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COMMISSION COMMUNICATION TO THE COUNCIL
pursuant to Article 29 of the Internal
Agreement on the financing and
administration of Community aid

REPORT

on the operation during 1975 of the system
set up by the Lomé Convention for stabilizing
export earnings

COM(76) 656 final

1. Under Article 29 of the Internal Agreement on the financing and administration of Community aid, the Commission "shall prepare an annual comprehensive report on the operation of the system (for stabilizing export earnings), indicating in particular its effect on the economic development of the recipient countries and on the development of external trade".

The Council Decision of 29 June 1976 on the association of the overseas countries and territories with the European Economic Community also provides for an export earnings stabilization system which is similar in every respect to that set up under the Lomé Convention. The first period of application of the system to these countries and territories is under way and will soon come to an end.

2. This comprehensive report is concerned with the application of the system during 1975 to the ACP States signatory to the Lomé Convention. Since it is the first time this totally new system has been applied and the transfers have only just been made, nothing can be said in this report about the effect of the system on the economic development of the recipient countries - except for an assessment of the volume of the transfers in relation to the export earnings - nor about its effect on the development of foreign trade.

3. The drawing-up and examination of this report should, however, provide food for thought on the way in which the system operates and on certain of its component parts and could possibly serve to make both of them more explicit.

The system should also be assessed in relation to the trends emerging in various international discussions dealing with problems to which the system is specifically intended to help provide a solution.

This is why in addition to looking back on the operation of the system this report will also look forward to the future. The discussions to which this report could give rise are very important to the Commission because on a number of points they will enable it to clarify and pave the way for the action it will have to take in the future as manager of the system.

4. In this report, the Commission will examine the following:

- (i) the machinery for cooperation with the ACP States and how it operates;
- (ii) the first period of application of the texts and the results;
- (iii) the prospects and limitations of the system.

PART ONE: The machinery for cooperation with the ACP States and how it operates

Chapter I: The machinery for cooperation

§1. The Commission

5. As soon as the Lomé Convention was signed, the Commission started setting up the various mechanisms enabling the system to be implemented speedily. The first decision taken in this connection was to form within the "Operations" Directorate of the Directorate-General for Development a Division with special responsibility for the planning and administrative tasks associated with the system.

6. The first problem was to ensure that the statistical data are transmitted to the relevant administrative department. In view of the letter and the spirit of the texts - which state that the transfers should be made to the requesting States as rapidly as possible after a fall in the export earnings occurs (Article 19(6) of the Lomé Convention), traditional statistical sources could not be used since the frequency with which such data are published is generally inadequate for the present purposes¹.

¹The time-lag between the end of the year and publication of the data varies between six months and more than three years.

7. It was therefore necessary to set up ad hoc channels of communication within the Community and with the ACP States (see 10 below). In the latter case, the measures took the form of missions to all the ACP States potentially affected by the system. The task of these missions was, of course, greatly helped by the fact that there were Commission Delegations in the former AASM and that these Delegations have been closely involved in the working of the system. As time went by, and as Delegations were set up in the ACP States other than the AASM, the Delegations' contribution to the operation of the system became even greater.

8. A number of other points have been finalized: forms for regular notification and for requesting transfers, lists for cross-checking statistics, data on the first reference period, calculation of cif/fob coefficients, transfer proposal forms, transfer agreements and so on.

§2. The Community

9. The Community has continued finalizing the texts required for the smooth operation of the system:

- (a) On 20 January 1976 the Council adopted a Regulation¹ making it compulsory to give monthly notification of statistics, a procedure which the Member States had agreed to implement as early as mid-1975 despite the fact that there was no legal basis for it. Article 1 of this Regulation states that: "Before the end of each month, the Member States shall forward to the Commission a statement of imports during the previous month of the products" eligible under the system.
- (b) On 25 March 1976 the Council adopted a procedure for exchanges of views with the Member States on transfer proposals.

¹Council Regulation No 158/76 (OJ L 18 of 27 January 1976, pages 3 to 6).

- (c) Finally it adopted the Financial Regulation of the EDF, of which Articles 53 and 54 in particular refer to the system. Article 53 for instance lays down the principle according to which the exchange rates applicable for the calculation in ECU of the reference level and of the actual earnings are the average rates in force in the periods to which the amounts concerned refer.

§3. The ACP States

10. During the course of missions to these States, it was found that the services or bodies responsible for specific products¹ generally had the necessary data available within the desired time limits. As a general rule, cooperation with the ACP States has been organized with the help of a number of natural and legal persons².

- (a) One or more correspondents responsible for notifying the Commission periodically. The information required for each period covered by a form is, in the main, as follows:
- (i) total exports of the product in question (values and quantities);
 - (ii) exports of the product to the Community (values and quantities)³;
 - (iii) marketed production (quantities).

