

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(84) 622 final

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REPORT FROM THE COMMISSION TO THE COUNCIL
ON THE OPERATION DURING 1983 OF THE EXPORT EARNINGS
STABILIZATION SYSTEM SET UP BY THE LOME CONVENTION
AND THE DECISION ON THE ASSOCIATION OF THE
OCT WITH THE EEC

COM(84) 622 final

I. INTRODUCTION

1. Article 27 of the Internal Agreement on the financing and administration of Community aid stipulates:

"each year the Commission shall draw up a comprehensive report for the Member States on the operation of the system of stabilization of export earnings and the use made by the ACP States of the funds transferred.

The report shall indicate in particular the effect of the system on the economic development of the recipient countries and on the development of external trade.

This Article shall also apply as regards the countries and territories."

2. This report covers, for the period 1 January to 31 December 1983, the activities of the ACP-EEC institutions, the activities of the EEC institutions, the administration of the system, the results, the replenishment of resources, the use made of the transfers and their economic impact.

For the administration aspect, this report covers the requests made for transfers for the 1982 application year.

II. THE ACTIVITIES OF THE ACP-EEC INSTITUTIONS

A. The ACP-EEC Council of Ministers

3. The ACP-EEC Council of Ministers held two sessions, one special and one ordinary (the eighth), on 19 and 20 May 1983 in Brussels.
4. The purpose of the special Council session was to carry out an in-depth examination of Stabex within the framework of the second Lomé Convention. Talks focused on two aspects: the financial state of the system and Stabex's impact on the ACP States' economies, notably in the light of the way the transfers were used.
5. Concerning the financial state of the system in the 1980 and 1981 application years², the ACP States appealed to the Community to release additional funds to cover the sums not paid in respect of 1980 and 1981. The Community recalled that the additional contributions agreed to by the Community at the Libreville ACP-EEC Council meeting the previous year constituted an exceptional case; it would go no further than to say that when distributing any unexpended balances it would be possible, in accordance with Article 35 of the Convention, to take into consideration the unpaid share of the transfer entitlements.
6. Discussions on the system's operation and its impact on the ACP States' economies focused on the deteriorating production capacity and export competitiveness of many ACP States, and also on the use of transfers. The discussion revealed differing interpretations of the texts. In the Community's view, the transfers should normally be used in the sectors where the loss of export earnings has occurred. When the transfers were so used, it said,

¹The meetings of the ACP-EEC institutions devoted to the negotiations on the third Lomé Convention are not dealt with in this report.

²See the Commission's report to the Council on the operation during 1980 of the system set up by the Lomé Convention for stabilizing export earnings, COM(81)592 final of 21 October 1981, points 7 and 31; same report on 1981, COM(82)864 final of 6 January 1983, points 5-11 and 44-45.

undeniably beneficial results had been achieved. The allocation of a greater proportion of the funds to affected sectors would help check the decline in productive capacity and the deterioration in the competitive position of many of the ACP States in relation to other developing countries.

The ACP delegation took note of the views expressed by the Community but emphasized that the principle of priority utilization of transfers as stipulated in the Convention did not exclude the channelling of funds to other sectors.

7. At the same special session, the ACP-EEC Council of Ministers noted a report from a group of experts briefed to study problems linked with the use of exchange rates in the calculation of transfers. It instructed the ACP-EEC Committee of Ambassadors to continue studying methods of calculation (1).

8. At its eighth ordinary meeting, held the day after the special session, the ACP-EEC Council again discussed a number of issues concerning Stabex, notably the inclusion of five new products in the system: tobacco, citrus fruit, sisal products, plywood and wood pulp. The Community statement on this subject ran as follows:

"Although examination of all five products in question has not been finalized, ... essentially the Community's position as presented in Libreville has not changed, and ... it does not seem very likely that between now and the expiry of the Convention these products will be included in the system under Article 26.

