifying the developing countries' sources of external finance, and in particular fuller use of the potential for direct investment.

21. Ministers stressed the commitment of their governments to pursue development co-operation policies beyond the immediate requirements of economic recovery. They recognised, in particular, the importance of working with developing countries to strengthen and achieve greater stability in their export earnings. They also recognised the importance of technical co-operation, and reaffirmed their commitment to a strong centrally-funded system of United Nations technical co-operation.

EAST-WEST ECONOMIC RELATIONS

22. Following a decision taken by Ministers last year, the Organisation has carried out a thorough economic analysis of the evolution of trade and financial relations with the USSR and other Eastern European countries. Ministers noted that these relations have, with some exceptions, evolved in a less dynamic way than those with more market-oriented economies and not met earlier expectations.

23. This purely economic analysis demonstrates that East-West trade and credit flows should be guided by the indications of the market. In the light of these indications, Governments should exercise financial prudence without granting preferential treatment. Ministers recognised, moreover, that practices connected with the state-trading system of centrally planned economies can create problems which need to be kept under close examination within the Organisation. More generally, they agreed that, in the light of changing circumstances, the Organisation should continue to review East-West economic relations.

APPENDIX

CONCLUSIONS

1. Ministers assessed world energy requirements and security for the next two decades, bearing in mind the importance of adequate and secure energy supplies to the prospects for sustained economic growth. They noted with satisfaction the progress that had been made since 1973 in reducing dependence on imported oil by increasing energy efficiency and the use of alternative fuels, notably coal, gas and nuclear energy. This progress has contributed to the lowering of oil prices which is now bringing an important and welcome relief to the world economy. Ministers agreed, however, that such relief was likely to be temporary and that there is a risk of a renewed energy constraint on growth later in this decade unless the industrialised countries strengthen their policies to restructure their energy economies. Ministers noted, in this context, that dependence on imported oil, though reduced, remains high in many of their countries and that this remains the major risk to their energy security; that the contributions of coal and nuclear energy are running significantly below earlier expectations; that the prospect of growing imports of gas to help reduce dependence on imported oil could lead to heavy dependence by some countries on single sources of gas supply; and that the outlook for investment in the efficient use of energy and for the development of indigenous energy sources is less than satisfactory. They agreed that some of these problems could be accentuated by the uncertain outlook for oil prices.

2. Since industrialised countries as a whole will, in any event, continue to rely heavily on imported energy, smoothly functioning world energy markets over the long-term will be essential for their economic well-being. Industrialised countries must seek to reduce the risk of disruptions and be prepared to minimise the effects on their economies of any which occur. The balance between energy security and costs will have to be struck under the responsibility and in the circumstances of individual countries, having regard to their international commitments. Each country will, however, continue to develop strong and cost-effective energy policies based on that combination of market forces and government action which is best suited to its circumstances but including:

- implementing and as necessary strengthening present policies to promote the efficient use of energy and the continuing replacement of oil by other fuels,

- rapid and, where appropriate cooperative, development on an economic basis of indigenous energy resources - fossil fuels, nuclear energy, hydropower and other renewable energies - to the maximum possible extent consistent with environmental and social factors and the need to secure supplies beyond the turn of the century,
- seeking to remove impediments to its trade in energy;
- substantial programmes of research, development and demonstration;
- pricing and fiscal regimes which promote the rational use of energy and the development of indigenous energy resources;
- diversification of sources of energy imports;
- cooperation on a regional basis or as otherwise appropriate to improve the overall flexibility of energy systems and to overcome transit problems;
- effective cooperative measures for dealing with disruptions in energy supplies.

Ministers recognised that energy security and smoother functioning of world energy markets is not a matter for industrialised countries alone. More effective energy policies in the industrialised area should ease the world energy situation and thereby the energy situation of the non-oil developing countries. They emphasised the importance of mutual understanding with energy exporting and importing developing countries to the achievement of these aims. Development of the indigenous energy resources, including new and renewable energy, of the developing countries could in its turn make an important contribution to improving the world energy situation.