Generally speaking, the correspondents come under a ministry, marketing boards or the customs departments.

- (b) A person authorized to sign the requests for transfers, who is normally of ministerial level, or acting on behalf of a minister.
- (c) A person responsible for cross-checking statistics with the Commission and conducting any consultations under Article 19(4)(b) of the Lomé Convention. This person is generally either the correspondent or a member of the Representation to the Communities of the ACP State concerned.

¹ Generally bodies such as "caisses de stabilisation" or "marketing boards".

² It being understood that one person may perform several tasks, or even all of them.

³ Except for those countries covered by Article 17(4) of the Lomé Convention.

(d) The Representative of the ACP State authorized to sign the transfer agreements. The Representatives of the ACP States are closely and continuously associated, by means of a steady flow of information, with the whole process.

(e) The body which will receive the funds.

It goes without saying that this scheme is not inflexible but is adapted to take account of each country's individual conditions and practices.

§4. The Group of ACP States

11. The Group of ACP States has set up a specialized committee of Ambassadors to follow the implementation of the system. In addition, one member of the ACP Secretariat has special responsibility for relations with the relevant Commission departments.

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12. Almost all the components of the scheme described above were in place by February/March 1976, the time when they were about to be tried out in respect of the operations relating to the ACP States' 1975 export earnings. The aim here is to describe and assess the operation of the system.

Chapter II: How the machinery for cooperation operates

§1. Statistical information

13. With regard to the Member States,

(a) for the reference period the Statistical Office of the European Communities had to extrapolate from UN statistics the data on the Member States' imports of the products covered by the system since

it did not yet have any Community statistics as such on the Nine for all the years to be covered (1971 to 1974). These data, expressed on a cif basis in US dollars, were converted by the Commission into fob values using cif/fob coefficients worked out by the SOEC;

- (b) for 1975, use was made of the monthly data communicated by the Member States as part of an empirical procedure formalized by the Regulation of 20 January 1976. These data were also converted into fob values and from the national currencies into European units of account.

14. With regard to the ACP States,

- (a) the data for the reference period¹ were generally gathered on the spot or forwarded later to the Commission;
- (b) the data for 1975 were obtained and processed in the same way. The mechanism for regular notification has been in operation since the end of 1975. It operates satisfactorily in most cases and the information is normally provided every month².

15. The situation as regards statistical information is on the whole satisfactory although a difficulty remains with regard to one Member State³. The effort made by the ACP States, however, to keep up a steady flow of information is absolutely remarkable: this is one proof of the importance they attach to the system. Thanks to the ACP States and the Member States, the Commission obtains information every month on the products covered by the system, the extent of this achievement being unequalled anywhere else in the world. The Commission is trying hard to remedy the flaws which do remain, particularly concerning the regularity of the flow of information with the help of the parties concerned.

¹The Commission has also made an effort to collect data for years previous to 1971. Such data on the monthly exports (in quantities) are essential if the six-monthly advances referred to in Article 19(5) of the Convention are to be paid with the minimum risk of mistakes occurring.

²The ACP States and the Commission have agreed that only those countries which provide information on a monthly basis will be eligible for the six-monthly advances.

³One Member State is having difficulties in transmitting the data on its imports of products covered by the system to the Commission within the required time.

§ 2. Transfers: presentation of requests, appraisal of dossiers, clearing of transactions

16. At the end of February 1976 the Commission asked the ACP States to present their requests for transfers by 15 March. A reminder was sent a week later. Since this first operation was to be carried out in such a way that transfers could be made rapidly but at the same time with allowance being made for any teething troubles encountered by a requesting State, the Commission, together with the Group of ACP States, for this first year left the door open until the end of May, and even extended this deadline for countries that had duly announced that they would be submitting requests. Once the requests had been received statistics were cross-checked and transfer operations appraised and prepared.

§ 2.1 Cross-checking of statistics¹

17. The Lomé Convention stipulates, towards the end of Article 17(1), that the "statistics used for implementation of the system shall be those obtained by cross-checking the statistics of the ACP States and of the Community, account being taken of the fob values".

18. Export and import statistics have always differed for a number of reasons, the main ones being:

- (a) the fact that exports are normally recorded in fob values whereas imports are recorded in cif values;
- (b) the fact that exports and imports are recorded in the national currencies of the importing and exporting countries;

¹The question of cross-checking does not arise for the ACP States to which Article 17(4) applies, the only data required being those States' export statistics.

- (c) the effect of the time taken to transport the goods, which may mean that exports recorded as such in the exporting country during year will always appear in the import statistics as imports effected during year $T + 1$ ¹;
- (d) the fact that cargoes which are entered in the records of the exporting country, as being bound for the Community may be diverted to other destinations without having crossed the Community's customs frontier;
- (e) losses due to various factors (desiccation, damage, accidents, etc.) as a result of which the quantities unloaded in Community ports are lower than those declared upon despatch.