At a moment when both of us have to carry out a thorough examination of the perspectives and the conditions of the financial balance of the system until the end of the existing Convention the general question may be raised if it is in the well-understood interest of the two parties to increase the number of risks to be covered by the inclusion of new products which do not appear to be fundamental for the external equilibrium of the countries concerned. This question goes beyond arguments specific to each product."

(1) Decision No. 5/83 of the ACP/EEC Council of Ministers of 20 May 1983

9. At this meeting of the ACP-EEC Council, the ACP States disputed the Commission's application of certain of the Convention's provisions (notably Articles 38(2) and 39(3)). No instructions were given on studying these complaints, about which no further details were received.

10. The Committee of Ambassadors was empowered to take the appropriate decisions for transfers in respect of the 1982 application year on the basis of the Commission's final report¹.

11. It was also delegated to rule both on Niger's request that cowpeas be included in the system and on Fiji's request for a derogation under Article 46(3) of the Convention².

B. The ACP-EEC Committee of Ambassadors³ and the ACP-EEC Stabex Subcommittee

12. The Committee of Ambassadors met three times in 1983, holding its 14th meeting on 1 February, its 15th on 4 May and its 16th on 16 December.

13. At its 14th meeting, the Committee expressed its intention of setting up a group of experts to study the problems linked with the use of exchange rates in the calculation of transfers.

14. At its 15th meeting, the Committee approved the establishment of a sub-group to study questions linked with the interpretation of Articles 38(2) and 39(3) of the Convention.

15. The ACP-EEC Stabex Subcommittee held its 7th meeting on 11 April and its 8th meeting on 27 April, both meetings being devoted to preparations for the Committee of Ambassadors and ACP-EEC Council of Ministers sessions.

¹ Decision No. 3/83 of the ACP-EEC Council of Ministers of 20 May 1983.

² Decision No. 4/83 of the ACP-EEC Council of Ministers of 20 May 1983.

³ The subjects discussed by the ACP-EEC Council and referred to in Section A are not covered here.

C. Working parties and groups of experts

16. An ACP-EEC group of monetary experts met on 28-29 April to examine the methods used to calculate Stabex transfers. Discussions focused on the repercussions of exchange rate fluctuations on the value of transfers, the methods used to calculate the reference value and also those used to convert ACP currencies into ECU_s. The group drew up a report which was submitted to the ACP-EEC Council of Ministers.¹

17. In May an ACP-EEC working party adopted the terms of reference for its task of establishing a jointly agreed interpretation of certain Articles of the Convention, notably Articles 38(2) and 39(3).² This group, which did not have a specific brief, did not meet again.

D. The parliamentary bodies of the Lomé Convention

18. The Joint Committee of the ACP-EEC consultative Assembly met twice, in Kingston (Jamaica) from 21 to 25 February and in Berlin from 19 to 23 September.

19. At the first of these two meetings, the Ambassador of Fiji, Mr Cavalevu, as overall rapporteur for the seventh annual report of the ACP-EEC Council of Ministers, made particular criticism of the inadequacy of funds in relation to real needs.

20. At Berlin in September, the ACP representatives reiterated their criticisms regarding the gap between the level of Stabex funding and the transfer entitlements which the system had to meet.

21. No resolution specifically on the subject of Stabex was adopted in 1983.

¹See points 7 and 13.

²See points 9 and 14.

III. THE ACTIVITIES OF THE EEC INSTITUTIONS

A. The European Parliament

22. At its sitting of 8 July 1983, Parliament adopted a resolution on the Community's policy towards developing countries¹ (memorandum of the Commission of the European Communities on the Community's development policy, COM(82)640 final) in which it recalled (paragraph 24) "that many features and instruments of the European development policy have been welcomed as major achievements and innovations," citing, among others, Stabex.

But the resolution deplored the fact that the effectiveness of these features, "partly because of inappropriate aid policy, partly because of the international economic environment, in particular the fall in commodity prices, and partly because of the internal policies of certain developing countries, has too frequently not matched expectations" (paragraph 25).

