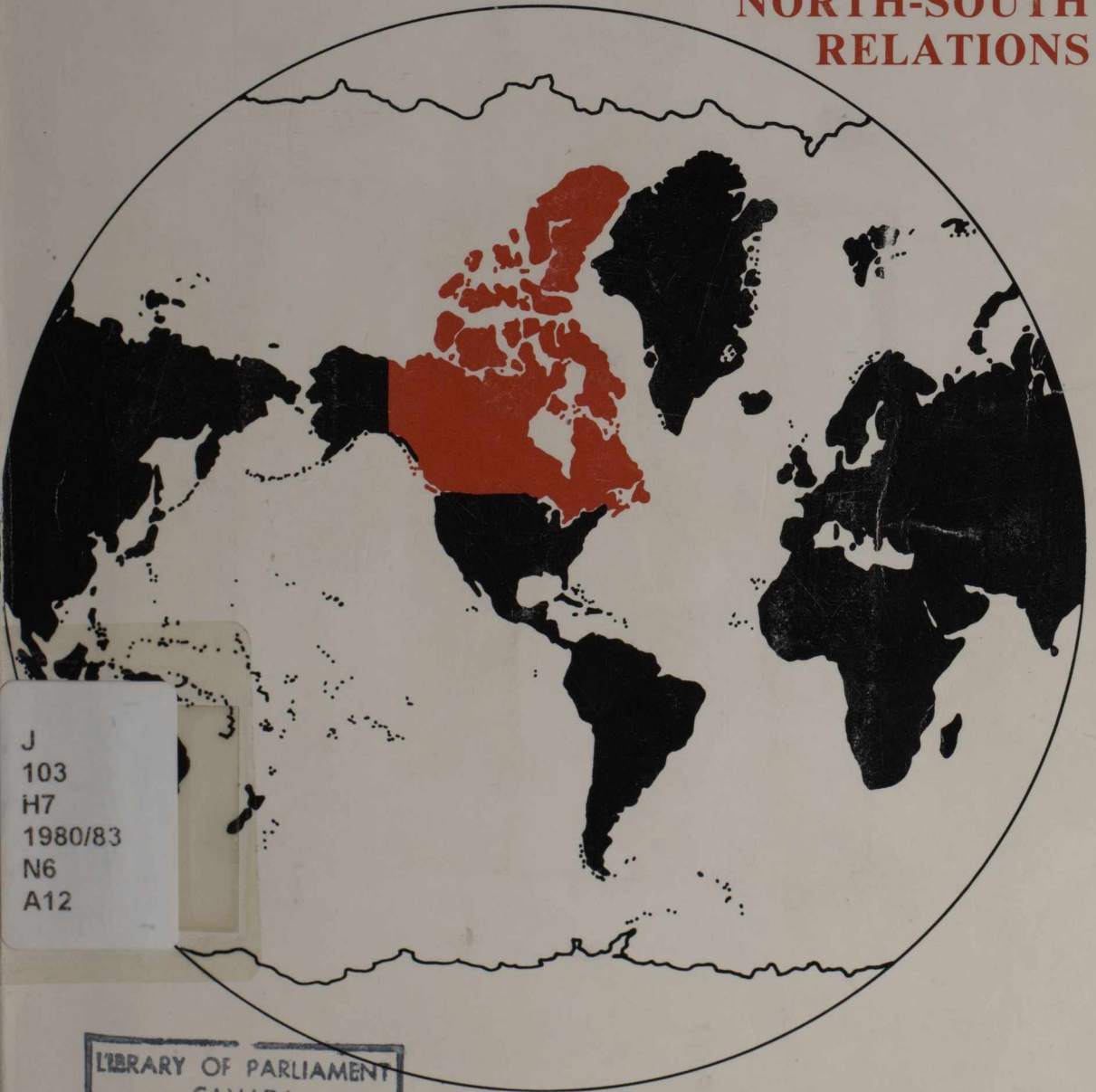




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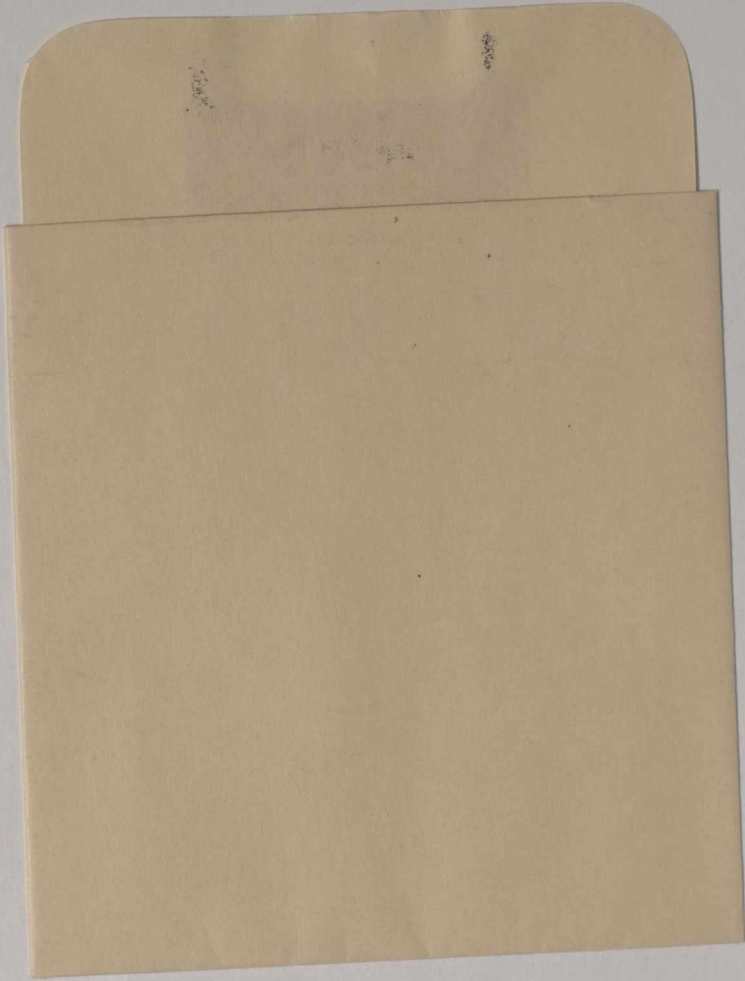


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REPORT TO THE HOUSE OF COMMONS
ON THE RELATIONS BETWEEN
DEVELOPED AND DEVELOPING COUNTRIES

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Preface

The Special Committee to act as a Parliamentary Task Force on North-South Relations has the honour to present its

Third Report

In relation to its Order of Reference of Friday, May 23, 1980, the Task Force has examined relationships between developed and developing countries in the areas of:

- food, including production and distribution, food security and food aid;
- energy, including international cooperation to increase energy production, diversification of energy sources, energy assistance to the non-petroleum producing countries;
- trade, including export earnings of developing countries, protectionism, market access, adjustment and employment;
- payment balances, including recycling and deficit financing;
- development issues, including official development assistance and assistance to the most poor.

Its Order of Reference focusses our attention on these and other such matters that are being negotiated in several international fora and directs the Task Force to recommend practical and concrete steps that Canada can take to contribute to the success of these negotiations.

Following informal discussions and public meetings during the months of June and July, the Task Force published its First Report as an interim statement underlining the importance it attached to the report of the Brandt Commission, *North-South: A Programme for Survival*, and recommending that Canadians assign high priority to their Government's undertakings in relation to the problems of the developing countries. The First Report was tabled in the House of Commons on Monday, October 6, 1980.

Since the publication of that first interim report (Issue No. 6 of the Minutes of Proceedings and Evidence) members of the Task Force attended as official observers for Canada the Eleventh Special Session of the United Nations which was devoted to the subject of economic development, and received extensive briefings by officials of the International Monetary Fund and the World Bank. A subsequent series of public meetings was held in Ottawa.

The members of the Task Force wish to express their appreciation to all those who have appeared before us, for the care taken in the preparation of their briefs, for the clarity and frankness with which they presented their evidence, and for the help which they gave us in understanding the complexities of the subject matter encompassed by our Order of Reference. Witnesses who appeared as well as those from whom written briefs were received are listed in appendices to this report.

This Task Force was empowered by its Order of Reference to retain the services of such expert and professional staff as might be required and, accordingly, a contract was entered into with the Director of the Parliamentary Centre for Foreign Affairs and Foreign Trade, Peter Dobell. The committee would like to extend a special word of thanks to those employees of the Parliamentary Centre who made a major contribution to the preparation of this report. The experience and expertise of Robert Miller, in his capacity as Research Adviser, contributed in large measure to a productive committee process. Mr. Miller's strong convictions regarding the importance of our study guided his efforts in our behalf, and his persistence in seeking a better understanding of the various views expressed to us made him a driving force as the work of our Task Force progressed. He was ably assisted by René De Grâce, Michael Small and Yolanda Banks.

We are grateful, too, to Norman Riddell who was seconded to the Task Force from the Department of External Affairs, and William Neil of the Research Branch, Library of Parliament. Bernard Wood, Director of the North-South Institute, provided a valuable background paper.

During the course of our study, a group of distinguished officials from governmental departments and agencies agreed to act in an advisory capacity. While these advisers bear no responsibility for the views expressed in this report, their informed opinions were of value to our study.

As Clerk of the Task Force, Nora S. Lever coordinated the efforts of the professional, technical, clerical and other support staff. Our work would have been impossible without this competent assistance and the devotion of the staff of the Committees Branch, including Mary MacDougall acting as travel co-ordinator, William Corbett and Rita Lamarche.



Part I

Starting Points

The immediate purpose of this report is to recommend to the House of Commons of Canada concrete and practical policies which will respond to the needs of developing countries in ways which promote our interests in the world.

A more fundamental and, we think, more important purpose is to share what we have learned over the past six months. We have had an experience which has been at the same time disturbing and enriching. It has made us more aware of the aspirations of people and countries struggling to become partners in the world community. It has sometimes been perplexing. Problems are large and complex, solutions hard to find.

We wish to share our experience with Canadians, so that they may be awakened to the great changes and opportunities in the world, so that they may be reminded of the persistent injustices and dangers in the world. We hope that other Canadians will join us in a determined search for a better future.

A Decade of Change

The starting point is the altering of images. Change often occurs faster than our ability to recognize it; North-South relations are no exception. We start with an image of a world divided between a powerful North and a weak and dependent South. This image is badly out of date.

There have been great changes in the past ten years. The most dramatic example is the emergence of OPEC, the Organization of Petroleum Exporting Countries. Suddenly, without warning, the nations and the peoples of the

NORTH-SOUTH RELATIONS

“North-South” is a broad term to describe relations between developed countries located mainly in the Northern hemisphere and developing countries located mainly in Southern. The striking differences in economic and living conditions between North and South persist but have to some extent diminished over the years. There are important differences within North and South. It is common to divide the North between “Market Economies” of Western Europe and North America and “Centrally Planned Economies” of Eastern Europe and the Soviet Union. In the South countries are grouped by per capita income. “Middle Income” above \$360. 1978 US dollars, “Low Income” below that level. It is also common now to add “Capital Surplus Oil Exporters” like Saudi Arabia.

NORTH

SOUTH

Territory

North America, Western and Eastern Europe, Soviet Union, Japan, Australia, New Zealand

Latin America and Caribbean, Africa and Middle-East, South and South-East Asia, China and Pacific Rim.

Per Capita Income

Market Economies average \$8,000., varies from \$12,000. (Switzerland) to \$2,000. (Portugal)
Centrally Planned Economies average \$1,750 (Romania) to \$5,700 (German Democratic Republic)

Middle-Income Developing countries average \$1,500. increased from \$625 in 1950.
Low Income countries average \$245. increased from \$164 in 1950.

Life Expectancy

Market Economies 74 years

Middle Income 61 years, up from 51 years in 1950

Centrally Planned 70 years

Low Income 50 years, up from 35 years in 1950

Literacy

Market Economies 99%

Middle Income 71%, up from 50% in 1950

Centrally Planned 99%

Low Income 38%, up from 22% in 1950

Population Projections

North	1980	1.05 billion
	2000	1.15 billion

Middle Income	1980	1.02 billion
	2000	1.55 billion

Low Income	1980	2.3 billion
	2000	3.3 billion

North have been confronted with a fact of life long familiar to the South: dependency. Suddenly, decisions and events in the South have an impact on the well-being of the North. Our response has been to launch ourselves toward an objective long sought by the South, that of self-sufficiency. We may have as little prospect of achieving it as they do.

These are not the only changes which have occurred. A number of developing countries have moved far along the path toward industrialization. The rates of economic growth in parts of the South have outstripped those in the North. India, our image of a poor nation, is now the ninth largest industrial power in the world; Canada is seventh. Brazil, Venezuela, South Korea, Singapore...growing numbers of countries have entered world trade and are competing in the markets of the North. We can say with confidence that the economic shape and power of the world in the year 2000 will be as different again as this world is from 1960.

Japan is a case which exemplifies these changes. Not many years ago, if we had drawn our map of the world with a line dividing North from South, Japan would have been south of the line. It has now crossed over dramatically. In the 1960s Canada's tariff regulations still classified Japan as a "developing country". Today, it is one of the major industrial powers in the world.

As important as any single change is China's rise to prominence on the world stage. With almost a billion people and a renewed determination to promote her economic development, that country is now a major influence in international affairs. Canada has welcomed China's entry into the world community and seeks mutually beneficial relations.

The North-South image we begin with outlines a world held together by nothing but the charity of nations. The South needs aid and the North gives aid. This image is also badly out of date. It ignores the fact that the basic objective of developing countries is to make their own way in the world economy. They are themselves responsible for their own development and make by far the greatest commitment to it. Consider that, whereas some twenty-five per cent of the GNP of developing countries is devoted to development, only .34 per cent of the GNP of the industrialized countries now goes to Official Development Assistance. The sacrifices and risks associated with these commitments are obviously far greater for developing than for developed countries.

Mutual Interests

Bridges between North and South are now many and varied: across them run people, goods, money, arms and influence of every kind. The traffic is two-way. Major industrial powers such as the United States and Japan send large shares of their total exports to the markets of the South. Even Canada's exports to developing countries, while still modest in size, have grown at a faster rate in recent years than its exports to other industrialized countries.

In the past ten years, the North has discovered two new things about its relations with the South: dependence on oil and economic interdependence. For example, western industrialized countries would have suffered an increase in unemployment of some three million workers if the developing countries

outside OPEC had cut their imports of manufactured goods when oil prices increased in 1973-74. Again, by maintaining their trade in manufactured goods with the newly industrializing developing countries alone, countries of the North gained an average of 900,000 jobs in each of the years 1973 to 1977. This was accomplished in part by the recycling—the re-investment—of surplus oil funds in the South through the channels of Northern banks. We now know that markets in the South are critically important to the North.

Out of these changes has emerged a new world equation of power and an old term to describe it: mutual interest. Now more than ever before we must calculate carefully the interests of both North and South in managing world affairs.

These changes have profoundly affected international relations. Global politics is no longer characterized by the conflict and tension between two superpowers. We now live in a world of varying regional and national strengths, none of which can be ignored. This increasing physical and economic interdependence of nations is captured in the description of the planet earth as a spaceship with a delicately balanced life-support system. All travellers on the spaceship must cooperate to ensure that the balance is not upset.

World Poverty: Progress and Persistence

Nothing so threatens that balance as the persistence and menacing growth of world poverty. Despite all the changes which have occurred in the past, many people and nations in the South continue to suffer a terrible vulnerability to events in the world.

There has been some progress, remarkable by the standards of the past, in overcoming poverty. Life expectancy in the poorest developing countries has increased by fourteen years in the past thirty years, due in part to extensive programmes of improved health care and disease control. The proportion of the adult population which is literate has increased. Great gains have been made by some developing countries in food production. The incidence of poverty has been reduced. And yet the number of the poor remains shockingly high.

It is estimated that some 800 million people live in conditions of absolute poverty. But what does absolute poverty mean? It means that only four out of ten children complete more than three years of primary school. It means that of every ten children born into poverty, two die within a year and another dies before the age of five; only five survive to the age of forty. It means that common childhood diseases which have been virtually eliminated in the developed nations are frequently fatal. A case of measles is two hundred times more likely to kill a child living in absolute poverty than a Canadian child. It means that malnutrition afflicts hundreds of millions of people, reducing their energy and motivation, undermining their performance in school and at work.

Half of those people live in South Asia, mainly in India and Bangladesh. A sixth live in East and South-East Asia, mainly in Indonesia. Another sixth are in Sub-Saharan Africa. The rest—about 100 million people—are divided among Latin America, North America and the Middle East. The projections of many sources show that, if present trends continue, these numbers may diminish only slightly, may even increase, over the next twenty years.

The reasons for the persistence of poverty are complex. In part it is the sheer difficulty of building new nations and new economies. Canada has been struggling at this job for a hundred years with resources far more favorable than those of many developing countries. We are apt to forget how young some of these nations are and under what difficult circumstances they were born. One witness reminded us that a number of African states had as recently as twenty years ago no university graduates, no technicians, no engineers. It will take time for these countries to develop their human potential.

Poverty is due in part to extreme inequalities within some developing countries. The gaps between rich and poor have sometimes widened rather than narrowed with economic growth. The poor are the last to benefit from progress, the first to be hurt by change. Canada, too, has struggled with regional and class inequalities.

And the persistence of poverty in the South is due to the very great risks which a poor country runs when it enters the world economy. For example, to increase agricultural production quickly it turns to chemical fertilizers, new equipment, new transportation. This means imports of oil, imports of manufactured goods. If the prices of those commodities suddenly rise, the strategy is in jeopardy. An investment in the long run is threatened by changes in the short run. This is not an unusual occurrence; it happens in the South every day. Despite impressive rates of economic growth in the South, many of its nations can be cast into violent economic contractions by events which nations of the North call merely "recession".

Our Mutual Interests with the Poorest People

We can be confident that the North will, one way or another, intelligently or otherwise, adjust to the reality of OPEC power. But what guarantee is there that our immediate interests will lead us to address seriously and urgently the larger problems of the poor?

There are some immediate short run benefits. The elimination of a disease like small-pox, which afflicted millions in the South, now allows nations of the North to discontinue their own elaborate and expensive immunization systems. It has been estimated that the annual savings for the North exceed the total investment made in the World Health Organization's successful small-pox eradication programme. There is also our immediate interest in political stability. Extreme suffering due to poverty, war and natural disasters often sets the stage for extreme solutions.

No doubt there are other such examples. But it is only when we turn to the longer run that we see our interests more clearly. It is estimated that world population will increase by some two billion people in the next twenty years. Ninety per cent of that increase will occur in the poorest countries of the South. That much is now fairly certain but what remains uncertain is the level of subsequent population growth. Will the world total go to ten billion or fifteen billion after the year 2000? For our children and our grandchildren, the implications of that difference are enormous.