19. Since cross-checking is prescribed the two sets of statistics of the Community and the ACP States² have to be reconciled with each other. For this purpose, depending on the case in point, five approaches are used enabling a clearer picture of the actual trade flows to be established in the light of the characteristics of each situation:

- (a) the Community statistics;
- (b) the ACP State's statistics;
- (c) the quantities imported by the Community and the unit values upon export from the ACP State;
- (d) the quantities exported by the ACP State and the unit values upon import into the Community;
- (e) the average between the Community statistics and the ACP State's statistics³.

¹Similarly, it should be remembered that an importer may store goods in a warehouse for a variable length of time before clearing them for home use of before applying inward processing arrangements in the Community.

²With the exception of a few cases where the statistics correspond remarkably well.

³The choice of method depends upon the product in question and not upon the ACP State. In the case of a country which has presented several requests a number of methods may therefore be used.

20. In general, cross-checking has turned out to be easier than expected and in every case agreement has been reached on a mutually acceptable basis. In this connection, the following is worth noting:

- (a) cross-checking is done in the national currencies of the ACP States;
- (b) cross-checking is done using the same method for the 1975 reference levels and results;
- (c) since the same method has been used for five years (four years of the reference period plus 1975), it follows that the same method will have to be used for each subsequent case;
- (d) cross-checking is done for the Community as a whole. From the technical point of view, the Commission has arranged to take each Member State individually. It is of the opinion, however, that this precaution is necessary only when there is a considerable difference between the Community's and the ACP State's statistics and when large sums are involved. This type of situation did not occur with regard to 1975;
- (e) the statistics that have been cross-checked are not to be published. If they were, it would only increase the difficulties facing all users of foreign trade statistics, who have always come up against the problem of the differences between export and import statistics: the statistics cross-checked for the requirements of the system for the stabilization of export earnings are to be kept strictly for this purpose.

§ 2.2 Appraisal of requests

21. This question will be dealt with in the Chapter I of Part Two.

§ 2.3 Exchanges of views with the Member States

22. The exchange of views with the Member States have enabled the requests for information to be met. They have been very useful¹.

¹See point 39, footnote 1.

§ 2.4 Transfers

23. The Commission received thirty requests, twenty-five of which were given a favourable response after appraisal; accordingly twenty-five transfer agreements were drawn up and twenty-two of these were signed on 8 July 1976¹ by Mr Cheysson for the Commission and generally by the Representative to the Communities of the ACP State in question for the ACP States.

24. For the five countries receiving transfers for 1975 which undertook to contribute towards the reconstitution of the resources made available for the system², the signature of the transfer agreements was preceded by the signature of an exchange of letters on the practical details of this contribution towards the reconstitution of the resources.

25. The transfers were made during a period of thirty days following 8 July 1976, in the Community currencies chosen by the recipient ACP States³ and at the exchange rates stipulated in the texts.

26. So the operations relating to the first year of application of the system were completed, as far as the signing of the transfer agreements was concerned, a little over three months after the entry into force of the Lomé Convention and, as far as the actual payments were concerned, a little over four months later.

§ 3. Activities of the ACP-EEC Institutions

27. The various elements of the system were set up with the close collaboration of the Commission and the Group of ACP States. Among the questions that were dealt with were the finalizing of:

¹Two more transfer agreements were signed on 13 July. The last one will be signed shortly, after further consultation with the ACP State concerned.

²Article 21(2) and (3) of the Lomé Convention.

³Second paragraph of Article 27 of the Internal Agreement.

- (i) the form for regular notification;
- (ii) the form for requesting the transfer;
- (iii) the transfer agreement.

Also, most of the bilateral difficulties between the Commission and individual ACP States were rapidly ironed out with the help of the Chairman of the ACP Stabex Committee.

28. The ACP-EEC Stabex Subcommittee has met twice:

- (a) At its first meeting on 17 June 1975, it examined the very important question of the first period of application of the system. Because of the Community's wish that the ACP States should be covered by the system independently of the entry in force of the Convention, it being understood that no payment could be made before that date, there were two possibilities:
 - (i) to work over twelve-month periods, starting 1 March 1975;
 - (ii) to work over calendar years, the first year of application being the 1975 calendar year.

For reasons connected mainly with the general method of drawing up foreign trade statistics, it was agreed jointly to adopt the second formula, that of the calendar year. This choice may well pose problems for certain ACP States whose statistics are kept on the basis of a budget year that differs from the calendar year or on the basis of a particular production year. This formula does, however, have the advantage of being homogeneous from the administrative point of view and besides, the six-monthly advances should help alleviate the difficulties for the countries following the rhythm of production years.