23. Two members of the European Parliament asked written questions regarding the system, namely Mr Pearce (ED, UK) who tabled five questions (PQ Nos 582, 705, 1359, 1360 and 1365/83) and Mr Fuchs (Soc., F) (PQ No 2023/83). The answers to the questions were published in the Official Journal of the European Communities.²

B. The Court of Auditors

24. The Court of Auditors conducted its customary investigation into the administration of the requests for transfers for the 1982 application year. The conclusions of this investigation will be published in the Official Journal of the European Communities.

¹OJ C 242, 12.9.83, p. 104.

²PQ No 582, OJ C 257, 26.9.83, p. 26.

PQ No 705, OJ C 271, 8.10.83, p. 17.

PQ No 1359, OJ C 38, 13.2.84, p. 36.

PQ No 1360, OJ C 31, 6.2.84, p. 21.

PQ No 1365, OJ C 31, 6.2.84, p. 21.

PQ No 2023, OJ C 89, 31.3.84, p. 18.

IV. ADMINISTRATION OF THE SYSTEM

25. The main feature of the 1982 application year was the return to normal running of the system after the difficulties which marked the two previous years. In contrast to 1980 and 1981, when the amounts for admissible requests had to be cut back considerably because of the shortage of available funds, such requests for the 1982 application year were covered in full.

26. For 1982, the Commission received a total of 58 requests for transfers presented by 27 signatories of the second Lomé Convention. Two requests for transfers were also presented by an OCT (Vanuatu) which had become independent and had acceded to the Convention but was still covered by the Decision of 16 December 1980 as regards Stabex. No request for a transfer was received from the OCT eligible as such under the appropriation provided for by this Decision.

A. Non-admissible requests

27. Two requests were turned down because the dependence threshold had not been exceeded (Article 29 of the Convention):

| | |
|---------------|---------------------------------|
| Cameroon | wood in the rough and sawn wood |
| Guinea-Bissau | palm oil. |

28. Eleven requests were turned down because the fluctuation threshold was not exceeded (Article 37 of the Convention):

| | |
|---------------|-----------------|
| Cameroon | cocoa |
| Cameroon | coffee |
| Comoros | essential oils |
| Guinea-Bissau | cashew nuts |
| Guinea-Bissau | shrimps |
| Sudan | cotton |
| Sudan | groundnuts |
| Sudan | groundnut oil |
| Sudan | oilcake |
| Sudan | hides and skins |
| Tanzania | cashew nuts. |

29. Four requests were turned down because no loss had been incurred:

| | |
|---------------|-----------------|
| Ethiopia | coffee |
| Ethiopia | hides and skins |
| Grenada | bananas |
| Guinea-Bissau | ground nuts. |

30. Six requests were turned down because there were surplus earnings on exports to all destinations (Article 38(2) of the Convention):

| | |
|--------------------------|------------|
| Mali | cotton |
| Central African Republic | sawn wood |
| Tanzania | coffee |
| Tanzania | tea |
| Tanzania | cotton |
| Tanzania | raw sisal. |

B. Reductions following consultations

Consultations were held on the basis of Article 39(3) of the Convention for the reasons and in the cases set out below:

31. Fall in ratio between total exports and production of the product:

| | <u>% reduction</u> |
|------------------------|--------------------|
| Comoros (copra 1982) | 41.25 |
| Gambia (groundnut oil) | 6.0 |
| Tonga (coconuts) | 25.8 |
| Samoa (cocoa beans) | 62.1 |

32. Decrease in the Community's share of total exports of the product in question:

| | |
|----------------------------|------|
| Sierra Leone (cocoa beans) | 15.9 |
| Papua New Guinea (coffee) | 14.5 |
| Malawi (groundnuts) | 29.7 |

33. Increase in local consumption or storage:

| | |
|------------------|------|
| Samoa (copra) | 73.3 |
| Lesotho (mohair) | 21.9 |

C. Reduction to level of losses sustained in respect of all destinations in cases where this is lower than the losses in respect of exports to the Community

34. Transfer entitlements were reduced to the level of losses on exports to all destinations in seven cases:

Sao Tome (cocoa beans)

Gambia (groundnut oil)

Sierra Leone (coffee)

Fiji (coconut oil)

Grenada (cocoa beans)

Mali (groundnut oil)

Benin (cotton, not carded or combed).