The only way of affecting that outcome is for the world community to make far greater efforts in the 1980s to improve the lives, the standard of

material decency of the poor of the world. It is now well known that when people have nothing else, they look upon having more children as security. It is known that when disease and malnutrition kill many children, people will have more children in the hope that some may live. It has been shown, too, that birth control programmes have been effective when delivered as part of programmes of nutrition, education and improved living conditions. Birth rates have declined significantly since 1965 in the two most populous countries, China and India, and in a number of other major developing countries like Indonesia, the Philippines, Thailand and South Korea. The rate of decline has been faster in today's developing world than it was in 19th century Europe and the United States.

Investment in the Poor

Investment (not charity) in the well-being of the poor is frequently the best economic investment a country or the world can make. A small farmer with education raises his yields dramatically. A mother with decent nutrition can nurse healthy children who can learn and work more productively. Robert McNamara, former President of the World Bank, has observed:

It used to be said that lack of capital was the chief obstacle to economic growth. But we now know that capital formation explains less than one-third of the variations in growth rates among developing countries; human resource development explains a great deal more. Investment in the human potential of the poor, then, is not only morally right, it is very sound economics.

The lesson is being learned. The International Development Strategy for the 1980s, recently approved at the Special Session of the United Nations, gives concrete expression to the philosophy of investment in the poor. It contains specific goals and objectives relating to the elimination of hunger, universal primary education, primary health care for all and a sharp reduction in infant mortality by the end of the century. In particular the role of women in development and the need to integrate them into all the sectors of development has been fully recognized.

Such a strategy cannot be accomplished without cost. It has been estimated that the additional financial resources required to meet basic human needs by the end of the century would be in the order of \$20 billion a year for the next twenty years. While that sounds like a great deal of money, it should be compared with total world income which now approaches \$6 trillion a year. And we should ask ourselves what enormous costs are borne by not making such an investment. What price should we put on the lives of the thirteen million small children who die of malnutrition each year? We would react strongly if millions of people were being killed in war.

Money alone will not accomplish these goals. Economic growth, essential as it is, has too often not benefitted the poor. Development assistance has frequently not reached those who need it most. What is required is a new definition of development based on justice and the equitable sharing of benefits both within and between nations.

True development is political, social, cultural and economic, designed to enhance the dignity of every person and allow the freedom to develop individual potential within the common good. It goes far beyond economics;

but access to food, shelter, education, employment and health care are absolutely essential. The satisfaction of basic needs will open the way to other values and goals of development. The primary purpose of economic growth should, therefore, be improvement in the lives of the poorest people.

When our interests are seen in this way, they correspond rather closely with our ideals. Our moral sense compels us to help those who need help. This is not guilt but simple humanity. Solidarity. It is also a very wise instinct for the future. Our interests and the interests of our children must be made to coincide. We have been impressed by the words of the former U.S. Secretary of State, Cyrus Vance.

* We must ultimately recognize that the demand for individual freedom and economic progress cannot be long repressed without sowing the seeds of violent convulsion....We know from our national experience that the drive for human freedom has tremendous force and vitality. It is universal. It is resilient. And, ultimately, it is irrepensible. In this way our interests and our ideals coincide.

The 1980s: A Time of Danger and Opportunity

As we enter the 1980s these objectives are in jeopardy. Countries of the North are preoccupied with their own problems. Many have lost faith or interest in development. The current economic recession and second oil shock threaten the well-being of many developing countries and the progress they have made in the past decade. In each of the areas we have studied—finance and debt, aid, food, energy and trade—there are great dangers. And the debate between North and South—the great global negotiation concerning our common future—often seems like a dialogue of the deaf. The South demands comprehensive change, rapid change. The North offers piecemeal change, gradual change. In this situation, no one wins.

The proliferation of arms, including nuclear weapons, is a matter of the gravest concern. Some \$500 billion is spent each year for military purposes. All nations must work hard to create conditions for a saner allocation of scarce resources. This is not only a problem of the diversion of limited resources. More dangerous is the belief that the great problems facing the world can be solved or suppressed by the use of force.

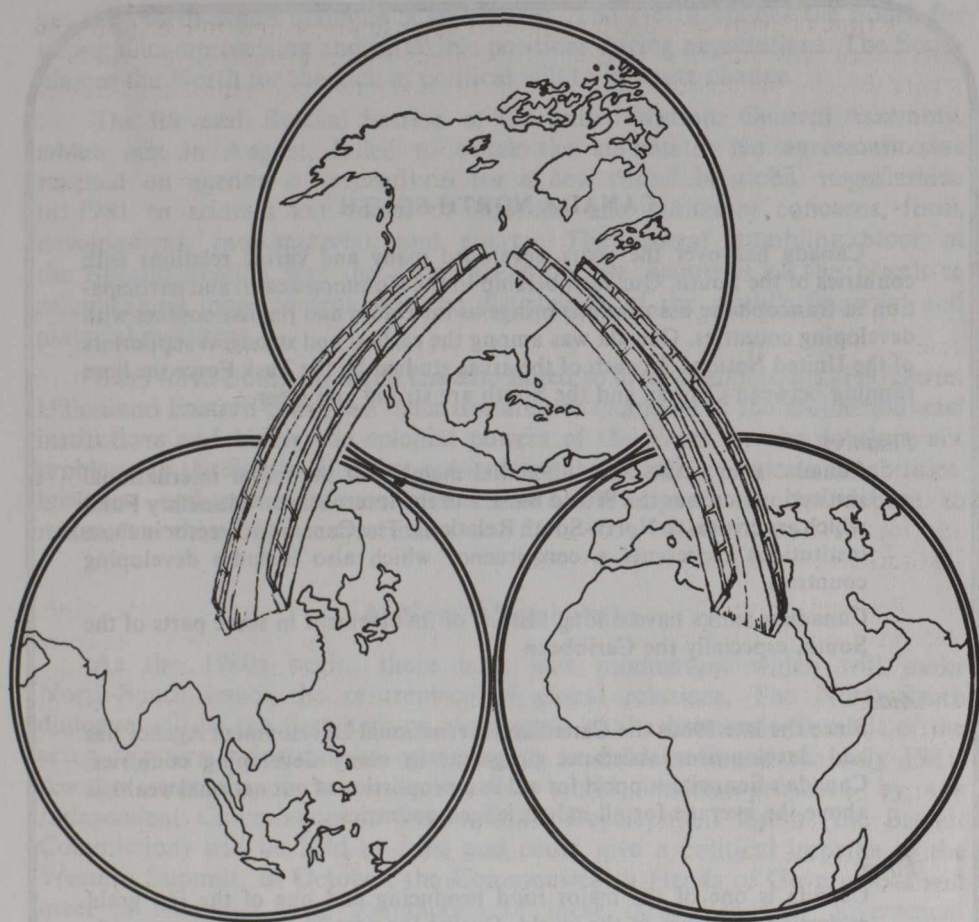
The ability of the North to promote or respond to the interests of the South is seriously impaired by tensions within the North, between the countries of the West and the Communist Bloc. East and West have frequently approached the South solely as a new arena in which to carry on old battles. Often their relations with governments in the South have been based on notions such as "the enemy of my enemy must be my friend". Progress in the years ahead will depend in no small part on moderating these tensions and abandoning such simple judgements.

Governments will play a crucial role in the 1980s but they are not alone in controlling economic forces in the world. Multinational corporations have had an enormous impact on developing countries and will continue to do so in the future. That impact has sometimes been beneficial in transferring knowledge and skills, but it has also at times been harmful. We believe that one of the essential requirements for progress will be the strengthening of mutually beneficial relations between developing countries and these large corporations.

A time of crisis can also be a time of opportunity, a time to recognize and pursue our real interests. In each of the areas we have studied we have been struck by the possibilities of progress. In food production important lessons have been learned: they wait to be applied. The oil price surplus, properly and responsibly managed, can help countries of the South towards greater self-reliance. The world has built a substantial body of knowledge to help plan for its security. United Nations sponsored conferences on population, food, the environment, water, resources, deserts and human settlements have helped to generate a global awareness of critical problems.

To a large extent, the necessary framework for the proper conduct of international relations already exists. The International Monetary Fund can be strengthened to regulate and stabilize financial exchanges. The World Bank has begun to focus its large lending resources on basic human needs. The General Agreement on Tariffs and Trade is making some progress towards the creation of a trading system in which all nations can benefit. The United Nations brings all countries of the world together to debate problems and lay the foundations for legal, economic and social order. With creativity, these institutions can be further strengthened.

Political leadership is essential. The opportunities we have described depend upon political determination to make important decisions. Time and again during the course of our work we have recognized the need for political choice. There is no theory, economic or otherwise, which says that you must do this, that you cannot do that. There is no single theory of how best to promote development. Economic growth is essential but who benefits? The decision to protect or not protect an industry has an important economic element. The costs and benefits in dollars and cents must be calculated and weighed. But whose costs and benefits? We must choose. It is for this reason that political leadership in the sense of caring for people will be crucial in the decade ahead.



Part II

Canada: A Bridge-Builder

No message came through to the Task Force more clearly than this. Canada should help build bridges between North and South. Bridges of cooperation and opportunity. There is no message which we consider more important to convey to those who read our report.

The North-South Dialogue

In the dialogue between North and South, the South wants access to markets at stable and remunerative prices, access to technology and capital, and involvement in decision-making. The North wants access on reasonable terms to energy and other raw materials. None of these demands is unrealistic,

CANADA NORTH-SOUTH

Canada has over the years developed many and varied relations with countries of the South. Our membership in the Commonwealth and participation in francophone associations brings us into close and regular contact with developing countries. Canada was among the earliest and strongest supporters of the United Nations. In each of the areas studied by the Task Force the lines running between Canada and the South are strong and clear.

Finance:

Canada is an active and influential member of the major international institutions such as the World Bank and the International Monetary Fund which are critical to North-South Relations. The Canadian director in these institutions represents a constituency which also includes developing countries.

Canadian banks have a long history of involvement in some parts of the South, especially the Caribbean.

Aid:

Since the late 1960s the Canadian International Development Agency has had development assistance programs in many developing countries. Canada's financial support for aid as a proportion of our national wealth is above the average for all industrialized countries.

Food:

Canada is one of the major food producing and one of the few grain exporting countries in the world. During the past 20 years we have made major sales of grain to some developing countries, in particular China. We have provided food aid and increasing scientific and financial support for agricultural production in developing countries.

Energy:

Canada like many other industrialized countries, imports oil from the South, in particular from the Middle East, Venezuela and Mexico. Our expertise in energy production such as hydro-electricity has benefitted many developing countries.

Trade:

Canada has significant and growing trading relations with some developing countries, in particular the countries of the Pacific Rim. This creates new opportunities for Canadian exports and the requirement to adjust to imports from developing countries.

yet the North-South dialogue is stalemated. The North blames the South for taking uncompromising and inflexible positions during negotiations. The South blames the North for the lack of political will to institute change.

The Eleventh Special Session of the United Nations General Assembly, which met in August, failed to break the stalemate. No agreement was reached on agenda or procedures for a new round of global negotiations in 1981 to address key issues of financial and monetary concerns, food, development, raw material, and energy. The central stumbling block at the Special Session was the resistance by a few countries of the North to relinquishing more control over the distribution of the world's financial and material resources.

The North-South dialogue has also failed to involve all nations. The Soviet Union and Eastern European countries are not members of the major financial institutions and blame the colonial powers of the West for the development problems in the South. They are not isolated from world economic instabilities, however, and must become more active participants in the debate to restructure the economic system.

A New Momentum

As the 1980s begin, there is a new momentum which will make North-South issues the centrepiece of global relations. The North-South dialogue will be the first item on the agenda of the Economic Summit of the seven Western industrialized countries, to be held in Canada in July 1981. Another summit of some twenty-five world leaders proposed by the Independent Commission on International Development Issues (the Brandt Commission) will be held in June and could give a political impetus to the Western Summit. In October, the Commonwealth Heads of Government will meet in Australia. The conjunction of these three heads of government meetings, therefore, offers a special opportunity for strong political direction.

Canadian Leadership

Canada is uniquely placed to take a leadership role in the North-South dialogue. While we do not underestimate the immensity of the problems, nor the role of the South in determining its own development, we believe there is an opportunity for Canada to bridge the gap between North and South. This bridge-building role could link the mutuality of interests which already exists by avoiding the extremes of both utopian solutions and refusal to change.

Canada has a special responsibility. We are a rich country. We have prospered from hard work and the extraordinary opportunity of developing a territory rich in natural resources. We have important interests in the world. Canada is a major trading nation. Our prosperity, like that of developing countries, depends not a little on the future of world trade. We have commercial opportunities in the South. We share with many developing countries the desire to process further our abundant raw materials.

Canada has a strong tradition of involvement and leadership in world affairs. In the post-war era, Canada had an influence out of all proportion to its

size. We participated actively and imaginatively in the building of a world order which served us very well. We were among the architects of the Colombo Plan, the first development co-operation agreement between developed and developing countries. The embodiment of this Canadian tradition was Lester B. Pearson. His reasons for wanting Canada to play a leading role as a bridge-builder were hardheaded. They were based not on any exaggeration of our influence but on the very fact that, as a middle-power nation without great military and economic strength, Canada had a powerful interest in helping to build institutions and methods of co-operation which did not rely solely on power. We think the logic of that approach is as sound today as it was thirty years ago.

We are trusted. Again and again, we have heard witnesses tell us "Canada is trusted". Trusted by developing countries because we were not a colonial power and because we are not so powerful as to be tempted to force our will. Trusted by developed countries, by the United States and Europe, because we share political and cultural traditions and many of their concerns.

Canadians, their parents and grandparents have come to this land from every part of the world. People from Western and Eastern Europe, from the United States, from Asia, Africa and Latin America have maintained their various cultures. Our two official languages link us naturally with many countries of the South through the Commonwealth and the Francophonie. The development of the new global community provides an opportunity for us to express our diversity in the world.

Wealth, tradition, self-interest, common humanity and opportunity offer important reasons why Canada can and should play a leading role in the world. But they are not enough. We must *want* to. Would we rather remain hidden from the great changes and challenges?

In front of our Parliament Buildings, there is a statue with an inscription which reads "If I lose myself, I save myself". It is important that all of us be prepared to lose ourselves in doing things, in solving problems, in discovering other people and places. This is the real reason why Canadians should be involved in the world. The stories of thousands of Canadians, young and old, who have spent a year or two of their lives in countries of the South often belie the tragedy that clings to this subject. There are problems. There is tragedy. But the stories are often of friendships and learning. The stories are of discovering the countless ways in which others live the life common to all of us. Those Canadians have brought their learning back to Canada, to enrich and enliven this place.

Leadership Requirements: Government and Parliament

Certain changes will have to occur in Canadian policy in order to realize our leadership potential. Our credibility in the South needs to be enhanced through the promotion of sensible trade and monetary relations. Instead of merely reacting to proposals for reform from the South, we must be prepared to put forth new ideas of our own. Some of our recommendations will entail high costs, but we feel that these are outweighed by the longer term benefits of a stable relationship with a strong and viable South.

Canada must have a comprehensive approach to international co-operation. It is the quality of our total relationship with the developing world which must be examined, not just the quantity of our aid. Trade, agricultural development, finance, energy and foreign policies should all be coordinated. There are a number of like-minded countries which have adopted this approach. Canada should cooperate with these countries to strengthen its position in international negotiations and to increase the impact of its proposals.

Until recently, Canadian policy has failed to identify Canada's general interest in North-South issues. It is taken for granted that Canada is part of the North, and so we tend merely to follow positions taken by other developed countries. There are some issues, however, where our interests do not coincide with those of our Northern neighbours. As an example, commodity trade and control over the activities of transnational corporations are areas where we share the concerns of many developing countries but do not vigorously express our views.

As we show throughout this report, the various problems of developing countries are interconnected. For example, aid programmes may be essential to compensate for sudden declines in the export earnings of developing countries. Problems of energy and food production are closely bound together. It is essential that our policy making reflect these relationships and that at every point where policy impinges on developing countries the wider implications be considered.

There have been obstacles to formulating such a comprehensive policy. Departments of government, for example, are specialized and must respond to the diverse interests of the Canadians they serve. Moreover, the characteristics of policy arise in no small part because the institution which was intended to debate and shape the policy—Parliament—has largely failed to do so. Examination of both policy and expenditures has generally been perfunctory. And, finally, Canadian policy has not in the past been sufficiently understood or supported by the Canadian people.

There are three major requirements for a Canadian North-South policy.

First, the Government must carry out comprehensive evaluations of the impact of its policies on developing countries. Such an assessment could be included in the Annual Review of the Department of External Affairs. The Interdepartmental Committee on Economic Relations with Developing Countries should be revitalized as a central forum to identify Canadian interests and long term policy. It should not be used only as a clearing-house for instructions for international meetings; it should have a work programme and resources of its own with a mandate broadened to include cultural and political relations between Canada and developing countries, as well as matters of defence. Cabinet documents should include an assessment of the impact of policy options on developing countries. Officials should be encouraged to evaluate in developmental terms the costs and benefits of policy options, with due regard for the cost involved in failure to act.

Second, Parliament should be given a continuing mandate to play an active role in overseeing and evaluating North-South policy. Only in this way

can the broad political support so essential to comprehensive policy be developed and sustained. This could be done through the creation of a Standing Committee on North-South Relations with a permanent Order of Reference to consider issues of international development. All parties should exhibit sustained interest and involvement in party caucuses, the House of Commons, the Senate, parliamentary committees and interparliamentary associations. The interest of Parliamentarians might be intensified if they had regular opportunities to hear speakers with great experience in these matters.

Third, far greater public understanding and support of Canadian policy is essential.

Public Support

One of the most exciting briefs we received called for the launching of a "Building Bee for Peace In Canada".

To get the operation well under-way, we must, from the very first day of the first year, use absolutely every means to mobilize each and every citizen of Canada: Members of Parliament and other community leaders, workers and bosses, scholars and non-scholars, professionals and unemployed, artists and drop-outs: everyone.

When we first heard this call we were a little taken aback. Was this not a bit utopian? But it stuck in our minds because it contained the germ of truth so many had expressed in other ways. Leadership cannot come from governments alone. It must flow from, must involve all Canadians. The challenge of international cooperation must enter our everyday concerns.

It must involve the media. They are the bearers of much of the bad news and some of the good, but too often we hear only of the emergencies in the South. The media can help us to be sensitive to the prolonged and silent suffering. They can inform us, too, when there is new evidence of progress in the developing world.

Above all, it must involve the Canadian people. They must be told honestly and openly of the successes and failures of development. They must be given greater access to information and studies such as those done by the Government on food aid and the tying of development assistance which have not yet been made public. They must be persuaded that our efforts in development cooperation can be effective in accomplishing the goals which Canadians support—improving the lives of the poorest people. And they must have the opportunity to see and hear, to participate personally.