- (b) During its meeting of 24 February 1976, the Subcommittee was informed of the progress that had been made in implementing the system. The ACP States took this opportunity to make some suggestions aimed at improving the system. These will be dealt with below.

PART TWO: The initial period of application of the texts and the results

Chapter I: Initial period of application

29. In general, this initial period of application of the texts on the stabilization of export earnings has enabled a start to be made, in conjunction with the ACP States, on progressively working out a doctrine, which is necessary because texts cannot make provision for everything, especially in the case of a system without precedent.

As the manager of the system, under Article 18(1), the Commission has preferred to act cautiously in this initial application of the texts on the stabilization of export earnings, while at the same time clarifying certain aspects of the functioning of the system. This cautious attitude which seemed, at this stage, best to guarantee the success of the system, has been maintained particularly as regards the provisions on thresholds, the export earnings to be taken into account and consultations to be held.

§ 1: Thresholds: application of Articles 17(2) and 19(2)

30. An ACP State's entitlement to request a financial transfer is subject to two preconditions under the Convention, namely that a dependence threshold is crossed (Article 17(2)) and that a fluctuation threshold is crossed (Article 19(2)). The application of these provisions has led the Commission to turn down three requests submitted by two countries, Sierra Leone and Liberia, because they did not fulfil the conditions stipulated by these articles.

31. Sierra Leone submitted two requests for transfers on the grounds of the fall in its export earnings from palm nuts and from iron ore. Since this country is not included in the list of least developed, landlocked or island ACP States given in Article 24, the 7,5% thresholds are applicable. In the case of palm nuts, the dependence threshold of 7,5% in relation to total merchandise exports was not reached. In the case of iron ore, although the condition relating to the dependence threshold was satisfied, the one concerning the fluctuation threshold was not fulfilled.

32. Liberia for its part submitted a request relating to the stabilization of its export earnings from iron ore, for which its actual earnings were higher than the reference level - this is of course quite contrary to the provisions of Article 19(2), which are particularly precise and clear.

33. Article 17(2), by contrast, leaves room for interpretation since it states that: "The system shall apply to an ACP State's export earnings from the products listed above if, during the year preceding the year of application, earnings from the export of the product or products to all destinations represented at least 7,5% of its total earnings from merchandise exports". The question is whether the condition laid down of crossing the dependence threshold must be fulfilled for each of the products considered individually or for each group of products listed under letters a to m in the paragraph preceding that article.

34. This question arose when Niger submitted a request following the drop in its export earnings from groundnuts. This product traditionally represents a very substantial portion of Niger's total export earnings, but exports had dropped to zero-level in 1974 following a natural disaster (plant disease).

Consequently, according to the interpretation that each product considered individually must reach the dependence threshold, compensation for Niger's loss of earnings would have been ruled out. In this extreme case of a total collapse such an interpretation would have meant that there was a gap and even a contradiction in the system whose aim, clearly set out in Article 16 of the Convention, is to guarantee the stabilization of earnings from exports of certain products on which the economies of the ACP States are dependent - such is particularly the case of groundnuts for Niger - "and which are affected by fluctuations in price and/or quantity".

35. It therefore appeared necessary to the Commission to respect the internal logic of the system and consequently to take into account, in this particular case, the dependence threshold of the "groundnut products" group. By contrast, the fluctuation threshold and the basis of the

transfer were calculated, as in response to other requests, for groundnuts, shelled or not, considered individually, since as mentioned earlier Article 19(2) leaves no room for interpretation.

36. It should furthermore be pointed out that the thresholds were calculated on the basis of national currencies, for as calculation of the dependence rate involves total merchandise export earnings it must take the figures of the ACP States, which express earnings in national currencies. In order to avoid any distortion, the same method has therefore been followed for the calculation of fluctuation rates.

37. The requests were then examined on the basis of figures cross-checked in the national currency of the requesting State, and subsequently converted into European units of account. The figures used represent for each product the value of the export earnings of the ACP State in question to the Community alone, since it is the stabilization of these earnings alone which the system is aiming to guarantee.

§ 2: Application of Article 17(4)

38. The Commission has received four requests from two of the countries benefiting from the provisions of Article 17(4): Burundi for its cotton and its raw hides and skins, and Ethiopia for its coffee and its raw hides and skins. These countries have a tradition of exporting to third countries and consequently for the purpose of application of the Convention these countries' statistics relating to exports of the above products to all destinations have been taken into consideration without cross-checking.

§ 3: Consultations: Article 19(4)(a) and (b)

39. For this initial application of the texts, the Commission has not had to declare any request as inadmissible on the basis of Article 19(4)(a)¹. This passage refers to trade policy discriminating against exports to the Community alone.