V. THE RESULTS

A. Results by state

35. Administration of the funds allocated under the Lomé Convention

| Recipient ACP State | Product | Amount in ECU |
|--------------------------|---------------------------------------|--------------------|
| Benin | Cotton | 877,329 |
| | Palm Oil | 1,614,942 |
| | Cashew kernels | 215,789 |
| Comoros | Copra | 293,528 |
| | Coconut oil | 788,481 |
| Fiji | Coconut oil | 788,481 |
| Gambia | Groundnut oil | 1,615,183 |
| | Oilcake | 361,036 |
| Ghana | Cocoa products | 31,160,673 |
| Guinea-Bissau | Palm nut and kernel oil | 360,528 |
| | Sawn wood | 88,719 |
| Grenada | Cocoa beans | 1,318,965 |
| | Nutmeg and mace | 278,590 |
| Burkina-Faso | Shea nuts | 1,046,734 |
| Kiribati | Copra | 1,036,682 |
| Lesotho | Mohair | 694,147 |
| Malawi | Groundnuts | 2,684,355 |
| Mali | Groundnut oil | 3,548,554 |
| | Coffee | 16,344,445 |
| Papua New Guinea | Cocoa beans | 4,201,081 |
| | Copra and copra oil | 3,604,036 |
| | Cotton, not carded or combed | 1,675,896 |
| Central African Republic | Copra | 1,726,633 |
| Solomon Islands | Copra | 1,726,633 |
| Sao Tome | Cocoa beans | 2,679,188 |
| Sierra Leone | Coffee | 3,831,246 |
| | Cocoa beans | 2,447,381 |
| Swaziland | Cotton | 3,103,968 |
| Chad | Cotton | 3,593,163 |
| Togo | Cocoa beans | 7,115,332 |
| Tonga | Copra | 1,685,134 |
| | Coconut oil | 391,688 |
| | Bananas | 223,173 |
| | Coconuts | 365,327 |
| Tuvalu | Copra | 63,150 |
| Samoa | Cocoa beans | 561,805 |
| | Copra | 877,434 |
| TOTAL | | 102,474,315 |
| Comoros* | Copra (1981) Essential oils (1981) | 290,577 487,471 |
| Comoros | | |
| GRAND TOTAL | | 103,252,363 |

* Transfers relating to 1981 which had to be charged to 1982 funds.

36. The total amount of Stabex transfers to be charged to the 1982 application year exceeded funds available by 13 852 363 ECU. In accordance with Article 34(1) of the second Lomé Convention, the Committee of Ambassadors authorized the advance use of the annual instalment for the 1983 application year to cover this amount.

37. Disbursements from the OCT allocation:

| | |
|-----------------------|---------------|
| Vanuatu (copra) | 3 810 084 ECU |
| Vanuatu (cocoa beans) | 593 448 ECU |

B. Balance sheet by country

38. Of the 102 474 315 ECU disbursed to the ACP signatories of the second Lomé Convention for 1982, 56 098 716 ECU, i.e. 54.7% of the funds transferred, went to the least developed ACP States, which are exempted by Article 46(1)(c) from contributing to the replenishment of the system's resources.

C. Results by product for 1982 (not including Vanuatu, which was covered by the OCT allocation)

| 39. <u>Products</u> | <u>Amount in ECU</u> | <u>%</u> |
|---------------------|----------------------|-------------|
| Cotton | 9 250 356 | 9.03 |
| Palm products | 1 975 470 | 1.93 |
| Cashew kernels | 215 789 | 0.21 |
| Coconut products | 10 832 093 | 10.57 |
| Groundnut products | 8 029 128 | 8.01 |
| Wood | 88 719 | 0.09 |
| Cocoa products | 49 484 425 | 48.29 |
| Nutmeg, mace | 278 590 | 0.27 |
| Shea nut kernels | 1 046 734 | 1.0 |
| Mohair | 694 147 | 0.58 |
| Coffee | 20 175 691 | 19.69 |
| Bananas | 223 173 | 0.21 |
| TOTAL | <u>102 474 315</u> | <u>100%</u> |

It should be noted that two products, cocoa and coffee, alone account for 68% of the total transferred.

