

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(85) 443 final

Brussels, 30 July 1985

COMMUNICATION BY THE COMMISSION TO THE COUNCIL

Establishment a system of the Stabex type for the least-developed countries which are not signatories to the Lomé Convention

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Communication from the Commission to the Council

I. Background

1. The September 1981 Paris Conference on the least-developed countries called on developed countries "to study ways and means of helping the least-developed countries to offset the damaging effect of injury caused by loss of foreign exchange earnings arising from fluctuations in the latter's exports of primary commodities" and to report to UNCTAD VI (see § 83 of SNPA).

The Community responded by expressing its willingness "to examine in a constructive spirit the most appropriate means of meeting this request, particularly by studying what arrangements could be made and how to extend to the least-developed countries not party to the Lomé II Convention dispositions similar or equivalent to those of Stabex."

2. During the preparations for the Belgrade Conference the Commission proposed that the Community and its Member States should:

- appeal to other commodity-importing countries or groups of countries to set up a commodity export earnings stabilization system for the least-developed countries;
- in that connection, indicate the Community's intention of extending Stabex concurrently to least-developed countries not covered by the Lomé Convention.

As the coordination meetings which took place before and during UNCTAD VI (June 1983) failed to produce a Community position it was agreed to postpone any decision on the matter to a later date.

3. The question was broached afresh during the discussions on the Communication to the Council concerning the answer to be given to the UNCTAD Secretary-General pursuant to paragraph 4 of Resolution 157 (VI), but again no progress was made on the formulation of a common position.

Accordingly, it was decided to postpone discussion of the issue once more until it could be examined in the light of:

- the implications of the Lomé III negotiations for the form and content of the system;
- the position of the main commodity importers regarding the establishment of a compensation system along the lines of Stabex for the least-developed countries.

¹ COM(83)736 final, 12 December 1983.

4. The Community and its member States will certainly be called on to state their position on this question at the mid-term review of the Substantial New Programme of Action (SNPA) which is due to take place in Geneva under the auspices of UNCTAD from 30 September to 11 October.

By that time, therefore, they will have to have worked out their common stand.

5. This Memorandum is intended to provide a basis for that work. To that end it reviews:

- the implications of a system extended as envisaged, with particular regard to coverage and costs (Chapter II);
- the developments which have taken place since early December 1983 both in Stabex itself, modified as a result of the Lomé renewal negotiations, and in the attitude of the other main commodity importing countries (Chapter IV).

Chapter IV outlines the Commission's proposals for a common position in the light of these considerations.

II. Implications of an extended Stabex

(a) Geographical spread

6. Annex I, which lists the countries concerned using the commonest international classification, shows that:

- Stabex already covers 27 of the 36 least-developed countries on the UN list;
- of the 27 least-developed ACP States covered, eight now benefit from the "all destinations" derogation;
- the extended Stabex would take in another nine countries: Afghanistan, Bangladesh, Bhutan, Haiti, Maldives, Nepal, Laos, the Yemen Arab Republic and PDR Yemen.

7. In the discussions which have gone on within the OECD and UNCTAD as well as the Community, some delegations have raised the possibility of using a wider classification taking in not only the least-developed countries but those low-income countries (per capita GNP under \$500) most heavily dependent on commodity exports i.e. with commodities accounting for 50% or more of their total exports. As we see from Annex I, 38 countries fulfil those two criteria, 29 ACP and nine others.

¹ Which extends the Community-financed system to cover loss of earnings on these ACP countries' exports to other destinations as well (e.g. the United States).

8. Using this formula to extend Stabex would mean:

- the list of additional countries would still include six of the nine least-developed countries listed in S6 - Afghanistan, Haiti, Maldives, Nepal, Laos and the Yemen Arab Republic;

- the other three countries - Bangladesh, Bhutan and PDR Yemen - would not be covered;
- three countries which are not on the least-developed list would be included: Burma, Kampuchea and Sri Lanka.

9. Since the whole formula is subject to debate (why \$500 rather than \$600, why 50% dependence rather than 30% or 80%), we propose to keep to the list of least-developed countries drawn up by the UN, which is also going to be used for the purposes of the SNPA mid-term review.

(b) Product cover

10. When Lomé III comes into force, Stabex cover will extend to 48 products (see the list in Article 148 of the Convention, at Annex II).

