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COVER ARTIST

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...CONOMIC REVIEW is intended to ... knowledge of and interest in the ...y and economic development ... by a many sided presentation of ... reportage, facts and debate.

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DIARY OF EVENTS

March 20 — The 18 nation International Energy Agency (IEA) of oil consumers agreed to set a minimum consumer price for oil imports to encourage investments in alternative energy sources.

20 — Creation of the Latin American Economic System (SELA) a regional unit of 24 Latin American and Caribbean nations (excluding the U.S.A.) was formally proposed by Presidents Luis Echeverna of Mexico and Carlos Andres Perez of Venezuela.

22 — A multi-national coffee corporation consisting of representatives of Mexico, Venezuela, Costa Rica and El Salvador was formed to regulate the coffee exports of Mexico, Central America and the Caribbean, in an effort to maintain high coffee prices in the international market.

24 — U.S. Congress completed action on a non-binding resolution calling on the Federal Reserve to promote prosperity by easing its monetary policy.

24 — Presidents of Venezuela, Columbia and Costa Rica and the military ruler of Panama signed a joint declaration supporting Panama's claim to full sovereignty over the Panama Canal Zone.

24 — UN ECOSOC Committee on National Resources in Tokyo meets till April 4.

29 — President Anwar Sadat announced that Egypt would reopen the Suez Canal to international shipping on June 5. The Suez was closed since the 1967 Six Day War with Israel.

31 — Egyptian Foreign Minister formally called on the Soviet Union and U.S. to reconvene the Geneva Peace Conference.

April 1 — Inter Parliamentary Union commenced its sessions in Colombo.

1 — World's population passed 4 billion according to a consultant attached to the United Nations.

4 — Denmark cut its bank rate from 9% to 8%. The new rate was effective from April 7. The old rate was in force since January 14.

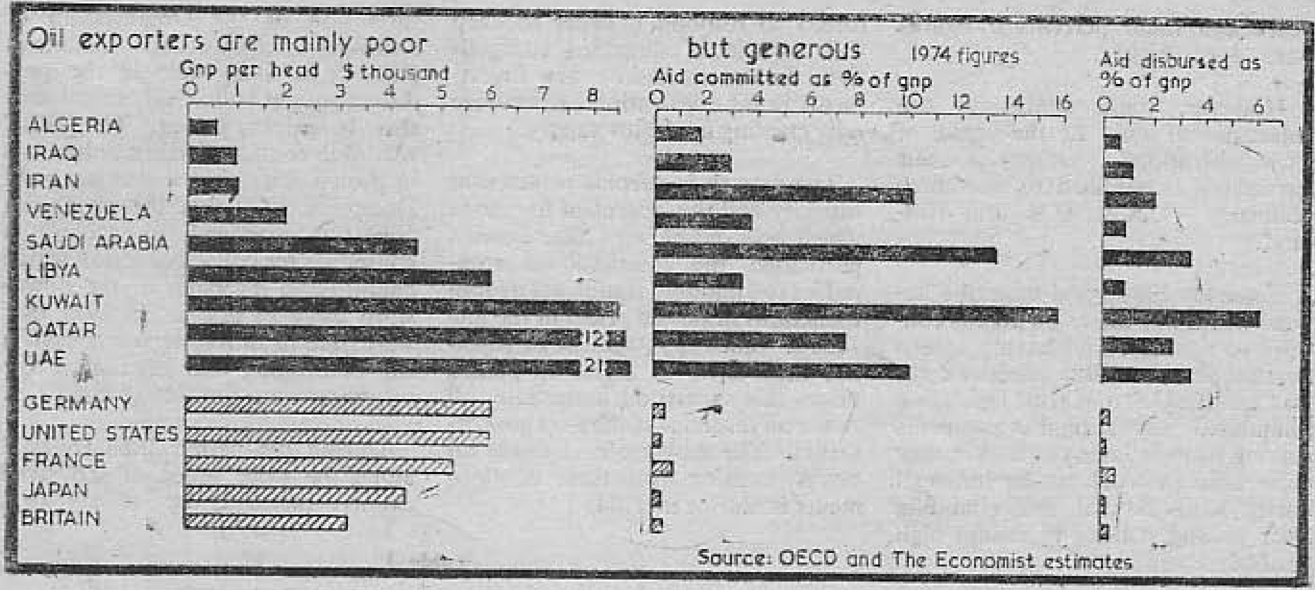
7 — 11th Session of the UN Committee for Development Planning in New York meets till April 18.

7 — Oil producing and consuming nations met in Paris. At the 18 nation meeting the oil producers formed a united front with the under-developed consuming countries against the industrialised nations by insisting that the Summer Conference consider not only oil but the general subject of commodities as well.

8 — ECOSOC commences its 58th General Sessions in New York.

28 — 6th colloquium on intra-regional technicians training of the C-Plan opened in Kuala Lumpur.

29 — Commonwealth Heads of Governments meeting opens in Jamaica.



BLACK GOLD

The series of concerted cut backs in production, price increases and embargoes on supplies to certain countries towards the end of 1973, by the Arab Oil producing nations, has altered dramatically all international payments relations. The impact these measures have made on the entire international order and the internal economic growth of all countries around the world is now being felt, in one way or another by all nations—developed and developing, oil exporting as well as oil importing.

To say, however, that the present energy situation (it is not really a 'crisis') was a direct result of the political events of late 1973 in the Middle East is not merely an over-simplified explanation but even a misleading one. Several reputed authorities and organisations have firmly established that this situation was the final result of a long chain of events—a total disregard for energy planning and over consumption by the major consuming countries, certain manipulations by the large oil companies ; and the many successful attempts of the petroleum exporting countries to limit exploitation of what what in many cases was their sole, and finite resource, and also to obtain a fairer share of oil revenues and control over the foreign owned oil industries operating in their countries.

Ever since the end of Word War II the growth of affluent societies in the West was largely due to direct subsidizing of these economies by the producers of the Third World. This period which saw the rapid rise of consumer societies in the West and the consequent pauperization of the Third World was accompanied by rapid falls of prices of produce of the Third World whilst it saw a further escalation of the prices of exports from the Western countries.

In common with other primary products like tea, cocoa, rubber and copper oil prices fell during the post-war period as a consequence of monopolistic practices, reaching their lowest level in 1970. As a means of safeguarding their just interests an oil producers' association was formed in 1960, (Organization of Petroleum Exporting Countries — OPEC) to confront the giant monopoly. Consequently from January 1974 the OPEC increased the posted price of a barrel of crude oil to U.S. $11.65 which was four times the price that prevailed in January 1973. As a result the additional revenue of major oil exporters is estimated to have exceeded the 1973 level by some $65 billion. Of this an estimated $55 billion has come from the developed countries and the balance $10 billion from the developing countries. This dramatic shift in world income and capital distribution (specially the historically significant separation of capital from its association with people of West European stock) at a time when the capitalist world was already moving towards a recession, would have profound and widespread implications for many more years.

Oil Companies

Up till 1973 the oil industry outside North America and the communist world was controlled by seven international majors (the so-called seven sisters). These companies were responsible for some 80 per cent of all oil production in these regions, while they also controlled 70 per cent of total refining capacity. In addition, they were operating either directly or indirectly through long term charters, well over 50 per cent of the tonnage of the internationally operating tankers. A few years ago these percentage figures were even higher.

However, these companies are international only in the sense of their operations. Otherwise their ownership is confined to just three countries — U.S.A., U.K. and Holland.

Since the 1930's and upto the second world war the seven majors constituted a near cartel having agreed market shares. But effects of the war and the U.S. anti-trust legislation eliminated any formal agreements among them in later years. Yet they were able to work as an informal cartel with mutual understanding over pricing policies to ensure high profits.

For many years there was serious concern in Europe over the seven international Companies' controlled system of oil pricing. The delivered price of oil in Western Europe was calculated by them on the basis of posted prices in the U.S. and freight calculated as though the oil was shipped from the Gulf of Mexico although most of it came from Venezuela and the Middle East.

The existence of such favourable prices made the oil industry highly profitable attracting several new producers in many parts of the world. In addition, in 1959 the U.S. Government insisted that only 12 per cent of any year's projected demand for oil could be met out of imports. As a result of this decision many United States domestic oil Companies that had invested abroad in oil exploration to find cheap oil to be shipped home had to seek other outlets. All these producers now looked to the European Market whose rapidly expanding economies and the increasing substitution of oil for coal was expanding consumption at a rate of 15 per cent per year.

Marketing companies and refineries which were not tied to the majors were selling oil well below the officially quoted prices on the basis of posted prices and agreed freight rates. At first, these affected only the fringe of the market of the majors but by 1960's their business was booming. Thus the international companies too were forced to respond in order to keep their own local companies competitive. In the meantime new investments in oil exploration earlier were now creating a surplus supply.

The growth in surplus production capacity and the prevalent low price which was eating into their profits persuaded the international companies to announce significant overall reductions in posted prices in the late 1950's. Since the payment of royalties and taxes is based on posted prices this caused an immediate fall in the oil revenues of the host governments. The movement of crude oil prices resulting from these developments is shown in Table 1.

Table I

The evolution of crude oil prices 1955—1975

Date			Posted Price	Estimated Market Price	% of Summary 1970 Market Price
			$ per barrel	$ per barrel	
January			1.93	1.93	148
May-June		1957	2.08	1.83	141
February		1959	1.90	1.53	118
September		1960	1.80	1.45	112
January		1970	1.80	1.30	100
February	15,	1971	2.18	1.65	127
January	20,	1972	2.48	1.85	142
January	1,	1973	2.59	2.20	169
April	1,	1973	2.76	2.30	177
June	1,	1973	2.90	2.70	208
October	1,	1973	3.01	2.70-3.10	208/238
October	16,	1973	5.12	3.65	281
				Low, Medium, High Estimated Market Price $ per barrel	
January		1974	11.65	8.00 8.00 8.00 8.40 8.65 8.88	

Source: World Bank Estimates January, 1974.

The posted prices continued to fall until 1970 while market prices recorded even sharper declines to reach the lowest level of $ 1.30 a barrel by 1970.

Formation of OPEC

The immediate consequence of the secular fall in posted prices was the formation of the Organisation of Petroleum Exporting Countries (OPEC) in 1960 whereby the producers sought collectively to enhance their bargaining power. The OPEC was able to stem further reductions in posted prices but it was not until December 1970 that the producing countries managed to achieve a consensus for collective action which enabled the reversing of the downward trend in prices. In 1973 they were able to introduce a mechanism for controlling and regularisig the oil output in a number of countries.

During the period 1968 to 1973 alone the price index of industrial exports increased by 49 per cent while crude oil prices declined until 1970 and then increased at a nominal rate until 1973. The price of crude oil was below both the long term scarcity value in terms of depletion of reserves as well as the cost of seeking out alternative sources of energy. This has been a significant contributory factor for the rapid industrial growth of the advanced economies as well as the inefficient and wasteful use of energy. Both factors indicate the degree to which the oil producers (like other raw material producers) subsidised the affluent economies of the West. In addition it has served to the dampen research and development of potential uses of oil also discouraging the development of unconventional substitutes.

On December 23, 1973, the OPEC meeting at Vienna announced a posted price of $11.65 per barrel of crude oil to come into effect from January 1, 1974.[1] This was four times the price that prevailed in January, 1973. The new price was based on a revenue per barrel objective of $7.00 to producer countries.[2] The price has since been extended to hold until September 1975 and is expected to be extended till the end of 1975. Although a revision of oil prices was long overdue as noted earlier a sudden four-fold rise at a time when other commodity prices were also accelerating at an unprecedented rate, and when the capitalist world was moving towards a recession, had widespread implications for the entire world and in particular for the non-oil producing dependent countries in the capitalist world who could ill-afford such expenditure.

One factor the OPEC countries wanted corrected was that the profits made by oil companies as well as the taxes imposed by the consumer governments far exceeded the value received by them. But the company profits did not decline as a result of the price increase. In fact in 1973 the seven majors reaped the highest profits on record while 1974 has proved to be even more promising as shown above in Table II.

Table II

Major oil companies — 1973/74 — profits (U.S. $ million)

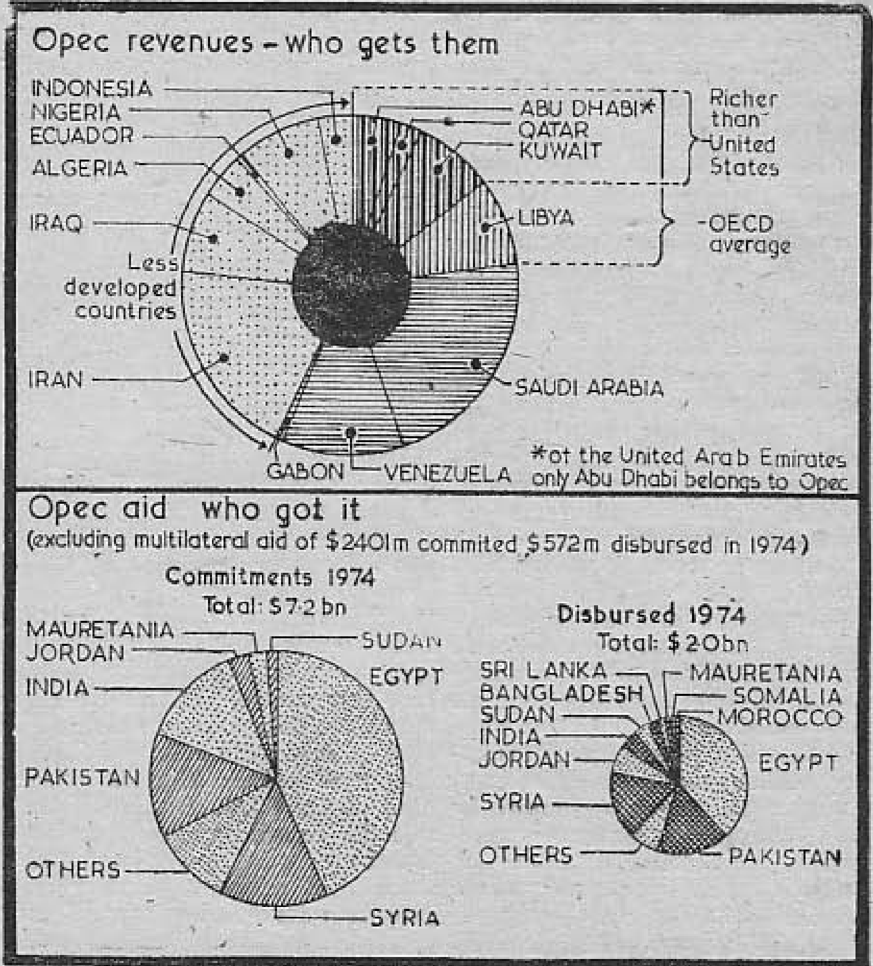
	1973 Net Profit	% Increase 1972-73	1974 1st Quarter* % Increase	1974 2nd Quarter* % Increase
Exxon (Esso) ..	2440.0	59.3	39	70
Mobil ..	842.8	46.8	66	65
Texaco ..	1292.4	45.4	123	111
Gulf ..	760.0	79.1	76	127
So. Indiana ..	511.2	36.4	81	69
So. California	843.6	54.2	92	127
Total ..	6690.0	53.5**	78	95

Source: The Elements No. 1 Oct. 1974

*Percentage increase over corresponding quarter 1973.
**Discounted for inflation.

Oil Revenues

The oil incomes of OPEC countries which increased from $14.8 billion in 1972 to $ 22.7 billion in 1973 is estimated to have surged to $85.2 billion in 1974. Of this Saudi Arabia which accounted for nearly a quarter of OPEC oil exports is estimated to have received $ 19.4



Source: OECD

1 This price relates to a *reference quality* oil of Persian Gulf origin (light oil 34 API). Prices could differ from others depending on quality.

2 Calculated thus:

Posted Price	11.65
Less Royalty	1.46
Less Production cost	0.12
Profit before tax	10.06
55% tax	5.54
Plus Royalty	1.46
Government take	7.00

NEO-COLONIAL BONDS

THE continuing fall in prices of oil for the producers and the continuing rise in prices of manufactured articles from the West, characterised the basic relationship between oil consumers and producers till the early years of this decade. In describing the changes that have occurred within the last few years our sources of information are, by view of our still neo-colonial position, largely those supplied to us by the same forces that keep us in this neo-colonial bondage. Thus, most of the data available in Sri Lanka on the economics of oil, are those provided in the language of our former colonial masters and produced at Anglo-American centres. Consequently, in analysing a situation where a conflict of interest exists between these countries and the Third World (like the present oil situation), we are still governed by the constraints of a colonial situation.