VI. REPLENISHMENT OF RESOURCES

40. With regard to the transfers made under the first Lomé Convention and which by the terms of this Convention must be reimbursed, the Commission carried out an investigation to see whether the conditions governing the replenishment of resources, as set out in Article 21(3) of the first Lomé Convention, had been fulfilled in 1982. The investigation showed that in none of the cases had the conditions for reimbursement been fulfilled.

41. With regard to the transfers made under the second Lomé Convention and which by the terms of this Convention must be reimbursed, the Commission carried out an investigation to see whether the conditions for the replenishment of resources, as set out in Article 43(2) of the Convention, had been met in 1982.

The investigation showed that the conditions had been fulfilled in the case of the following transfers and for the following amounts:

| <u>Application</u> <u>year</u> | <u>Country</u> | <u>Product</u> | <u>Amount of</u> <u>transfer</u> | <u>Amount to be</u> <u>reimbursed</u> |
|-----------------------------------|----------------|----------------|-------------------------------------|--|
| 1980 | Madagascar | vanilla | 1 211 202 | 1 211 202 |
| 1980 | Senegal | oilcake | 8 253 832 | 8 253 832 |
| 1981 | Madagascar | coffee | 2 688 131 | 2 688 131 |

The Commission has informed these ACP States of their obligation, under the terms of the Convention, to contribute to the replenishment of the system's resources in accordance with the procedures laid down.

42. In the case of the following transfers, for which no obligation to make full reimbursement had been established at the end of the observation period referred to in Article 21(2) of the first Lomé Convention, the ACP-EEC Committee of Ambassadors¹ has still to take a decision pursuant to paragraph 4 of the same Article:

| <u>Application</u> <u>year</u> | <u>country</u> | <u>Product</u> | <u>Amount of</u> <u>transfer</u> | <u>Amount to be</u> <u>reimbursed</u> |
|-----------------------------------|----------------|-------------------|-------------------------------------|--|
| 1975 | Congo | Wood in the rough | 7 361 677 | - |
| 1975 | Gabon | Wood in the rough | 6 703 311 | - |

¹See point 10 above.

In November, the Commission will send a report to the Council of Ministers indicating the course of action it advocates in these cases in application of Article 21 of the first Lomé Convention.

43. In the case of the following transfers, for which no obligation to make full reimbursement had been established at the end of the observation period referred to in Article 23(3) of the Council Decision of 29 June 1976 on the association of the overseas countries and territories with the European Economic Community, the Council of Ministers has still to take a decision in accordance with paragraph 4 of the same Article:

| <u>Application year</u> | <u>Country</u> | <u>Product</u> | <u>Amount of transfer</u> | <u>Amount to be reimbursed</u> |
|-------------------------|----------------|----------------|---------------------------|--------------------------------|
| 1975 | Belize | Sawn wood | 139 650 | 61 133 |
| 1975 | Kiribati | Copra | 1 200 321 | 528 240 |
| 1976 | Kiribati | Sawn wood | 1 083 098 | 384 789 |
| 1977 | Belize | Sawn wood | 202 714 | - |

In November, the Commission will send the Council of Ministers a report setting out the course of action it advocates in these cases in application of Article 23 of the above-mentioned Decision.

VII. ECONOMIC IMPACT OF THE TRANSFERS AND THEIR UTILIZATION

A. Prior indications of proposed use and reports on actual use made of the 1980 and 1981 transfers

44. Prior indications of the proposed use of funds disbursed for 1982 reached the Commission within the time limit fixed by the second Lomé Convention. In contrast, barely more than a third of the final reports on the use of 1980 and 1981 transfers¹ have reached the Commission. It seems that in most cases the ACP States are not aware of the link between these reports and the efficiency and credibility of the system.