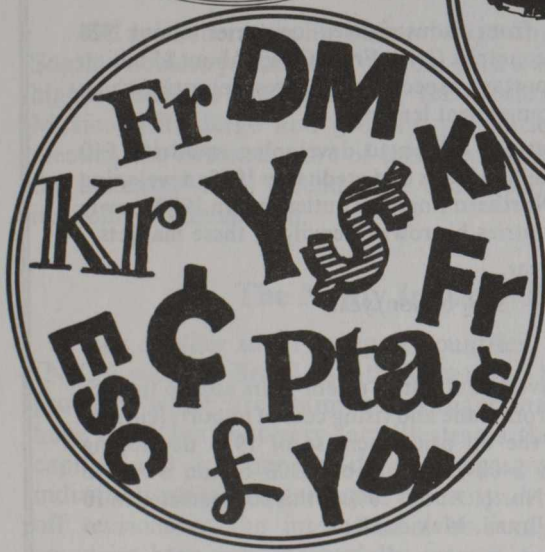
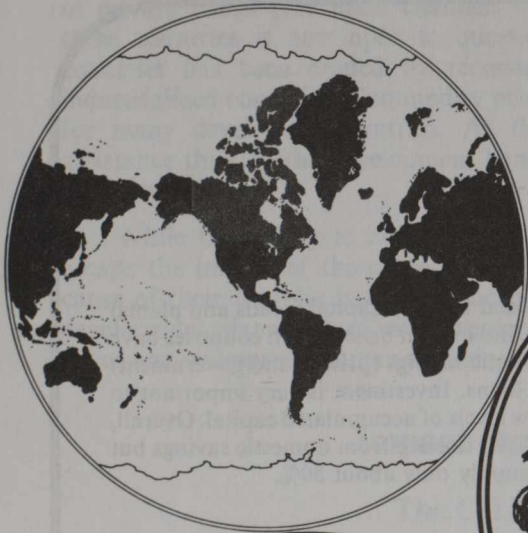
This involvement is already taking place in communities across the country. Through hundreds of non-governmental organizations, the story of the South is brought directly to Canadians and the resources and skills of Canadians are sent to the South. It must be strengthened and built upon in service clubs, in churches, in business groups, in the schools.

Financial resources can help to strengthen what is already being done. Funds can allow young Canadians to visit developing countries. They can permit exchanges of all kinds between Canada and the countries of the South. They can provide educational materials and support for much needed research.

The Task Force notes the attention of the Government to the issue of public support through the creation of a Futures Secretariat. We await action by this new mechanism to give fresh impetus to the efforts of NGOs and to extend public awareness to young people, business, and trade unions. Those countries with the strongest records in development, with the greatest public awareness and support, provide a portion of their aid budgets specifically for these purposes.

The Task Force recommends that the Canadian Government allocate one per cent of Official Development Assistance to be used to encourage the awareness and involvement of Canadians in North-South concerns. We stress that this should be done in such a way as to support the activities of many private organizations which already exist and to encourage the development of others.

North-South issues are among the most complex as well as among the most important issues for the long term well-being of all countries. We must not imagine that greater public awareness will mean uncritical public approval. Inevitably there will be debate and disagreement. We are certain, however, that when other Canadians share the opportunity we have had to study the challenges as well as the dangers which lie ahead, they will strongly support concrete and practical policies for securing a decent and more just future for all the world's people. It is to those policies we now turn.



Part III

Concrete and Practical Policy

A. FINANCE AND DEBT

The 1979-1980 doubling in the world price of oil has once again, as in 1973-74, generated large balance of payments surpluses and deficits. This situation is especially critical and demands urgent attention.

While the world managed to survive the first oil shock, it left behind a legacy of high debt concentrated in a few developing countries. The willingness

NORTH-SOUTH

Finance and Debt

Finance:

Refers generally to investment needed to build capital (roads and plants) and to stimulate economic growth and human benefits. All countries have raised capital from 2 sources: domestic savings (private and government) and from foreign investment and loans. Investment is very important to developing countries because of low levels of accumulated capital. Overall, countries of the South provide 90% of finance from domestic savings but low income countries are able to supply only about 50%.

Main Sources of External Finance:

Development Assistance — from industrialized countries about \$20 billion/year or .34% of donor countries GNP. From OPEC about \$5 billion year or 1.3% of GNP. Very important, especially to poorest countries which are unable to attract much commercial lending.

Commercial (Banks) — about \$50 billion to developing countries, \$10 billion direct investment, \$40 billion loans and credits. In 1960s developing countries had little access to Northern financial outlets but in 1970s newly industrializing developing countries borrowed heavily in these markets.

World Bank — \$6½ billion/year.

International Monetary fund — \$3½ billion/year.

External Debt:

Accumulated for long-term investment but in recent years also to finance differences between earnings from trade and rising cost of imports (current account deficits). Following the oil price increase of 1973 developing countries accumulated about \$400 billion debt, \$300 billion owed to commercial sources mainly in North. About 70% of this concentrated in 10 developing countries such as Brazil, Mexico, Korea.

1980-81 Recycling:

Following 1979-80 oil price increases the current account balances in 1980 are as follows:

Industrialized Countries — \$75 billion deficit.

Oil Exporting Countries (OPEC) — \$115 billion surplus.

Non-Oil Developing Countries — \$50 billion deficit.

“Recycling” is the term for the reinvestment of balance of payments surpluses, in particular those of OPEC countries, in other countries with deficits so as to promote continued economic growth.

of private banks (the main channels of finance) to extend further credit to these countries is now open to question. The earning power of developing countries has been eroded by recession and a return to protectionism in industrialized countries. Commodity prices are soft and terms of trade negative for many developing countries. At the same time, international financial assistance through the development banks and bilateral aid have not kept pace with the need.

While the ability to adjust varies greatly, few developing countries will escape the impact of the second oil shock. The current crisis is not the only cause of their troubles but it has the potential to destroy or severely set back development plans and, of even greater concern, the potential to create social chaos and widespread human suffering.

Impact on the South

The Oil Exporters

Oil price increases have meant huge financial gains for some nations of the South. A country like Saudi Arabia with a small population now has one of the highest incomes per person in the world. Oil exporting countries such as Mexico, with large and growing populations, may now have the means of meeting the needs of more of their people. But the very size and suddenness of the increases in oil revenues for such countries can create great problems of instability, witness Iran.

The Newly Industrializing Countries

For another small group of countries, the newly-industrializing countries (NICs) such as Brazil, South Korea and Singapore, oil price increases pose problems which are major but perhaps manageable. They have accumulated huge debts but that very fact illustrates their capacity as countries to attract capital and to manage debt. They are well-launched on the road to industrialization and economic diversity. At the same time, this process has set off tensions in the international economy. Like Japan before them, such countries have now successfully entered our markets and are competing with our industries. Contractions of trade, arising from slow growth and restrictive trade practices in the North, pose problems for these countries at least as great as the rise in the price of oil.

The Middle Income Countries

Moving along the spectrum of developing countries, we come to middle income countries like Zambia, Colombia and Jamaica who have a *per capita* income over \$360 (1978 U.S. dollars). We use the words "middle income" cautiously: middle by the standards of the poor, but poor by our standards. Jamaica, for example, had an average *per capita* income in 1978 of \$1,100 per year; that is, a ninth of the Canadian average. Many countries in this group are far poorer than that. One of their characteristics is their entry into the world economy with a few commodities like sugar, bauxite or cocoa. The very

dependence of these countries on one source of income, the volatility and, in recent years, depression of the prices of some of those commodities have created severe balance of payments problems which are characterized by some as a debt trap. The sudden large increase in oil and other import prices, and the inability of these countries to mitigate their impact, may not have created this trap but certainly have tightened its grip.

The word "adjustment" does not convey the troubles these countries face. Since 1974 Zambia has suffered a forty-six per cent decline in its real standard of living, a decline traceable largely to depressed prices of copper—its principal export—and sudden increases in oil prices. This creates severe distortions in its economy; essential imports, such as machinery and fertilizer for food production, cannot be bought. Basic services such as power or water are cut.

The Poorest Countries

The poorest countries in the world, in which over a billion people live, are hit hardest of all. This group includes Bangladesh, Zaire and Tanzania. In this situation, statistics are a very poor guide to the meaning of events. A cursory review of the indebtedness of developing countries tends to obscure the plight of the poorest among them; but the significance of that debt is enormous. Although the size of their debt is not large in comparison with some other developing countries, it is exceptionally large as a proportion of their national wealth, and it is borne at a time of unrelieved economic stagnation. Virtually all experts agree that the prospects of the poorest countries are very grim. Their chances of holding the line on poverty, let alone reducing it, are now very low.

It is the impact of remote international events on people's lives that we wish to draw to the attention of Canadians. While recession in our country causes belt tightening and hardship for many, we have measures such as unemployment insurance and social welfare programs to soften the blow. Many developing countries, especially the poorest, have no such protection for their people. As the recent report of the Commonwealth Group of Experts put it,

The poorer sections of the population in developing countries live precariously close to starvation and even a relatively small decline in their economic position can push them into it....The international recession can lead to widespread starvation even without a food crisis as such.

This is a matter of great concern, but self-interest plays a part as well. As we have argued earlier, the world economy has evolved in a manner resulting in increasing interdependence. Relations between rich and poor nations are now more than ever critically important to the interests of both. The Commission of the European Community has pointed out that

...had developing countries followed the example of industrialized countries after 1973 by cutting back both in growth and in imports to adjust to the oil price increases, the recession in the industrialized world would have been far more serious.

In short, how we manage the current economic crisis will have a profound effect on the people in developing countries and on ourselves.

An effective global plan of action must include the following elements:

- (a) have as a high priority the needs of the poorest countries which do not qualify for commercial lending because they lack the immediate or medium term prospects of repaying credit;
- (b) help middle-income developing countries to adjust to the era of high energy prices; and
- (c) ensure the participation of the oil exporting countries which have huge balance of payments surpluses.

Dealing with the Problems of the Poorest Countries

The poorest countries, which need capital most, are least likely to obtain it from commercial sources. The ability to repay, not need, is the main criterion for private credit financing. The oil shock of 1979-80 dramatically underscores the problem for the poorest countries.

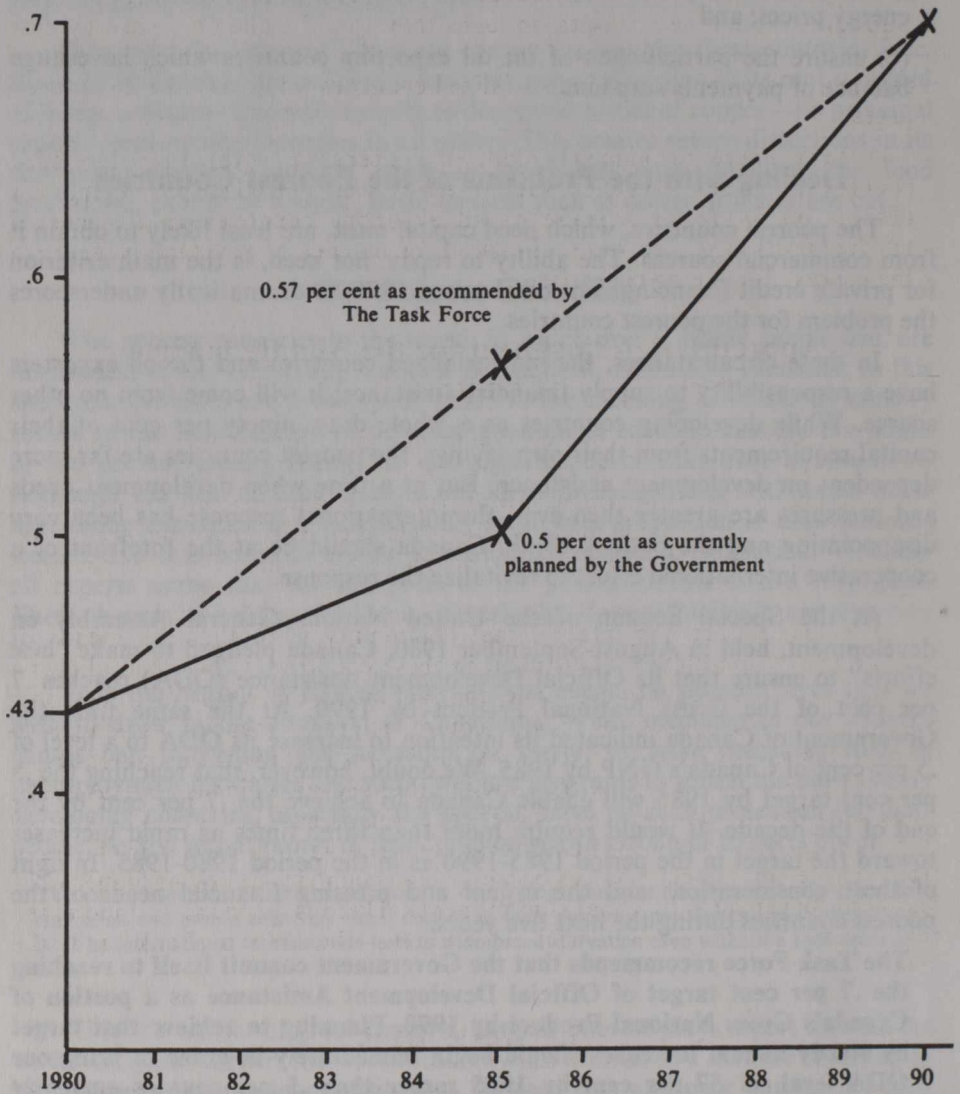
In these circumstances, the industrialized countries and the oil exporters have a responsibility to supply financial assistance; it will come from no other source. While developing countries as a whole draw ninety per cent of their capital requirements from their own savings, the poorest countries are far more dependent on development assistance. But at a time when development needs and pressures are greater than ever, the international response has been very disappointing and the outlook bleak. Canada should be at the forefront of a cooperative international effort to revitalize the response.

At the Special Session of the United Nations General Assembly on development, held in August-September 1980, Canada pledged to make "best efforts" to ensure that its Official Development Assistance (ODA) reaches .7 per cent of the Gross National Product by 1990. At the same time the Government of Canada indicated its intention to increase its ODA to a level of .5 per cent of Canada's GNP by 1985. We doubt, however, that reaching the .5 per cent target by 1985 will enable Canada to achieve the .7 per cent by the end of the decade. It would require more than three times as rapid increases toward the target in the period 1985-1990 as in the period 1980-1985. In light of these considerations and the urgent and pressing financial needs of the poorest countries during the next five years:

The Task Force recommends that the Government commit itself to reaching the .7 per cent target of Official Development Assistance as a portion of Canada's Gross National Product by 1990. Planning to achieve that target by steady annual increases should begin immediately in order to bring our ODA level to .57 per cent by 1985 rather than .5 per cent as currently planned by the Government. At the same time Canada should press other industrialized countries and oil exporting countries to increase their levels of assistance.

It is essential that development assistance be concentrated in the poorest countries. The record of the assisting countries on this point is not impressive. In 1978 only thirty-eight per cent of assistance funds disbursed by western industrialized countries went to the lowest-income developing countries. Canada's record, by contrast, has been quite good.

ODA AS SHARE OF CANADIAN GNP



While a generous and concentrated response of Official Development Assistance would do much to ease the impact of current economic troubles on the poorest countries, we are not sure that even this will be adequate. A number of witnesses before the Task Force have suggested that funds should be used quickly to "lever" far larger amounts of capital into the poorest countries. One proposed scheme is to enter into arrangements with oil exporting countries to subsidize the interest charges on loans they would make on a case by case basis to the poorest countries. The oil exporters would assume the risk of repayment of the capital and industrialized countries would assume the interest charges.

The Task Force recommends that, in cooperation with other developed countries, Canada consider such methods as subsidization of interest charges on future loans made by oil exporting countries as a means of moving much larger amounts of capital for balance of payments support to the poorest developing countries.

Appropriate Adjustment for the Middle Income Countries

While the needs of the poorest countries should receive very high priority in the current situation, they are by no means the only developing countries encountering enormous difficulties. Many of the middle-income countries face severe adjustments as their oil bills rise while their earnings from trade fall. Commodity prices, on which they depend heavily, have been particularly affected.

The task before the international community is to find the means of permitting the appropriate adjustment in these countries rather than allowing them to experience severe economic contraction as the result of forces over which they have no control. They require external financial assistance to develop energy resources of their own and to restructure their economies in light of the new high-priced energy and inflationary era which is upon us all. As Canadians know from their own experience, this is not the work of a year or two. The financial requirements of these countries will not be met in the main from private commercial sources because these countries represent higher risks and need longer term financial commitments. There is a special and increased role, then, for public financial institutions—the World Bank and the International Monetary Fund.

The World Bank

The World Bank, which was established as an instrument of reconstruction of Europe after the Second World War, has now become the single largest source of development capital for developing countries. Its financial resources come from a capital base provided by member governments as well as from loans on commercial markets. Its lending activities have been expanded in recent years and have been directed increasingly to longer term structural changes in developing countries. We support these developments. In addition to the doubling of its capital base—recently approved by member governments—we support greater borrowing by the Bank in commercial markets.

To that end, a proposed change in the gearing ratio would permit the institution to borrow larger amounts as a proportion of the capital base paid-in and guaranteed by governments. In essence the Bank could lend more without an equivalent increase in the financial commitments by governments, an important consideration at a time when the financial constraints on governments are great. While we have heard concern expressed about the possible effect on capital markets of such a change—and thus the danger that Bank borrowing could become more expensive—we are persuaded that a phased-in, step by step change in the gearing ratio is a sound financial step.

The Task Force recommends that Canada support a step by step change in the gearing ratio of the World Bank to permit greater borrowing on financial markets as a proportion of the capital base provided by member governments.

International Monetary Fund

The International Monetary Fund (founded together with the World Bank after the Second World War) is the other major world financial institution which must play an increasing role in facilitating the adjustment of developing countries in the years ahead. While not a development institution as such, one of its major functions is to facilitate balance of payments financing; this is related significantly to longer term development. Unless severe balance of payments deficits, which many developing countries face today, are handled in an appropriate manner, these countries may suffer severe setbacks to their development prospects.

We note the fact that over the period of the past five years the Fund has played a limited role in financing the balance of payments deficits of developing countries. In part this was because of insufficient financial resources of the Fund, a situation which is being corrected. But even when funds have been available, many developing countries have been reluctant to go to the IMF because of what they saw as harsh and inappropriate conditions laid down by the institution. Instead, these countries turned to the then readily available commercial borrowing with the result that they have amassed large amounts of comparatively short term debt. This is a situation which cannot and should not be repeated in the years ahead.

Evidence placed before the Task Force has indicated that traditional methods of the IMF in financing balance of payments deficits of developing countries are now inappropriate. The deficits arise for the most part from oil price increases and often sharp declines in the value of exports, factors over which many developing countries have little control. Fairness alone would suggest that they not bear the entire burden of adjustment. It is clear, moreover, that these are problems which are not quickly resolved. Sharp cutbacks in government spending and severe demand restraint, as has often been required by the Fund in the past, may be counter-productive to longer term development plans.