40. Article 19(4)(b) has wider implications since it concerns any significant change in the total exports of the requesting ACP State and provides, not for the automatic inadmissibility of the request, but rather for consultations between the Commission and the requesting State, as a result of which the amount of the requested transfer may possibly be modified, or even reduced to nil.

41. So far, sixteen situations² which may result in "significant changes" in "total exports" have been listed. Some of these, such as natural disasters or reduced Community demand, are not likely to affect the basis of the transfer since the exporting ACP State cannot be held responsible for them, whereas those which are the result of a deliberate decision can entail a reduction in the transfers.

¹The question has arisen whether this article should not be applied to requests resulting from falls in export earnings from wood in the rough. These falls in earnings were due in 1975 to the recession in Europe; increasingly difficult operating conditions and the justifiable tendency of producing countries to process on the spot will most probably provoke new falls in earnings from wood in the rough, but this last factor played no role in 1975 and in any case there was no sign in that year of any trade policy particularly affecting exports to the Community unfavourably.

²The situations are: natural disasters, reduced Community demand, strikes in Community ports, reduction or deliberate running down of production, modification in the structure of the importing countries, increased consumption in the exporting country, increased local processing, deterioration in quality, dumping, devaluation of an ACP currency, strikes in an ACP country, a general export ban on a Stabex product, smuggling between ACP countries, speculative stock-holding, civil war, a general export ban on a non-Stabex product but affecting exports of Stabex products.

Because of the numerous situations and the great number of elements to be taken into consideration, it is difficult to map out a single rigid line of conduct; on the contrary, each case must be judged individually on the basis of the different characteristics.

42. In order to assess whether the consultations provided for in Article 19(4)(b) should be undertaken, the trend of the relations between the various data in the Community's possession (marketed production, total export earnings, unit values, etc.) during the reference period and during the year of application has been studied for each request received.

In order to conform to the letter and the spirit of the Convention, a margin of appreciation has been allowed in examining the trend of the various relations, and the only "significant changes" to be considered are those showing divergences of 10% or more in relation to the situation during the reference period.

There has been no automatic link between the recording of divergences and the cuts made in the transfers; the recording of a divergence has merely served as a warning signal that there might be cause for consultation, and it is exclusively the consultations themselves that have permitted an assessment to be made of the effects of the changes observed on the amount of the transfer.

43. Such divergences have, for instance, been observed not only in the four cases in which the transfer has been reduced, but also in cases where consultations led to the conclusion that the amount of the transfer was not affected or, conversely, that no transfer was called for. The products in question were:

Coffee from Ethiopia, in which case the anomalies observed were due to plant disease and there was therefore no need for a reduction in the transfer;

Cotton (not carded or combed) from Chad, in which case the increase in earnings from exports to all destinations was well in excess of the drop in those from exports to the Community and, furthermore, there was a significant change in the structure of export flows, making it impossible to reply favourably to this request;

Cocoa butter from Cameroon, total exports of which have risen far more than exports to the Community have fallen, so that there was no need for a transfer.

44. In general, the principle that a transfer cannot be larger than the total loss has been systematically applied by the Commission, for instance in the first two of the following four cases, where consultations with the requesting State gave rise to a reduction in the requested transfer:

- (a) and (b) Cameroon and Ivory Coast (wood in the rough): relatively sharper decrease in earnings from exports to the Community in relation to those from exports to other destinations;
- (c) Fiji (coconut oil): a considerable change in the structure of export flows following an increase in exports to Australia;
- (d) Niger (groundnuts): the need to take into account, when assessing the transfer, the increase in export earnings from groundnut oil and also, to a lesser extent, from groundnut oilcake, which increase it was possible to obtain only by reducing exports of seed.

Chapter II: Results

45. The system for stabilizing export earnings has led in its first year of application to 25 transfers in favour of 17 States for 9 products, within the limit of the yearly instalment of 75 million units of account.

§1: Overall results

46. The overall results are as follows:

TRANSFERS FOR 1975 FINANCIAL YEAR

<u>Recipient ACP State</u>	<u>Product</u>	<u>Amount of transfer in EUA</u>
BENIN (1)	groundnuts	464.330
	Coffee	1.174.883
	Cotton	4.299.556
	oilcake	1.191.079
BURUNDI (1)	cotton	965.602
	raw hides and skins	520.053
CAMEROUN	wood in the rough	3.601.423
REP. CENTRAFRICAINE (1)	coffee	353.108
R.P. CONGO	wood in the rough	7.361.677
COTE D'IVOIRE	wood in the rough	15.000.000
ETHIOPIE (1)	coffee	9.339.683
	raw hides and skins	5.080.364
FIDJI	coconut oil	615.140
GHANA	wood in the rough	5.176.408
HAUTE-VOLTA (1)	groundnuts	685.239
	cotton	175.936
NIGER (1)	groundnuts	5.441.294
	raw hides and skins	507.747
SOMALIE (1)	fresh bananas	1.296.907
	raw hides and skins	635.238
SOUDAN (1)	raw hides and skins	1.658.579
TANZANIE (1)	cotton	1.887.082
TOGO (1)	coffee	2.680.324
UGANDA (1)	cotton	1.748.932
SAMOA OCCID. (1)	cocoa	276.978
		72.137.562

(1) Least developed ACP States, receiving non-repayable transfers.

