East such as in Bagdhad and elsewhere.

Apart from the opening of embassies, the earlier step of establishing formal diplomatic relations with Bahrain, Qatar, Oman and the Federation of Arab Emirates was announced on February 2. The Canadian Ambassador resident in Teheran will be the Canadian representative accredited to these states.

We have also agreed to establish diplomatic relations with the two Yemens: the Arab Republic and the People's Democratic Republic. We had already established commercial relations with these two countries. This now completes the formal establishment of relations with all countries of the Middle East.

At the intergovernmental level we shall wish to encourage discussion: to ensure the dependability of world oil supply; to discourage the use of oil and other commodities for political purposes; and to achieve some stabilization of oil prices at levels which are reasonable from the point of view of both producers and consumers. Oil prices did indeed remain low for a good many years, and there was room for upward movement to reflect the cost of bringing on new conventional and non-conventional sources of energy.

Urgent need of developing countries

We are particularly concerned to ensure that action is taken to prevent the economic collapse of those developing countries heavily dependent on imports of oil. An over-all increase in the flow of development aid, bilaterally and through multilateral institutions, is urgently required from major traditional donors and from those who have benefited from increased oil revenues, together with a reassessment of the geographic allocation and the composition of aid programs, both bilateral and multilateral, in the light of the differing effects on developing countries of those higher oil prices.

The current uncertainty as to the prospective level of world oil prices makes it, of course, extremely difficult to extrapolate the effects of the situation even over a one-year period. However, certain inescapable facts confront us. Almost three quarters of the developing countries do not produce their own energy supplies. Based on oil demand projections calculated prior to October 1973, those countries might expect to pay for their oil imports in 1974 triple the amount they paid for oil imports in 1973. The resulting foreign exchange costs could surely not be borne without cutting back severely on other essential imports or running down already limited exchange reserves.

The amount of aid extended to all developing countries was approximately twice their estimated oil import bill in 1972. By contrast, in 1974 the oil import bill for all LDCs could approach twice the 1972 aid level. In dollar terms, the 1972 oil import bill for these countries was $3.7 billion. In 1974 they will have to pay at least $15 billion. In some individual cases, such as that of India, the added costs will completely offset the flow of development assistance from all quarters. It is, of course, misleading to generalize on the effects of increased oil prices on the seventy odd oil importing LDCs. These effects will vary depending on the nature of their economies and the movement of other import and export prices. Certain major fast-growing exporters may be better able to withstand increased costs. Populous countries of slow export growth, yet with a growing industrial base catering to domestic needs, will be particularly hard hit. The gravest indirect effect of the oil situation is likely to be in the agricultural sector of developing countries. Fertilizers and pesticides which have been so necessary for the success of the "green revolution" are energy intensive products and there is already a growing shortage of fertilizer.

For some time now, fertilizer production has been inadequate to meet demand and new capacity has not been built at a sufficient rate. This shortfall, combined with growing demand for food, means that food grains are almost certain to remain in short supply, and the developing countries will have to spend considerably more for their imports of a number of essential commodities. To cite a few examples: the price of wheat has increased sharply over the past two years from $86 a metric ton in 1972 to $210 today – an increase of 146 per cent. Rapeseed went up from $130 a ton to $300. Prices of other commodities and products, and of services such as transportation, have shot up as well. Potash fertilizers have gone up 71 per cent in one year. Prices of lead and zinc have almost doubled in the last 12 months and fabricated steel has risen to $800 a ton from $500 a year ago.

The full significance of these price increases is only apparent when actual quantities likely to be shipped are taken into account. A few years ago, for example, we shipped roughly 600,000 tons of wheat to India at a cost of $40 million. A similar shipment today would cost $128 million. Looking at our food aid program as a whole, the cost of providing the identical quantity (roughly 750,000 tons) of food that was made available to developing countries two years ago under our program has risen by 123 per cent – from $81 million in 1972/73 to $181 million in 1974/75 without taking account of shipping costs which have also risen by over 100 per cent during the same period.

What Canada is doing

Canada is already on record as being against any cutback in aid flows. At the energy conference in Washington in February, my colleagues and I went still further, taking a leading part in getting the conference to endorse a statement in the official communiqué that a strenuous effort must be made "to maintain *and enlarge* the flow of development aid bilaterally and through multilateral institutions, on the basis of international solidarity embracing all countries, with appropriate resources".

Here in Canada the Government is exploring several approaches:

(1) The use of our membership in the various multilateral institutions including the regional development banks to encourage and support a reassessment of lending programs, enabling a redirection of resources to those developing countries that are most severely affected by the increases in oil prices.

(2) We have requested legislative authority for Canada's contribution to the fourth replenishment of the funds of the International Development Association (IDA). This is the arm of the World Bank on which the very poorest countries depend for development assistance. It provides loans on the most concessional terms, usually at zero interest.

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