The International Monetary Fund has begun to recognize and respond to these circumstances. What is required is still greater sensitivity to and support for longer term adjustments in developing countries. No witness before the Task Force has recommended the abandonment of conditions or a lack of

stringency. Under new and more appropriate conditions, the governments of developing countries would continue to have responsibility for making longer term changes in their economies, a responsibility which may be more difficult to fulfill than the requirement simply to cut back the economy.

The Task Force recommends that Canada support greater responsiveness and sensitivity on the part of the International Monetary Fund to the externally caused and longer term adjustment crises facing developing countries so as to protect their development plans.

In order to accomplish these goals we are persuaded that there should be greater and more continuous involvement in the activities of the Fund by policital authorities, namely the Finance Ministers of member governments. In our view, they could help officials make their assessments of these difficult political and human questions.

The other issue which deserves serious attention is that of the allocation of international reserves, the Special Drawing Rights (SDRs) of the International Monetary Fund. The SDR, or "paper gold", was created by the IMF as an international currency to supplement gold and hard currencies as reserve assets. These assets are created from time to time when the IMF judges that additional liquidity is necessary in order to facilitate trade between areas using different currencies.

The reserve assets are issued to countries roughly in proportion to their economic weight in the world economy. Thus, developing countries have far smaller SDR reserves than developed countries, though the actual practice of the Fund has been to issue to developing countries somewhat larger shares than strict economic criteria would indicate. Nonetheless, for years there has been before the Fund a proposal which would establish a still greater link between the needs of developing countries and their SDR shares. We are aware of the several serious arguments which have been made against this proposal. At the same time, we have received evidence that the large size of current deficits and surpluses, and the great difficulties in efficiently moving capital from surplus to deficit countries justify another examination of SDR shares. A reallocation based more on need may offer a comparatively flexible and responsive way to ease current balance of payments problems of some developing countries.

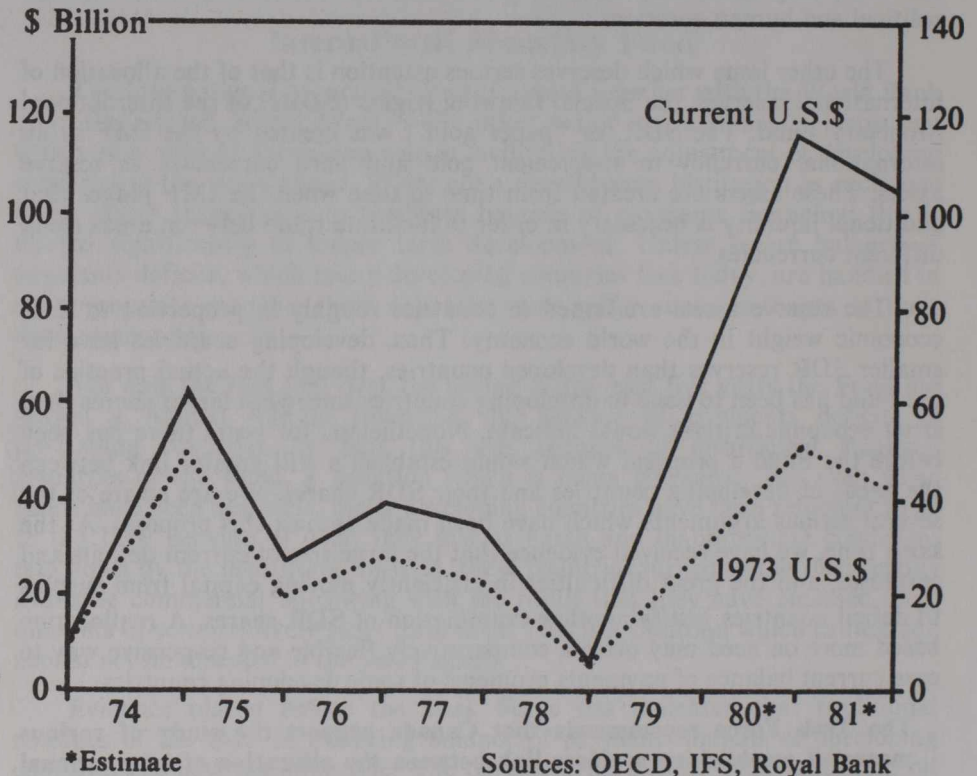
The Task Force recommends that Canada support the study of various means of establishing a closer link between the allocation of international reserve assets (Special Drawing Rights) and the needs of developing countries.

Involving OPEC

No development in North-South Relations has caused greater upheaval and uncertainty than the rise to power of the Organization of Petroleum Exporting Countries (OPEC). The reason for this is clear: the OPEC countries now have great wealth and exercise tremendous influence on world events. Industrialized countries have encountered new major players at the international table.

Any effective solution to the current economic troubles must recognize and build upon this fact. Whether we are talking of interest subsidization arrangements or new facilities in the World Bank and the International Monetary Fund, the same essential requirement is clear: considerable amounts of the capital must come through the "recycling"—the re-investment—of the oil exporting countries' balance of payments surpluses. The oil-exporting countries are not, any more than investors anywhere, going to place their money without guarantees of return. They are not going to play larger roles in contributing to the international financial system without some commensurate recognition of their power and influence.

OPEC Surplus, Nominal & Real



In the current situation there are two measures which industrialized countries, and Canada in particular, can take. The first is a change in attitudes. There is no doubt that the sudden and drastic increase in oil prices has caused grave difficulties for all oil importing countries, in particular the poorest countries. There is also no doubt that the problems of inflation and economic stagnation preceded and go far beyond increases in oil prices. As the graph above illustrates, the OPEC surplus, when expressed as constant 1973 U.S. dollars, declined significantly between 1975 and 1978 and even today has only returned to the level of 1974. The industrialized countries are neither justified nor wise in attributing all of their problems or all of the problems of developing countries to OPEC.

We should also recognize that industrialized countries may, to some extent, have been the authors of their own misfortune. Had they been more willing to discuss some linking of oil prices to the prices of manufactured goods which OPEC countries import, they might have avoided or at least moderated the sudden severity of oil price increases. The world still would have faced large oil price increases, but perhaps steadier increases, to which all countries might more gradually have been able to adjust. This remains a matter of major importance.

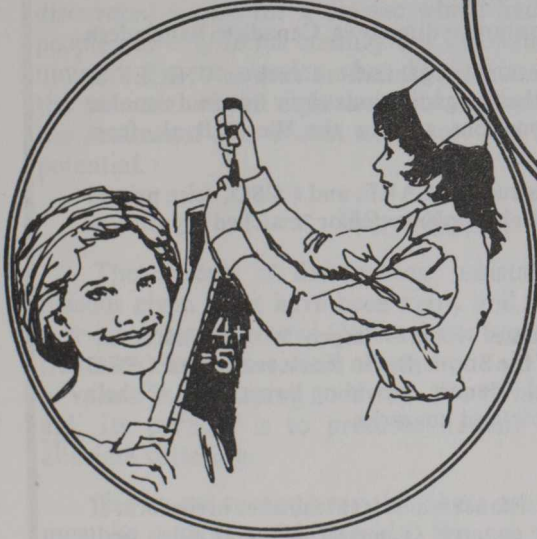
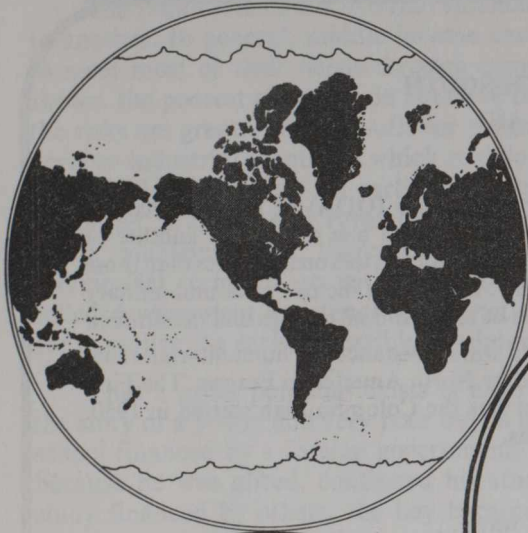
The second measure is a change in relationships. The industrialized countries must be prepared more than in the past to share power and responsibility with oil exporting countries. While OPEC participation and voting shares in the World Bank and the IMF have increased, this has not taken place fast enough to ensure their willingness to move substantially increased amounts of their money through these channels. Adjustments of the voting shares in these institutions, however, must be a process of gradual evolution. How then to proceed?

One approach is to leave the general framework of institutions such as the World Bank to evolve gradually while allocating voting shares of new facilities within these institutions to reflect the financial contribution of oil exporting countries. An example of such a new facility would be the proposed Energy Facility of the World Bank. The International Fund for Agricultural Development, provides one-third voting shares to each of the group of industrialized countries, OPEC and non-oil exporting developing countries. This model may be useful in organizing other international agencies.

The Task Force recommends that Canada advocate a greater responsibility in the IMF and the World Bank for those oil exporting countries with balance of payments surpluses, by such methods as allocating to them voting shares in new facilities to correspond with their financial contributions.

Finance is Not the Only Solution

The steps we have recommended are important and urgent. The response of the international community will determine how severely the current situation impairs the prospects of developing countries and of their people in the first half of the 1980s. But we will miss the significance of this crisis if we do not recognize that it is more symptom than cause of the problems of developing countries. Many of the poorest countries have been hit hard because they are poor; long term commitment to their development is essential. Many of the middle-income exporters of commodities have been hit hard because of the lack of diversity in their economies and because of the unfavorable terms of trade and volatility of commodity markets; long term commitment to the stabilization of those markets and decreased dependence on them is essential. Many of the upper-income developing countries—the so-called NICs—have been hit hard because of economic slowdown and protectionist measures taken by the industrialized countries; better adjustment to their export potential is essential. Increased financial dependency is no solution. The developing countries must move toward economic self-reliance. Structural reforms, both domestic and in the realm of international finance, are important means to achieve this goal.



B. DEVELOPMENT ASSISTANCE

Any country wishing to develop its economy requires access to capital in order to make substantial investments. Developing countries are no exception to this rule. They generate some eighty to ninety per cent of their financial requirements; they make by far the greatest commitment to their own development. At the same time—like many developed countries, including Canada—they require external financing in order to maintain economic growth. This gap between needs and resources exists either because developing countries are too poor to have the funds necessary for investment or because they cannot earn sufficient foreign exchange to meet the increased costs of essential imports such as oil and manufactured goods.

NORTH-SOUTH AID

Aid:

Also called official development assistance (ODA) or international development cooperation is the transfer from one country to another of money, technical assistance and goods and services on terms less than those resources would cost commercially. It does not include arms and military equipment. Aid is in effect a form of international savings and investment.

Following first and second world wars assistance for humanitarian relief and reconstruction was extended by North America to Europe. The First North-South assistance program was the Colombo Plan started in 1950. Canada was one of the architects.

Channels:

Assistance moves in 3 principal ways.

Bilateral — from one country to another directly eg. Canada to Bangladesh.

Multilateral — through international organizations such as UNICEF or the World Bank. Resources of these organizations come from aid member governments, from private donations and, as the World Bank, from borrowing commercially.

Private — many private groups such as CARE, and CUSO, raise private contributions which are sometimes supplemented or “matched” by governments.

Sources:

Most aid still goes from countries of North — largely Western industrialized countries — to countries of the South. But in recent years some OPEC countries have become major aid donors, providing larger share of their national wealth than do industrialized countries.

Tying:

The practise of requiring that assistance which is extended be in the form of goods and services from donor country. Generally, bilateral aid is tied, multilateral and private assistance is less so.

Targets:

The term to describe commitment of a country to direct a percentage of its national wealth (GNP) to development assistance. Since 1970 the generally acknowledged target is .7% of GNP, originally recommended by The Pearson Commission, headed by Lester B. Pearson.

The performance of countries varies widely. Among industrialized countries Sweden and Norway are now above the target at about 1%. The United States has the lowest figure at about .2% but because of the large size of its economy U.S. aid volume is still the largest. Canada is now at about .43% significantly higher than the average for industrialized countries (.34%) but lower than some countries.

The requirements for external financing vary from one developing country to another. In general, middle income countries have, until recently been able to meet most of their needs through commercial borrowing. But, as we have shown, the poorest countries do not have the same access to such funds because the risks are greater, the pay-offs for the investors longer term. Projects such as ports or industrial plants for which middle income countries require capital are more likely to generate an earlier and greater return than the investments in education, training and rural development needed by the poorest countries. These countries must, therefore, look to grants and loans on softer than commercial terms or go without. This investment in the future—commonly called development assistance—is essential if these countries and their people are to realize the earliest possible fulfilment of their potential.

That a great potential exists is clear. During our hearings, we were told the story of a young and very poor boy in a developing country who lived near a school financed by a foreign government. He was educated in that school and, because he was gifted, continued his studies elsewhere. After many years of study financed by others, the boy became an important medical scientist. He discovered a cure for a disease which had afflicted hundreds of thousands of people not only in his country but throughout the world. The story is certainly unusual, but we wonder what discoveries of benefit to all mankind lie within the potential of the eight hundred million people in this world who lack even the rudiments of a decent existence. Aid is investment in freeing that human potential.

Why Should We Help?

The concept of development assistance is hardly thirty years old. The reasons given for it have been many and varied. Some have argued that it is a way to promote trade. Others have seen it as a means to win friends and frustrate adversaries. Still others want aid to promote their particular concerns or values in developing countries. We think it is time to say simply that aid is to aid. Its purpose is to promote human and economic development and to alleviate suffering.

We do not mean to say that there are no benefits for those who give aid. It must be part of a relationship. We are intrigued by the example of a barn raising. Lacking some of the skills, tools and materials to build a barn, a farmer calls on his friends to assist him. One is an architect who draws up a plan for the barn. Another has a team of horses and a grader. A third neighbour provides cement. Each neighbour helps, is personally involved in the project, and contributes what he or she has to give.

This help is an act of solidarity. No doubt it may in the future allow the neighbours to ask for help in return. Their involvement in the project gives them some influence on the way it is carried out. Their contributions are things they have at hand. But their reason for helping is not principally self-interest, nor the desire to wield influence, nor the opportunity to unload their own possessions. It is the simple desire to help.

A programme for development assistance is similar. It can create opportunities for a donor to exercise influence or to provide goods and services. But these must not be the principal justifications. Canada should give

assistance because it is needed, because it is right to help and because it has, despite all the problems during the past three decades, produced positive economic and social change in developing countries. By so doing, it has helped liberate the potential of many human beings and it has become a concrete expression of peaceful international cooperation.

The members of the Task Force welcome the Canadian Government's recently announced decision to give priority to Canada's modest but important programme of development assistance and to have its aid budget grow more rapidly than Canadian GNP during the next decade. Nevertheless, in periods of economic recession and high deficits governments face pressures to cut back on expenditures which are not of direct and immediate benefit to their own populations. For this reason, it is very important to pledge a fixed portion of Canada's wealth to development assistance.

Priorities in Development Assistance

The clear obligation of developed nations to assist developing nations should be reflected in the priorities of our programme. The long term goal of development assistance should be improvement in the lives of the poorest people and in the prospects of the poorest countries. Donor governments have a responsibility to ensure that this is accomplished.

In 1975, the Canadian Government made public a Strategy for International Development Cooperation. According to this document, the objective of the Canadian development assistance programme was

to support the efforts of developing countries in fostering their economic growth and the evolution of their social systems in a way that would produce a wide distribution of the benefits of development among the populations of these countries, enhance the quality of life and improve the capacity of all sectors of their populations to participate in national development efforts.

Assistance was to be concentrated in the poorest countries and those most severely affected by current world economic conditions. In order to maximize the impact, priority was to be assigned to improving the living and working conditions of the poorest people in a limited number of countries. The focus was to be on

the most crucial aspects or problems of development—food production and distribution; rural development; education and training; public health and demography; and shelter and energy.

We have not been able to conduct a full-scale review of the implementation of the 1975-1980 Strategy, the purposes of which we generally support. Nonetheless, we have formed some conclusions from the testimony heard over the past six months.

Basic Needs

The degree to which the Canadian assistance programme has been directed toward the poorest people in recipient countries is unclear, although the increasing emphasis on agriculture and rural development would suggest that some progress has been made in this direction. We note, however, that Canadian aid officials have recently indicated that shifts into these new areas

of activity have taken longer than expected and projects directed toward basic human needs have, as a result, borne the brunt of the 1978-1979 restraints on the expenditures of the Canadian International Development Agency (CIDA). We have been seriously disturbed by signs that, in a period of economic recession, CIDA's inability to show substantial and concrete progress toward the development of programmes to improve conditions of the poorest people in the world may be leading officials to look for new justifications for the development assistance programme.

The Task Force recommends that the Government reaffirm and strengthen as the central objective of its development assistance programme the basic human needs of the poorest people in developing countries.

Women

We have heard evidence that women have received far too little emphasis in our development assistance programme. In many developing countries women play a crucial role in nutrition, food production and family planning. Their contributions to the economy and their responsibility for the well-being of the family unit must be recognized. The World Bank has concluded that educating young women may be one of the best investments a country can make in its future economic growth and welfare.

The Task Force recommends that Canada's development assistance programme give much higher priority to basic education and development of skills of women in developing countries.

Poorest Countries

Although Canadian bilateral aid appears to be highly concentrated in the poorest countries and in countries most seriously affected by the current world economic conditions, we have heard arguments suggesting that Canada should shift an increasing portion of its development assistance to middle income developing countries whose markets offer greater potential for Canadian exports. The Task Force feels very strongly that such a policy would result in disappointed expectations and an undermining of the real humanitarian objectives of the aid programme. We reject suggestions that an increased share of aid should go to other countries because they offer more promising markets for Canadian goods and services. This matter is especially important in light of the severe balance of payments problems of the poorest countries.

The Task Force recommends a high concentration of Canada's development assistance in the poorest and most seriously affected countries.

The geographic distribution of Canada's development assistance programme has not changed significantly since 1975. Canada is currently involved in some eighty-nine countries, but the concentration of the programme is higher than its geographic distribution might suggest; in 1978 twenty-seven countries accounted for seventy-nine per cent of the programme. Nevertheless, we remain concerned about the wide geographic dispersion of Canada's bilateral aid programme and believe that involvement in eighty-nine countries is impractical, especially in view of the fact that the Canadian government has a limited number of aid officers abroad.

The Task Force recommends that the Government seek to reduce the number of countries in which it has aid programmes while remaining sensitive to humanitarian considerations and foreign policy objectives. Further, we recommend that the Government strengthen the administration of its development assistance programme in the field.

Other Priorities

Since 1975, resources of the development assistance programme have been significantly reallocated to reflect new priorities. About one-quarter of bilateral commitments have been directed toward agriculture and rural development, at least since 1978. Education and training, public health, shelter and energy continue to account for a high percentage of the programme. We underline the importance of agricultural production and energy to the well-being of developing countries. These matters are discussed more fully below.

Transport was not given high priority in the 1975 Strategy but remains an important sector at twenty-four per cent of bilateral disbursements. We note, however, that activities such as roadbuilding which are classified as transportation, may be important components of agricultural development.