¹These reports were due in in July 1982 and September 1983 respectively.

45. Examination of the reports sent to the Commission reveals that in the overwhelming majority of cases the proposed use appears to be consistent with the system's objectives as laid down in the Convention:

- (a) allocation to agricultural projects for the purpose of:
 - (i) increasing or reestablishing production potential,
 - (ii) diversification,
 - (iii) food self-sufficiency;
- (b) support for producer prices.

B. Economic impact of the 1982 transfers

46. The relative size of the transfers as a proportion of the recipient countries' export earnings varies according to the losses sustained, the product or products in question and its/their share of the country's total exports, and also the structure of exports (the Community's share of total exports).

In a number of cases, the proportion is remarkably high, as in the following examples showing disbursements as a percentage of total export earnings (all products, all destinations, 1981, measured in ECU):

| | |
|----------|---------|
| Sao Tome | 41.22% |
| Kiribati | 29.62% |
| Vanuatu | 31.13%. |

47. The impact of the transfers made can of course be seen even more clearly when disbursements in respect of a given product are related to export earnings (all destinations) from that product (1982).

The following percentages are given by way of example:

| | |
|----------------------|---------|
| Benin, cashew nuts | 209.50% |
| Vanuatu, cocoa beans | 98.95% |
| Comoros, copra | 88.02% |
| Malawi, groundnuts | 52.94% |
| Kiribati, copra | 68.65%. |

These figures confirm the importance of the flow of substitute funds provided by the system and consequently its contribution to the stabilization of the ACP States' export earnings, particularly in the case of the least developed ACP States.

LIST OF DRAWINGS SINCE 1 JANUARY 1982 UNDER THE IMF'S COMPENSATORY PAYMENTS

SYSTEM

| <u>Country</u> | <u>Million</u> <u>SDR</u> | <u>Last month of relevant</u> <u>12-month period</u> | <u>Month of drawing</u> |
|--|------------------------------|---|-------------------------|
| Barbados | 11.7 | 6/82 | 10/82 |
| Belize ² | 3.6 | 3/83 | 6/83 |
| Fiji ¹ XX | 13.5 | 3/82 | 2/82 |
| Ghana ¹ XX | 120.5 | 12/82 | 8/83 |
| Guyana | 5.9 | 6/82 | 11/82 |
| Jamaica | 19.4 | 3/82 | 8/82 |
| Kenya ¹ X | 60.4 | 12/81 | 6/82 |
| Liberia | 27.7 | 6/82 | 10/82 |
| Liberia | 7.0 | 12/81 | 6/82 |
| Madagascar ¹ X | 21.8 | 12/81 | 7/82 |
| Malawi ¹ XX ² | 12.2 | 9/82 | 3/83 |
| Niger ² | 12.0 | 12/82 | 7/83 |
| Niger ² | 12.0 | 12/83 | 10/83 |
| Sierra Leone ¹ XXXX ² | 20.7 | 6/82 | 2/83 |
| Solomon Islands ¹ XX ² | 1.6 | 6/82 | 10/82 |
| Sudan ¹ X ² | 39.1 | 6/82 | 3/83 |
| Swaziland ¹ X ² | 9.0 | 12/82 | 6/83 |
| Samoa ¹ XXXX ² | 1.1 | 12/82 | 6/83 |
| Zaire | 114.5 | 3/83 | 12/83 |
| Zaire | 106.9 | 12/81 | 3/82 |
| Zambia | 97.2 | 12/82 | 5/83 |
| Zambia | 34.0 | 6/82 | 12/82 |
| Zimbabwe | 56.1 | 12/82 | 3/83 |

¹The number of "X" denotes the number of transfers received by the ACP State under Stabex for the years in question (1981 and 1982).

²ACP State not required to contribute to the replenishment of resources.