§ 2: Results by country

47. As regards the countries, the allocation between non-repayable transfers and transfers to countries which have undertaken to contribute towards the reconstitution of the resources made available to the mechanism, which coincides virtually with the allocation between transfers to the least favoured ACP States and those to other ACP States, is in practice a balanced one; the former account for 56% of the transferable amount, i.e. 40.382.914 EUA, the latter 44%, i.e. 31.754.918 EUA.

In the more or less long term, in accordance with the conditions set out in Article 21(3) of the Lomé Convention, this 44% share transferred under the 1975 financial year will be returned to the system. The manner in which this undertaking is fulfilled by the ACP States concerned will constitute another test of capital importance for the future of the system.

48. In relation to the export earnings of the recipient countries, the transfers made under the system represent a contribution whose relative importance varies according to the losses observed, to the importance of the product or products in the overall exports of the country and to the structure of exports (share of the Community in total exports).

In several cases this contribution reaches outstanding proportions. In relation to total export earnings, transfers represent (all products - all destinations - 1974): 24% for Benin, over 13% for Niger, 6,5% for Ethiopia, 5,5% for Burundi, etc.

49. The impact of the transfers made is of course all the more obvious when the transfers for a specific product and the export earnings (all destinations) for the same product are taken into account (1974). The following percentages serve as an example:

- Burundi (cotton)	63 %	- Benin (groundnuts)	25 %
- Togo (coffee)	39 %	- Niger (hides and skins)	20 %
- Niger (groundnuts)	39 %	- Sudan (hides and skins)	16 %
- Somalia (hides and skins)	33 %	- Ethiopia (coffee)	15 %
- Burundi (hides and skins)	33 %	- Somalia (bananas)	12 %
- Benin (cotton)	27 %	- Ghana (wood)	11 %
- Ethiopia (hides and skins)	27 %		

These figures clearly show the considerable guarantee provided by the system for the export earnings of the ACP States and in particular to the least favoured among them.

§ 3: Results by product

50. As regards products, the results are as follows:

(a) <u>Products</u>	<u>Amounts in EUA</u>	<u>%</u>
Groundnuts	6.590.863	9,14
Bananas	1.296.907	1,80
Wood in the rough	31.139.508	43,17
Cocoa	276.978	0,38
Coffee	13.547.998	18,78
Cotton	9.077.108	12,58
Coconut oil	615.140	0,85
Raw hides and skins	8.401.981	11,65
Oilcake	1.191.079	1,65
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	72.137.562	100,00

(b) Products affected by:

the economic situation	48.618.597	67,4
local conditions	23.518.965	32,6

51. As can be seen in item (b) above, the transfers concern products of which exports have decreased because of the unfavourable economic climate in the Community and, secondly, those of which the drop in exports can be explained by a decrease in production due to natural circumstances or disasters:

(a) The products which have been affected by the economic situation are wood in the rough, raw hides, skins and leather, and cotton, which account respectively for 43%, 12% and 13%, or together 68%, of the transferable amount. For the first two categories, the fall-off is almost general amongst the big exporters; for cotton, although the unit values have decreased in general, there are cases where an increase in production has more than compensated for this (Sudan, Chad);

(b) the most varied local circumstances have affected export earnings from other products, which receive 32% of the transferable amount, for example:

diseases (groundnuts from Niger, coffee from Ethiopia)
drought (bananas from Somalia)
cyclone (coconut oil from Fiji).

The system is therefore carrying out its dual role perfectly, by providing protection against economic risks and against a fall in earnings following a drop in production for which the ACP States cannot be held responsible.

§ 4: Financial results

52. The financial results of the operation have been amply covered in the preceding pages. It should however be added that as regards the ACP States, it is of some importance that the basis of the transfer be calculated in European units of account, as prescribed, in compliance with the Convention, by Article 27 of the Internal Agreement on the financing and administration of Community aid.

53. In this respect, two methods were possible:

(1) One was to use the exchange rates on a fixed date for carrying out all the conversions in question. This fixed peg method would have the advantage of simplifying calculations, but would by contrast have the major disadvantage of complete uncertainty as to the choice of the date.