Not only does our information stem from the West, but also our modes of analysing it. The economic analysis prevalent in centres of economic analysis in Sri Lanka still are unconsciously motivated by the fictitious concepts of an efficient resource allocation by the assumed neutral mechanisms of the market.

But in our bondage and in our inaccessibility to correct data, we have many companions. The saga of exploitation by the oil companies is peppered by numerous instances of political chicanery, strong arm tactics, and blatant lies purveyed by the strong on the weak nations.

Thus, when in 1964 Sri Lanka nationalised the largely U.S. based oil companies and offered compensation, this offer was refused and the U.S. cut off all "aid". In Iran when the Mosadeq government attempted to nationalise foreign oil interests, the government was overthrown by an oil embargo carried by the monopolists. In Cuba Standard Oil refused to refine cheaper oil from the U.S.S.R. and when as a consequence, the refinery, was nationalised, the U.S. reacted with strong arm tactics which included embargoes on trade, a naval blockade and armed invasion.

An important element of the oil companies warfare against the producers, as well as consumers is the misleading use of information. It is on their information that most projections of demand and consumption in almost all non-socialist countries indirectly depend (including Sri Lanka). Such information may not be directly sourced to the oil companies, but will reach the consumers through secondary sources like the World Bank, or other agencies which use the direct information supplied by oil companies.

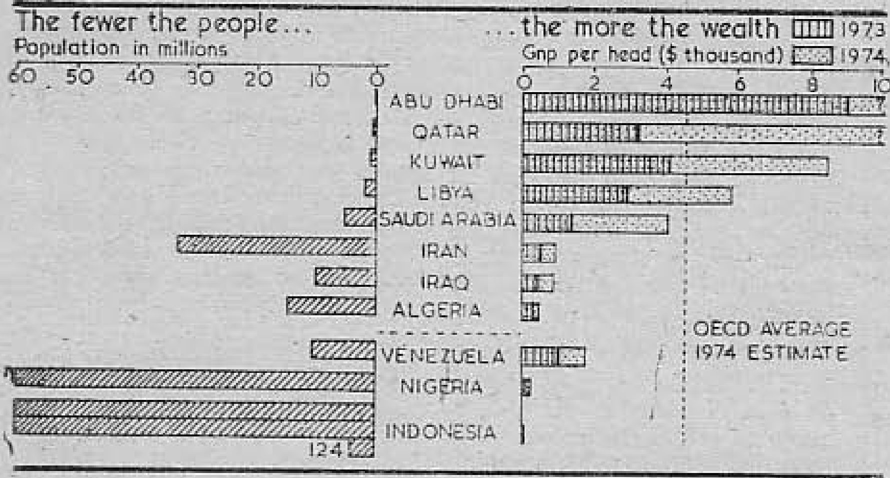
False information usage in accountancy and skilled obfuscation is an essential accounting tool for the oil companies. They often give their stock-holders one picture of how they are prospering and the consumers yet another picture. In 1966 the oil industry in the U.S.A. showed profits of \$3 billion on its own books but reported only \$1.5 billion to the tax office. As Congressman, Charles Banik observed "for their stock-holders they wear their wedding clothes, for the tax man they wear rags".

The power of oil companies has allowed these companies to record information about the extent and spread of oil reserves and hoard this information as exclusively their own to be disclosed to the U.S. Government only on their terms. Thus, recently the State of California sued the Exxon Company to get such information. Their success in hiding the information is such that even an organisation like the C.I.A. finds itself baffled. Thus the former head of the C.I.A. Richard Helms told the Senate Foreign Relations Committee of the U.S. that "the C.I.A. had difficulty in estimating petroleum reserves because U.S. oil companies were secretive and would not share such information with anybody."

Because of their influence on the economy, as well as their control on vital information the oil companies can manufacture situations to suit their ends. It is becoming clear that the "Energy Crisis" at least as far as it affected the U.S. is to a very large extent such a creation of the oil companies. Recent evidence in the U.S. Congress and press reveal that, the "Energy Crisis" at least as far as it affected the U.S. was largely stage managed at the end of 1973 by the oil companies. This situation was due to the ability of the companies to so control the world-wide distribution of oil as to maximise profits. (In times of surplus, it has kept petroleum products off the market doing the reverse in times of shortage). In 1973 and 1974 the manipulated crisis in America resulted in very large profits for the companies. In spite of U.S. having an all-time high fuel stocks in 1974, by so timing their propaganda, as well as with-holding and release of petroleum to the consumer, the companies were able to make massive profits. The surprising suddenness with which the big queues at filling stations in the U.S. appeared and disappeared, the quick jump in prices and company profits during the acute period of the American 'Energy, Crisis' confirmed in many Americans minds that the whole thing was stage managed.

Another aspect of this information manipulation is the inordinate emphasis being paid to the rapid erosion of existing fuels. A former executive of the petroleum company, Occidental, Christopher Rand and MIT, Professor Maurice Adelman have given ample evidence that there is no shortage of fuels in the world. To quote Rand "the inventories of the world's (total) available fuel have been increasing rather than diminishing, even when measured against the annual rise in the rate of the world's consumption".

billion with Iran coming second with $14.9 billion. The five major Middle East producers together would account for $54.4 billion or 64 per cent of income.



The London *Economist* estimated that the OPEC countries were piling up reserves at the rate of $115,000 per second fast enough to buy the Bank of America in six days, IBM Corporation in 143, and all the companies listed in the world's major stock exchanges in 15½ years.

During the closing months of 1974 it was estimated that the OPEC would accumulate reserves of $65 billion during that year despite (*a*) a reduction in oil consumption (*b*) a sharper rise in their imports than originally envisaged and (*c*) the rise in OPEC aid from next to nothing to $2.5 billion. The World Bank estimated that by 1980 their surpluses would amount to a staggering $650 billion. The OECD considered that it would be considerably lower about $350 billion. The difference in the estimates arises from the assumption with regard to future prices and the volume of exports.

This level of surpluses has two serious implications for the rest of the capitalist world. In the first place the $ 65 billion OPEC surplus is a current balance of payments deficit to be shared by the rest of the world. The OECD estimated that its 24-member countries as a group would have a deficit of $40 billion leaving a $25 billion deficit to be borne by the developing oil importing countries. (OECD is a collection of rich countries whose present rich state is due to past patterns of trade which benefited them. Their projections — specially the continuous emphasis on the impact of oil on poor countries is to be seen in this light).

The Problem of "Recycling"

The rise in price of oil hit the market economies at a time when they had been subjected to other unstabilizing factors that had led to a collapse of the earlier monetary system. Coming as a major structural change in the capitalist world the massive annual shift of dollars to Arab hands has created much concern in Western economies and has given rise to a concern among them for the so-called problem of "recycling" the dollars; that is, of getting these dollars back into circulation in the Western economies.

It has been estimated that an annual surplus of $65 billion in Arab hands amounts to roughly a withdrawal of nearly two per cent of the capitalist world's spending power into Arab reserves. It is felt that if this quantity is left unspent in Arab hands as savings it will contract Western economies' activity by about 8—10 per cent. This would be sufficient to convert the average post-war growth of around 5 per cent of Western economies to an annual 3—5 per cent fall. But since the world was already moving towards a recession before the oil price rise the fall in output could be even larger than this.

The "recycling" problem for Western and other economies allied to them can be "solved" by the Arabs spending their money in two ways. Firstly, they can spend the money to buy manufactured goods from the Western economies thus rejuvenating the lagging Western economies. This has already happened in the case of some European economies and the recent upsurge of their lagging economies is attributed partially to the Arabs' spending power. The Arabs can also spend their money by buying into the Western capital markets.

America has advanced its own scheme, the so-called 'Kissinger Plan'. Under this scheme the developed industrial countries should not become indebted to the new rich OPEC countries. Instead a 'safety net' of $25 billion should be set up to provide oil loans to members of the Organisation for Economic Co-operation and Development. According to the *New York Times* such a fund would enable the industrial countries to borrow as a group, surplus oil revenue on their own money markets and then lend it to the weaker industrial countries. This would amount to the establishment of a single bank for the industrial world for recycling the dollars and would be the only place where the oil producing countries can profitably invest their capital. Thus all investments made by oil producers would eventually find its way to this bank. This "secondary recycling of petro-dollars", the paper says, "should put the industrial nations, rather than OPEC, in political control of the oil-money surplusses".

The 'Kissinger Plan' implies also that this single bank would co-operate closely with the International Energy Agency which has been set up by 19 rich industrial countries.

America has been in the forefront for seeking confrontation with the OPEC countries. At the Summit Conference of OPEC heads of state held in Algiers in early March, tentative agreements were made on how to carry the OPEC view point at the Producer Consumer Conference in Paris. This latter conference held last month broke down due to the intransigence of the U.S. when it strongly opposed the OPEC plan of linking oil prices with prices of Third World produce generally.

IMPACT ON SRI LANKA

Despite the availability of a vast hydro-electricity potential Sri Lanka has been increasingly dependent on oil as a major source of energy. Its relative cheapness and the free availability besides the ease of handling and distribution helped sustain a compound growth in consumption of 5 per cent a year since 1970. Since the establishment of the refinery at Sapugaskande in 1969 almost all the oil requirements of the country have been refined here out of imported crude oil. Products that are not used locally have been exported and this has become an important source of foreign exchange earnings in recent years.

Until 1974 the refinery has been operating at full capacity consuming 1.8 million metric tons of crude oil a year. This is equivalent to less than two days output in Saudi Arabia or half a day's production in all OPEC countries. Production at the refinery is geared to obtaining the kerosene oil requirements of the country.

TABLE 1

Sri Lanka : Trade in Petroleum Products

(*Rs. million*)

	1971	1972	1973	1974
1. Import of Petroleum Products ..	164.0	186.5	273.7	916.7
2. Export of petroleum products (including bankers and aviation fuel supplies)	86.5	88.7	137.8	350.5
3. Net imports (1-2) ..	77.5	97.8	135.9	566.2
4. Value of all imports ..	1986	2064	2715	4554
5. 1 as a per cent of 4 ..	9	9	10	20

Source : 1. Ceylon Petroleum Corporation.
2. Central Bank Annual Reports and Staff Studies. Vol. 4 No. 1.
3. Sri Lanka Customs.

Along with the growth in consumption and the rise in world market prices the country's net foreign exchange bill on oil imports has been rising steadily. (See Table 1). Despite the sizeable growth in the export of petroleum products the net value of imports increased from Rs. 77.5 million in 1971 to Rs. 135.9 million in 1973 and to Rs. 566.2 million in 1974. The sharp rise in the 1974 value of imports was due to the four-fold increase in the crude oil prices. Consequent upon this increase net oil imports of the country which accounted for 9 per cent of all imports in 1971 increased to 20 per cent in 1974.

The import price of fertilizer too increased markedly during 1974 as a result of the rise in crude oil prices. Its import value increased from Rs. 59.0 million in 1971 to Rs. 221.0 million in 1974. Thus the net foreign exchange outlay on the import of these two commodities increased by Rs. 540.3 million in 1974 compared with the earlier year.

The deficit in the current account of Sri Lanka's balance of payments widened from Rs. 246 million in 1973 to Rs. 1171 million by 1974. In fact the net increase in the value of petroleum and fertilizer imports has accounted for 56 per cent of the deterioration in the current balance of payments.

It must be noted however, that it was not only the prices of these two commodities that led to the aggravation of the foreign exchange crisis faced by the country. The prices that Sri Lanka had to pay for three other essential imports — rice, flour and sugar — too recorded nearly large increases during 1974. (See Table 2). In fact almost all the country's imports made in 1974 were at prices well above that prevailed an year earlier. This is confirmed by the rise in the Central Bank's import price index (calculated with 1967 as the base year) from 209 in 1973 to 370 in 1974.

Consequent to the rise in crude oil prices the domestic sales prices of all fuel oils were revised in January 1974. On an average the increases amounted to nearly 100 per cent. The effect of the price increases on the domestic consumption of oil is shown in Table 3. Total domestic consumption declined by 21.9 per cent in 1974 compared with 1973. The sharpest declines are in the use of regular petrol by 37.4 per cent and heavy diesel by 35.4 per cent. The latter was almost entirely due to the thermal power plants not being used during 1974 to generate electricity because of the higher price of oil. Auto diesel shows the lowest decline in consumption amounting to 12.9 per cent. This indicates a shift in the use of vehicles from other fuel consuming types to diesel driven ones despite a decline in the mileage covered by the Ceylon Transport Board.

On the whole the 21.9 per cent fall in consumption in response to doubling of prices shows a very low price elasticity of demand amounting to only 0.39. This indicates the essential nature of the products. It also shows that raising the prices of commodities of this nature seriously affects the welfare of the community unlike in other less essential items.

The balance of payments impact of the oil price hike shows only its direct effect on the economy. Its indirect effect could be more widespread. This in-

TABLE 2

Imports of Rice, Flour and Sugar 1972/74

	1972	1973	1974	Change Absolute	1974/73 %
Rice					
Quantity: Th. tons ..	262	338	297	— 41	— 12.1
Value: Rs. Mn. ..	142	332	798	+ 476	+ 147.8
C & F Price: Rs. per ton ..	544.25	953.18	2,685.82	+1,732.64	+ 181.8
Flour					
Quantity: Th. tons ..	324	365	442	+ 77	+ 21.5
Value: Rs. Mn. ..	216	458	938	+ 580	+126.6
C & F Price: Rs. per ton ..	667.26	1,254.20	2,124.20	+ 869.84	+ 69.4
Sugar					
Quantity: Th. tons ..	214	190	42	— 148	— 77.9
Value: Rs. Mn. ..	250	334	230	— 104	— 31.1
C & F Price: Rs. per ton ..	1,168.16	1,752.16	5,485.75	+3,733.59	+213.1
Total value of rice, flour and sugar: Rs. Mn. ..	608	1,114	1,966	+ 852	+ 76.5

Source: Central Bank of Ceylon Annual Report for 1974

cludes the rise in the prices of Sri Lanka's imports, in particular intermediate and capital goods originating in developed countries where costs have risen. It also includes the resulting higher freight rates. Within the country, the higher costs of production may adversely affect export prospects.

Aid Receipts

In bridging the deficit in the balance of payments current account in 1974, Sri Lanka received aid in the form of grants amounting to Rs. 254 million, which is the highest amount received so far in a single year. Under the "Oil Facility" of the International Monetary Fund Sri Lanka also received Rs. 271 million.

Aid received from oil producers in 1974 was confined to a two-year accommodation received from the Kuwait Central Bank amounting to Rs. 21 million. But large amounts of 'Oil Aid' are on the pipeline for 1975 in addition to a grant of Rs. 47 million already received from Saudi Arabia. This includes a $32 million commitment by Iran to be repaid in four years by supplying tea. Iran also has pledged a $8 million loan and a further $32 million for an urea project. This project is to be set up with a further $25 million to be provided by Kuwait. A vastly enhanced flow of assistance is expected from oil producers in 1975 in addition to these commitments.

These aid pledges and the easing of prices in world commodity markets may, to some extent, ameliorate the foreign exchange problem in 1975 but Sri Lanka may be compelled to depend increasingly on foreign borrowings to maintain the flow of her basic import requirements.

TABLE 3

Inland Sales of Petroleum Products

	1973 Price Rs.	1973 Qty. M. tons	1974 Price Rs.	1974 Qty. M. tons	Per cent change 74/73
Petrol					
Super ..	5.75 – 6.55	81,486	12.50	64,416	—20.9
Regular ..	5.30 – 6.10	48,741	12.00	30,507	—37.4
Auto Diesel ..	2.14 – 2.74	279,716	4.90	243,667	—12.9
Kerosene ..	1.32 – 1.92	269,571	3.60	212,757	—21.1
Heavy Diesel ..	1.53 – 2.13	68,196	4.60	44,059	—35.4
Furnace Oil ..	1.23 – 1.83	230,604	3.90	168,076	—27.1

Source: Ceylon Petroleum Corporation.

INVESTMENTS

The OPEC have been investing their new won money in Western Capital Markets on a large scale. It is estimated that around 35 per cent of the oil surplus estimated at $60 billion has gone into the Euro dollar market which is a generally free money market of Western Europe. Nearly a quarter went to the U.S.A. and about the same share to domestic money and capital markets in Europe. The balance, something over 10 per cent, was lent directly to governments or placed with international organisations.