Procurement

The goals of Canada's new development strategy should give appropriate recognition to the long term Canadian interest in Third World development as well as the desirability of involving Canadians in the implementation of Canada's development assistance programme abroad. But short term commercial objectives should not be permitted to undermine the development purposes of the assistance programme. We note that CIDA has not fully utilized its authority to spend up to twenty per cent of its bilateral funds on other than Canadian goods and services. We have heard evidence that the requirement that eighty per cent of bilateral aid expenditures be tied to the procurement of Canadian goods and services has introduced distortions into aid projects. Moreover, as the Agency becomes increasingly involved in projects which address basic human needs it will, in all likelihood, need to make greater use of funds to finance local or local recurring costs. At the same time, given the ability of Canada to supply many needs of developing countries on a competitive basis, and given the desirability of country to country contacts, we would expect that a significant proportion of the goods and services used in the aid programme would be supplied from Canadian sources.

The Task Force recommends that decisions concerning procurement of goods and services required for aid projects should be made by the Canadian International Development Agency (CIDA) consistent with development assistance objectives. While a significant portion should be procured in Canada, CIDA should be freed from any fixed percentage rule.

Types and Channels of Development Assistance

We believe that the interests of developing countries are best served by using a variety of means to transfer resources, including programme and project aid. The Canadian assistance programme also should use the channels offered by international institutions, direct government to government

relations, and non-governmental organizations. The problems which developing countries face are many and varied and each of these channels has distinct advantages.

Project assistance, the provision of goods and services to a developing country in the context of a clearly defined task such as the building of a road, the establishment of a polytechnical school or the provision of outboard motors to local fishing cooperatives, is the traditional means which donor governments use to provide assistance to developing countries. It is highly focussed, relatively easy to control, almost always involves the provision of experts as well as capital, and is an excellent means of transferring technology from donor to recipient. It is, however, somewhat slowly disbursed.

Programme assistance, the provision of goods and services to a developing country to improve its capacity in a general area of development such as agriculture, is less highly focussed than project aid and puts greater responsibility on the recipient government for decisions about the use of the funds. It frequently involves the extension of a line of credit which the recipient may use to purchase goods and services for its own development. Programme aid is therefore highly flexible, relatively quickly disbursed and, as a consequence, frequently used when a developing country is experiencing difficulty paying for its essential imports. We have heard evidence that many developing countries are increasingly interested in this form of assistance but that the success of programme aid frequently depends on its being accompanied by technical and expert advice. We believe that there is a place in the Canadian development assistance programme for both programme and project aid, but we would expect that over the next decade programme assistance would become a more important part of CIDA's activities. Thus, the Agency's capacity to provide such assistance will have to be strengthened in the years ahead.

Bilateral assistance helps to involve Canadians in understanding the problems of the Third World; but a large number of personnel is required to administer it effectively and, when the aid is small in volume, it may fail to have a significant impact on development in a particular country. Multilateral assistance, through excellent agencies such as the United Nations Development Program (UNDP) and UNICEF, permits Canada to reach recipients with whom a bilateral relationship is impractical or politically difficult, and to be involved in larger projects with a high development impact in areas outside Canadian competence. It does, however, offer considerably less Canadian control over the actual use of funds and normally does little to inform Canadians about the development process. Given the advantages and limitations of each channel and the importance of flexibility in the aid programme we believe that it is unrealistic to try to determine a long term fixed proportion of total funds to be transferred through the bilateral and multilateral programmes.

The Task Force recommends that the ratio of bilateral to multilateral assistance should be determined by the objectives of the aid programme with the priority of meeting the basic human needs of the poorest people. Both bilateral and multilateral assistance should share in the real growth of the development assistance programme.

Non-Governmental Organizations

One of the most encouraging and exciting developments has been the appearance and vigorous health of a wide variety of Canadian non-governmental organizations (NGOs). CUSO and SUCO, Inter-Pares, Match International and the Mennonite Central Committee are only a few of some two hundred groups devoted to assisting developing countries and promoting public awareness of North-South issues. It is such grass roots concern which will help to arouse wide-spread public support for development. In our hearings we have been impressed by the imagination and commitment NGOs bring to the task of development and, in particular, their concern for the poorest people in developing countries. We are struck by the fact that at a time of recession in Canada private contributions to these organizations have risen considerably.

The establishment in CIDA during the 1970s of an NGO division which matches private contributions with public expenditures is to be commended and supported. NGOs are not equipped to do large scale projects but they have an excellent record in finding innovative ways to address basic human needs in developing countries. We are persuaded that their capacity to use development assistance funds effectively will grow very significantly in the years ahead.

The Task Force recommends that the Government direct an increased share of Official Development Assistance to support the activities of Non-Governmental Organizations. In addition, we recommend that the Bilateral Programmes Branch of CIDA assign some of the funds it expects to spend on agriculture, health and rural development to small projects which would be operated on its behalf by Canadian NGOs.

International Development Research Centre

The International Development Research Centre (IDRC) is recognized as an innovative and effective institution in strengthening appropriate research capability in developing countries. An international Board of Governors brings a North-South perspective to the IDRC's work. A measure of the respect in which it is held is that a number of other countries have used it as a model in establishing such organizations of their own. It has significantly enhanced Canada's reputation throughout the Third World. We are persuaded that it could effectively use increased funding in the years ahead.

The Task Force recommends that the Government increase the funding of the International Development Research Centre in order that it may more fully realize its very considerable potential.

Emergency Assistance

Among the areas of Canadian assistance to developing countries having widest public support and understanding is emergency assistance. The desire to help people faced with disasters is natural and powerful. We are disturbed that on several occasions in the past few years, because of budget cuts and long term commitments, Canada has not been in a position to respond adequately. We note that some other countries permit borrowing against future aid

appropriations as one method of guaranteeing flexible and effective response to emergencies. While the Government has provided a contingency fund to provide for emergencies we are convinced that it is not large enough to meet the needs.

The Task Force recommends that the Government allot a larger portion of its budget for the purpose of meeting emergencies and consider ways to improve the flexibility of such assistance.

Budgetary Flexibility

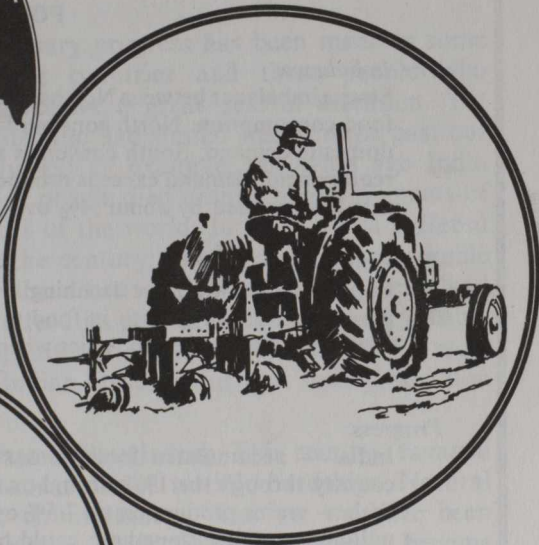
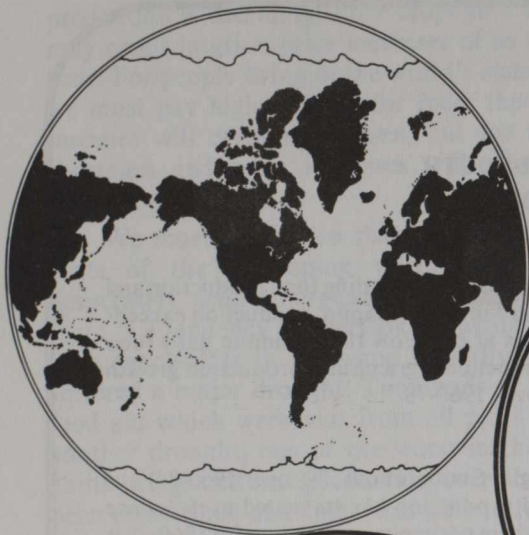
Aid expenditures are spent in countries far removed from Canada. Funding involves a commitment for projects and programmes which may take years to complete. It is important, therefore, to have a higher degree of financial flexibility than is required in domestic government programmes.

One device for promoting flexibility is to allow unspent funds in one year to be carried over to the next. This was permitted at one time by the Canadian Government but was discontinued when the unspent funds accumulated rapidly and became a sizeable portion of the budget. Such a case should be avoided in the future. Nonetheless, we believe that authority to carry over funds would be of benefit to the aid programme.

The Task Force recommends that the Government permit unspent aid allocations to be carried forward from one fiscal year to another under the active supervision of Parliament.

Management of the World Bank Programme

The flexible approach to programme management which has underscored many of our recommendations implies a single agency with comprehensive control. We are concerned about a seeming lack of coordination between those responsible for the majority of the development programme (CIDA) and those responsible for Canadian aid channelled through the World Bank (the Department of Finance). We believe that the Government should take steps to overcome this problem. One solution might be to designate CIDA as the agency of government with primary responsibility for the delivery of the entire aid programme and to integrate into the Agency the officials working in other parts of the bureaucracy who are responsible for Canadian aid channelled through the World Bank. The Minister of Finance would remain Canada's principal spokesman at the World Bank and the President of CIDA, who presently serves as a Deputy Governor of the Bank of Canada, could report directly to him for purposes of Canada's dealings with the World Bank.



C. FOOD AID AND AGRICULTURAL ASSISTANCE

The ability of a country to feed its people adequately is of fundamental importance. It is basic to human well-being and the prospects of future generations. Malnutrition of a pregnant woman transfers weaknesses to the child at birth. Malnutrition in childhood damages the body and the mind for life. Few factors have as great a bearing on the liberation or destruction of human potential as the availability and nutritional value of food.

The record of developing countries in meeting this need has been a very mixed one. In some regions, notably Africa, the annual rate of growth in food

NORTH-SOUTH FOOD

The Imbalance:

Severe imbalance between North and South regarding food production and food consumption: North consumes more per capita, production exceeds domestic demand; South consumes at or below the minimum daily food requirement, demand exceeds production; agricultural production growth rate has declined by about .4% over 1960-78.

Regression:

Population growth rates declining in South (about .2% over 1960-78) but per capita rate of growth in food production has stagnated at .6% since 1960. Especially severe in Africa where per capita growth rate for 1960-78 is -1.2%.

Progress:

India — accumulated foodgrains stocks of 22 million tons eased the country through the 1979 drought without massive food imports Bangladesh — grains production up 7.5% over last four years; grains deficit of 2 million tons cut by one-half; could be self-sufficient by 1985.

Food Aid:

Recurring natural and man-made disasters in South create chronic food deficits requiring food aid from North, Cereals shipped as food aid in 1979/80 equalled 8.98 million tons; also sent large quantities of milk powder, vegetable and butter oils. Proportion of cereal imports, of low-income countries covered by food aid in 1979/80 is 27% — a 10% decline since 1977/78. Problem lies in attaining the precarious balance between food aid and incentives to local food production.

Investment:

Cumulative gross investment in agriculture of (US) \$1.58 billion/year is required for developing countries to achieve minimal self-sufficiency by year 2000. Areas for investment are broad; irrigation is largest; need other inputs and services which can effectively raise production; price incentives, feeder roads, credit. Governments of developing countries need to place more emphasis on food production. Even if production is adequate, problem of feeding those who cannot afford to buy food remains.

Food Security:

World cereal stocks down to 14% of consumption in 1980/81, approaching stock levels during the 1972/73 food crisis (12.2% of consumption). Production down, prices expected to rise 20-30%.

production is declining. Poor crops in a number of major producing countries may result in grain price increases of as much as twenty to thirty per cent this year. For people living in the world's richer countries this will simply mean that we must pay higher prices for food: the diets of some Canadians earning low incomes will certainly worsen, but for those living in poorer countries food shortages and price increases will mean hunger and, for many, death by starvation.

We must emphasize that extraordinary progress has been made in some parts of the developing world. Those countries and those people who desperately need emergency food aid receive a great deal of attention. Yet there is a tendency to overlook countries who had similar needs in the past but no longer suffer in the same way. By way of example, ten years ago India suffered a major drought. Thousands of people died despite huge shipments of food aid which were sent from all parts of the world. In 1979, India suffered another drought, one of the worst in the century; but because of remarkable gains in agricultural production over the decade, large reserves of grain had been established and India was able to feed its people. This was made possible through a combination of science, international cooperation and, most important, the determination by the Indian Government that food production should be its highest priority.

An even more dramatic case is that of Bangladesh. This country, ravaged by civil war and its war of independence, suffered terrible hardships. Natural calamities befell people in desperate circumstances. And yet we have been given reason to believe that during the 1980s Bangladesh may become self-sufficient in food! In this case, as in the case of India, a key element is the determination of governments to accomplish the goal of self-sufficiency.

If we remind ourselves that the population of South Asia, mainly India and Bangladesh, constitutes about half of the people in the world living in absolute poverty, we can see the enormity of this accomplishment. It does not end poverty. It does not end hunger. But these are significant steps toward those goals. We were heartened by the words of the Vice-President of the World Bank for Asia, a man who has devoted a considerable part of his life to this task, "The problem of food is being solved in Asia". It is for this very reason that we stress the urgency of preventing international economic pressures of the next few years from destroying accomplishments of the past ten years.

These and other examples do not diminish the fact that many developing countries have had mediocre records in feeding their people. In part this is because they are poor and face enormous difficulties in mobilizing and using the resources of knowledge and capital which would increase food production. These problems are being addressed although the resources are still far from adequate. But there are two other factors which are also important and must guide efforts in the future—priorities and distribution.

Priorities and Distribution

The importance of agricultural production has not until recently been recognized either by developing countries or by aid donors. The emphasis on industry, just as in 19th century Europe, has led to "cheap food" policies for

the benefit of urban and industrial workers. As a result, hundreds of millions of peasants who might have produced food have had little incentive to do so. If the agricultural sector has been stressed at all, it has often been devoted to commercial exports to the rich markets of the North. Thus we have seen the anomaly of huge sugar or pineapple plantations in countries with many malnourished people.

These priorities are beginning to change dramatically. Many developing countries now recognize the dangers of industrialization without a solid agricultural base. Still, the transition from new priorities to new practices is very difficult. A country earning foreign exchange from a product like sugar faces a dilemma: shifting agricultural production toward internal requirements jeopardizes those foreign exchange earnings which can be used to promote other aspects of development. International assistance and appropriate financial support from institutions like the World Bank and the International Monetary Fund, then, are vitally important to ease this transition.

People sometimes starve to death not because of an insufficiency of food but because they cannot afford to buy it. On a world-wide basis the World Bank has estimated that there is more than enough food to feed everyone: redistribution of only two per cent of total production would do the job; but because food goes to those who can afford to buy it, that redistribution does not occur. If higher priority were given to providing the poorest people with the economic means to buy food, increased food production would follow.

Food Aid

Too often in the past, international food aid has been part of the problem rather than part of the solution. Some developing countries have been inclined to rely on food aid rather than produce food themselves. For a variety of reasons food aid donors were willing to give it: it expressed humanitarian concern; it disposed of surpluses; and it could function as a kind of "loss leader" in developing agricultural markets abroad.

This approach is changing. While food aid should continue as a vital component of our response to emergencies, it must be given as a temporary measure designed to encourage progress toward self-sufficiency. This means that all donations of food aid should be part of a total food system which includes a detailed and well-integrated plan for agricultural production and rural development, with the focus on the poorest people. Such plans would be designed in cooperation with the recipient governments to enhance their countries' capacity to feed their population. It would entail working with the people to increase their own production and, in those countries where production is adequate, it would mean working with the national government to improve marketing and distribution systems. In order to give developing countries the maximum incentive to increase production and to diminish reliance on food aid, it has been suggested that Canada enter into agreements which would specify a decline and termination in food aid and, at the same time, an increase of assistance for food production. We think this idea has merit.

The Task Force recommends that food aid from Canada be used only as a transitional measure to fill the gap which exists between a country's food

needs and its food production. Food aid should be part of a detailed and well-integrated food production plan in which food aid would gradually decline and assistance for food production would increase.

CIDA's written policy on food aid states:

Food aid from developed countries represents an attempt to bridge the gap between food production and food requirements in developing countries until self-sufficiency is achieved.

From this, it would appear that existing policy is already in line with our recommendation. However, the testimony which we have heard causes us to question the degree to which this policy is effectively implemented. Several witnesses have recommended a review of various aspects of the policy. In 1978, the Treasury Board conducted a study on the effectiveness of food aid, but the results were never made public. In light of all this, we suggest a parliamentary evaluation of Canada's bilateral and multilateral food aid programmes with a view to adopting measures to improve self-reliance in food production in developing countries.

When Canada responds to a country's request for food aid, every effort should be made to explore possibilities for triangular arrangements wherein Canadian funds would be used to purchase food from another nearby developing country which has a surplus. We are aware that the scope for such arrangements is narrow because few developing countries are surplus food producers. However, this is an avenue which is used less than it might be and we have heard examples where the food surplus of more than one developing country was sent to European markets while a nearby neighbour was experiencing a food shortage.

The Task Force recommends that every effort be made to supply food-deficit developing countries with food aid purchased by Canada from neighbouring food-surplus developing countries.

Canada alone cannot be all things to all developing countries. Organizations such as the U.N. World Food Programme have good records as successful agents of economic and social development. They are able to provide assistance to more developing countries than any single donor can provide on a bilateral basis. They can tap the financial reserves and technical expertise existing in other countries and in international institutions. Furthermore, they are not constrained from helping any country because the political ideology of the Government in power is not to their liking.

Although there may be similar examples for bilateral food aid, we have heard that multilateral food aid has had especially beneficial side-effects. In India a project of the World Food Programme called "Operation Flood" used proceeds from the sale of donated skim milk powder to fund development of the local dairy industry. In Mexico, four families who were formerly landless labourers formed a farm cooperative and were provided with essential products as well as food aid to ensure their survival until their enterprise became productive; after countless generations of poverty these families proudly point to their achievement in self-sufficiency.

These and other examples have made us aware of the imperatives of coordinating and directing food aid effectively.

The Task Force recommends that the Government make increasing use of the multilateral food aid channels and that bilateral food aid be as closely coordinated as possible with those channels.

Canada's Food Aid Pledge

Given the doubts which we have expressed about the effects of food aid in the past, it may seem contradictory to issue a call for Canada's renewed commitment to a pledge made at the World Food Conference in 1974 to supply one million metric tonnes of grain per year as food aid. Such are the tensions and the dilemmas of international development. As the Brandt Commission observed, there is likely to be an increasing number of emergencies in the decade ahead. War, natural disaster and other calamities expose people to starvation. Canada must be prepared to respond.

We are concerned that the generosity Canada displayed in 1974 has now declined. Canada's pledge to the Food Aid Convention has fallen to 600,000 metric tonnes in 1980. Even though the actual tonnage of grains provided as food aid is close to one million metric tonnes, our current policy permits any amount over 600,000 tonnes to be sold commercially.