Energy Efficiency

3. Ministers recognised the important potential contribution of improved energy efficiency to overall energy security and agreed to give particular attention as appropriate to:

- financial or other measures to stimulate the efficient use of energy and conversion from oil including help to industry and others to overcome the high initial investment costs of certain energy-saving and fuel-switching measures;
- the development of energy conservation services capable of offering a comprehensive package which would include information on rational energy use

and oil substitution, provision and installation of equipment, and financial advice tailored to the needs of customers;

- the publication of technical and financial information on the efficient use of energy and of any assessments which governments may make of long-term trends in energy demand, supply and prices;
- demonstration by governments within their own operations of the value of energy efficiency;
- inclusion of energy efficiency as an element in industrial policy;
- energy efficiency in transport and in the building sector through higher voluntary or mandatory standards;
- policies to overcome structural barriers which mute the impact of market signals.

Pricing and Fiscal Regimes

4. Ministers agreed to pay particular attention to:

- removal of those price regulations which discourage the development of indigenous energy or the displacement of oil by other fuels or the efficient use of energy;
- the pricing policies and where it exists regulation of the tariffs of electricity utilities so as not to impede the provision of funds for investment in new generating capacity;
- reviewing energy pricing policy, with the aims that energy prices should be more transparent and more closely reflect market prices or the long-term costs of maintaining supplies, as appropriate;
- the structuring of fiscal regimes for oil and gas production so as to encourage timely development.

Coal and Other Solid Fuels

5. Ministers agreed that to promote on an economic basis further expansion of production, use and trade of coal and, where appropriate, of other solid fuels including lignite and peat:

- their countries should continue to reduce impediments to a major expansion of coal use in electrical power generation and in industry;

- their countries should take steps to provide the infrastructure needed for increased production, transport and marketing of coal;
- coal-exporting countries should facilitate reliable coal exports in times of supply difficulties;
- their countries should promote the development of a flexible and diversified coal trading system, paying particular attention to the need for long-term contracts.

6. Coal use must be environmentally acceptable. Ministers agreed to accelerate cooperative efforts to promote strategies for the clean use of coal, including research, development and demonstration regarding coal use technologies, and to establish effective regulatory frameworks which allow coal users to choose the most economic means to achieve environmental goals. They will assess available and new technologies and review regularly the pace and impact of their introduction.

Nuclear Power

7. To fulfil its important potential for contributing to overall long-term energy security which is the concern of all industrialized countries, nuclear power will have to play a major and increasing role in many countries. Ministers:

- stressed the importance of encouraging stable trade in nuclear equipment, fuel cycle services and nuclear fuel. Export and import regulations must be predictable, and based on the strict respect of current non-proliferation policies;
- agreed that member countries would maintain reliable standards of nuclear reactor safety and continue to co-operate in various fora on these matters. Procedures for the approval of reactors and nuclear facilities should be as clear and expeditious as possible;
- stressed the importance of international co-operation on spent fuel storage and waste disposal. They appealed to the governments of those countries in a position to do so to stimulate further progress in developing and applying effective and timely methods for managing the back end of the fuel cycle in ways best suited to their national situations and compatible with international agreements. The competent bodies of OECD were requested to work together on periodic consultations on the progress of member governments in the waste disposal programme;

- requested the competent bodies of OECD to identify for prompt examination new possibilities for research and development in advanced technologies that support these conclusions.

Action on these lines will provide the basis for both institutional impediments and public acceptance concerns on nuclear power to be vigorously addressed and allayed wherever possible.