West Germany is a major target for oil investors because of its strong economy. Here, Kuwait bought 15 per cent of Daimler/Benz while 25 per cent of Krupp Steel subsidiary was bought by Iran for $40 million with the facility to appoint a director for the parent Krupp Board. Kuwait is to buy Tower Manhattan in Paris a 28 storey office block now under construction for an estimated £39 million. These and many such take-overs have caused alarm in some Western capitals. The Union Bank of Switzerland has announced that it will keep tabs on voting shares falling into foreign hands. In Britain the treasury announced that all foreign ownership of shares over 10 per cent must be reported. In France too any foreign investments which would lead to 20 per cent or more of company ownership by foreigners must get Finance Ministry approval. But Germany and U.S.A. do not appear to be yet ready to seek such protectionist control.

The protectionist tendencies in the West are a strong contrast to their early advocacy of free movement of capital. Hitherto such movements had been from the countries peopled by European stock to other countries. Now with a reversed situation both protectionist and racial instincts seem to have been aroused.

OIL AND INFLATION

The capitalist world at large has been experiencing an unprecedented high rate of inflation in 1974. The year's average was 12.9 per cent though nearing year's end it had reached 14.2 per cent. Industrial countries together had a rate marginally less with wide differences among individual countries. At one extreme was Japan with a rate of 22.7 per cent with Italy 19.1 and U.K. 16.0 closely following. At the other end West Germany with 7 per cent had the lowest rate of price increase. The less developed countries together had a rate of price increase of around 30 per cent with oil exporters recording significantly lower 18.2 per cent which was however higher than that of the industrial countries.

The industrial countries have been blaming the higher oil prices as the main cause for the inflation. But the Shah of Iran claimed that oil prices had added only one per cent to the inflationary trend. If only the direct effect of oil price is considered, this may be true but the indirect effects as well as the multiplier effect of it on other sectors should also be taken into account in any such calculation. But one thing is clear. Before the oil price rise, towards the latter part of 1973, it became evident that the widespread boom condition in the industrial countries which showed a growth in real output of over 6 per cent in 1973 would give way to a rate of about 4 per cent in 1974. At the same time the price level was expected to rise at some seven per cent as in 1973 and 1972. In other words, a continuation of slower growth and serious inflation was already apparent before the emergence of the oil situation.

While there is no agreement as to who is responsible for the upsurge in the price level, the OPEC countries have been warning that the price of oil should be revised to take into account the rise in the prices of their imports. They argue that although the oil price remained unchanged since January 1974 the industrial countries have not been able to check inflation. This and the fluctuation in the value of the currencies in which oil is priced, has eroded the revenues received. The U.S. dollar which has declined by 6 per cent since the ending of Smithsonian parities declined a further 2 per cent this year.

The OPEC has been expressing serious concern over this situation. To counteract the fall in the purchasing power of oil revenues an OPEC working party has put forward three suggestions.

(*a*) A Kuwaiti proposal to link oil prices to an index of dollar movements against other currencies. Such a scheme operated since 1971 until October 1973 when producers took the power to fix prices unilaterally.

(*b*) A more radical plan by Algeria and Iraq to drop the dollar altogether as a basis of calculating prices and revenues and to substitute other unspecified currencies possibly in the form of a petro currency or local currencies, or the I.M.F.'s Special Drawing Rights. During the last six months the SDR has appreciated by 6 per cent (1 SDR = $1.185 to $1.25). A more recent suggestion on the same lines is the establishment of a unified Arab currency.

(*c*) A suggestion by Iran that oil prices should be linked to the rate of world inflation and the cost of imports from the West.

But none of these proposals have been adopted so far mainly at the insistence of Saudi Arabia not to break the promise of holding prices until September 1975. In the meantime, however, Iran has changed the parity of its currency by breaking away from the dollar to a direct parity with the SDR. A new rate of exchange with the dollar has been established as a consequence. Saudi Arabia followed suit while Kuwait is also moving in the same direction. These may not have an immediate effect on oil prices since most existing contracts are in pounds and dollars but it will enable them to revalue their currencies reducing the cost of their imports particularly from the West. What all this indicates is that the OPEC is concerned about maintaining the oil revenues.

Revised Estimates of Deficits

Despite the absence of any large scale official recycling plan for OPEC surplus the consequences have not been as serious for Western economies as originally envisaged. In the first place earlier estimates of the total size of the surplus has been revised downwards. The OPEC surplus for 1974 originally estimated at $80 billion has turned out to be 'only' $65 billion. On the one hand the OPEC countries have proved to be readier to spend than any one guessed in addition to providing a considerable amount of aid to poorer countries. This had left only about $45 billion to be absorbed by the capital and money markets of the West. The second reason for the milder than expected impact is that the financial markets have proved a great deal more robust than was generally supposed to absorb these funds. Based on these developments the OECD has now revised its deficit for 1975 from $40 billion to $27.5 billion and believes that they would be in balance by 1980. The accumulated surplus of the oil exporting countries by 1980 estimated by the World Bank at $ 600 billion has also been scaled down to $200-300 billion.

Two further reasons behind the revision of these estimates are the lower oil consumption (for the first time world oil consumption declined by one per cent in 1974) and the massive economic development plans now being drawn up by oil exporting countries. Iran is by far the most successful in planning and the State has augmented the expenditure in its Fifth development plan by no less than 90 per cent to run at some $69,000 million. In constant terms the rate of economic growth to be achieved is estimated at 25.9 per cent a year with per capita income expected to rise from $ 556 to $1,521 by 1978. The present forecasts are that Iran's balance of payments would be in the red by 1977 or 1978. Iraq like Iran plans development on a more organised way than others and these two countries possess considerable resources of land, water and minerals outside the oil sector. For many others, however, economic activity will continue to be based on instuitive rather than assessed needs. Potential for non-oil development, despite dreams of a green Arabia is limited. Yet as evident from recent negotiations and deals with developed countries these countries will spend large sums of money for development.

FOREIGN AID

OPEC countries have transferred $2.6 billion of "aid" (grants and loans) in 1974 out of a total commitment of $9.6 billion in addition to the funds provided to the World Bank and the IMF. There are a number of aid funds established by OPEC countries. The Kuwait Fund for Arab Economic Development (KFAED) has lent $456 million over the last 12 years. The Arab Fund for Economic and Social Development with a capital of $340 billion was set up in 1972 also due to Kuwait persuasion. Beneficiaries of this are also Arab countries. The $900 million Islam Development Bank that the late King Faisal sponsored is to concentrate on helping non-Arab Muslim countries. Major contributors to the fund are Saudi Arabia ($240m), Libya ($110m)

Petroleum Corporation Chairman says . . .

The Economic Review interviewed the Chairman of the Sri Lanka Petroleum Corporation, Mr. E. R. S. R. Coomaraswamy on the prospects of oil in Sri Lanka. Highlights from this interview :

Q. How close are we to obtaining our own oil ?

A. Not very far I would say. Drilling started at the end of April on our first exploratory production oil well, one mile East of where the first test well was dug at Pesalai. This well is virtually on shore and if we go according to schedule and if our anticipations are correct, oil should be coming up by early next year.

Q. At what stage of our oil exploration programme are we right now ?

A. Surveys and tests show that oil should be available in commercial quantities in the Mannar area. We are now about to begin on a production well here. We have also called for world wide tenders to contract for drilling of 6 to 10 exploratory wells in the Palk Basin and Gulf of Mannar. Tenders close on 15th May and work is due to start by September this year. We have also commissioned the Russian seismic survey vessel to carry out detailed seismic surveys since more than seven promising structures have been identified. This vessel will also now carry out surveys in other areas such as the western, southern and eastern waters around the island.

Q. Why is it that we are contacting for only the drilling of the 6 to 10 new exploratory wells?

A. We are already satisfied that there is oil both off shore and on shore under our soil. This was confirmed by the team of Russian specialists in October last year. There is no reason, therefore, for us to share this precious natural resource with anyone else by offering them partnership rights. We will only pay them for sinking the wells.

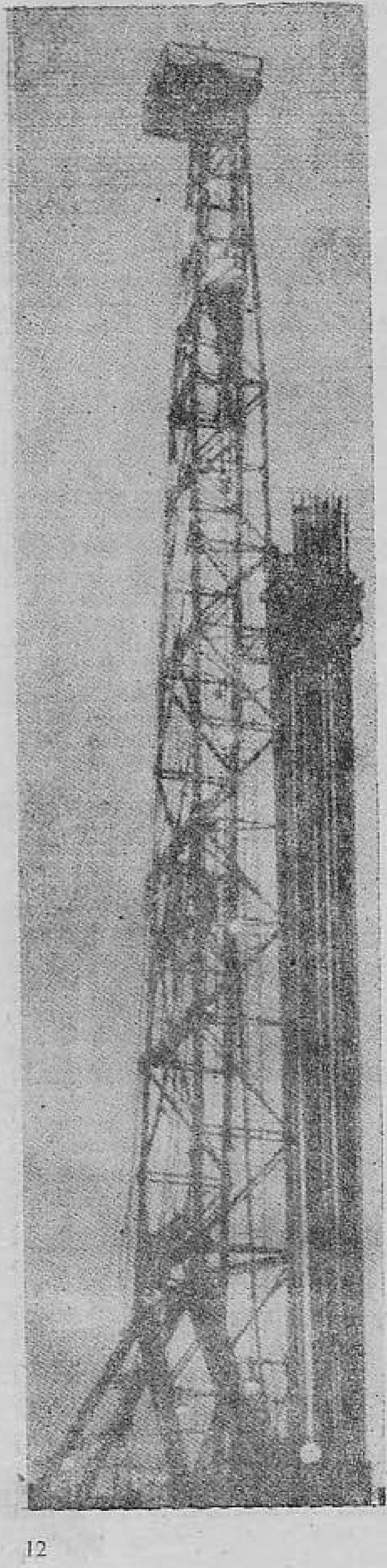
Q. On what evidence are you satisfied that oil is available here ?

A. This has been proved by the test drilling carried out so far. There was clear evidence that (1) the gas extracted from these wells showed definite traces of oil trapped underground (2) there were traces of oil in the rudimentary deposits extracted in drilling (3) the limestone brought up showed signs of oil (4) the Soviet experts have told us that they are reasonably satisfied of the existence of oil in good quantities.

Q. Do we have an idea of the quantities of oil available for exploitation ?

A. It is difficult to say at this stage, but from the evidence so far it appears to be sufficient at least to meet our own requirements.

Sri Lanka Prospects for Oil



The oil rig at Pesalai

The exclusive right to explore, exploit, produce and refine petroleum is vested in the Ceylon Petroleum Corporation. The Corporation's exploration activities began in 1967 when under a contract with Compagnie Generale de Geophysique of France a reconnaisance Reflection Seismic Survey was carried out from April 1967 to April 1968, covering the entire land area and very shallow water areas of the N.W. sedimentary belt of the Island. A total of 380 line miles of seismic profiles of which 47 were at sea was completed during the survey. The purpose of this survey was to determine the sub-surface structural folds and faults, the stratigraphic details of the sediments, and the depth and altitude of the crystalline basement floor in order to determine the possible presence trap conditions for the accumulation of oil and gas. The UN Economic Commission for Asia and the Far East provided a team of consultants to supervise and direct the survey.

In August 1968 after studying the report of the Reflection Survey the ECAFE team stated that the possibility existed for the occurrence of oil and gas.

In 1971 a team of Soviet specialists led by Prof. A. N. Kalinin, of the USSR. Dept. of Geophysical Science, after studying these reports concluded that the Reflection Seismic method employed gave reliable information of only the low velocity part of the sedimentary section and that the lower horizons had not been sufficiently examined.

Prof. Kalinin recommended that the future programme should be in four phases namely: (1) Conduct of a Refraction Seismic Survey in selected areas in Mannar and Jaffna, to the extent of 200 line kms. The objectives of this survey would be to determine the depth to the Pre-Cambrian basement and the thickness of sedimentary cover and the identification of the known and new faults in the Pre-Cambrian basement and the sedimentary complex in order to elucidate the main features of the basement structure and that of the sedimentary complex. This would give a valid basis for the location of stratigraphic test wells. (2) Drilling of three stratigraphic test wells in the Mannar and Jaffna areas on locations selected on the results of the Refraction Survey. (3) Marine seismic survey of 3000 line kms. in the sedimentary basin of the Palk Strait and Mannar in order to determine the trap areas in the continental shelf of Sri Lanka. (4) Prospective drilling on land and sea areas if the earlier phases prove encouraging.

Under a contract entered into with Messrs. Technoexport, a team of Soviet specialists were in Sri Lanka during August to December 1972 to carry out the Refraction Seismic Survey. The report on this survey was handed to the Corporation in May 1973. This report confirmed the earlier prediction of the Soviet specialists that the crystalline basement is deeper and that prominent lower members are present in the stratigraphic sequence. It showed that the Sri Lanka side of the Cauvery sedimentary basin, namely the "Palk-Mannar" section, may prove rather promising for obtaining of crude oil in commercial quantities. Unlike on the Indian side, predominance of marine facies over continental facies can be expected here.

Based on the report of this refraction survey two drill holes locations had been determined. A contract was entered into with Messrs. Technoexport in October 1972 for the drilling of three stratigraphic wells. Under this agreement the contractors provided the equipment and material necessary for the drilling and also provided the required technical assistance.

The first test well was drilled in 1974 and Butane and Propane gases were found signifying the presence of oil. On the results of this it was decided that drilling two more test wells was not necessary.

The third stage of carrying out a marine seismic survey was started in October 1974 by Technoexport.

Their contract has now been extended to cover the Western, Southern and Eastern areas of Sri Lanka where prospects for oil appear to be very good, contrary to earlier beliefs.

Work commenced at the end of April on the drilling of an exploratory production well in Pesalai about a mile east of where the test well was drilled. Technoexport will provide two more land rigs to start drilling in Delft and Punguduthivu areas as well.

Worldwide tenders closing 15th May have been called for drilling 6-10 exploratory wells in the Palk basin and the Gulf of Mannar areas. Work on these wells will commence around September this year. The Chairman of the Corporation, Mr. E. R. S. R. Coomaraswamy stated that it would not be possible at this stage to state what quantities of crude oil would be available but confirmed that it would be in commercial quantities. The cost would depend on where the oil would be found—higher, on off shore wells than the shore. But according to initial estimates it may not exceed $1 per barrel. The indications are that the oil could be of high quality—low sulphur—middle distillage type suitable for our needs. A well known journal estimates that oil resources could be between 01-1 billion barrels oil and gas 0.1 to 1 billion cubic feet. But this estimation is based on an examination of the geological features rather than on a seismic survey.

Potential Indian Ocean Oil Resources

	Billion bbl.	Million Cu.ft. Gas
Malagasay Republic	1–10	1–10
Mozambique	1–10	10–100
Tanzania	–	1–10
Kenya		0.1–1
Somalia		0.1–1
P.D.R. Yemen		1–10
Oman	10–100	1–10
Pakistan	10–100	1–10
India	10–100	10–100
Sri Lanka	0.1–1	0.1–1
Bangladesh	1–10	10–100

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and UAE ($120m). The Special Arab Fund for Africa with $200m has been set up to help African countries. A sum totalling $100m of this is provided by Saudi Arabia, Kuwait and Libya. About half its commitments have been handed over in 1974. Africa is also looked after through the Africa Development Bank—to which Nigeria and Libya contributed $30 million each. Venezuela concentrates on its immediate region through many Central American and Caribbean organisations.

Yet only a few of the OPEC countries are rich. Nearly 25 per cent of these revenues go to UAE, Quatar, Kuwait and Libya where the per capita income exceeds that of the OECD average. These four super rich countries have minute populations totalling 3.5 million, so that they could well afford to help poorer countries. Their combined oil revenue is $20 million or Rs. 5,700 per head roughly the American or West German GNP per head. But the rest of the OPEC is not in the same position.

About 76 per cent of OPEC oil revenue goes to 9 countries whose per capita GNP is only $450 a year which is less than one tenth the $4,600 average of the OECD; and 43 per cent of OPEC revenue goes to six countries, Iran, Iraq, Algeria, Nigeria, Indonesia and Ecuador who are clearly in the developing country category having an average GNP per head of only $300.