(2) The other was to use the average exchange rate relating to each year covered. This method has the advantage of:

(i) reflecting more accurately the current monetary situation;

- (ii) applying to the system the same rules of conversion as for the other monetary flows under the Convention.

54. "The unit of account is a common concept of value independent of national currencies, but linked to them by conversion rates. It also enables single common prices to be established for the whole of the Community. The unit of account can fulfil these two functions satisfactorily, however, only if the conversion rates reflect market exchange rates."¹

55. In order to overcome the difficulties arising from the generalized floating of currencies and to eliminate the arbitrary element which would necessarily enter into the choice of an exchange rate corresponding to such and such a date, the Commission preferred to adopt the second method, which appeared to be the most objective.

56. In practical terms, the values resulting from the cross-checking carried out, at the request of the ACP States, in the national currency of the requesting ACP State, have been converted into EUA by taking the average value of the currency in question (calculated on the basis of rates established by the IMF) during the reference period for the calculation of the reference level, and by taking the average exchange rate relating to 1975 for the calculation of actual earnings.

57. This method, followed consistently for the examination of all the requests submitted to the Commission, has the definite advantage of disregarding the fluctuations in the national currencies of the recipient countries.

58. The payment of transfers is made in the currency or currencies of one or more Member States of the Community, according to the choice of the recipient ACP State.

¹ Commission's answer to Written Question No 61/76 by Mr Cousté (OJ No C 158 of 12.7.1976, pp. 35 to 37).

PART THREE: The prospects and limitations of the system

Chapter I: The prospects

§ 1: The next stages in application

59. The problems which the Commission, as the administrator of the system, will have to solve in the months to come will be as follows, in chronological order¹:

- (a) the possible payment of six-monthly advances pursuant to Article 19(6) of the Lomé Convention. The only countries eligible for this will be those for which the Commission possesses monthly data since at least 1972. This data is absolutely indispensable in order to be able to assess as precisely as possible the amount to be paid;
 - (b) the monitoring, in respect of those ACP States which have undertaken to contribute towards the reconstitution of the resources made available for the system and which have received transfers for 1975, of the data relating to reconstitution, namely:
 - (i) the unit values of the exports of the products in question in 1976,
 - (ii) the quantities of these products exported to the Community in 1976.
- This operation will be carried out in such a way as to enable any amounts owed by the States in question to be paid back into the system when the transfers for 1976 are considered;
- (c) preparation of the transfers for 1976;
 - (d) the extension of the system to cover States which have acceded to the Lomé Convention since it was signed;

¹ Apart from the stages set out in this section, the Commission will implement the system laid down in the Decision on the association of the overseas countries and territories, the appropriation for which is 4 million EUA per annum. Overseas countries and territories which become independent during the period of application of this Decision will nevertheless continue to be covered by the Decision for the purposes of the system.

- (e) the analysis of the reports on the utilization of the funds which the recipient States have undertaken, as stipulated in the transfer agreements, to send the Commission before the end of the period of twelve months following the signature of those agreements.

§ 2: The repercussions of the introduction of the system

60. In the short time the system has been operating certain problems have arisen relating to the products covered, as can be seen from the above comments on wood. These problems are significant and must be carefully studied. It will be possible to study them all the more thoroughly once first-hand information collected by Commission delegates on the spot in cooperation with the commercial attachés of the Member States becomes available.

61. The question of the final date for the submission of transfer requests should not present any problem. It is in the interests of the ACP States as a whole that transfers should be made as quickly as possible after a fall in export earnings has been observed, as is stipulated in the Lomé Convention. Moreover, by virtue of the provisions of Article 18(2) and (4) of the Convention, each annual operation must form a whole, since transfers cannot be calculated definitely until all the requests are known.

These two considerations raise the question of whether a final date should be agreed with the ACP States for the submission of transfer requests. A possibility is 15 February of each year, and initial experience suggests that it should be possible to keep to this deadline without major difficulties.

62. Lastly, the documentation which will automatically be amassed as a result of the implementation of the system opens up very interesting possibilities which the Commission intends to research as fully as possible. Here the following should be mentioned in particular:

- (i) the differences between the actual values of the transactions and world prices;
- (ii) the amount of the difference between cif and fob values, which can be considerable.

Chapter II: The limitations

63. When the system was introduced, certain aspects of its operation had to be worked out in detail with the Member States and the ACP States, on the basis of the provisions of the Convention, which are relatively concise on certain points. This procedure should, with experience, improve the system established by the Lomé Convention and provide material for the international discussions on the subject. As regards the system itself, it would be advisable to examine the limitations which it comes up against and distinguish between those where adjustments are possible and those which are inherent in its nature.