The list includes the main commodities exported by the nine possible beneficiaries of an extended scheme (notably coffee, cocoa, cotton, tea and hides and skins), with the exception of jute and derived products.

11. Exports of jute and jute-based products are so vital to a country like Bangladesh that there is little point in extending the scheme as proposed unless they are covered too. Our simulations (see below) were based on this broader coverage.

(c) Financial implications

12. The figures used here are the result of the simulations included in the study carried out by the Commission in October 1983, which is appended to the December 1983 Communication to the Council mentioned above (COM(83)736 final).

The simulations were based on the following assumptions:

- product coverage: the 45 products covered under Lomé II, plus jute and jute-based products;
- dependence and fluctuation thresholds: the "reducer" effect produced by application of these thresholds was ignored.

13. The time series used was 1974-1981, for the ten-member Community¹. At this stage it is not worth changing the input, given that:

- the three new products added under Lomé III (dried bananas, mangoes and shea nut oil) are marginal in value terms for both the ACP States and the other least-developed countries;
- exclusion of the effects of the dependence and fluctuation thresholds (even with the thresholds reduced from 2% to 1.5% under Lomé III) "rounded up" the initial estimate for the overall loss figure, which still seems sufficient.

¹ If the Community decides to go ahead with extending the system to non-ACP least-developed countries the Commission will naturally undertake more detailed calculations, if only to get a clear picture of the commitments which the Twelve will be asked to underwrite.

14. The simulations produced range estimates of the total losses which over a five-year period would have to be partly compensated by the various importing countries or groups of countries.

The figures are given in condensed form in the table in Annex III. The main points to note are as follows:

- the estimate for least-developed countries' potential losses over five years on exports of the products covered ranges from \$1220m to \$1550m; approximately half of that risk¹ (\$570m/\$750m) is already covered by the Community Stabex system;
- the remaining \$650m/\$800m of risk breaks down as follows:
 - . risk on ACP least-developed countries' exports to destinations other than the Community (\$489m/\$588m), which accounts for about 75%;
 - . risk on non-ACP least-developed countries (\$161m/\$212m), accounting for the remaining 25%;
- note that the risk on this latter category (non-ACP least-developed countries) is:
 - . nil for two countries (Bhutan and Maldives),
 - . fairly insignificant for four other countries (Laos, Nepal and the two Yemens),
 - . significant for Bangladesh, Haiti and Afghanistan.²

Roughly half the risk (\$90m/\$110m over five years) would be borne by the Community and its member States.

15. Extending Stabex cover to the least-developed countries, as envisaged in the SNPA, would therefore involve two things:

- An extension of Community Stabex coverage proper to least-developed countries not included in the Lomé Convention, i.e. to the nine countries already identified, three of which would have a significant incidence: Bangladesh, Haiti and Afghanistan. The maximum additional risk over five years is put at between \$90m and \$110m.
- Acceptance by other importers willing to engage on the scheme of the risk represented by least-developed country exports (non-ACP and ACP) going to destinations other than the Community.

¹ More, in fact, since eight of the 27 Least-developed ACP States have been accorded the "all destinations" facility; they are Burundi, Cape Verde, Comoros, Ethiopia, Guinea Bissau, Lesotho, Rwanda and Western Samoa.

² See footnote 2 on page 7 for the political considerations relating to Afghanistan.

(e) Institutional implications

16. These two changes could be introduced in the form of parallel schemes, by analogy with the system of generalized preferences, with the Community and its Member States extending the system on their own initiative

to the countries concerned and other interested importing countries applying it to all least-developed countries.

Flexible statistical and administrative cooperation arrangements could easily be introduced to ensure the coordinated and uniform (for the beneficiaries) application of the system.

III. Changes in the operation of the system following the signing of the third Lomé Convention

17. One change has already been indicated in §13 above: the inclusion of three new products (dried bananas, mangoes and shea nut oil); this should have no significant impact on the financial estimates which have been drawn up.

The same applies to the lowering of the dependence and fluctuation thresholds mentioned in the same paragraph.

18. The other major change agreed during the negotiations has to do with the use made of the compensatory transfers:

- there will be greater advance coordination on the use of transfers to improve production and/or marketing in the sectors which gave rise to the losses;
- more detailed reports will be provided regarding the follow-up of measures or programmes carried out using the money.