FUTURE PRICES

The recent changes in their currency links introduced by Iran, Saudi Arabia and Kuwait makes one wonder whether the OPEC countries are in fact serious in reducing oil prices as claimed by Saudi Arabia and Iran—the two countries producing half the OPEC output. The situation is somewhat paradoxical, for Kuwait has been cutting the price of its oil to some customers through the credit terms it has been offering which has meant a reduction below the current official price of $10.47 to as low as $8.50. It is also reported that Algeria and Libya have introduced disguised price cuts to dispose of their surplus.

The OECD estimates that by 1980 OPEC will have increased capacity to 42.8 million barrels a day from the 30.5 million of 1973 largely due to the 6m. b/d increase planned by Saudi Arabia and higher output by Iraq, Iran, Indonesia and Nigeria not including the 2-3m. b/d that Mexico is likely to add for its newly discovered reserves in Chiapas and Tabasco states. But if prices remain at current levels the demand for OPEC oil will be 28.7 m. b/d by 1980. Even at $6 the demand would not exceed 36.8 m. b/d This projection does not take into account possible fuel savings. The OECD believes that OPEC would prefer a price reduction rather than wrestle with the thorny problems associated with allocating production cuts.

But one question is: won't at least some countries be willing to accept production cuts? In fact the OPEC is drawing up a scheme. Kuwait, Iran and Algeria have sponsored a plan which they claim could reduce output 20 per cent below 1973 level for as long as two years, if cuts are properly apportioned. The plan places Algeria, Equador, Gabon, Nigeria and Indonesia in a category of states in dire need of high oil revenues. A 'medium need' group consists of Iran, Iraq and Venezuela while the surplus revenue states are Saudi Arabia, Kuwait, UAE, Libya and Quatar. It is said that so far only Saudi Arabia and Quatar have not signified approval of the plan in principle. Saudi Arabia has already made large cuts to meet the drop in world demand and help maintain the OPEC sponsored prices. Anyhow, allocating cuts could in fact be a thorny problem with long term price stability remaining in doubt.

For any assessment of whether the current prices will prevail in the future, however, a great many factors should be taken into account. The most relevant among these should be (*a*) future trend in oil demand stemming from the current price level (*b*) potentialities regarding increases in supply and (*c*) the political coherence of OPEC.

DEMAND

(i) A major change in price is unlikely in the short term—say upto

1976 mainly because of low short term price elasticity of demand. It has become a basic necessity in the economic and industrial structure of consuming countries. Its use for mobility fuels, heating and as a petro-chemical feedstock has reached a degree of dependence that cannot be drastically reduced in the short term.

(ii) In the long run the picture is less clear and depends on the speed of technical innovations and introduction of new sources of energy. Efforts to develop alternative supplies such as North Sea and Alaska oil as well as the current prices making extraction of oil from tar sand and oil shale economically could affect demand for OPEC crude. Many countries all over the world are now excavating for oil. New sources of energy, pose a greater threat to the long term stability of current prices. Some important developments in this direction are (*a*) conversion of electricity generation to coal or nuclear power, (*b*) more extensive use of hydro electric power, (*c*) accelerated development of alternatives to the internal combustion engine and conversion of domestic and office heating to gas.

SUPPLY SITUATION

In the short and the medium term more populous countries such as Indonesia, Nigeria, Ecuador and Algeria and possibly Iran may continue to expand production with Kuwait and Libya likely to intensify cuts. This implies that major increases will have to come from Iraq, Abu Dhabi or Saudi Arabia who have on occasions referred to plans to increase output to 4.0, 3.5 and 20.0 million b/d respectively by 1980. The production policy of these countries will, however, not be determined by technical factors but fundamentally by political considerations—both internal and external.

This brings us to the political coherence of OPEC. The question hinges largely on whether and when peace would return to the Middle East. The presence of sharp differences is evident on the issue of oil prices. It is well known that at the Quito meeting of June 1974 some countries such as Algeria, Iraq and Venezuela pressed for further increases while Saudi Arabia was seeking a 20% price cut. If the war threat lasts it could reinforce the will to stand together and restrict the oil market.

Another factor that could have affect is the voice of consumer nations. America has suggested a floor price of $6-7. Their influence could make some producers waiver on prices. For instance, a clear change in the attitude of Iran on prices is now evident. All told a significant price reduction in real terms may occur in the long term but it would be unwise to expect a major fall in the short run.

Oil in Communist Countries

Among the Communist countries U.S.S.R. and China have greatly expanded output during the last few years. In the Soviet Union production which amounted to 1000 mn. tons during the period 1961-65 is expected to double during the same period in 1970s. Daily output in 1974 amounted to 1.25 mn. tons. Chinese output in 1974 at 53 mn. tons was 20 per cent above the 1973 level. With plentiful new discoveries and a 26 per cent increase in production in the Tachery plant (which is in the producing region) during the first quarter of 1974 which exceed the domestic needs of China a sharp rise in China's oil exports is expected.

In 1975 China plans to export 8 million tons of crude oil to Japan at $12.10 a barrel as against $12.80 to 4.5 million tons supplied in 1974. Another three million tons are to be shipped to North Korea, North Vietnam, Thailand, Philippines and Hongkong. The value of crude oil exports to Japan alone is estimated to bring $7.60 million in foreign exchange.

The Soviet Union supplies nearly 90 per cent of oil requirements of the East European partners of the 'Comecon'—the Communist trading group. These include Bulgaria, Czechoslovakia, Hungary, East Germany and Poland. Rumania having its own oil does not import but is negotiating for supplies next year.

The Soviet Union has signed contracts to supply oil to several Western countries in 1975 which include 6 mn. tons to Finland, 3 mn. tons to West Germany, 1.5 mn. tons to France and one million tons to Spain in exchange for supply of lime and brandy. She is also to supply 50.3 mn. tons to Eastern Europe this year, 27 per cent more than in 1974. Supplies to these countries which were at very low prices were more than doubled in 1975 from 16 to 37 ($21.50 to $49.50) per ton.

Exploration Begins

During 1972 Messrs. Technoexport of the U.S.S.R. carried out a Refraction Seismic Survey in the Jaffna and Mannar areas where it was found that sedimentary deposits occurred. On the results of this data sites were chosen for drilling of stratigraphic test wells during 1974 and 1975. Drilling progressed steadily from February 1974 and basement was reached by mid July, 1974. During the course of this drilling the first traces of oil were detected in the mud fluid very close to the basement. A radio signal received from the base camp 'Sputnik' at the headquarters of the exploration project in Colombo on July 30, 1974 stated: "AFTER DRILLING THROUGH CEMENT PLUG WHILST CIRCULATING MUD A THIN FILM OF OIL APPEARED STOP SOVIET PARTY CHIEF CONFIRMS THAT IT IS SRI LANKA CRUDE OIL STOP A SAMPLE WAS COLLECTED FOR ANALYSIS MESSAGE ENDS."

In the picture, armed guards stand by during blasting as Soviet technicians conduct seismic operations in a lagoon off Pooneryn at the opening stages of exploration.

Yet, the Soviet prices avearge 29 per cent less than the average sales price at Middle East terminals, $78.50 per ton. However, to cushion the impact of higher prices the Soviet Union has agreed to grant ten year credit on favourable terms and as further compensation to pay higher prices for machinery and light industry products bought in Eastern Europe.

The U.S.S.R. also imports oil in payment for technical and other assistance rendered to many countries as well as in fulfilling barter trading arrangements.

NON-OIL PRODUCING DEVELOPING COUNTRIES

For developing countries that lack an adequate raw materials base oil shortages mean that their efforts to industrialize are now likely to be severely constrained by rising world prices of industrial inputs and by increasingly large balance-of-payments deficits.

Fertilizer production, which is of particular importance to the developing countries, has been especially hard hit by increased oil and ammonia prices (the latter up 729 per cent over a two-year period). A number of developing countries have had to revise downward planned agricultural output because of problems in fertilizer supply. Although such high price increases seem unlikely to continue in the next few years, it would be unrealistic to expect prices to return to their previous levels.

The balance-of-payments deficit of the oil-importing developing countries, according to U.N. estimates, is likely to worsen considerably during the next few years. A deficit of $15 to $22 billion was forecast for these countries for 1974, which may be compared with reserve holdings at the end of 1973 of $29.4 billion. Thus, many of the non-OPEC developing countries may find it increasingly difficult during the years ahead to finance the importation of intermediate inputs, replacement parts and capital goods.

It is quite clear, therefore, that the effects of increased import bills for oil would have far-reaching repercussions on the developing countries. One important policy question is how fast the developing countries should develop other sources of energy. The answer depends essentially on the cost of imported oil in relation to the cost of the alternatives, but the issue covers a wide range of associated economic development problems. These include the question of how soon it could be done, of availability of technology and of availability of resources for investment.

These recent demands in the energy situation have led to the general realization that new international political and economic balances have been taking shape for some time. For far too long has the old international economic order operated for the benefit of the industrialised few, while exacerbating inequalities throughout most of the rest of the world. There are now growing demands, more than ever before, to establish a new international economic order which as proclaimed by the Sixth Special Session of the General Assembly of the United Nations must be "based on equity, sovereign equality, interdependence, common interest and co-operation among all States".

Local Skills and the Oil Rich Countries

The growing prosperity in the oil-rich Middle East States has been absorbing Ceylonese skills. Nearly 250 Ceylonese have been selected already to work on one of the many new projects now taking shape in once-backward Oman. Till recently, many of the Middle East States looked for skilled labour to the surplus workforces of India and Pakistan. A local shipping firm has been recruiting Ceylonese for Oman for a group of British-American and Omanese investors who sent their representatives here late last year to begin recruitment. Over the last few months 244 Ceylonese ranging from surveyors, draughtsmen, building foremen, mechanics, masons, carpenters, clerical personnel, drivers, heavy plant operators, cooks and other domestic aids have been selected for employment in Oman. 157 have already gone over and the others will be flying out in the next few weeks.

Terms of employment for these personnel are on a contract basis extending from 1-2 years, and monthly salaries range from £100 to £150 for more senior and qualified personnel, whilst for the lower grades they range from £50 to £100 per month. These incomes are apparently free of tax with, according to the local recruiting firm, free accommodation tents provided. Several Ceylonese cooks have also been employed to cater to the Ceylonese who will be accommodated in a closely-knit community of their own.

Word of Ceylonese skills (and also their cheapness) has got about fast and at the beginning of May the representative of another Oman firm was looking around in Sri Lanka.

The Inspector General of Police of Oman is also a Ceylonese, originally from Anuradhapura. Oman is an autocratic state with a reported operational insurgency on at present.

Public Law 480

THE news about the unusual withdrawals of P.L. 480 funds recently by the U.S. Embassy in Colombo has once again aroused public interest in these funds, particularly in the manner and purposes for which they are used.

America for Aid . . .

It is well known that the U.S. Government has to its credit with the Central Banks in many countries large funds in local currency. These funds represent the value in local currency of food—mainly wheat and wheat flour—which is supplied to the country concerned by the U.S. Government under its Public Law 480 (P.L. 480). One of the objectives of this law is to supply surplus U.S. grain and allied products as aid to food deficit countries. Although described as aid these food supplies are not given free, and the aid element is present because the receiving country is not called upon to make payment immediately or in the short-term in convertible currency. Instead, payment is made in local currency and placed to the credit of the U.S. Government with the Central Bank of the receiving country.

The general understanding is that these funds will be used by the U.S. Government for expenditure within the aid receiving country, and the broad purposes of such disbursements are agreed on between the two Governments. However, the public controversies which take place from time to time in various aid-receiving countries show that this agreement is not always clearly defined or strictly adhered to by the U.S. Government.

At various times allegations have been made in India by various political parties that these funds are used to support particular political groupings and also dissident movements. Here in Sri Lanka, attention has been focussed once again on this question by the statement on May Day by the Minister of Finance that the U.S. Embassy, which normally withdraws about Rs. 800,000/- per month out of these funds (presumably for their monthly expenditure), had withdrawn Rs. 2 million in March and had sought to withdraw about Rs. 1.5 million in April. According to the Minister, the latter withdrawal had not been allowed by the Central Bank and the matter was currently the subject of representations by him to the Prime Minister. Since this matter will no doubt be sorted out by the Government to its satisfaction, the specific arrangements made between the two Governments at the political level need not concern us here.

As noted earlier, these funds represent sale proceeds of U.S. food aid—mainly wheat and wheat flour. They are funds that normally would have been remitted in convertible currency to the foreign supplier of the commodity if the transaction was a commercial one. But, in this instance, as a measure of aid to the imported country, immediate payment in foreign exchange is not required. Instead, payment is made in local currency, and the monies held in account with the Central Bank.

These monies are available for use locally by the U.S. Government, and for this purpose withdrawals of rupee funds are made from time to time by the United States Embassy in Colombo.

Judging by the statement made by the Minister of Finance, it would appear that there are no definite arrangements governing the withdrawal of these funds. Apparently, the Central Bank can refuse to release these funds but it is not known whether this ability to refuse is derived from a definite arrangement governing releases or from a mere understanding that there should be consultations before large releases are made.

. . . and Aid for America

Although no definite information is available regarding the purposes for which these funds may be used or whether such purposes are formally defined in any agreement, it is known that these funds are available for rupee expenditure by the United States Government. The major item of such expenditure is the cost of running the United States Embassy and its associated organisations such as the United States Information Agency (U.S.I.A.). These funds are also used to make local payments to American experts working in this country, as well as the expenditure of American tourists in Sri Lanka.

The impact of these funds on our economy is derived directly from the manner in which these funds are accumulated and the purposes for which they are used. In view of the large volume involved, and the presence of the aid element, imports under P.L.480 are not made after calling for competitive quotations, and the selection of the supplier determined by commercial criteria including quality, price, and payment terms as is done in respect of normal imports. As a result, the price paid for supplies under P.L. 480 may not be the most competitive at a given time and the quality may not be quite that which is suited for our requirements. There is also the special requirement that the concerned goods have to be carried in American flag ships. The justification for over-looking these disadvantages is no doubt the easy payment terms which constitute the aid element. At the same time, without detracting from the fact that such supplies help to ease the local food situation, it must be recognised that these are surplus stocks which the U.S. Government is happy to be rid of.

While acknowledging the facts that imported flour would also have to be paid for in foreign funds in the absence of P. L. 480, timing and release of imported flour from such aid also has an impact on local productivity. This was evident in the recent depressing effect on sorghum and maize cultivators after the release of big stocks of flour, including P. L. 480 flour.

The tendency to overlook commercial criteria in consideration of the aid element in the transaction may be somewhat justified if the aid element is substantial or realistic. The purposes for which the corresponding rupee funds are used locally cast serious doubts on whether this is in fact true. What is really taking place is that surplus United States wheat is being used to meet payments which should normally be made by inward remittances of foreign exchange.

Among the purposes for which these funds are used are the maintenance of the U.S. Embassy and the U.S.I.A. which is its propaganda arm, the local payments made to the very large staff at these establishments, payments made to United States experts in Sri Lanka, and the expenses of American tourists. At the same time, while we have to pay a higher than market price for the wheat because of the waiving of commercial criteria, the various Sri Lanka goods and services are obtained by American citizens at competitive market prices.

The payment in rupees for goods and services in Sri Lanka by foreigners constitutes exports not paid for in foreign exchange. If the area in which these transactions are permitted is large, then the country is deprived of a large amount of foreign exchange which it otherwise should have received. This is particularly harmful because rupee funds are used by Americans not merely to pay for services but also to buy valuable goods which otherwise could have earned foreign exchange. It is well known that the resident foreign community are keen buyers of our antiques, works of art, handicrafts and other hand-made goods such as heavy furniture, and they take these along with them when they leave. In the case of the local American community all these are paid for out of P.L. 480 funds.

The availability of large rupee funds for expenditure in Sri Lanka also encourages the proliferation of American experts. It is not unknown for the American Embassy, working through the appropriate Sri Lanka Government channels, to off-load experts of doubtful value on various government departments and state institutions. One of the considerations persuading acceptance of these experts is the fact that they are paid for by American aid.

Other 'Aid' Programmes

The position briefly set out above regarding the impact of P.L. 480 funds apply in varying degrees to a whole host of other foreign aid programmes. The U.S. Government was the first in the field of foreign aid having started in the late 1940s, and is still one of the largest aid-givers. Many other countries have followed them and entered the field in recent years. However, most of the other aid are deferred-payment trading arrangements covering a wide range of products. The rupee proceeds of the imports are not made available for local disbursements, and the imports have to be paid for by Sri Lanka in foreign exchange at an agreed date later. The adverse impact on an economy is minimised as a result, and there are hardly any subversive potentialities in these transactions.