§ 1: Limitations which can be adjusted

64. The addition of other products to the list in Article 17(1) of the Lomé Convention is one of the major points of concern of the ACP States and requests must be expected here since certain States consider that products essential to them were not included at the time of the negotiations.

Article 17(3) is clear on this point: "if, not sooner than 2 12 months following the entry into force of this Convention ...". The fact that action under this provision is optional (the Council of Ministers may decide) and the nature of the accompanying criteria (considerable economic dependence and sharp fluctuations) provide additional backing for the idea that it would be advisable to defer a possible examination of any points that might be raised in this context until the 1977 Council of Ministers meeting¹.

65. As regards the reference period, the ACP States point out that the system is distorted when an ACP State suffers a sharp fall in export earnings during the period laid down in Article 19 of the Convention, namely the four years preceding each year of application. This has been the case in the Sahel countries affected by the drought, but also in other countries whose economic development has been disturbed by various events.

¹The declaration made by the Community when the negotiations were concluded should be recalled here. This states that "for reasons of principle, the Community is firmly opposed to the inclusion of mineral products in the list appearing in Article 17 (and) will not fail to oppose any subsequent inclusion of minerals in that list."

The point should be made first of all that the formula used in the Convention originated in a request from the ACP States. Secondly, the text of the Convention is very precise on this point, leaving no room for interpretation. What the ACP States are requesting, therefore, is nothing less than an amendment to the Convention, involving an article which is the result of a compromise arrived at only with great difficulty during the negotiations, and the question may well be asked whether such an amendment would be sufficiently worthwhile to justify disturbing a balance which was achieved only with a great deal of trouble.

66. There would seem to be no major drawback involved in extending the scope of Article 17(4) to cover new ACP States or only certain products of a given State¹, provided however that these are countries whose exports have traditionally gone to countries outside the Community.

§ 2: Limitations inherent in the nature of the system

67. The system is not:

merely a form of financial cooperation,
a mechanism providing systematic support for the balance of payments,
a method of indexation or even a raw materials policy.

- (a) The system is not merely a form of straightforward financial cooperation. Financial cooperation aims in particular at correcting structural imbalances in developing countries by means of development projects and programmes. The stabilization system, on the other hand, is intended to ensure that the ACP States receive the earnings which they can expect on the basis of their reference levels and which should normally accrue to them from market sales. Consequently, transfers are not forecastable and hence cannot be programmed since they depend on the occurrence of a disaster, namely a fall in export earnings, which basically cannot be foreseen. In the event of such a fall in earnings, the system merely acts as a substitute for the market by making available to the country the amounts which it expected from its sales and which were indispensable for maintaining equilibrium in its economy.

¹The wording of this provision ("... certain special cases ...") leaves the question entirely open.

- (b) As the Commission pointed out in its Communication to the Council of 13 June 1975¹, Stabex is not a general systematic support for the balance of payments. Even if such a system covered all the exports of the recipient States, it could not by its very nature tackle the balance of payments difficulties caused by dearer imports. Now there are good reasons for thinking that such a system, although perfectly suitable for guaranteeing some export earnings, cannot guarantee them all: invisibles, manufactured products, operation of thresholds, limited resources, etc. Consequently, there will always be large sectors of the balance of payments - imports as a whole and a substantial proportion of exports varying according to circumstances - which cannot be covered by such a system. It therefore follows that there is no competition at all between such a system and the compensatory financing facility of the IMF² - on the contrary, it is obvious that the two systems complement each other. At the most, one may question the double compensation which could result from payments under both systems.
- (c) The system is not a substitute for but an addition to an international raw materials policy. There is a growing consensus of opinion - at least as regards the principle - that international commodity agreements or similar arrangements may provide an appropriate answer to certain problems in connection with raw materials. But even a perfect world agreement, combining rules governing prices and supply and a buffer stock mechanism, would be ineffectual for the purpose of offsetting losses in earnings due to a fall in quantities, and this would be particularly serious in the case of tropical agricultural products which are extremely sensitive to the changeable natural conditions in the regions concerned, especially the climate. The best market disciplines cannot detract from the significance of the "unemployment benefits" which the system provides in the event of a fall in export earnings due to the economic situation, and the "sickness insurance" which it provides in the event of an accidental fall.

¹"International action on stabilization of export earnings" (EC Bulletin, Supplement 6/75). The text states that: "at the same time such a stabilizationsystem could leave a balance of payments problem in being, and might not cover all problems with respect to countries, products and earnings. It is therefore only fair, and indeed necessary, that above and beyond the system for stabilizing earnings from the export of raw materials the international community should establish a system of last resort for the precise purpose of making good these deficiencies."

²As is evidenced by the excellent cooperation between the Commission and the IMF.