Gas

8. Ministers agreed that gas has an important role to play in reducing dependence on imported oil. They also agreed, however, on the importance of avoiding the development of situations in which imports of gas could weaken rather than strengthen the energy supply security and thus the overall economic stability of Member countries. They noted the potential risks associated with high levels of dependence on single supplier countries. Ministers stressed the importance of expeditious development of indigenous OECD energy resources. They noted that existing contracts are currently insufficient to cover expected gas demand by the mid-1990s, and agreed that in filling this gap steps should be taken to ensure that no one producer is in a position to exercise monopoly power over OECD countries. To obtain the advantages of increased use of gas on an acceptably secure basis, they agreed that:

- their countries would seek to avoid undue dependence on any one source of gas imports and to obtain future gas supplies from secure sources, with emphasis on indigenous OECD sources. Additional supplies from other sources would be obtained from as diverse sources as possible, taking into account supply structures, the share of gas in energy balances, and the geographical situation of individual countries. In assessing the full costs of gas supply sources, gas companies and, as appropriate, governments will consider security factors;
- their Governments would either encourage gas companies and other undertakings concerned to take or take themselves the necessary and appropriate cost-effective measures suited to each country's situation to strengthen their ability to deal with supply disruptions; these measures could include increased gas storage facilities, contingency demand restraint programmes, improved fuel-switching capabilities accompanied by adequate stocks of oil or other alternative fuels, a more flexible grid structure, greater flexibility of contracts, more

surge capacity, measures to accelerate intra-OECD trade on short notice through standby contracts for supplies in a disruption, and interruptible contracts with consumers;

- action should be taken to develop at economic cost indigenous gas resources, particularly in North America and the North Sea, which show promise of alleviating overall or particular pressures on energy imports;
- concerned member governments noting the potential for further development of North American gas resources and noting that part of the Norwegian Troll field may be declared commercial by 1984, would encourage their companies to begin negotiations on deliveries from these sources as soon as possible, with a view to making supplies available at prices competitive with other fuels in the mid-1990s;
- trade barriers and other barriers which could delay development of indigenous gas resources should be avoided or reduced;
- their governments would encourage the companies concerned to undertake feasibility studies, if appropriate in cooperation with member governments, to determine the economic, engineering, technical and financial factors, relevant to possible imports from a variety of non-OECD sources;
- governments within one region where there is scope for effective cooperation should invite gas companies operating in their jurisdictions to address and negotiate on a commercial basis cooperative arrangements to meet a disruption of supplies to any one country or to the region as a whole;
- Special attention should be given in the annual country review process in various international organisations to the future pattern of gas supplies, to the progress on the development and implementation of security measures, and to whether gas imports into the OECD from any single source constitute such a proportion of total supplies as to give rise to concern about the timely development of indigenous resources and the vulnerability of supplies, either for an individual member country or collectively.
- In considering the degree of vulnerability, relevant factors include the share of imports in total gas consumption and in total primary energy.

requirements, the reliability of particular sources, the flexibility of other supplies, sectoral distribution, stocks and fuel-switching possibilities.

- An in-depth exchange of views about this question would take place within the normal review process whenever considered necessary. To allow a full assessment of its energy situation, the country concerned shall inform the other member states if it plans major changes in its energy policy or gas supply pattern which are significant in the context of development of indigenous OECD resources and vulnerability of gas supplies.

Ministers expressed the view that special attention should be given in relevant international organisations to the gas import situation of individual countries and regions.

Oil

9. Ministers noted that since 1974, considerable progress has been made in improving energy security as far as oil is concerned. A continuation of these efforts will be necessary, however, as oil will remain by far the most important factor in OECD energy imports. Thus, in the year 2000 oil will still constitute more than 75% of all OECD energy imports. Ministers therefore agreed on the importance of strong cooperative arrangements for handling a major oil supply disruption and, in the case of IEA ministers, on the need for continued improvement of the existing emergency allocation system, and the need to continue to encourage oil companies to support the improvement and, if necessary, the operation of the system. To strengthen their overall emergency preparedness, ministers also agreed to continue to pay particular attention to the continued adequacy of their countries' oil stocks in terms of amount, structure and flexibility.

Other Energy Resources

10. Ministers reaffirmed their readiness to pursue policies both at the national and international level, aiming at exploitation of other indigenous energy resources such as hitherto unharnessed hydropower.