Nevertheless, there are a few other aid-givers who finance various operations within the country, and their activities warrant careful watching due to their subversive potential. Among the most significant of these is West Germany. Recently it was revealed that 3 important institutions established in recent years with West German assistance — the Sri Lanka Foundation, Marga Institute and Rural Development Training & Research Institute are or were at one time financed by Trusts (Stiftung) affiliated to the three major political parties in West Germany.

It is clear that our national interest and integrity demand a very comprehensive review of Government policy with regard to foreign aid. There is no doubt that in the present difficult foreign exchange situation, the freedom of action available to the Government is very limited, and no drastic policy changes may be practical. Even so, it is still possible to take a closer look at the local operations (as distinct from imports) financed by foreign aid, and to take the steps that are urgently needed to preserve our national, cultural, and social integrity from the activities of foreign aid-givers and their agents.

The Locust and the Elephant

The momentous and historic significance of the last two weeks of April 1975 for the peoples of Asia and for the world in general are slowly beginning to be realised. On the 17th of April the army of the Royal Government of the National Union of Cambodia liberated Phnom Penh. Two weeks later the world received news of the surrender of Saigon and South Vietnam.

The events in Vietnam bring to a close 30 years of war in Indo-China against French colonialism and U.S. neo-colonialism. Calculations made on the basis of conventional warfare by counting manpower and fire-power, had shown clearly that the odds were stacked against the Indo-Chinese. In derision Western analysts therefore called this the war of the locust against the elephant. Ho Chi Minh's reply was, "Today the locust fights the elephant, but tomorrow the elephant will be disembowelled". What seemed then, to many, words of foolish bravado, have now come true. Millions of Asians, some reluctantly, others gladly will draw their lessons from the locusts and the elephant.

The events in Indo-China last month have overshadowed all else. FOREIGN NEWS SURVEY this month offers this special feature on the events in Indo-China and their implications for Asia and America.

Throughout Asia, the question being now asked, is why a gentle people like the Vietnamese who never did any harm to the American people, had to suffer such agony, death and destruction. It is in answering this question that the seemingly complicated equations now floating around, become clearer. But two things are clear. We are witnessing the dawn of a new era for Southern Asia and we are also watching the death throes of the latest in the line of the world's empire builders—the American Empire. Whatever the explanations that may be put forward by the policy makers in Washington, the U.S. debacle in Indo-China means at least this, the American empire is folding up. The winds of change are blowing, this time from the East. The removal of so many Asian countries from the orbit of the Western world may seem a zig zag, but there is surely a connecting line through China, North Korea, Dien Bieu Phu, Phnom Penh and now Saigon. It is yet unclear whether the greed of Big Business interests in the U.S.A. may once again cause the Government of the U.S.A. to fling itself against Asia's interests.

Simon Bolivar, the great Latin American patriot once said "the United States seems somehow to be destined by Providence to overwhelm America with misery in the name of liberty". Something similar can be said of the U.S.A. and Asia. The era of American empire building which began with the Monroe Doctrine in the 1830's and which gathered momentum in the inter-war years to reach a pinnacle in the post second-World War period, is now travelling in reverse motion. As the dollar became stronger and overtook the pound, U.S. troops had consolidated themselves in Japan, South Korea, Philippines and Western Europe and a series of island bases around the world. U.S. investments abroad escalated to staggering heights. The armies and the bases protected the dollar and they followed each other to the four corners of the globe. As a euphemism for keeping the markets of the world open to the dollar America spoke of stemming and containing national liberation movements through an assumed anti-communist crusade, supposedly in the name of democracy and liberty.

In his career as the protector of the "Free World" President Truman in 1945, went into attack with his 400 million dollars to establish the Greek dictatorship. Having established this European foothold and with the Marshall Plan in hand the challenge to the receding British imperialists was thrown in Iraq. Mossadeq was overthrown by the CIA and despite all attempts at the International Court of Justice, the British had lost their hold on the Middle East to the American oil barons. The stage had been set for ARAMCO and the other U.S. oil companies to enact the scene now being played in the Arab world.

In the middle of all this came the liberation of the People's Republic of China. The American ally, Chiang Kaishek was defeated and took refuge in Taiwan. Dean Acheson spoke of the "Loss of China", almost as if something that belonged to America had been lost. General MacArthur massed 100,000 troops on the Chinese border, but the planned invasion was called off. For a moment mainland China was given up, but the myth of Taiwan as the true representatives of the Chinese people continued for the next 25 years. With the departure of China from the Western orbit America concentrated on South Korea, where Synghman Rhee a resident of the U.S.A. for 28 years was brought back and planted on Korean soil. In the Middle East Eisenhower in collaboration with Camille Chamonn invaded Lebanon and in Indo-China the French received support.

Meanwhile, Dien Bien Phu fell to the Vietnamese army led by Nguyen von Giap and the French were driven out of Indo-China in humiliation. In an interview granted in 1969, Giap said, "History doesn't always repeat itself. But this time it will. We won a military victory over the French and we will win it over the Americans, too. Yes, their Dien Bien Phu is still to come. And it will come".

At Geneva, Vietnam was divided and Diem was set up to rule the

South. He was removed in time by his American supporters and now 20 years later Thieu goes complaining bitterly against the "treachery" of America on the chess board of American ambitions. In an apparent neo-Dullesian phantasy (Dulles in the fifties had even declared neutralism immoral), the policy of containment was carried through by a series of military pacts surrounding the crucial areas of the world. In 1954, the South East Asia Treaty Organisation (SEATO) was set up and a year later the Baghdad Pact in the Middle East and ANZUS covering Australia and New Zealand had been signed. The policy of a ring around the roses with China and the U.S.S.R. in the middle, was being consolidated. For a brief moment it seemed as if Asia was secure for American business interests.

On the other side of the world, Latin America was being pushed into the service of the U.S.A. The massive riches of the Latin American continent had, ever since the Monroe doctrine, become coveted by American business interests. The long history of struggle and protest from Bolivar to Zapata had been suppressed by the force of arms. The overthrow of Arbenz in Guatemala, Cheddi Jagan in British Guiana and Allende in Chile are continuing phenomenon in the strait jacket of a single policy.

Kennedy, young and personable, seemingly full of hope, was projected as a saviour, but, it was he who escalated the war in Vietnam and committed American support so fully to the regime in the South. Kennedy jettisoned Dullesian theories of containment and in his own anti-communist crusade chose the path of battling for the minds of people in the Third World. He set up the Alliance for Progress, under which dollars and technicians were sent to the far corners of the world in the name of development. The beneficiaries of all this effort it is now revealed by numerous studies were largely big U.S. interests and their agents in Latin America. The Latin Americans dubbed this Alliance, "the Alliance for the Progress of Imperialism," For every dollar that went to Latin America from the U.S.A., three went back. Latin America was granting aid to the U.S.A.

Latin America had apparently become the backyard for the U.S.A. to dump its surplus goods and rob its wealth. But *enroute*, there had been other victims. The Caribbean people, from the days of the Triangular Trade, have suffered at the hands of the Spanish, the French, the British and the Americans. The islands of the Caribbean have become tropical playgrounds for the North American rich. They had become victims, as the calypso goes, of rum and coca cola and the Yanqui dollar.

The scramble for Africa, however, developed much later and the old European colonials still dominated. But American business later entered South Africa, Angola and Mozambique in a big way. But the recent events of African in Guine Bissao, Mozambique and Angola are signals of rapid change. The train carrying Africa to freedom and liberation seems to be approaching closer. Empires in Africa too are folding up.

In the sixties with phrases like, "let every nation know that we shall pay any price . . . . . . to assure the survival and success of liberty", policies of economic and cultural domination were being followed by the U.S. Administration. McArthur had been dethroned but he was replaced by intelligence and espionage experts, cultural exchange programs and "aid" programmes. American Universities too were brought into the pay of doubtful Big Business activities in the Third World. The exposure of operation Camelot, where scholars carried out spying operations under the guise of sociological studies in the Third World caused an uproar but did not end in their curtailment. The values of the American way of life were being plugged every where through the instrument of the Peace Corps. There was protest within America and men like Senator Fullbright wrote in public about the scandal. John Foster Dulles may have been over-enthusiastic but he was candid when he said, "America has no friends, it has only interests". But protest did not bring a halt and the programs were continued and multinational agencies like the World Bank became instruments for collective action on behalf of U.S. interests. The exposes and scandals continue as the ITT scandal in Chile shows.

The events of the last month confirm the process of depletion of the American empire. We are witnessing the dawn of a new era in Asia and history has caught up with some anomalies and aberrations. There is a Vietnamese legend which says that "the era of the dragon is a bad period for mankind, but during this era, a flower is born—the flower of the dragon. When it blooms, peace shall prevail and mankind shall go forward to happiness". The flower of the dragon has burst on the Asian horizon and history is catching up with the anomalies and aberrations.

Cost of Viet war

The entanglement in Vietnam cost 56,550 American lives and $ 150 billions, according to U.S. Government figures.

In the 14 years since December 1961, 303,622 American soldiers were wounded and 2,949 were reported missing in action. After the 1973 Paris Peace agreement, North Vietnam released 1,590 U.S. prisoners some of whom had spent seven years in captivity.

The $150 billions spent is the equivalent of $ 7,000 for each South Vietnamese.

North Vietnam, during the same period, received only about $10,000 millions in aid from Moscow and Peking, according to estimates from a reliable American source.

The U.S. Air Force dropped nearly 7.6 million tons of bombs on Indo-China—more than three and a half times the total tonnage dropped by Allied bombers in World War Two. U.S. lost 3,700 jet planes, according to Pentagon sources.

In 1966, there were 180,000 U.S. soldiers in Vietnam. A year later, the figure had reached 400,000. At the peak of the U.S. engagement, the total was 543,000.

The Plunder of Antiques

TOURISM depends on a particular relationship between countries that are rich and countries that are poor. It is also a relationship between countries with old cultures and countries with new cultures. One of the disturbing factors that has emerged from an ongoing study by the *ECONOMIC REVIEW* on tourism is a systematic plunder of the country's heritage by the new rich in the Western countries. As an example of the type of plunder that this entails, we offer below some of the important facts that have emerged in the course of our investigations.

Many of those vendors who upto a few years ago were selling books for local pilgrims (Vandana Poth) at the main centres of pilgrimage—namely the ruined cities—have now switched over to selling antiques to tourists. Among these antiques are some very rare specimens (judged by stylistic grounds) which have been obtained from temples throughout the island. According to information supplied by these vendors themselves there is a systematic ring of suppliers—at least three *mudalalis*—who comb the country's temples and supply this tourist trade with antiques. There is also a brisk sale of rare palm leaf manuscripts (Pus-Kola Poth). This latter trade has reached such ridiculous heights that instead of palm leaf books being sold whole, pages are cut into small strips and sold to tourists as souvenirs for about Re. 1/- per small strip.

At these traditional centres of pilgrimage antiques are openly sold for foreign currency by these vendors and there is a considerable profit in this business. A former General Manager of the Anuradhapura Preservation Board who visited Anuradhapura a few weeks ago after an absence of nearly five years found that there has been a sharp rise in the standards of living of these vendors arising from this trade.

The sale of antiques also goes on either directly or indirectly at almost all the leading hotels in the country. Thus the foyer of the Inter Continental Hotel has a very prominent display and advertisement for a well known antique dealer in Cotta Road. Similarly there are antique boutiques at many of the leading hotels in Anuradhapura, Colombo, Bentota and Negombo. In the rare event of antiques not being sold in the hotel premises itself, there are often shops adjoining the hotels (and which form part of the hotel complex) which specialise in this trade.

Most of the antique shops in Chatham Street and Queen Street in the Colombo Fort area specialise almost exclusively in the sale of antiques to tourists. One such prominent antique shop has a display board advertising the fact that the sale of Chola bronzes have fetched fantastic sums of money in the London antique market. This shop, in common with most others, sell the occasional rare Chola bronzes in addition to numerous Buddha statues, ancient coins and ola books.

Another example of the antique trade with tourists is also seen in the antique shops near Kandy on the Colombo-Kandy road. On one visit to such a shop we were able to observe how eight Kandyan period arecanut cutters of rare quality which were on display were sold. A local collector offered Rs. 60/- for one cutter and his offer was accepted. But since he did not have the money at the moment he said he would collect it in the afternoon. However, a bus load of tourists arrived an hour later and paid Rs. 150/- each for the entire collection of eight cutters, including the one promised to the local buyer.

Some of the main suppliers of antiques to the antique *mudalalis* are often Buddhist monks. Thus a regular supplier of old ola books to the Chatham Street shop referred to above is a Buddhist monk. A few months ago the Police in Anuradhapura arrested a dealer on suspicion of possessing stolen antiques. Inquiries, however, revealed that the antiques were sold to this dealer by the Chief Priest of a not so remote temple. There is also evidence to indicate that tourists are made offers of antiques even from well known temples, as well as from museums. We are aware of an authenticated case of a high dignitary of a well known vihara at Anuradhapura, one of the oldest temples in Sri Lanka offering two rare Hindu sculptures to some white visitors in front of an Archaeological Department official who was travelling incognito.

Decapitated heads from statues like this one, often provided drawing room decorations for the 'Colonial Tourists' of the nineteenth century.

In another case with similar connotations, a recent visitor from the B.B.C. was approached as a potential buyer of antiques by a person alleging to be an employee of a well known museum in the North Central Province. It was allegedly some of the antiques at this museum that were offered for sale to the visitor.

Apart from sales to tourists who come to the country for a few weeks, there is a much more systematic sale to foreign experts, diplomats and the like who are here for a longer stay. Enjoying FEECs rate and very much higher incomes than the local population, they are able to outbid any local buyer. Thus, for example, the houses of some developmental experts of Germanic origin living now in Anuradhapura contain rare statues of the early period which obviously would be exported out of the country when they leave.

Our investigations have also revealed a systematic export by foreigners of antiques, apart from the amateur exports by tourists and other random buyers. There is an Australian who regularly exports antiques, in addition to pseudo antiques which are manufactured. This trade is also carried out by well known local antique dealers who export real antique furniture as well as manufactured ones. There is also a trade in manufactured antiques imitative of the Anuradhapura, Polonnaruwa and Kandyan periods respectively. These are sold by the vendors referred to above, but these harmless reproductions are in addition, of course, to genuine antiques.

There is a law that export of antiques by tourists and any others is forbidden unless with the express permission of the authorities concerned. However, with the massive sale and subsequent export of antiques going on in the country, it is obvious that this law is being flouted openly. It is also apparent that the immunity given to tourists by Customs authorities whereby the belongings of departing tourists are hardly searched also helps in this process. If the tourist and Customs authorities and others concerned like the Cultural Department and Archaeological Department take active steps they could take preventive actions against the rape of the country's heritage. In this article names have been indicated and leads given for numerous convictions, if only the will and patriotism to carry these out exist with the authorities concerned.

MANAGEMENT

New Approaches at Mahaweli Board

Numerous studies had highlighted some of the major reasons for the inability of earlier peasant colonisation schemes to live up to their expectations. One of the largest stumbling blocks in this was the inability of officialdom who set the formal goals for these schemes and for peasants (who were expected to carry them out) to meet on common grounds. Often, the problems as perceived by officialdom and peasants varied drastically. Consequently there was much misunderstanding and therefore an inability to reach development goals.

A few weeks ago the Mahaweli Development Board held a seminar at Maha Iluppallama between potential peasant cultivators and officialdom which could possibly be a major break-through in this communication gap.

Participating in this gathering were persons designated "village leaders" from the villages around the land which are scheduled to get Mahaweli water first, as well as Mahaweli Board officials and invited outsiders. During the two day meeting and close interaction which this seminar brought about, continuous exchange of attitudes and ideas took place. Initially, the village participants played their hitherto structured role as those normally lectured to and they listened in feudal respect, as is the normal pattern in such meetings. But, however, berated by a priest who represented the peasants, as well as by some of the outside invitees, the seminar took a very interesting turn and the hitherto silent peasant leaders broke out of their shells, and indulged in a high degree of criticism of the official-peasant interaction.