19. The Commission recently gave its OECD partners an account of this change during the preparations for the Fourteenth Special Session of the UNCTAD Trade and Development Board (TDB), devoted to compensatory financing, and held behind-the-scenes discussions with them during the session itself. The reactions of those OECD members interested in giving constructive consideration to the establishment of a Stabex-type mechanism for least-developed countries suggest that the improvements to the system have rendered it a more attractive possibility for them.

IV. Attitude of the main importers

20. The Fourteenth Special Session of the UNCTAD TDB which took place from 10 to 15 June was devoted to the discussion of compensatory financing; it provided an overview of the position two years on from the Belgrade Conference (UNCTAD VI) and almost four years after the Paris Conference (SNPA).

- The United States, Canada and the Group D socialist countries have absolutely no interest in setting up any kind of Stabex mechanism for either developing or least-developed countries.
- Australia and New Zealand had reservations which at this stage relate to actual financing arrangements rather than the principle itself. Nevertheless, when it comes to statements and decisions they will probably come down on the side of the previous group.

- Japan said it was prepared to give further consideration to the matter, though its real intentions are not clear at the moment.
- The Nordic group, Austria and Switzerland (EFTA members), on the other hand, showed a distinct interest in following up the idea.

21. Looking at this line-up in relation to the figures in Annex III, the implications are as follows:

- while the failure of the United States to join in leads to a significant loss of cover (\$270m/\$340m out of the total \$650m/\$800m uncovered), Australia, Canada and New Zealand are minor absentees, accounting together for no more than \$50m/\$65m;
- the prospect of participation by the EFTA countries, which account together for \$100m/\$125m, is important, since they represent cover of more or less the same order of magnitude as the extra contribution which would be provided by the Community and its Member States extending Stabex to least-developed countries other than ACP States;
- Japan could also be a significant participant (\$140m/\$160m).

22. It is important to remember the possible advantages of the approach envisaged for the least-developed Lomé countries themselves; they already have cover under the Community Stabex for \$570m/\$750m, but that leaves \$490m/\$590m of exposure, a risk which would be reduced by:

- \$210m/\$250m if the EFTA countries and Japan joined in, or
- \$90m/\$110m in the event of participation by the EFTA countries alone.

23. The Commission departments concerned have just newly been in touch again, informally, with the EFTA countries. They found that:

- every country consulted appeared, prima facie, to favour of the approach envisaged;
- it is not certain that they will be in a position to give a firm answer by the SNPA mid-term review in October - a Commission initiative on that occasion, however, would probably provide a strong spur towards a decision by the capitals concerned;
- if they come out in favour of the principle, the EFTA countries would be keen to collaborate with the Commission in studying flexible administrative cooperation arrangements for the operation of the system;
- under certain conditions, which would have to be studied in detail, it might be worth while when the time comes to present the parallel action by EFTA and Community countries as the result of a coordinated EEC-EFTA approach inspired by the spirit of the Luxembourg Declaration.

V. Conclusions and proposals

24. In the light of the considerations set out above, should the Community, pursuant to undertakings given in Paris in 1981, pronounce in favour of extending Stabex to non-Lomé least-developed countries, there seems little point in its making such a proposal conditional on the intentions of the other importing countries:

- the United States, Canada and the Group D countries would not follow a Community lead, and neither, in all probability, would Australia, New Zealand or Japan; the Community's conditional offer would be seen, rightly, as a covert refusal;
- such explicit conditionality would probably embarrass our EFTA partners, whereas a unilateral unconditional offer would be likely to elicit a faster and more positive reaction from both them and Japan.

25. Other considerations which emerge are these:

- the cost to the Community of extending Stabex to least-developed countries not covered by the Lomé Convention would not be high, of the order of 25-30m ECU a year;
- participation by the EFTA countries and/or Japan in the scheme envisaged would produce significant additional benefits to least-developed countries already covered by the Lomé Convention;
- the implementation of parallel schemes by the importers concerned would not pose any major problems of organization or coordination, either in institutional or administrative terms.