The Task Force recommends that Canada demonstrate its political will to help developing countries cope with food shortages by raising its commitment to the Food Aid Convention.

International Food Security

The necessity for food aid has risen partly from a lack of agricultural production and partly from the volatility of the international grain markets. The ability of developing countries to purchase food in a time of need may be jeopardized by world shortages and sudden increases in prices. For these reasons, efforts have been made to establish a system of international grain reserves to help stabilize prices and guarantee supplies. It is a very old and battered concept, but one which holds a great deal of promise.

Reserves could ensure net food-importing countries (developed and developing alike) that food grains would be available even in times of shortage and that they could buy from the reserve at a reasonable price, not excessively inflated due to shortfalls in production; this would enable them to undertake long term planning for the most efficient use of their financial resources. In the past, countries have had their development plans indefinitely disrupted because of the necessity to import food at unanticipated prices. Reserves could ensure food exporters a guaranteed, agreed-upon price even in times of food surplus when prices might otherwise be very low.

Successful negotiation of the International Wheat Agreement (IWA) would create an international grain reserve. The 1979 IWA negotiations were a failure because the major producing nations and the developing, food-importing countries could not agree on the size of the reserve; at what price levels grain should be sold from the reserve; whether developing countries should be given some preference or reduction with regard to the actual market price of wheat; whether the grain-producing countries should be released from

their obligation to carry reserves in periods of shortage; and where the grains should be stored.

Canada's performance at these negotiations was not especially sensitive to the needs of developing, food-importing countries. The negotiations on the Wheat Agreement are to reconvene shortly. This offers Canada an opportunity to demonstrate its commitment to ensuring global food security.

The Task Force recommends that Canada adopt a positive approach in the forthcoming negotiations of the International Wheat Agreement in the interest of achieving more stable prices and greater security of supply.

Given the anticipated shortages of grain in the next year or two, it is possible that Canada can sell all of its production on commercial markets. The danger arises that our supplies will go to our regular customers, denying the opportunity of purchase even to those developing countries with the means to buy. Recognizing this possibility, the Government's 1975-80 Development Strategy recommended that a committee of senior officials consider the advisability of guaranteeing, on a first refusal basis, a fixed tonnage of cereals to developing country markets. The recommendation was never implemented but, in view of imminent grain shortages, such a guarantee could be a useful means of helping developing countries.

The Task Force recommends that Canada guarantee, on a first refusal basis, a fixed tonnage of cereals for those developing countries faced with severe food deficits.

Assistance to Agricultural Production

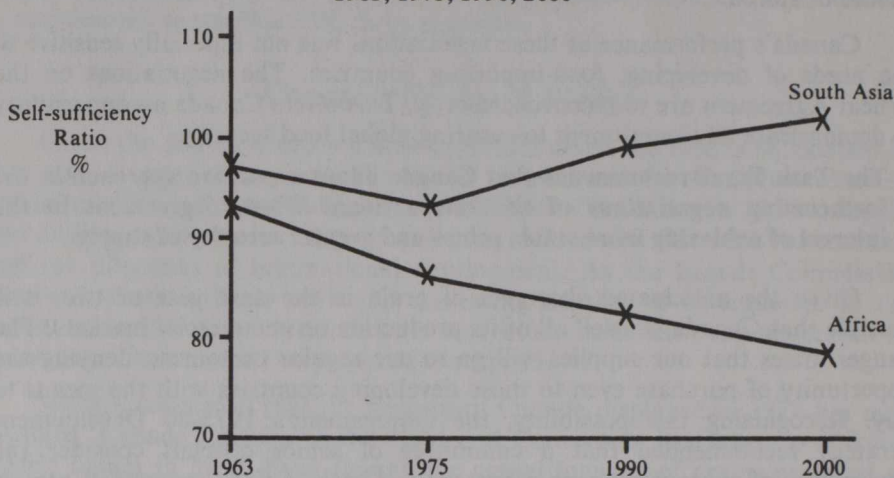
We cannot emphasize too strongly the importance of developing countries' actions to increase their own food production. Failure to do so will cause even greater hardships than already exist. During the past year, developing countries imported eighty-eight million tonnes of grain worth more than \$17 billion, equivalent to two-thirds of all aid provided by developed countries. With sharply-increasing prices of grain and shipping costs, developing countries will no longer be able to import adequate amounts of food.

To offset the large capital investment required to achieve the objective of greater self-sufficiency in food production, available funds must be used as efficiently as possible. There are two readily observable means for getting better results from investment in agricultural assistance: devote more funds to research; and target our efforts in developing countries at two groups which show great promise for contributing to increased agricultural production—farmers of small landholdings, and women.

Research

Research is a key to a prosperous future. But developing countries need a particular kind of research not commonly undertaken in industrialized countries. In response to this need, Canada established the International Development Research Centre (IDRC) which undertakes, with other centres, research on problems ranging from agriculture to the information sciences. The value of this research has been proven in the field. For example, IDRC and the

ACHIEVEMENTS AND PROJECTIONS IN SELF-SUFFICIENCY (*CEREALS) 1963, 1975, 1990, 2000



* Cereals supply 60% of the energy content of all food commodities produced in the world.

Source: FAO, Agriculture: Toward 2000

International Rice Research Institute support projects aimed at designing and testing rice-based cropping systems in which several different crops can be grown together or in sequence on the same piece of land in one year. In the first phase of this project, the researchers succeeded in increasing the number and yield of the crops produced. In the second phase, they will undertake wider testing and they will attempt to extend the programme to large numbers of small farms. Although it has been brought to our attention that some international research programmes suffer from weaknesses in management and the dissemination of their findings, we believe that there is enormous potential in such research.

The Task Force recommends that the Government attach higher priority to agricultural research for developing countries with the important objective of strengthening the management of such activities and improving dissemination of the results of such research.

Small Farms and Participation of Women

Research will bear fruit only if it is effectively translated into practice. Contrary to conventional wisdom, small farms are in certain circumstances much more productive than large ones. In the past, development agencies and developing countries have frequently ignored the potential of farmers with small landholdings. It was felt that they were resistant to change, unwilling to take risks and suspicious of new techniques. The World Bank has now concluded that given some education, landholdings which are not severely fragmented, and an adequate supply of labour, such farmers are significantly more productive than their counterparts with larger farms.

The Task Force recommends that the Government give increased support to programmes that benefit those farmers with small landholdings, in

recognition of their ability to contribute to the objective of self-reliance in food production, while recognizing at the same time that in some instances developing countries may prefer agricultural development assistance to increase their total food output by the creation of large farming units.

Women do an average of forty to eighty per cent of the agricultural work in developing countries. In addition they are mainly responsible for the family's food supply, health, nutrition, education and housing. Until very recently, the role of women in agriculture has been ignored because development planners have focussed on raising export crop production, work which is traditionally done by men.

As mentioned in an earlier recommendation, the value of offering females opportunities for basic education and the development of skills should not be under-estimated. Canada's official development assistance must take account of the woman's role in responding to basic human needs and improving standards of living for the rural poor in developing countries.

International Fund for Agricultural Development

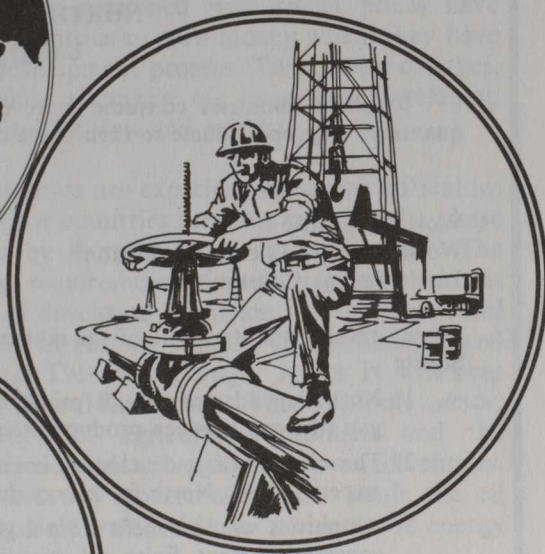
A multilateral agency operating in the area of agricultural assistance is the United Nations International Fund for Agricultural Development (IFAD). The Task Force was particularly impressed by several features of this new fund created in 1977. It makes soft loans available to developing countries solely for investment in agriculture and rural development; it has successfully attracted the participation of large amounts of OPEC financing; and it aims, with a focus on the small farm, to mobilize the resources within developing countries for improved food production.

We know that IFAD is still in an experimental stage, but it presents a unique approach to solving the agricultural problems of developing countries and it has the ingredients of success.

The Task Force recommends that Canada strongly support the International Fund for Agricultural Development.

Non-Governmental Organizations

Non-governmental organizations have had significant success in the area of agricultural assistance and in helping the poorest people. They work on a person-to-person basis where real progress begins; they also have the freedom and courage to attempt innovative and creative techniques. Here is a practical example. An Indian village had received skim milk powder to be used in feeding lactating mothers and young children. Since the village did not have clean water with which to dissolve the milk powder, the nutritional benefits were minimal. A local volunteer from a non-governmental organization encouraged the women to mix the milk with the boiled water they used to cook their food. The result did not shake the foundations of nutritional science, but it did improve the health of those receiving the milk. We believe that much of the potential for improved nutrition and increased food production lies in such comparatively simple improvements in the lives of poor people. It was for such reasons that we have recommended increased funding for non-governmental organizations.



D. ENERGY

No area demonstrates the interdependence of North and South more than the energy crisis. The industrial basis of the world's economy has placed an extraordinary value on oil, so that the oil producing regions in the South are playing an increasing role in world politics. Supplies of oil are vital to the continued well-being of the industrialized countries and to the economic prospects of developing countries. It is in the interest of both North and South to secure adequate supplies at affordable prices. The current energy crisis is thus a global problem which demands global solutions.

Beyond this common interest in finding long term solutions to the energy crisis, the predicaments of North and South diverge. For the developed

NORTH-SOUTH

Energy

Northern countries consume more energy than they produce and in quantities disproportionate to their share of the World's population.

	<i>North</i>	<i>South</i>
World Population	24%	76%
World Primary Energy Production*	60.3%	39.7%
World Energy Consumption	79.9%	20.1%

Energy reveals many aspects of the mutuality of interest between North and South:

- 1) North depends upon South (primarily the Middle-East) to fill the energy gap (the gap between production and demand);
- 2) The oil-importing developing countries seek financing and technical expertise from North for energy development;
- 3) All parties would benefit from a global energy strategy which would conserve present finite oil supplies, maintain oil prices at levels acceptable to both exporters and importers, seek alternative, renewable sources of energy.

Key Issues:

OPEC — oil-surplus exporting countries; these once poor countries have accrued vast amounts of wealth from the energy crisis; some (Venezuela and Mexico) have arrangements to supply oil to developing countries in their region at reduced prices.

World Bank Energy affiliate — proposed (US) \$30 billion lending facility; function: extend credit to developing countries for energy exploration.
Petro-Canada International — new subsidiary of Petro-Canada; function: to conduct joint ventures with developing countries for energy exploration.

Reforestation — for many developing countries firewood is still the primary source of energy, but supplies are seriously depleted causing human hardship and degradation of the environment. Reforestation is essential.

*Primary Energy — coal and lignite, crude petroleum and natural gas liquids, natural gas, hydro, nuclear, electricity — quantities in million metric tons of oil equivalent.

countries, the energy crisis has led to higher prices for energy. It has precipitated increased research into and development of alternative energy supplies, and it has produced societies somewhat more conscious of energy conservation. In short, it has set off a process of substantial adjustment.

For developing countries as a whole the energy crisis has been a mixed blessing. A few countries, namely the oil producing regions, have benefitted enormously. Rising demand for energy combined with rising prices have enabled the oil exporting developing countries to earn money which they have used in part to stimulate their own development process. These same changes, however, have dealt a powerful blow to many oil importing developing countries. Adjustment to these blows will be slow and painful.

The oil importing developing countries are experiencing severe difficulties in this new energy situation. Many poor countries are now entering the phase of industrialization which is fueled by increasing amounts of energy. The World Bank estimates that the energy requirements of the developing countries will grow at a faster rate than those of developed countries. In the agricultural sector, increased productivity depends in part on supplies of petroleum-based products such as chemical fertilizers. This was a major factor in whatever success has been attributed to the Green Revolution. The transport sector, which is vital to better distribution of agricultural products and the development of industry, is still largely dependent on gasoline powered vehicles. Thus the very process of development and modernization has made the oil importing developing countries extremely vulnerable to problems of energy supply and price.

This predicament illustrates the vicious circles of development: countries, already too poor to invest adequately in human or industrial development, require both for development; their ability to invest is diminishing daily because of mounting oil bills; and aid donors often offer assistance in the form of technology and equipment which consume even greater quantities of oil. Finally, some of the countries which can least afford to invest in energy exploration and development are the very ones which may possess the greatest potential to produce future energy supplies!

Along with the broad consequences of the energy crisis, the poorest people within developing countries face increased hardship. For those who buy their fuel for cooking and bathing, the cost has soared to an average of twenty per cent of the family budget whereas a decade ago it accounted for only five per cent. For peasant families who depend on firewood for fuel, the women and children must go farther and farther afield to find supplies as forests gradually become denuded in the absence of systematic replanting.

Evidence from various sources suggests that the following are essential elements in dealing with the energy problems of developing countries: first, the development of new energy supplies and emphasis on the efficient use of local renewable resources; second, strengthened world-wide conservation efforts; and third, progress toward a negotiated and secure energy future. As a country which has both technical expertise and financing capabilities, Canada has an important role to play.

Supplies

The Canadian Government has taken an important step in creating Petro-Canada International to promote energy exploration in developing countries. Such a national subsidiary is ideally suited for the task because most developing countries have established their own national oil companies for energy exploration, and they prefer receiving assistance from a similar source. Petro-Canada International will also be able to draw upon the impressive technical capabilities of the private oil and gas sector in Canada. It is important that the activities of Petro-Canada International be consistent with the objectives of the aid programme which we have described. This would mean that a high priority should be given to helping the poorest countries.

The countries of the South will also need greater multilateral financing to exploit their energy potential. The World Bank estimates that a minimum of \$100 billion dollars in investment is required over the next five years to increase oil production in oil importing developing countries so that imports will not exceed current levels. The Bank has responded to this need by proposing the creation of a new energy affiliate. The proposed affiliate is designed to make available funds to cover up to two-thirds of the total cost of pre-production activities and twenty per cent of the cost of production facilities. The total estimated cost of such an energy affiliate would be \$30 billion, but current funding has reached only \$13 billion. It is hoped that much of the shortfall will be taken up by the OPEC countries. This is likely to happen only if they are given voting authority commensurate with their financial contribution to the new affiliate of the Bank.

The Task Force recommends that the Canadian Government support efforts within the World Bank to move toward the creation of a new energy affiliate, making the necessary changes in responsibility-sharing in order to encourage OPEC funding. In addition, Canada itself should contribute to the energy affiliate.

The escalating oil import bills of the developing countries have forced them to reduce levels of consumption which are already low. This situation is not expected to change in the near future. It is critical, therefore, that Canada's Official Development Assistance reflect an awareness of the energy problems which poor countries face. Our development projects should emphasize an approach to development which avoids petroleum-based fuels and seeks to find alternative sources of energy. This may entail a concentration on smaller projects which require more appropriate technology, designed in the research centres of developing countries themselves.

The Task Force recommends that Canada encourage development projects which use renewable and locally-available sources of energy.

Also in the realm of energy development, more attention must be paid to afforestation. The availability of firewood is essential; for many developing countries it is still the primary source of energy. Too much time is spent by poor families in search of firewood, at the cost of education and other more productive activities. Furthermore, deforestation poses a grave threat to the environment. As trees are removed from forests, the barren area is subject to soil erosion and floods; fertile areas are turning into deserts. It has been

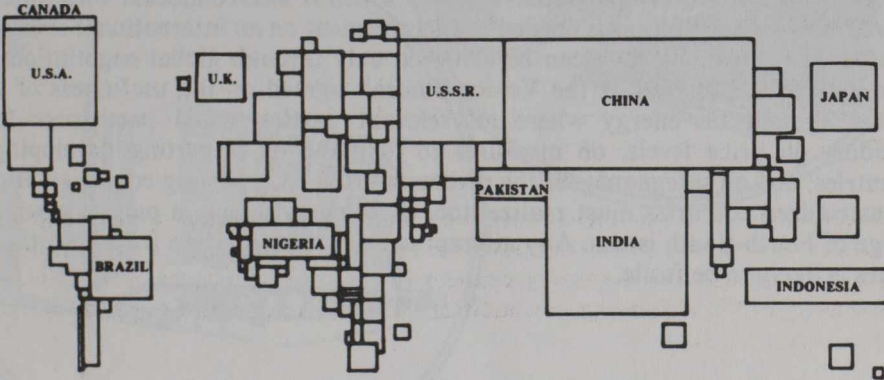
calculated that the amount of top soil destroyed in this way is equivalent to twice the land mass of Canada! The world's forests are a readily renewable resource, but the World Bank estimates that the present rate of reforestation is less than one-tenth of what is needed to ensure self-sufficiency in fuelwood by the year 2000.

The Task Force recommends that the Government, in planning its agricultural and rural development programmes, assign a high priority to reforestation and proper forest management.

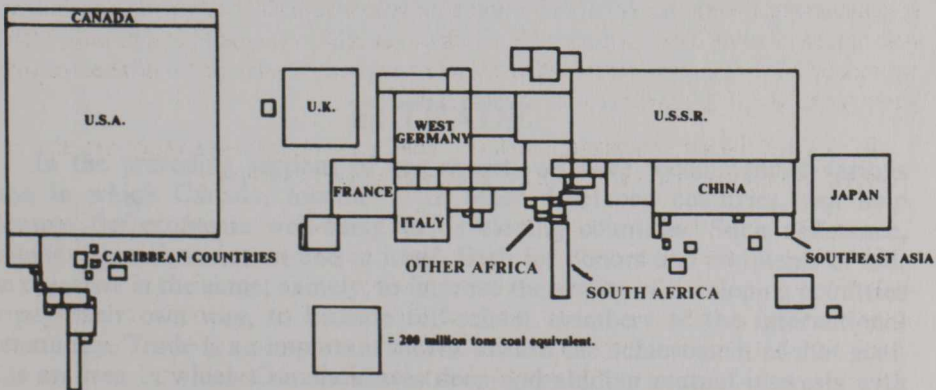
Conservation

In the medium term, the ability of all countries to adjust to higher priced energy will depend in part on determined world-wide efforts to conserve current supplies of petroleum-based fuels. The point of conservation is this: until adequate supplies of alternative sources of energy can be found, the limited supply of available fuel must be used with great caution.