Management of the People

A recurring theme in the discussions was how to harness the resources of the village for the purposes of the Mahaweli Development Scheme. After several heated discussions and a high level of actual participation in the discussions by the peasant leaders themselves, it was agreed upon that the resources in the village, for the purpose of many Board activities, was to be channelled through a collective effort.

The consensus was that as much as possible, the hitherto role of officialdom should be reversed. That is, the bureaucracy should be diverted away from its earlier role of a colonial incursion into the rights of people. It also was indicated that officialdom should not act as something temporarily fallen from heaven to occasionally admonish the villagers but more often in practice to put pressure on them. On the contrary, it was the consensus that officers should be used as resource personnel by the farmer collective groups. That is the farmers would collectively tap the officers for the technical and other knowledge they would have as an act of active involvement in the development process. Thus, if this scheme works out, the present situation of officers descending occasionally to admonish the peasants, would change and there would instead be a real exchange of information, with the peasants taking the initiative and demanding the knowledge that the officers possess.

Textiles—Self-sufficiency

Synthetics

The Public Sector entered synthetic textile production from the beginning of May. This was perhaps one of the most significant events in the recent history of Sri Lanka's textile industry. As significant as the announcement earlier this year that Government has decided to call a halt to textile imports. Both measures, however, have passed virtually unnoticed.

The deeper significance of these far-reaching measures should be realized not immediately but perhaps over the next 12-24 months. The entrusting of synthetic textile production to the power-loom workshops, under the charge of the Department of Small Industries, is the first step into "the domain of the private sector synthetic textile oligopoly". The responsibility that the seven power-loom centres in the Kurunegala District will take on is an enormous one. The Public Sector has been put on trial.

Various views have been expressed on why synthetics are hard to get—the queues that form outside some of the synthetic textile distribution points in the city, with monotonous regularity every morning, have baffled most members of the public. The general consensus, from the consumer's point of view, is that the private sector mills are either unable or unwilling to meet the people's requirements. These millowners claim that they are working their factories to capacity, on two or more shifts a day—and still are unable to meet existing demand. The fact remains that local consumer thirst for synthetics has increased intensely in recent times. The current estimates for our population of approximately 12½ million at 2 yards of non-cottons per person works out to an annual demand of 25 million yards of non-cottons. The entire capacity of the Private Sector textile mills, however, is only 15 million to 17 million yards per annum, working on a three shift basis. It is this unfilled gap that has caused the issue.

The answer of the Ministry of Industries to this problem, now is to allow the Government's powerloom centres to step in. The synthetic yarn for these units will be obtained for them through the Weaving Supplies Corporation. Production initially will be in the region of only 2½ million to 3 million yards. But, if these powerloom centres prove equal to the challenge the programme envisaged for them will certainly make a significant dent into the synthetic textile industry in favour of the consumer. Initially, these centres will produce only blended shirtings. Plans are afoot to engage handlooms too, in this task—at the moment 100 handlooms are being tried out on synthetic textiles and this number is expected to be taken up to 12,000 by the end of this year. Handlooms however will produce sarees and trouser materials.

This is indeed a laudable step, but a note of caution is necessary at this stage. There has been evidence that textile manufacturers in the State Sector were unresponsive to tastes of their customers. This symptom of unresponsiveness has also been noted in the suppliers of raw materials such as the Weaving Supplies Corporation and Salu Sala. A more imaginative and sympathetic view of this situation can help to avoid many of the problems that will arise in this new competitive situation.

There is clear evidence that there is a growing preference for synthetics in this country as opposed to cottons—they are said to be longer lasting, wash more conveniently and are also a part of the "status syndrome". Even the National Textile Corporation alive to this situation has conducted successful experiments on a new treatment for cottons which would give some of the characteristics of non-iron, drip-dry synthetics.

Cottons

Though synthetics have grown in demand in Sri Lanka around the world cottons are back in demand and style. Cottons have a higher image in many Western cities. Suitable promotional campaigns to change consumer tastes can possibly help to move consumption patterns back to cottons. Even in Sri Lanka most upper class dress boutiques glamorize cottons.

One of the major producers of powerloom cotton textiles in Sri Lanka, the National Textile Corporation now produces nearly 13 million yards of cotton textiles per annum and is almost annually adding to its production capacity, with the opening up of new large scale mills. Its recent addition was the textile mill at Pugoda in the Dompe electorate capable of producing 6.7 (estimated budgeted figure) million yards per annum.

There is said to be more than sufficient weaving capacity in the country today, but the shortage lies in the area of spinning. To meet this problem two other mills are being set up at Mattegama and at Minneriya and these will concentrate on spinning of cotton yarn. Of the other NTC plants now in operation Veyangoda produces 7.8 million yards of cotton (1974) and Thulhiriya 4.9 million yards (1974). The other major producers of cotton textiles are the Small Industries Department with its powerloom projects, the over 100,000 handlooms distributed throughout the island and the private sector mills. The heavy increases planned for production of cotton textiles could not possibly result in a lowering of prices to the consumer unless the raw material (cotton yarn) is available at cheaper prices.

Cultivation

In the field of cotton growing, the country has much to fulfil and until then, will have to be exposed to the vagaries of the international market as experienced in the past when prices of the finished product had to be sharply increased with an unprecendented increase in the price of cotton. The recent decrease in prices of cotton textiles was also a direct result of the downward trend in cotton in the world market.

Positive action will be needed in this field and the visit of Mr. Kenneth Anthony, a British cotton growing expert under the Colombo Plan, earlier this year, assumes importance. There are ample prospects for growing cotton under irrigation in the Uda Walawe area.

THE ECONOMY

National Product in 1974

As in the case of most other developing countries, the national accounts of Sri Lanka are at best only crude estimates of the total output of goods and services in the economy. The limitations arise partly from an inadequate coverage (*e.g.* activities which are not market-oriented) and partly from estimation procedures which involve a high margin of error. While they may be used as rough indicators of the level of economic activity, they are less meaningful as a basis to draw precise conclusions on the economy particularly in respect of development and economic well-being.

According to the latest Central Bank Annual Report (released on the 30th of April) the G.N.P. at current prices in 1974 amounted to Rs. 19,694 million, which represents an increase of 30% over 1973. However, this increase reflects largely an increase in the price level rather than output. When measured at 1959 constant prices, the G.N.P. (in real terms) was only Rs. 10,731 million, an increase of 3.4% over the corresponding figure in 1973. This is roughly comparable with the performance in 1973 (3.5%) and was considerably higher 1971 than the growth rates of 1970 and 71 (which were 0.9% and 2.5% respectively). Nevertheless, it fell short of the average growth rate of 6% envisaged in the Five Year Plan. There was only a marginal increase in the per capita income in real terms—an increase from Rs. 784 to Rs. 801. The rate of population growth in 1974 is estimated to be 1.6%.

Primary production (agriculture, forestry and fisheries) continued to be the dominant sector in the economy with a share of 33% in the G.N.P. Within this sector while the output of the plantation sector recorded a decline (reflecting mainly the adverse weather conditions and shortage of fertilizer), the output of the domestic agricultural sector (particularly paddy and subsidiary food production) recorded a substantial increase. The net result was an increase in the output of this sector by 5%. The sectors which recorded a decline in output relative to 1973 were (i) mining and quarrying (reflecting the slowdown in gem exports) and (ii) manufacturing (reflecting largely the shortage of imported raw materials). Improved availability of building materials led to an increase in the output of the construction sector by over 7% and the service sector recorded a growth rate of over 5%.

DECLINE IN THE TERMS OF TRADE

Given the importance of foreign trade in the overall economy, movements in the terms of trade are a crucial factor influencing the level of real income in the country. An adverse movement in the terms of trade (meaning a drop in the purchasing power of exports) can wipe out the possible gains from an increase in the export volume. According to the Central Bank data, in 1974, the export price index rose by 55% while the import price index rose by 77% and the result was a decline in the terms of trade by nearly 11%. It has been estimated that this factor led to a decline in the real national income by as much as Rs. 1,143 million which is nearly 10% of the G.N.P. in real terms. In other words, this amount of import capacity was lost to the country as a result of the decline of the terms of trade. A drop in the import capacity of such magnitude necessited an increase in foreign indebtedness in order to sustain the minimum level of imports required by the economy. An import flow of Rs. 1,114 million was financed by foreign aid, loans and suppliers credit in 1974.

EMPLOYMENT AND UNEMPLOYMENT

According to provisional figures, the total number of registrants at employment exchanges stood at 505,935 at the end of December 1974. This represents an increase of 35,444 persons or about 7.5% over the figure at the end of December 1973. However, this data cannot be used as a reliable indicator of the unemployment situation in the country because some of the registrants are employed on a full-time or a part-time basis but want other employment and all unemployed persons do not register at employment exchanges particularly in view of the extremely limited prospects of obtaining employment through such registration. In 1974 only 1,278 persons or 0.3% of the total registrants were placed in employment by the employment exchanges. During 1960-1970, 4,000—6,000 persons or 2-4% of the total registrants were found employment through the exchanges per year. During the period since 1970, this figure has dropped to less than 1%.

Whatever other data are available on unemployment are from sample surveys undertaken at infrequent intervals. The Socio-economic survey of 1969/70 revealed an unemployment figure of 546,000 persons representing some 14% of the total labour force. The Survey of Labour Force Participation Rates undertaken by the Central Bank in the third quarter of 1973 revealed a figure of 793,000 unemployed persons representing some 17% of the labour force. The figures revealed by different surveys are not strictly comparable owing to differences in the definition of unemployment. No figures are available on the extent of underemployment although this is a widespread phenomenon in the country. The total employment in the public sector is estimated to have shown a significant increase in 1974. It rose from 595,627 in 1973 to 653,685 in 1974, an increase of 58,048 or nearly 10%. While in government departments the employment has risen by 7.5%, the corresponding figure for other public sector institutions was 13.8%. Although figures are not available, the co-operative sector, settlement schemes under land reform, subsidiary food production and the tourist industry, would have shown an expansion in employment opportunities during 1974.

TEA

Production Picks up
Export Earnings Rise

Sri Lanka's tea production which recorded a consistent decline over the last seven years (with an exception in 1971) has shown signs of recovery, according to figures reaching the Ministry of Plantation Industries. These figures reveal that production over the first three months of 1975 (116.2 mn. lbs.) was well ahead of that over the same period last year (97.5mn. lbs.). Production is expected to pick up still further over the new season in the coming months and there are hopes that the declining production trend of the last few years will be reversed. The production fall in recent years was as follows :-

1971 — 480.1 mn. lbs.
1972 — 470.6 mn. lbs.
1973 — 465.6 mn. lbs.
1974 — 449.8 mn. lbs.

More impressive than the gain in production is the rapid increase in export values and quantities over the first three months of this year. Export values increased nearly 90 per cent while in quantities there was an increase of 16.6 million lbs. as seen in the figures below.

	Quantity M. lbs.	Value Rs. M.
1974		
Jan.	15.2	41.6
Feb.	32.4	94.5
March	34.8	107.3
	82.4	243.4
1975		
Jan.	32.0	133.0
Feb.	40.9	169.0
March	36.1	162.1
	109.0	464.1

Of the Rs. 464.1 million worth of tea exported in the first three months of this year, black tea brought in Rs. 413 mn., packeted tea Rs. 45 mn. and instant tea Rs. 2 mn.

Biggest purchasers of tea in bulk were Iraq Rs. 64 mn; Pakistan Rs. 57 mn; U.K. Rs. 49 mn; U.S.A. Rs. 38 mn; South Africa Rs. 34 mn. and Iran Rs. 29 mn. The largest purchaser of packeted tea was Libya which bought to the value of Rs. 35 mn. during this period.

COCONUT

Fresh nuts, Oil, D.C. up
Fibre, Charcoal, Ekels down

Exports of Sri Lanka's main coconut products showed a rising trend during the first three months of this year earning Rs. 128 million compared to Rs. 95 million during the same period last year.

Coconut oil exports amounted to 10,788 tons, during these 3 months, an increase of 147% over the corresponding period last year. There was, however, a decline of 15% in the export value when compared with the previous year's figure.

Desiccated coconut exports showed an increase of 32% with exports amounting to 10,333 tons during January-March. The average export value per ton, however, recorded a drop of 12% compared to the same period last year.

Fresh nuts which recorded a drastic fall in 1974 made a recovery in 1975 and during January-March the volume of exports amounted to one million nuts as against 428,000 during the corresponding period last year. Export earnings rose to Rs. 104 million compared to Rs. 67 million during the same period last year.

Coir fibre, coconut charcoal and coconut ekel exports all recorded heavy falls when compared to the same period last year. Coconut fibre exports amounted to 14,721 tons, a drop of about 50% relative to the same period last year. Coconut ekel exports amounted to 555 tons, a drop of nearly 57% relative to the corresponding figure in 1974.

RUBBER

Buffer Stock Scheme takes shape

The proposed Rubber Buffer Stock Scheme will be discussed at the meeting of officials from major rubber producing countries in Kuala Lumpur during the second week of May. This is a sequel to the meeting of Ministers from rubber producing countries held in April to discuss Malaysia's proposal for setting up an international rubber buffer stock pile to stabilise prices.

The scheme envisages a stock pile of 350,000 tons or 10% of current world production of natural rubber; and also the introduction of floor and ceiling prices for natural rubber. The officials meeting in May will discuss details of these proposals and also a coordinated market system proposed by Malaysia, to be later finalised at a meeting of Ministers from the rubber producing countries.

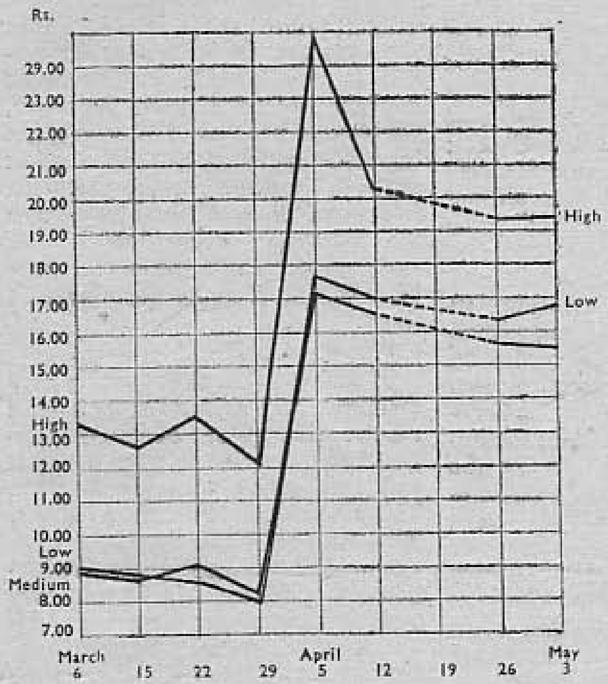
Sugar Prices Tumble

World sugar prices recorded their sharpest fall in thirteen months, at the beginning of May this year, when for the first time since April 3, 1974 the price per ton fell below £200. The sugar price boom reached its peak on November 21, 1974 when an all time high of £ 650 per ton was recorded. All forecasts now point to a still further decline in prices on the international sugar market. Major producers stepped up cultivation last season with the hope of cashing in on the booming market. Brazil, Mexico, Dominican Republic, Hawaii, U.S.A., South Africa and India are all expected to have record cane harvests in the coming season. The European beet harvest is also expected to be good. The F.A.O's Sugar and Beverages Division has forecast that "very favourable weather in 1975/76 would produce a world sugar crop five or six million tons greater than in the current year."

The rapid decline in world market prices of sugar will also leave its impact on Sri Lanka's balance of payments situation, the consumer price index and the drive towards greater production of sugar and its substitutes locally. The quantities of sugar we import in the near future and how far our authorities bring down the current open market price of Rs. 7/50 per lb. can be of tremendous significance to Sri Lanka's sugar production drive.

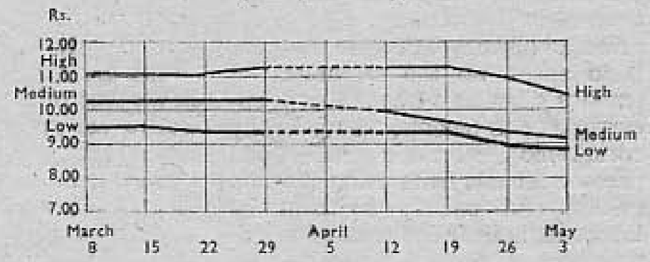
STATISTICS

Tea Prices - Colombo (Rs. per Kilo)

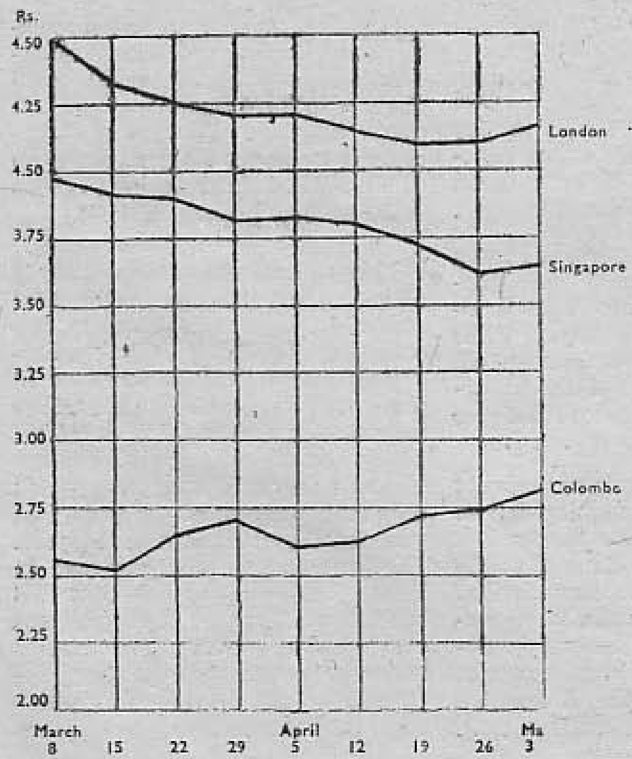


Trends in Commodity Prices for period of 9 weeks March 8 - May 3 1975

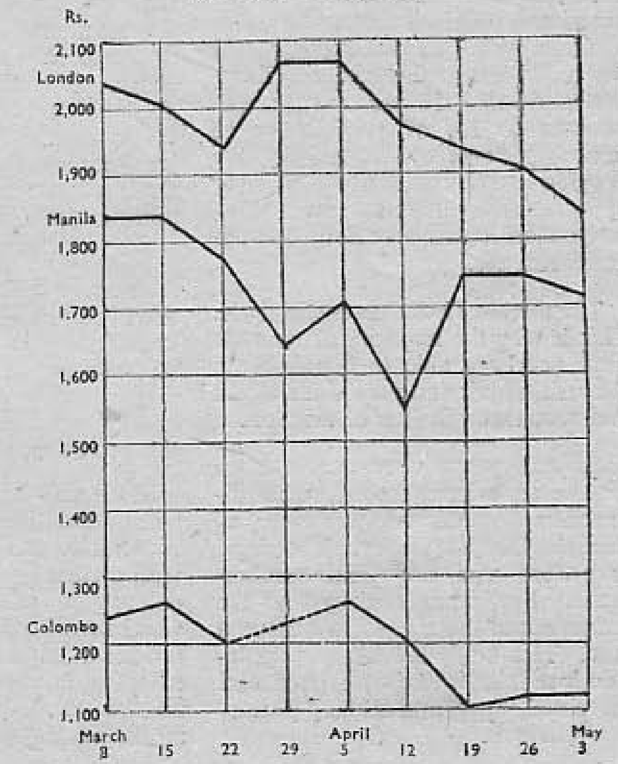
Tea Prices - London (Rs. per Kilo)



Rubber Prices - Colombo - Singapore - London (Rs. per Kilo)



Copra Prices - Colombo - Manila - London (Rs. per long ton)



Relief for Tenants of Paddy Lands

Of the twenty-two Agricultural Tribunals to be set up under Section 30 of the Agricultural Productivity Law of 1972, ten have already started functioning. These are intended to fulfil, among several other functions, the long felt need of giving security and stability to a very substantial proportion of the paddy cultivators in this country. One of the principal objectives of these tribunals is to speed up the settlement of tenancy disputes without much encumbrance to tenants. Such legally constituted tribunals will thus prevent tenants from being illegally evicted and unduly harassed by landlords in their day to day work of managing and developing the land they cultivate.

Nearly 40 per cent of the paddy lands of this country are still cultivated under the ande system. The tenancy conditions before 1958 were characterised by unduly high rents and extreme insecurity. The relationships built round the ande system was often semi-feudal in character.

The Paddy Lands Act introduced in 1958 had several ambitious objectives among which, the most important as far as tenancy was concerned, was the reduction of the land rent from the traditional 50 per cent share of produce to 1/4 of produce or 15 bushels per acre whichever is less, to provide security of tenancy to ande cultivators, to regulate rates of interest on inputs provided by the landlords, etc.

The threat of eviction is still there. This is why the majority of tenants have not been able to benefit from the rent regulation provisions of the Act too, through fear of eviction.

Several years were required to restore an evicted tenant, who invariably lost his only source of income for his family. The legal procedure was slow and cumbersome. Few tenants really had the courage and the means to pursue a case. This made the tenant population lose faith in the entire Act, and prevented them from seeking protection under it.

Why did the Paddy Lands Act fail to serve the tenant population as expected? The legal framework of the Act was inadequate to protect the tenants, though the Act was amended on several occasions. The Act itself was questioned in Law Courts; the authority of Assistant Commissioners responsible for settling eviction cases suffered the same fate; and the Cultivation Committee —the farmer institution, collapsed in the face of the law. The administrative set up especially enacted to implement the Act also lacked commitment to the objectives and identification with the ultimate beneficiaries — the tenants. The institutional framework created at the village level to implement the Act— the Cultivation Committees — came to be dominated by the landlords or the indirect landlord class. Down the line the alignment was always in favour of the landlord class, often tenants were prevented from getting even their names registered in the Paddy Lands Register (the only legal document to ascertain tenancy rights) — maintained by the Cultivation Committee. Often the landlords wilfully prevented tenants from doing so, and they were made to register as labourers but continued to work the ande land as *de facto* tenants paying 1/2 share of produce. Any attempt to pay legal rents or get his name registered often resulted in an eviction putting the tenant in a worse plight.

Administrators themselves, having their roots in the landed class, identified themselves more with landlords than with tenants; while recourse to the law courts, up till very recently were not easily accessible to the illiterate and the downtrodden.

The Paddy Lands Act was no doubt a very ambitious piece of legislation. But experience has now shown that with a stroke of pen alone it is difficult to modify all the secular relations which have been in existence for generations in rural areas between the dominating on the one hand (landlords, usurers, etc.), and the dominated on the other (ten ants, landless, etc.).

Will the new tribunals be able to give more relief to the tenants? This is a legal institution whose decision remains final and could not be questioned in a court of law except on a point of law at the Supreme Court. Its duties are limited only to those dealing with land problems, unlike the ordinary law courts and therefore it may be able to dispose of disputes with much speed. However, the tenants' position in the village has changed very little, if it has at all, it is for the worse especially under the impact of the green revolution and the increasing congestion of the rural areas. Evictions in fact have been on the increase during recent times.

The new tribunal consisting of 8 members, will be headed by a legal officer. The nature of its composition will determine to what extent it will sympathise with the tenants. This alone is of course not adequate. The newly formed Cultivation Committee and Agricultural Productivity Committee, will have to take a more sympathetic attitude for the tenant and extend support both morally and legally for him to be allowed a chance to survive.

Paddy Production in 1974

Statistics released by the Department of Census and Statistics indicate a sharp rise in paddy production in 1974 compared to the preceding year. Paddy output increased by about 22 per cent from 62.90 million bushels in 1973 to 76.80 million bushels in 1974.

This increase was achieved mainly owing to an increase in the area cultivated. The area under paddy cultivation in 1974 (net extent harvested) increased by as much as 19 per cent over the 1973 extent. The increment in the net extent harvested was partly due to a lower incidence of crop failure during the year; only 3.85 per cent of the sown area was not harvested during the year. The increment in yield per acre in 1974 was relatively small—only 1.08 bushels per acre or 2.42 per cent over that of 1973. The extents under improved varieties have increased in all districts for which data are available.

Appropriate Technology, Under-Development and Over-Development

D. L. O. Mendis

Foreign experts, the "new missionaries" in the post independence era were advocating high technology and capital intensive industries in the fifties and sixties. Now, with a strategic shift in the assumptions from which the missionaries speak—a shift arising from strategic shifts in the world geo-political situation —there has been an emphasis on so-called "intermediate" and "appropriate" technology. In this article an attempt is made to see technological development in both the developed West and the under-developed Third World from the latter's perspective. D.L.O. Mendis one of the most prolific advocates of technological independence is a senior official in the Planning Ministry.

The modern world has polarized into two distinct areas euphamistically called the developed and the less-developed or developing. The areas are defined internationally - developed countries and less developed countries — or intra-nationally— modern sectors and traditional sectors usually in the so-called developing countries, although a similar distinction could be drawn within some of the so-called developed countries.

The cause of this unbalanced situation has been traced to European colonial expansion in the not too distant past. Thus development and under-development have been described as two sides of the same coin, global phenomena that occurred and continue to occur, simultaneously.

In the second half of the 20th century, the developed world, after two wars seems to have established a historically unprecedented dominance over the rest of humanity. The basis of this dominance is economic, and is easily distinguished by a colossal appropriation and consumption of nature's limited resources. The situation is described as one where the rich become richer, and the poor become poorer, not merely in comparison but often in absolute terms, as seen in mounting balance of payments and foreign exchange problems of the developing nations.

International agencies have also proliferated ; but whatever the nature of equitable representation *de jure*, in such organisations, the *de facto* situation is one of dominance by the rich and the powerful over the poor and the weak. Thus, to quote only one example the United Nations Agency for Trade and Development (UNCTAD) has been quite ineffective in promoting better prices for primary products produced in the developing countries or reducing the inflationary tendencies for prices of manufactured goods exported from the developed countries.

Meanwhile, many representative international and other organisations have been undertaking studies of these global problems with a view to finding practical and equitable solutions. One of the concepts that has arisen as a result of such studies is described as the Transfer of Technology. Briefly, this expression describes the process whereby the experience of rapid development has been analysed to isolate a factor called Technology, and the mechanics of processes for introducing this factor into the less-developed world are studied.

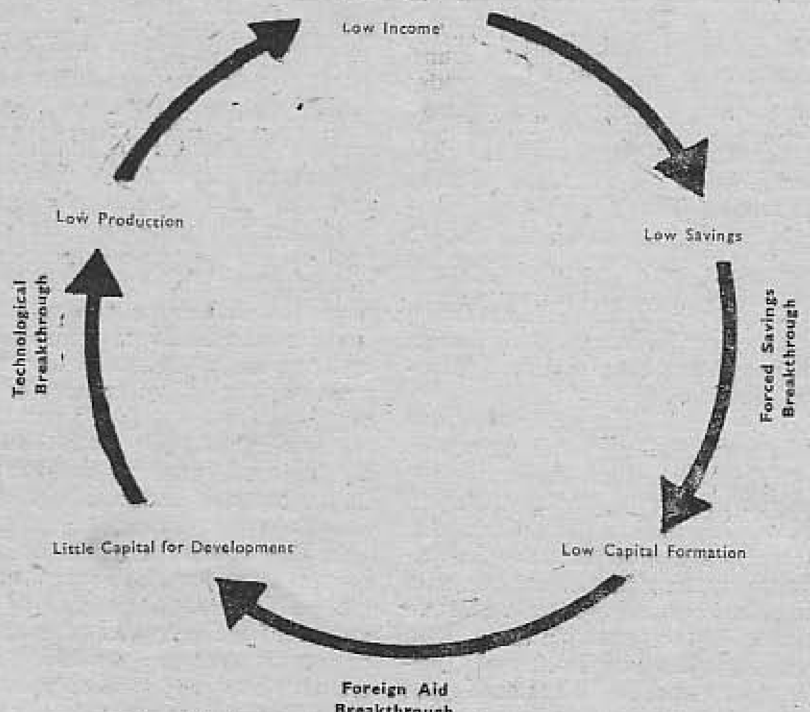
After a period of preliminary enthusiasm, it was found that the differences between the developed and the developing, the so-called dominant and the dependant partners in the process of transfer of technology, were aggravated rather than alleviated, in most cases, by the transfer of technology. This discovery, predictably, led to even more research into the mechanics of the process, to find out why a presumably well-intentioned, well - thought-out (planned ?) process could fail to be the expected panacea.

In due course, a newer and (of course) more hopeful concept arrived. This was an analysis of the nature of technology, and in different contexts was variously described. The expression Intermediate Technology aptly described a technological *via media* between the rich technology of the developed world and the poor technology of the developing world. Likewise the phrase adaptive technology was used to highlight the flexible, non-rigid nature of a technology that, although conceived in the womb of industrial society could be suckled and nurtured in the traditional. Again, the term innovative technology recognized the creative ability of technologists in the developing world ; and finally the most recent expression Appropriate Technology was coined to describe the ultimate technological chameleon — high brow or low brow as required to suit the given factor proportions (to use familiar jargon).

What is most significant about all this, however, is that the (technological) prescription is a cure for the state of under-development of the less developed countries. The objective is to bring them closer to the state of development of the advanced countries, this by assumption, being a desired state. Indeed the (undesired) state of under-development has been vividly described as the Vicious Circle of Underdevelopment. (See Fig. I). This model depicts the process of production at what is virtually subsistence level, according to classical economic theory : Low Income results in Low Savings which means that there is Little Capital available for Development. Consequently, there is Low Production and incomes are therefore low and the cycle is complete. Significantly, the original model was drawn up in the developed world, and proposed only a Forced-savings Breakthrough, between Low Savings and Low Capital Formation and a Foreign-Aid Breakthrough before Little Capital for Development. The Technological Breakthrough shown here was added when this model was first published in Sri Lanka, to emphasise that something more than low production could be obtained with limited (monetary) capital if indigenous technology was allowed to develop without suppression by a dominant foreign technology. It was also stressed that both the Forced-savings Breakthrough and the Foreign-aid Breakthrough would be relatively innocuous without a Technological Breakthrough.

The kind of econometric exercise that produces this type of model, almost always originates in the developed world itself and is indeed the mission of many institutions especially set up for the purpose.

FIGURE I.



The Vicious Circle of Underdevelopment

Not surprisingly, the method or pastime is soon introduced to so-called developed centres in the developing countries, and exchanges of ideas and earnest discussions then take place across international borders on various facets of the subject of development. A new species of 'International' social scientists now exists who participates in the stimulating game of meeting from time to time in different parts of the world to share the latest views and news on the development effort. Appropriate Technology is one of the currently popular topics for discussion at such meetings and seminars.

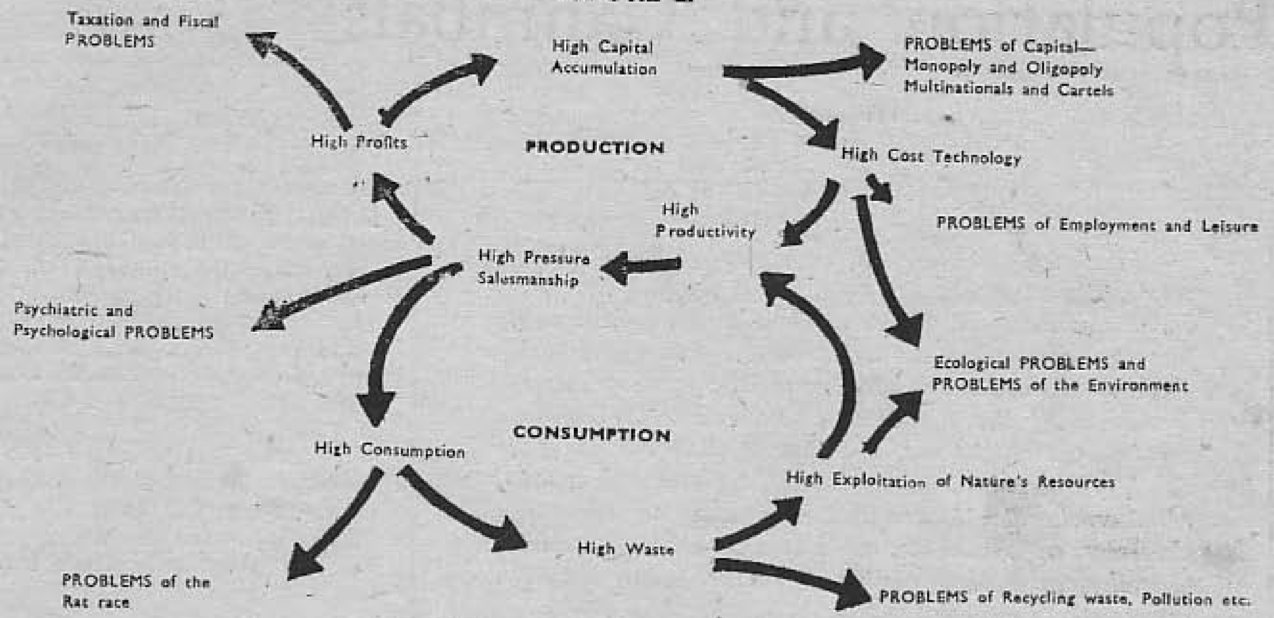
In recent times, however, the increase in the price of one of nature's most valuable non-renewable resources, oil, has introduced a new urgency to such deliberations. It has also brought a new dimension into the previously hopelessly unbalanced dominant-dependant relationship between the developed and the developing parts of the world.