MAP 1 - Country Size According to Population



MAP 2 - Country Size According to Energy Consumption



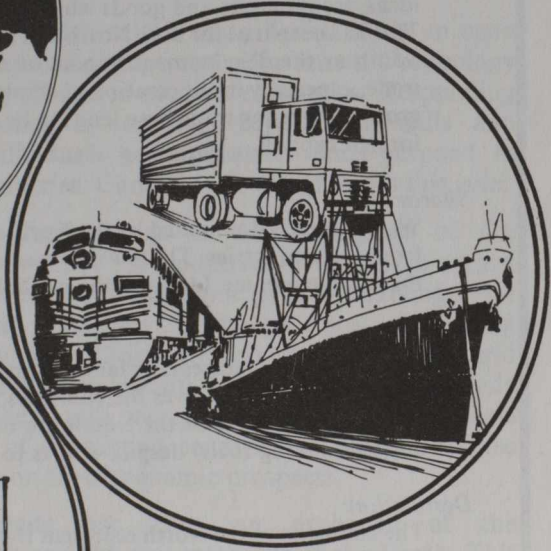
Source: North South Institute, North-South Encounter, 1978

Maps one and two illustrate that the developed countries are by far the largest consumers of world energy, disproportionate to their share of world population. A major reason for this is that countries of the North are heavily industrialized and thus require an enormous amount of energy. Nevertheless, many studies done in the past decade conclude that developed countries can maintain their standards of living and economic growth while making much more efficient use of energy. Energy-efficient practices have been neglected in the past because oil was a low-cost commodity. Now the rising cost of fuel and the insecurity of supply make conservation measures imperative. The developing countries would thereby benefit because lower levels of consumption in the industrialized countries would alleviate the present pressures on oil supply and prices.

The Task Force recommends that Canada work closely with other industrialized countries to develop and implement effective measures of energy conservation.

Toward a Secure Energy Future

The energy problem is global, and one which is interconnected with other North-South issues. What is needed is an agreement on an international energy strategy. Such an objective can be achieved only through global negotiations. The majority of leaders at the Venice Summit agreed on the usefulness of a global summit on energy where all relevant parties would participate in deciding on price levels, on measures to help the oil importing developing countries, and on safeguards for the revenues of the oil exporting countries. But industrialized countries must realize, too, that energy is only a part of a wide range of North-South issues. Any attempt to solve it in isolation from the other issues is likely to be futile.



E. TRADE

In the preceding sections of our report, we have recommended various ways in which Canada, together with other developed countries, can help promote the economic well-being of developing countries. Such assistance, though essential, is not an end in itself. Both for donors and recipients of aid, the objective is the same; namely, to improve the ability of developing countries to pay their own way, to become self-reliant members of the international community. Trade is an important means toward the achievement of that goal. It is an area in which Canada shares deep and abiding mutual interests with developing countries.

NORTH-SOUTH TRADE

Importance:

Trade has a primary role in economic development as it is the exchange of ideas, technologies and goods which enables societies to change and grow. This has been true for both North and South. Trade is also important to the South as the development impact of aid is limited compared to that of trade, especially in the creation of employment and encouraging economic growth. A strong trade base tends to be a prerequisite for attracting needed foreign capital.

Shares:

World trade is dominated by the North as 76% of the world's exports come from these countries. The low income developing countries account for 2%, the middle-income 14% and the capital surplus countries 7%.

Composition:

Trade in manufactures is by far the largest commodity group (60%) and this is the group that involves the countries of the South the least (only 10% of total). The exports of the South are dominated by commodities (about 55%, excluding fuels) despite efforts to change this dependence.

Destination:

The countries of the North represent the major markets for both North and South. Approximately two-thirds of the exports from the South and the North are destined for industrialized countries. A major element of trade has been the growing volume of trade conducted between countries of the South.

Protectionism:

The growth of world trade has been encouraged by a steady reduction of the barriers to trade, both tariff and non-tariff, which exist between countries. However, the developing countries have not benefitted as much as the developed countries from this process. Their exports of primary commodities generally encounter little or no restrictions (with the exception of agriculture) in the developed countries but their manufactured products are limited by barriers which in some cases do not apply to similar exports from developed countries.

Diversification:

The developing countries have been frustrated in their attempts to diversify their exports in two ways. First, they are attempting to diversify the distribution of their exports. Second, they are trying to process more of their commodities before export as a means of increasing industrialization. These attempts to create industries and find foreign markets for their goods have faced a number of obstacles including a shortage of capital, technology and a reluctance to change on the part of the developed countries.

It is in Canada's self interest that international trade continue to expand. Unlike its major trading partners, Canada has neither a large population (such as the U.S. or Japan) nor does it belong to an economic association (such as the European Economic Community). With exports representing one-quarter of the Gross National Product, a figure that is significantly larger than that of our major trading partners, Canada's economic well-being depends upon its ability to export. For this reason, any measures to restrict world trade would have severe repercussions in Canada.

Although trade brings benefits, it also entails costs. To maintain an open economy involves a process of continuous change and adjustment. Technology is one of the major factors inducing change in modern economies. Responding to innovation and invention requires a continual revision of skills and production techniques. Just as individuals and industries must respond to changing circumstances, so must countries. Canada is no exception to this rule.

Another major factor compelling change is the emergence of the developing countries in the world economy. The countries of the South regard international trade as an important engine of economic growth enabling them to diversify and strengthen their economies. Although most developing countries have encountered obstacles in their attempts to enter the world trading system, some countries have been successful. While the volume of trade conducted between countries of the South has grown, the largest markets remain in the North. The ability of developing countries to penetrate these markets will have a major influence on their economic prospects.

Historically, North-South trade has been an exchange of the manufactured products of the North and the raw materials of the South. This situation is changing, however, as the more advanced developing countries increase their capacity to export manufactured goods. Currently, the South accounts for approximately ten per cent of the world's trade in manufactures. It is a basic objective of the developing countries to approach twenty five per cent of this trade by the end of the century. This goal and the increasing competitiveness of the developing countries present a challenge to the North.

At early stages of industrialization, the South can be expected to move into labour intensive industries because low cost labour is one factor of production these countries have in abundance. It is relatively easy to identify these sectors. Textiles, clothing, footwear and consumer electronics are some examples. Such competition from the newly industrializing countries should be seen as part of the evolutionary process of trade which generally begins with exports based on endowments of either resources or people and gradually changes as economies become more diverse.

The chain of events that international trade sets in motion does not always move smoothly. The labour intensive industries which most interest the countries of the South are also labour intensive industries in the North. The resulting conflicts of interest have led to a growing protectionist sentiment in the North and a weakening of the will to make necessary economic adjustments. These trends have been reinforced by the current recession. Such protectionism is troubling particularly as it is directed towards developing countries even though it has been shown that competition from other developed countries and technological change pose greater challenges for countries of the

North. Furthermore, past experience indicates that protectionist cures often contribute to rather than cure the disease of slow growth.

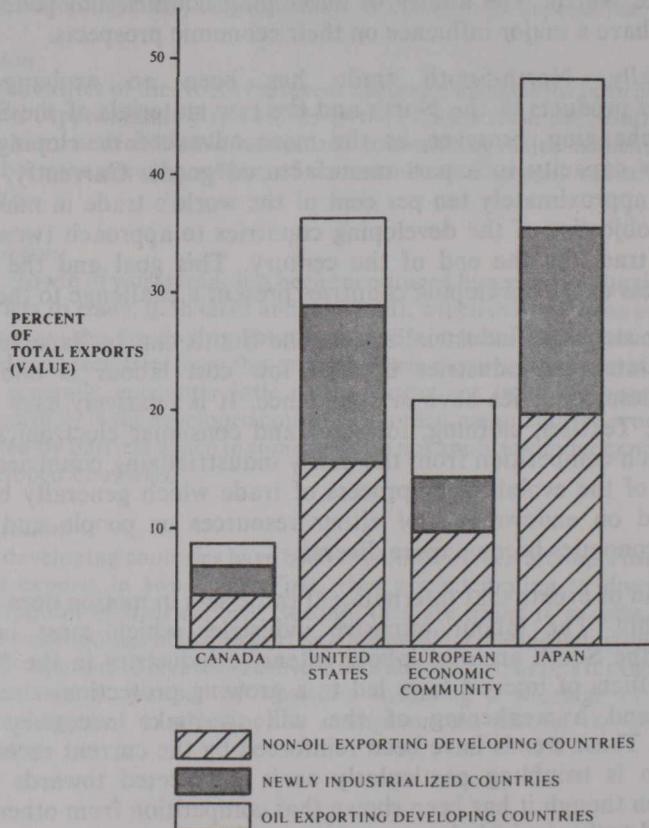
Export Opportunities

The developing countries present a challenge to Canadian industry but they also present an opportunity for Canadian exporters. The countries of the South will import an ever increasing range of products as their economies expand. Currently, these markets account for a relatively small proportion of Canadian exports (just over ten per cent), but since 1974 exports to the South have been growing at a faster rate than Canada's exports to countries in the North.

It should be pointed out that although the developing countries offer attractive export opportunities, Canada is under-represented in these markets, as can be seen in the graph below.

Canada exports a lower percentage of goods to the developing countries than do our major trading partners. Undoubtedly there are historical, geographical and economic reasons why Canada has not had strong commercial relations with the South, but even now Canadian business fails to take advantage of new opportunities.

A COMPARISON OF EXPORTS TO THE THIRD WORLD, 1979



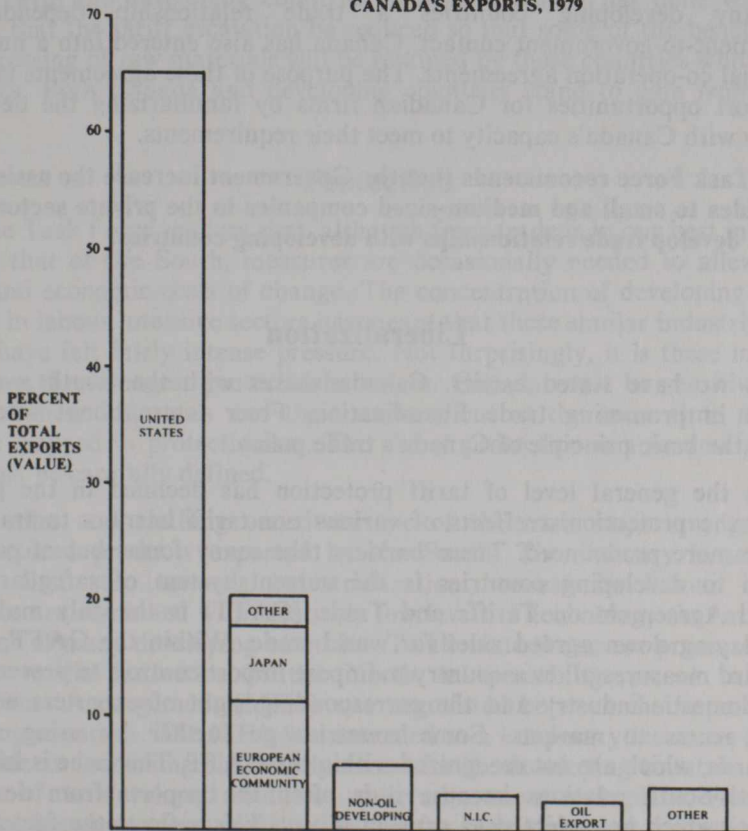
Source: Statistics Canada

Canadian exporters sometimes encounter unfair competition based upon financing terms which represent a mix of private funds with funds from government sources in other countries. Aid funds have on occasion been used for this purpose. This practice undermines the real purpose of Official Development Assistance and disrupts the growth of normal commercial relationships. The use of Official Development Assistance as part of export promotion is not acceptable.

At the same time, we find it hard to believe that Canadian producers and products could not compete as successfully in the markets of the developing countries as they do in the industrialized countries. Canadian exporters can be more aggressive in Third World markets. To cite one example brought to our attention, Canadian business wins a high proportion of those contracts it seeks in the World Bank, but it seeks very few such contracts.

A major factor in our disappointing performance appears to be Canada's heavy dependence on traditional export markets, particularly in the United States (as shown in the graph below).

**THE DISTRIBUTION
OF
CANADA'S EXPORTS, 1979**



Source: Statistics Canada.

Attempts to diversify trade have had little success, leaving Canada vulnerable to shifts in U.S. policies and economic conditions. Our Trade Commissioner Service representatives offer effective assistance to Canadian exporters, but they are located primarily to serve the markets of our traditional trading partners. In view of opportunities which exist in the developing countries, the Canadian Government should consider redeploying its Trade Commissioners to increase service to Canadian business ventures.

The Task Force recommends that the Government increase the number of Trade Commissioner Service representatives in the developing countries which present expanding market opportunities.

The Canadian firms which have been successful in exporting to developing countries are mainly large firms in the telecommunications and transportation equipment and industrial and mining machinery sectors. Small and medium-sized firms find that geography, language, political and cultural differences as well as the cost of feasibility studies present obstacles which make it difficult for them to take advantage of the export opportunities existing in the expanding markets of developing countries. The Government has responded to this problem by establishing the Industrial Co-operation Programme. The programme provides funds and assistance, preferably to small and medium-sized firms capable of exporting to the developing countries. Since in many developing countries a trade relationship depends upon government-to-government contact, Canada has also entered into a number of industrial co-operation agreements. The purpose of these agreements is to open up export opportunities for Canadian firms by familiarizing the developing country with Canada's capacity to meet their requirements.

The Task Force recommends that the Government increase the assistance it provides to small and medium-sized companies in the private sector to help them develop trade relationships with developing countries.

Liberalization

As we have stated earlier, Canada shares with the South a common interest in promoting trade liberalization. Freer international trade must remain the basic principle of Canada's trade policy.

As the general level of tariff protection has declined in the post-war period, the protectionist effects of various non-tariff barriers to trade have become more pronounced. These barriers take many forms but of particular concern to developing countries is the current system of safeguards. The General Agreement on Tariffs and Trade (GATT) is the only multilateral treaty laying down agreed rules for world trade. Within the GATT, general safeguard measures allow a country to impose import controls to prevent injury to its domestic industry and the corresponding right of exporters not to be denied access to markets. Some countries go further by using selective safeguards, which are not recognized within the GATT. This issue is important to North-South relations because it is often the imports from developing countries which are selected as causing injury. This reflects the fact that the developed countries are highly sensitive to the retaliatory powers of other

developed countries but feel immune to similar actions from the South. Moreover the use of such restrictions does not take into account the damage they cause in exporting countries.

Developing countries argue that the use of selective safeguards should be abolished and that strict guidelines should be established to govern all types of safeguards. Such rules would limit the discriminatory aspects of current safeguard measures and would be enforced by a committee within the GATT. It is in Canada's interest to promote the adoption of a new, multilateral approach to safeguards because ours is a relatively small economy which depends upon access to world markets. Canada should play a leading role in the GATT in establishing effective multilateral surveillance of safeguards and in discouraging the use of selective safeguards.

The countries of the South believe that tariff escalation and safeguard measures both constitute an attempt to freeze the structure of international trade in favour of the developed countries. The tariff structure of the developed countries is so constructed that raw materials face increasing rates as they become processed; for example, iron ore faces no tariff while iron pellets or ingots face significant tariffs. The processing of raw materials is essential to the increased employment and industrial growth of the developing countries. Canada has a special appreciation of this problem and shares a common interest with the developing countries in insisting, as it has done within the GATT, that the tariff escalation be reduced so that some of the benefits from the processing of raw materials will be retained by those countries who own the resources. Both Canada and developing countries stand to gain from such a policy.

Protection

The Task Force realizes that, although freer trade is in our best interest as well as that of the South, measures are occasionally needed to alleviate the social and economic costs of change. The concentration of developing country exports in labour intensive sectors has meant that these similar industries in the North have felt fairly intense pressure. Not surprisingly, it is these industries that have the strongest protectionist voices. Canada must be sensitive to the needs of these industries and their workers but at the same time must not become trapped in protectionism. The use of protection is a narrow principle that must be carefully defined.

Textiles and clothing constitute one of the most important groups of manufactured products exported by the South. The industry is seen as a natural first step towards industrialization because its labour intensive processes are combined with relatively low levels of technology that are within the reach of many developing countries. To alleviate the severe pressures on the historic textile industries in the North, a special agreement called the Multi-Fibre Arrangement (MFA) was negotiated between the importing and exporting countries. The MFA was intended as a temporary measure, designed to provide an increasing but orderly access for the developing countries into the markets of the developed countries while adjustment took place. However, it has since become a permanent institution for regulation and restriction of the textile and clothing exports of the developing countries.

which should not be tolerated. To prevent this, a "social clause" to be inserted into trade agreements is currently being studied by the International Labour Organization. The purpose of the clause is to establish a fair labour standards code.

The Task Force recommends that Canada support the attempt to devise a "social clause" to be included in the General Agreement on Tariffs and Trade which would hold the signatories to a fair labour standards code.

Special Measures

Liberalizing trade, minimizing protectionist measures and undertaking structural adjustments are areas of mutual interest to North and South. However, the mutuality of interests does not cover the full range of North-South Trade issues. Beyond a belief in freer trade as a way of promoting development in the South, Canada has supported special measures which could have significant benefits for the developing countries. We are referring to commodity stabilization and the Generalized System of Preferences.

1. *Commodity Stabilization*

The stabilization of commodity prices could have benefits for both consuming and producing countries. While volatility of commodity prices creates problems for all exporters, those of Canada included, the strength and diversity of our economy provides a cushion that is unknown in the South. Since many developing countries rely on export taxes for most of their government revenue, sudden decreases in exports or export revenue can disrupt their development programmes.

A Common Fund has been negotiated under the auspices of the United Nations Conference on Trade and Development (UNCTAD). It would provide financing for the creation of buffer stocks, which would buy and sell commodities to stabilize prices and ensure supplies. The Common Fund is part of an overall programme that is aimed at stabilizing the prices of commodities at fair levels, managing supplies to world markets at adequate levels and diversifying both trade and processing to benefit developing countries. Agreement has been reached on the basic elements of the Common Fund and awaits ratification by the various governments before it can be put into operation.

The Task Force recommends that Canada ratify the Common Fund Agreement and make the financial contributions it entails.

Another approach to helping the developing countries is through export earnings stabilization. The IMF has a Compensatory Financing Facility (CFF) which offers loans to countries suffering temporary shortfalls in income due to corresponding falls in commodity prices. Recent improvements in the CFF have increased its effectiveness but it still has many drawbacks. The Task Force feels that the idea of a global compensatory financing scheme operating within the IMF is a proposal that warrants further study.

2. *The Generalized System of Preferences (GSP)*

The GSP refers to an agreement under which the exports of developing countries are admitted to the industrialized countries duty-free up to a certain level, or at reduced rates on a non-reciprocal basis. However, the gradual reduction of overall tariffs and the restricted number of trade items to which the GSP has been extended have meant that its effectiveness has been brought into question. As an attempt to help the poorest of the developing countries, it has had limited success. Without broader coverage with respect to both products and countries, it cannot be of significant benefit.

The benefits of the GSP have been weakened as well by the failure of some countries who no longer need such preferences to graduate from the scheme. It was intended that as a developing country became more economically advanced it would gradually lose the preferential treatment that would continue to benefit mainly the poorer developing countries. However, some of the eligible countries show no inclination to graduate. What is needed is a procedure whereby newly industrializing countries with rapidly expanding exports relinquish their preferential treatment.