At the same time, a growing awareness is seen in the minds of some of the more concerned people in the developed world itself, of certain problems of the natural environment. These ecological problems are the direct result of disturbing the balance with nature by extracting its resources too intensively and violently, and thereby not permitting natural forces to re-establish the required equilibrium.

Arising from these two not unrelated circumstances, a closer look at the developed world and its technologies is warranted. Such a scrutiny has resulted in the development of a new model, described as the Vicious Spirals of Over-development (Shown in Fig. 2). This model shows that the situation prevailing in many areas of the so-called developed world is far more urgent and dangerous than that in many areas of the developing world. This could be described as the problem of unbalanced development or euphemistically, over-development.

The over-developed system can be represented by twin spirals representing broadly production and consumption, respectively. The common front is High Productivity closely linked with High Pressure

FIGURE 2.



The Vicious Spirals of Overdevelopment

Salesmanship. In the production spiral, High Pressure Salesmanship produces High Profits, and High Profits means High Capital Accumulation. With plenty of capital the tendency is to use High Cost Technology which gives High Productivity, and so the cycle is complete. On the consumption side, High Pressure Salesmanship results in High Consumption which gives rise to a high degree of Waste which in turn means a High Exploitation of Natural Resources. Unfortunately most of these resources are non-renewable, the outstanding example being oil. Each of these cycles is in effect a spiral because inevitably there is an accompanying inflation.

Every single feature of the twin spirals of the over-developed economy gives rise to one or more specific problems. High capital formation is at the root of problems of Monopoly and Oligopoly, Multi-Nationals and Cartels. High cost technology gives rise to various problems of employment and leisure. High exploitation of nature's precious resources by the use of high technology results in ecological problems. High pressure salesmanship and high consumption are responsible for many of the psychiatric and psychological problems, and all the social problems of the rat-race.

All these are materialistic, non-ideological problems, although their ultimate solution may require ideological as well as materialistic treatment. However, by the mere fact of their colossal scale their impact is global, and the need for solutions is therefore of the utmost urgency. If a fraction of the time, energy and other resources now spent on studying the nature of appropriate technology for the developing countries, is transferred in good faith, to a study of the requisite appropriate technologies to reverse the vicious spirals of over development in the developed countries, such solutions will surely be found very early — and the world will be a safer and healthier place for developing and developed countries alike.

What would be the characteristics of such appropriate technologies for the developed world ? Firstly there must be an immediate substantial and dramatic increase in the prices paid for primary products of developing countries. This will be to restrain the present high exploitation of scarce natural resources. To reduce high consumption and waste there must be an easing off of High Pressure Salesmanship. To achieve this objective in practice there must be a deliberate effort to reduce the quantum of overheads and establish shorter links between producers and consumers. Whether this can be achieved without centralised planning, at least in different sectors of the economy, is questionable. Centralised planning of the indicative type practised in France where the major producers are called in as advisers to the central planning authority may be possible in the United States where the constitution permits business interests to lobby their points of view on political issues. A similar lobby system may be institutionalised to assist a central planning authority.

However, these are mere speculations far removed from the monstrous reality which is the gross distortion of the production process that we have labelled over-development. The immediate good that can result from a discussion of the need for appropriate technology in the developed world will be to restrain the over-enthusiastic efforts to "transfer technology" to the developing nations on account of the realisation that such a cure is patently worse than any disease of under-development. Furthermore, the aggravation of under-development by continued extraction of resources from the poor countries in the form of primary production will be checked, if the insatiable hunger of the high-technology production machine of the developed world can be curbed.

Population and Cannibals

Rene' Dumont

Population problems in Sri Lanka are propagated largely emphasising the local aspects of reducing population in face of our limited resources. There has been little emphasis on the fact that our resources—as well as the rest of the Third World's—are limited because of over-consumption by the West. "In over-consuming meat which wasted the cereals which could have saved them, they (rich white man) ate the little children of the Sahel, of Ethiopia and of Bangladesh," says the present writer in this article which is taken from his speech at last year's U.N. Conference on population. Rene' Dumont is a well known writer of development problems who has often written from a perspective sympathetic to the Third World.

In 1950, Sri Lanka (then called Ceylon) asked the United Nations for assistance in birth control—something which no other State had ever done before. This assistance for research on and popularization of birth control was refused by the United Nations. Too many nations refused to take a position which would permit such an action. Which nations ? The Catholic nations, on the one hand, and the communist nations, on the other. Only in 1966 did the United Nations finally agree — eight years ago, 16 years too late. Now, more and more, we realize that the situation is very serious and that we must do something.

What, in effect, is this situation ? In the 19th century, if the population increased in Europe and in the United States, it did so mostly with the help of increased agricultural as well as industrial production. But today, in developing countries population growth is not linked to a sufficiently intensified production, but mostly to the progress of medicine and the reduction of death rate, not followed (as was the case in developed countries) by a reduction of birth rate. Even if we limit ourselves to looking at the problem from the standpoint of food, the situation is becoming truly dramatic.

Eight years ago, I wrote a book entitled in English "The Hungry Future" (A. Deutsche, London, 1969). Today, we can no longer say that we are going towards hunger. We are in a hunger situation which is spreading. It exists in the Sahel and Ethiopia. It is rampant in India, the centre of Java and Bangladesh. It cannot be considered accidental. Yes, there was always hunger in India and in Bangladesh, but clearly it is worsening day by day. If there has been hunger in Bangladesh for years, then it has never been worse than now.

Why ? First, there are the ecological reasons. The Sahelian famine is the consequence of environmental destruction by too rapid an increase of population and live-stock. It is above all due to the too ruthless growth of export crops, like groundnuts, on land which, given the presently used agricultural system, is incapable of supporting many live-stock, very many people and too many crops.

The drama in India, Bangladesh and Pakistan is equally ecological : the accelerated deforestation of the Himalayan slopes, frequent in India and more so in Nepal, has led to the accelerated damage of soil erosion and to aggravated floods. The forests which held back the onrushing waters are no longer there. So each year the floods become more serious : 1970 — a big flood in Bangladesh ; 1971 and 1972—big floods in Pakistan ; 1974 — the biggest flood ever seen in Bangladesh, bigger still than the 1955 one. And in the intervening years, the population had grown bigger, too.

This then, in brief, is the situation which faces us.

Firstly, in all the history of the world, the population has never increased as it is now doing and as quickly as it is now doing.

Secondly, food production is not keeping pace because, in over-populated lands, the available land has already diminished by half since the beginning of the century.

Here, at this Conference, it is estimated that the earth will have 6.5 billion inhabitants by the year 2000. It is hoped that the world population can be stabilized at between 11 and 14 billion by the middle of the next century. I personally do not believe that we shall ever arrive at these figures because if we even approached them, we would encounter horrible famines.

I consider this Conference completely inadequate since its Plan of Action provides for aid to States to reduce the birth rate, but leaves complete freedom to do so, first, to each couple, and then, to each State. I believe that we should go very much further than that.

Plunderers of Third World

But this would mean first taking into consideration that the squander of the planet's rare resources — energy like oil, coal and uranium, or metals, like copper, zinc, lead and tin — is primarily the fault of the rich countries. Barbara Ward and Rene Dubos showed us in "Only One Earth" (W. W. Norton & Company, Inc. New York, 1972) that the Indian peasant of Bihar consumes 500 times less energy and metals than the middle-class New York suburbanite. The Conference should have first condemned (but its Plan of Action does not do so) all population expansion in the rich countries — North America, all of Europe, Japan and Australia. We must not forget that the rich countries are the plunderers of the Third World. They are the ones who "under-pay" for the rare raw materials of the Third World and then squander them.

The next step should be to arrive at a more rapid reduction of population in already over-populated countries. But demographers — and first among them, those of the United Nations — warn us that a considerable inertia exists in demography. It is very difficult to reduce population growth more quickly, and arrive in the shortest possible time at zero population growth (ZPG). But this will soon be imperative.

In so far as I am an agronomist, I think that it is even more difficult to increase agricultural production more rapidly — especially, food production. This is evident from looking at the population and food production curves of the Third World. From 1959 to 1969, they moved in a parallel direction. But since 1969, in these countries we call developing, the speed of population growth has risen more than that of food production. For the past five years, in fact, there has been a per capita decrease in available food which naturally assumes a scale of exceptional gravity in the famine-hit zones.

If we combine the two inertias: the demographic inertia (it is impossible to reduce the population rapidly) and the agricultural inertia (it is impossible to increase food availability rapidly), in comparing the curves, we arrive at a dramatic multiplication of famines on the surface of the globe in the course of the next 10 or 20 years.

Reducing Inequalities

In order to avoid this, besides obviously speeding up food production and birth control, there is only one solution: to reduce social inequalities on a world scale by ceasing to divide the planetary resources as we do now, on the basis of monetary resources, according to the law of the market, and by starting to divide them on the basis of the real needs (not financial needs) of each country. That means that the rich countries should greatly reduce their consumption of metals as well as energy. That means that we should aim at progressively eliminating private cars and replace them by public transport. That means above all that we should put an end to food waste. And one of the salient features of food waste is the overconsumption of meat.

Last year, the live-stock in rich countries consumed 385 million tons of cereals and cattle oil-cake. Only a fraction of this became usable in the form of milk and meat, the wastefulness being much greater in the case of meat than of milk. These same 385 million tons of cereals would have fed two billion Asians, since they consume most of their cereals directly and only a small part after transformation into animal products.

How can we get rich countries to reduce their consumption of meat? How can we put a stop to the manufacture of private cars? Here are the essential problems which no one dared to set forth at the Conference.

Eating Little Children

I have already had occasion to show that the rich white man, with his over-consumption of meat and his lack of generosity towards poor populations acts like a true cannibal, albeit indirect. Last year, in over-consuming meat which wasted the cereals which could have saved them, we ate the little children of the Sahel, of Ethiopia and of Bangladesh. And this year, we are continuing to do the same thing, with the same appetite.

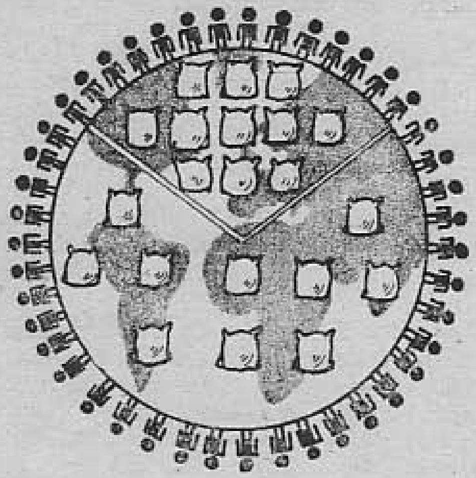
We gave 600,000 tons of grain last year to save the starving of the Sahel. This was 400,000 tons less than were needed. Due to that, and also due to the insouciance of local governments, at least 100,000 people died of hunger in the Sahel. This is why I told the Conference that white men, rich white men, were cannibals.

In the past, Christianity and Islam decreed that a tenth of one's income had to go to the poor and yet the rich of Gospel times possessed very much less than we do. But we, who enjoy a prosperity never before attained in the history of the world, generously consented to give only 0.15 per cent of our resources to the starving of 1973. This is a disgrace for our times.

I still do not have all the reports, but it seems to me that although some voices were raised on this point, the "official" Conference of Bucharest refused to consider these problems of distribution. It only spoke in too vague terms of a new economic order.

There are those who rightly declared that the population curve should not be our only preoccupation and that we should give priority to that of development. These countries were led by Algeria and Argentina, but though I agree that we must first deal with development, I do not agree when Argentina claims that only development matters and that we must put aside demographic questions.

I know only too well that there are depopulated or insufficiently populated parts of the world. This is often the case in Africa and South America. But even there, we must take into account the speed of population growth. If it is too rapid (and it is now), if agricultural production does not keep pace, it will create an increasing dependency situation for these countries *vis-a-vis* countries which have the cereal reserves. This is a problem which certain oil-producing countries like Algeria should face up to. They are tempted to neglect their agriculture because, with their oil, they can



"The high income countries (30% of the population) accounted for 51% of total consumption of cereals for all uses in 1969/71"

Source : U.N. World Food Assessment 1974.

say, in order to be self-reliant, to ensure themselves of their development essentials, in order to become more and more independent as far as food goes, for I believe that food independence is closely linked to the speed of population increase.

Accomplices of Dependence

Today, the lack of caution about population and the lack of sufficient efforts in agricultural production are the accomplices of dependence. Like my friend, Pierre George, the geographer and delegate to this Conference, I consider the population explosion to be the best ally of neo-colonialism and dominating imperialism. In a few years, with the growing world scarcities whoever wields the strategic arm of exportable wheat (therefore, North America) will wield an arm comparable to that of oil, and will be able to impose economic, and even political conditions on everyone else.

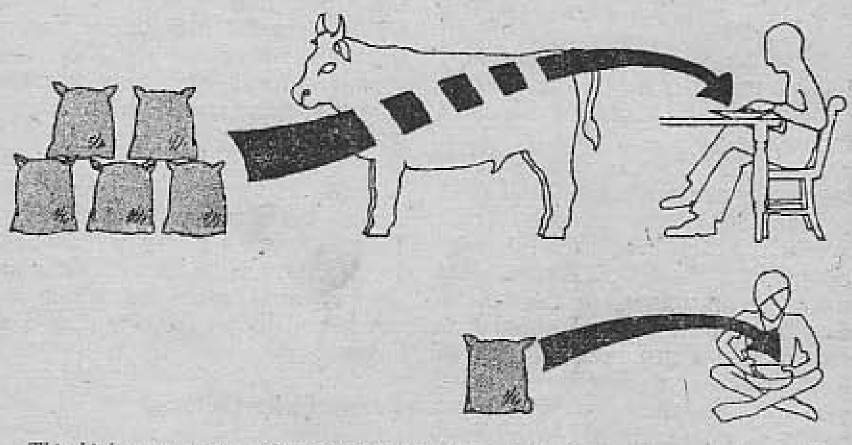
By courtesy Development Forum.

today buy cereals from other countries. What will happen when their wells run dry ? For some of them, this will happen in 20 years.

The World Food Conference, which was held in Rome in November last year can be considered as the parallel of this Conference on population. We can read in the FAO preparatory document that if the present evolution is maintained, countries of the Third World will have to import 85 million tons a year of cereal by 1985. At $ 200 a ton, if the present price does not increase, that will represent $ 17 billion. The Third World will never have the means to pay that. They will again have to borrow — and thus to increase their dependence.

It is because of this ever-growing indebtedness that again I recommend, as I already did in my book, "Utopia or Death" (L'Utopie ou la mort Paris, Editions Le Seuil, 1973) that these countries decide, for example, on January 1st of next year, to unilaterally repudiate their debts. They should say to the rich countries : "You have robbed us by paying less for our raw materials than they were worth and by profiteering when you sold us manufactured goods. These debts are not real debts. In fact, they represent the amount which you have stolen from us".

In the face of such a position, the developed, capitalist countries — the rich countries — would inevitably take retaliatory measures. Thus, each country of the Third World should organize itself, as the Chinese



This high consumption of cereals by the rich countries is not because they all like to eat large amounts of bread and cake. It is because with increasing incomes per head people in rich countries like to eat meat. Therefore much of the cereal goes into feeding livestock. "The 370 million tons of grain used annually for livestock feed in (the rich countries) 1969/71 was greater than the total human consumption of cereals in India and China together.

Source : U.N. World Food Assessment 1974.

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