The Task Force recommends that the General Preferential Tariff be extended to include all of the manufactured products of the world's poorest countries and that graduation criteria be established to identify those countries no longer in need of preferential treatment.

Part IV

Recommendations

In accordance with its Order of Reference, the Special Committee to act as a Parliamentary Task Force has the honour to present this report which recommends that the Government give consideration to the advisability of taking action and adopting concrete policy in the areas of: finance and debt; development assistance; food aid and agricultural assistance; energy and trade.

Canada—A Bridge Builder

The Task Force recommends that the Canadian Government allocate one per cent of Official Development Assistance to be used to encourage the awareness and involvement of Canadians in North-South concerns. We stress that this should be done in such a way as to support the activities of many private organizations which already exist and to encourage the development of others.

A. Finance and Debt

1. The Task Force recommends that the Government commit itself to reaching the .7 per cent target of Official Development Assistance as a portion of Canada's Gross National Product by 1990. Planning to achieve that target by steady annual increases should begin immediately in order to bring our ODA level to .57 per cent by 1985 rather than .5 per cent as currently planned by the Government. At the same time Canada should press other industrialized countries and oil exporting countries to increase their levels of assistance.
2. The Task Force recommends that, in cooperation with other developed countries, Canada consider such methods as subsidization of interest charges on future loans made by oil exporting countries as a means of moving much larger amounts of capital for balance of payments support to the poorest developing countries.
3. The Task Force recommends that Canada support a step by step change in the gearing ratio of the World Bank to permit greater borrowing on financial markets as a proportion of the capital base provided by member governments.
4. The Task Force recommends that Canada support greater responsiveness and sensitivity on the part of the International Monetary Fund to the externally caused and longer term adjustment crises facing developing countries so as to protect their development plans.
5. The Task Force recommends that Canada support the study of various means of establishing a closer link between the allocation of international

reserve assets (Special Drawing Rights) and the needs of developing countries.

6. The Task Force recommends that Canada advocate a greater responsibility in the International Monetary Fund and the World Bank for those oil exporting countries with balance of payments surpluses, by such methods as allocating to them voting shares in new facilities to correspond with their financial contributions.

B. Development Assistance

1. The Task Force recommends that the Government reaffirm and strengthen as the central objective of its development assistance programme the basic human needs of the poorest people in developing countries.
2. The Task Force recommends that Canada's development assistance programme give much higher priority to basic education and development of skills of women in developing countries.
3. The Task Force recommends a high concentration of Canada's development assistance in the poorest and most seriously affected countries.
4. The Task Force recommends that the Government seek to reduce the number of countries in which it has aid programmes while remaining sensitive to humanitarian considerations and foreign policy objectives. Further, we recommend that the Government strengthen the administration of its development assistance programmes in the field.
5. The Task Force recommends that decisions concerning procurement of goods and services required for aid projects should be made by the Canadian International Development Agency (CIDA) consistent with development assistance objectives. While a significant portion should be procured in Canada, CIDA should be freed from any fixed percentage rule.
6. The Task Force recommends that the ratio of bilateral to multilateral assistance should be determined by the objectives of the aid programme with the priority of meeting the basic human needs of the poorest people. Both bilateral and multilateral assistance should share in the real growth in the development assistance programme.
7. The Task Force recommends that the Government direct an increased share of Official Development Assistance to support the activities of Non-Governmental Organizations. In addition, we recommend that the Bilateral Programmes Branch of CIDA assign some of the funds it expects to spend on agriculture, health and rural development to small projects which would be operated on its behalf by Canadian NGOs.
8. The Task Force recommends that the Government increase the funding of the International Development Research Centre in order that it may more fully realize its very considerable potential.

9. The Task Force recommends that the Government allot a larger portion of its budget for the purpose of meeting emergencies and consider ways to improve the flexibility of such assistance.
10. The Task Force recommends that the Government permit unspent aid allocations to be carried forward from one fiscal year to another under the active supervision of Parliament.

C. Food Aid and Agricultural Assistance

1. The Task Force recommends that food aid from Canada be used only as a transitional measure to fill the gap which exists between a country's food needs and its food production. Food aid should be part of a detailed and well-integrated food production plan in which food aid would gradually decline and assistance for food production would increase.
2. The Task Force recommends that every effort be made to supply food-deficit developing countries with food aid purchased by Canada from neighbouring food-surplus developing countries.
3. The Task Force recommends that the Government make increasing use of the multilateral food aid channels and that bilateral food aid be as closely coordinated as possible with those channels.
4. The Task Force recommends that Canada demonstrate its political will to help developing countries cope with food shortages by raising its commitment to the Food Aid Convention.
5. The Task Force recommends that Canada adopt a positive approach in the forthcoming negotiations of the International Wheat Agreement in the interest of achieving more stable prices and greater security of supply.
6. The Task Force recommends that Canada guarantee, on a first refusal basis, a fixed tonnage of cereals for those developing countries faced with severe food deficits.
7. The Task Force recommends that the Government attach higher priority to agricultural research for developing countries with the important objective of strengthening the management of such activities and improving dissemination of the results of such research.
8. The Task Force recommends that the Government give increased support to programmes that benefit those farmers with small landholdings, in recognition of their ability to contribute to the objective of self-reliance in food production, while recognizing at the same time that in some instances developing countries may prefer agricultural development assistance to increase their total food output by the creation of large farming units.
9. The Task Force recommends that Canada strongly support the International Fund for Agricultural Development.

D. Energy

1. The Task Force recommends that the Canadian Government support efforts within the World Bank to move toward the creation of a new energy affiliate, making the necessary changes in responsibility-sharing in order to encourage OPEC funding. In addition, Canada itself should contribute to the energy affiliate.
2. The Task Force recommends that Canada encourage development projects which use renewable and locally-available sources of energy.
3. The Task Force recommends that the Government, in planning its agricultural and rural development programmes, assign a high priority to reforestation and proper forest management.
4. The Task Force recommends that Canada work closely with other industrialized countries to develop and implement effective measures of energy conservation.

E. Trade

1. The Task Force recommends that the Government increase the number of Trade Commissioner Service representatives in the developing countries which present expanding market opportunities.
2. The Task Force recommends that the Government increase the assistance it provides to small and medium-sized companies in the private sector to help them develop trade relationships with developing countries.
3. The Task Force recommends that there be better co-ordination and assessment of policies pertaining to import penetration and that overall responsibility for this be assigned to the Department of Finance.
4. The Task Force recommends that the Government review its import restraints with a view to reducing the discrimination that exists against new entrants, in particular poorer developing countries.
5. The Task Force recommends that the Government immediately launch a major public inquiry of the industrial sectors that are likely to be at a long term competitive disadvantage in relation to developing countries, with a view to adopting effective adjustment measures.
6. The Task Force recommends that Canada support the attempt to devise a "social clause" to be included in the General Agreement on Tariffs and Trade which would hold the signatories to a fair labour standards code.
7. The Task Force recommends that Canada ratify the Common Fund Agreement and make the financial contributions it entails.
8. The Task Force recommends that the General Preferential Tariff be extended to include all of the manufactured products of the world's poorest countries and that graduation criteria be established to identify those countries no longer in need of preferential treatment.

Appendix A

Informal Discussions

I At the United Nations

Canada's Ambassador and Permanent Representative to the United Nations, Mr. Michel Dupuy, provided extensive briefings throughout the Special Session and arranged informal meetings with the following:

- The Right Honourable Michael Manley, Prime Minister of Jamaica;
- Rafael M. Salas, Executive Director, United Nations Fund for Population Activities;
- Dr. Perez Guerrero, Minister/Special Adviser to the President of Venezuela on International Economic Affairs;
- Jean Ripert, Under-Secretary General of the United Nations;
- K.K.S. Dadzie, Director-General for Development and International Economic Co-operation, United Nations;
- His Excellency Donald F. McHenry, Ambassador and Permanent Representative of the United States to the United Nations;
- His Excellency Brajesh Chandra Mishra, Ambassador and Permanent Representative of India to the United Nations;
- Sarbuland Khan, Representative of His Excellency Niaz A. Naik, Ambassador and Permanent Representative of Pakistan to the United Nations;
- John Small, Deputy Secretary General (Economics), Commonwealth Secretariat.

While in New York, members met also Professor Miles Kahler, Professor of Political Economy, Princeton University.

II In Washington

Informal conversations were held with the following:

- Richard Frederick, Development Policy Adviser, Department of the United States Treasury;
- Guy Erb, Deputy Director, United States International Development Cooperation Agency;
- Robert Hormats, Deputy Director of the Office of the Special United States Trade Representative.

International Monetary Fund

Briefings were arranged by the Executive Director representing Canada in the International Monetary Fund, Bernard Drabble.

World Bank

Briefings by Ernest Stern, Vice-President, Operations, and his officials were arranged by the Executive Director representing Canada in the World Bank, Earl Drake.

Appendix B

Witnesses at Public Hearings

All witnesses who appeared since the Task Force began its study are included.

Organizations are listed and the numbers of the printed issues of the Minutes of Proceedings and Evidence of the relevant meetings are indicated within closed brackets.

The Honourable Herbert Eser Gray, Minister of Industry, Trade and Commerce—(24)

The Honourable Mark MacGuigan, Secretary of State for External Affairs—(20)

His Excellency Shridath S. Ramphal, Secretary General of the Commonwealth—(21)

Jacques Hébert, Chairman, Canada World Youth—(11)

Dr. G.K. Helleiner, Professor of Political Economy, University of Toronto—(8)

Maurice Strong, Chairman, International Energy Development Corporation—(10)

Agriculture, Department of—(11 and 19):

C.F. Brouillard, Assistant Deputy Minister of Regional Development and International Affairs;

Dr. André Renaud, Acting Director General, International Affairs Directorate;

Jean-Paul Ferland, Director of Overseas Programs;

T.H. Anstey, Research Branch.

Bank of Canada—(7)

Gerald K. Bouey, Governor;

Dorothy Powell, Assistant Chief, International Department.

Canadian Apparel Manufacturers Institute—(17)

Max Enkin, Chairman, (President, The Copley Noyes & Randall Ltd.);

M. Davis, President, Apparel Manufacturers Association of Ontario (President, L. Davis Textiles Co.);

E.M. Mertens, President, Alberta Apparel Manufacturers Association (President, GWG Limited);

Claude Lapierre, President, Apparel Manufacturers Institute of Quebec (President, "Claudel Lingerie Inc.");

Norman Wexelman, Secretary-Treasurer, Apparel Manufacturers Institute of Quebec;

David Kaufman, (President, Silpit Industries);

Fred Bryan, Executive Director, Apparel Manufacturers Association of Ontario;

Peter Clark, Executive Director, Canadian Apparel Manufacturers Institute and Co-Secretary, Advisory Panel to the Ministry of Industry, Trade and Commerce on Textiles and Clothing;

Lucie Cartau, Director;

Alven Segal (President, Peerless Clothing Manufacturers Co.).

Canadian Catholic Organization for Development and Peace—(16)

Rev. Father Roger Poirier, o.m.i., President;

Jacques Champagne, General Director;

Michel Rousseau, Assistant Executive Director and Director of Personnel;

Thomas Johnston, Associate Director.

Canadian Council of Churches—(16)

The Rt. Rev. Lois Wilson, Moderator, United Church of Canada;

The Ven. Rev. Harry Hilchey, General Secretary, Anglican Church of Canada;

Rev. Roger Cann, Associate Secretary, Canadian Council of Churches.

Canadian Council on International Cooperation—(4 and 10)

T. Kines, President (National Director, CARE Canada);

T. Brodhead, Senior Vice-President (Executive Director, Inter-Pares);

Richard Harmston, Executive Director;

Ian Smillie (Executive Director, Canadian University Services Overseas (CUSO));

Lawrence Cumming (National Secretary, Oxfam Canada);

R. Dyck (National Director, Overseas Book Center);

Jacques Champagne, Vice-President (Executive Director, Canadian Catholic Organization for Development and Peace);

Ken Shipley, Chairperson, Program Committee (Manager, Canadian Operations, CUSO);

John Tackaberry, Government Relations Officer.

Canadian Labour Congress—(3)

John Harker, Director, International Affairs;

Kevin Collins, Senior Economist, Research and Legislation Department.

Canadian Export Association—(23)

J.H. Whalen, Chairman (President of International Paper Sales Co. Inc.);

T.M. Burns, President;

H. Valle, Chairman of the Development Aid Committee (Vice-President, Corporate Development/Transportation, Bombardier Inc.);

C.G. Smallridge, Director (Senior Vice-President, Shawinigan Engineering Co. Ltd.);

James Moore, Secretary.

Canadian Importers Association Inc.—(12)

Stuart Culbertson, Research Analyst.

Canadian International Development Agency—(2, 11, 19 and 20)

Margaret Catley-Carlson, Acting President;

Glen Shortliffe, Vice-President—Policy;

John Wood, Acting Director, Development Policy Division, Policy Branch;

Hunter McGill, Program Development and Policy Analyst, Food Aid Coordination and Evaluation Centre, Multilateral Branch;

Bryan Dare, International Finance Adviser, Policy Branch;

Brian Ross, Director, Food Aid Coordination and Evaluation Centre, Multilateral Programs Branch;

Anton Enns, Administrator, Voluntary Agriculture Development Assistance (VADA), Special Programs Branch;

Gérard Ouellette, Chief, Agriculture Sector, Natural Resources Division, Resources Branch;

Tom Willis, Agriculture Specialist, Natural Resources Division, Resources Branch;

Guy LeBlanc, Chief, Fisheries Sector, Natural Resources Division, Resources Branch;

P.F. Brady, Economic Policy Adviser, Development Policy Division, Policy Branch.

Canadian Manufacturers Association—(17)

L.R. Douglas, Chairman, CMA Trade Policy Committee (Vice-President and Manager, Business Development, Canadian General Electric Company Limited);

R.L. McCallum, Chairman, CMA Export Committee (Corporate Director of Marketing, Hawker Siddeley Canada Inc.);

H.O. Coish, (Vice-President, Canada Wire and Cable Limited);

W.D.H. Fréchette, Vice-President & Secretary;

L.A. Deschamps, Ottawa Representative.

Canadian Textile Importers Association—(12)

Rod Mersereau, Executive Director.

Canadian Textiles Institute—(13)

Frank P. Brady, Q.C., Chairman (Senior Vice-President, Corporate Services, Dominion Textile Inc.);

Eric Berry, President;

“Centrale des Syndicats démocratiques”—(22)

Paul-Emile Dalpé, President;

Laurent Rivard, Vice-President of “La Fédération nationale des travailleurs du vêtement”;

Gilles Lafontaine, Executive member of “La Fédération nationale des travailleurs du vêtement”.

Confederation of National Trade Unions—(17)

Christophe Auger, Vice-President;

André Dalcourt, Executive Assistant;

Peter Bakvis, Research Services.

Finance, Department of—(2 and 7)

David Hilton, Director, International Programs Division;

Blake Mackenzie, Officer, International Finance Division;

Brian Hunter, Officer, International Programs Division;

L. Yves Fortin, Chief, International Organizations Section, International Finance Division.

Industry, Trade and Commerce, Department of—(2 and 24)

Geoff Elliot, Acting General Director, Office of General Relations;

K.E. McCallion, Officer;

Helen MacNicol, Asia/Pacific Division, Office of Overseas Projects;

Percy Eastham, Director General, Office of General Relations.

International Bank for Reconstruction and Development (World Bank)—(19)

David Hopper, Vice-President, Asia.

International Development Research Centre—(24)

Ivan Head, President.

International Monetary Fund—(7)

Bernard Drabble, Executive Director.

Institute for Peace and Conflict Studies—(14)

Ernest Regehr, Research Adviser.

Institute of Development Studies—(25)

Richard Jolly, Director.

Match International Centre—(9)

Norma Walmsley, President;

Suzanne Johnson, Vice-President and Chairperson of Projects Committee;

Marnie Girvan, Executive Director.

North-South Institute—(5 and 15)

Bernard Wood, Executive Director;

Margaret Biggs, Research Officer;

James Adams, Research Officer.

Project Ploughshares—(14)

Murray Thomson, Educational Secretary.

Royal Bank of Canada—(8)

Edward P. Neufeld, Vice-President and Chief Economist.

Science Council of Canada—(9)

Dr. Clayton Switzer (Dean, Ontario College of Agriculture) Chairman of Food Study Committee;

Dr. Suteera Thomson, Science Adviser;

Dr. Len Siemens, Food Study Committee member;

Charles Beaubien, Science Adviser.

UNICEF—(25)

James Grant, Executive Director.

United Nations Centre on Transnational Corporations—(8)

Sidney Dell, Special Adviser.

United Nations Development Program—(13)

Bradford Morse, Administrator;

Arthur Brown, Deputy Administrator.

World Food Programme—(18)

G.N. Vogel, Executive Director;

William J. Barnsdale, Assistant to the Executive Director.

Appendix C

Other Written Briefs Received

Adélarde Enterprises Limited

Ed Cayer, President

Agricultural Institute of Canada

W.E. Henderson, General Manager.

Association of Canadian Community Colleges

Gordon Thom, President.

British Columbia—Agricultural Aid to Developing Countries and World Disaster Areas Advisory Committee

S.B. Peterson, Chairman.

Canadian Energy Development Systems International

David A. Henry, President.

Canadian Executive Services Overseas

Dr. R.H. Lowry, President.

Canadian Federation of Agriculture (The)

David Kirk, Executive Secretary.

“Carrefour Tiers-Monde Inc.”

André Stainier, Administrator, Task Force on New International Economic Order.

Centre for Developing Area Studies

Thomas C. Bruneau, Director.

Citizens for Foreign Aid Reform Incorporated

Paul Fromm, Research Director.

C.J.L. Foundation (The Committee for Justice and Liberty)

Gerald Vandezande, Public Affairs Director.

Connaught Laboratories Limited

Dr. William A. Cochrane, Chairman and Chief Executive Officer.

Co-operative Development Foundation

Bruce Thordarson, Executive Director.

Export Promotion Review Committee

Roger Hatch, Chairman.

Hunger Project (The)

John H. Hotson, Chairman.

InterChurch Fund for International Development

Dr. Robert Fugere, Executive Secretary.

Manitoba Council for International Cooperation

Vern Ratzlaff, Chairman of the Board.

Organization for Economic Co-Operation and Development

Louis Sabourin, President, Development Centre.

Oxfam-Canada

Lawrence Cumming, National Secretary.

Philip, Dr. L., Economist Management Consultant.

Queen's University

International Legal Studies Programme, Faculty of Law.

Religious Society of Friends (Quakers)

Chris Springer for Kitchener Area Monthly Meeting.

Scarboro Foreign Mission Society

Reverend Tim Ryan, S.F.M., Justice and Peace Office.

UNICEF Canada

Mr. Harry S. Black, Executive Director.