26. We accordingly propose that the Community and its Member States should take the opportunity offered by the mid-term review of the SNPA to be held in Geneva in September/October to:

- announce their intention of unilaterally establishing a system of the Stabex type of the third Lomé Convention¹ to the benefit of the least-developed countries which are not already covered, and to that end of contacting the countries concerned² to reach agreement with them on the practical details of the scheme's implementation ;
- appeal to other commodity importing countries to participate in the initiative by setting up parallel schemes;
- indicate their willingness to join with other importers interested by such an approach in working out appropriate administrative cooperation arrangements for the coordination and implementation of such parallel schemes.

¹Including jute and jute products in the case of Bangladesh.

²This statement will have to be carefully worded to take account of the political problem of Afghanistan.

27. If the proposals set out in the above paragraph are adopted we need to ensure that funding for the action is made available in due course in the form of appropriations under a special new budget heading (Article 937) in Chapter 93 (Cooperation with non-associated developing countries).

Financement compensatoire

Annexe I

- pays à faible revenu
- pays moins avancés
- pays dépendant des exportations de produits de base

Pays à revenu < 500 \$ (1980)	PMA		36 pays	Pays à dépendance > 50%	Pays à faible revenu et dépendance > 50%		38 pays dont 28 PMA
	dont PMA non ACP	dont PMA/ACP			dont non ACP	dont ACP	
50 pays	9 pays	27 pays		38 pays	9 pays (dont 6 PMA)	29 pays (dont 22 PMA)	
Afghanistan	Afghanistan	-	Afghanistan	Afghanistan (*)	-	-	
Bangladesh	Bangladesh	-	-	-	-	-	
Bénin	-	Bénin	Bénin	-	Bénin (*)		
Bhutan	Bhutan	-	?	?	-	-	
Birmanie	-	-	Birmanie	Birmanie	-	-	
Botswana	-	Botswana	-	-	-	-	
Burkina Faso	-	Burkina Faso	Burkina Faso	-	Burkina Faso (*)		
Burundi	-	Burundi	Burundi	-	Burundi (*)		
Cap Vert	-	Cap Vert	Cap Vert	-	Cap Vert (*)		
Comores	-	Comores	Comores	-	Comores (*)		
Djibouti	-	Djibouti	?	-	?		
Egypte	-	-	-	-	-	-	
Ethiopie	-	Ethiopie	Ethiopie	-	Ethiopie (*)		
Gambie	-	Gambie	Gambie	-	Gambie (*)		
Ghana	-	-	Ghana	-	Ghana		
Guinée	-	Guinée	Guinée	-	Guinée (*)		
Guinée Bissau	-	Guinée Bissau	Guinée Bissau	-	Guinée Bissau (*)		
Guinée Equat.	-	Guinée Equat.	?	-	?		
Haïti	Haïti	-	Haïti	Haïti (*)	-	-	
Inde	-	-	-	-	-	-	
Indonésie	-	-	-	-	-	-	
Kampouchia D.ém.	-	-	Kamp. Dém.	Kamp. Dém.	-	-	
Kenya	-	-	Kenya	-	Kenya		
Kiribati	-	-	Kiribati	-	Kiribati		
Lesotho	-	Lesotho	-	-	-	-	
Madagascar	-	-	Madagascar	-	Madagascar		
Malawi	-	Malawi	Malawi	-	Malawi (*)		
Maldives	Maldives	-	Maldives	Maldives (*)	-	-	
Mali	-	Mali	Mali	-	Mali (*)		
Mauritanie	-	-	Mauritanie	-	Mauritanie		
Mozambique	-	-	Mozambique	-	Mozambique		

- Les pays figurant dans une cartouche sont des ACP bénéficiant de la dérogation "toutes destinations"
- Les pays figurant dans la dernière colonne de droite et marqués d'un astérisque sont des PMA.

Pays à revenu < 500 \$ (1980)	PMA		Pays à dépendance > 50%	Pays à faible revenu et dépendance > 50%	
	dont PMA non ACP	dont PMA/ACP		dont non ACP	dont ACP
50 pays	9 pays	27 pays	38 pays	9 pays (dont 6 PMA)	29 pays (dont 22 PMA)
Népal	Népal	-	Népal	Népal (*)	-
Niger	-	Niger	Niger	-	Niger (*)
Ouganda	-	Ouganda	Ouganda	-	Ouganda (*)
Pakistan	-	-	-	-	-
RCA	-	RCA	RCA	-	RCA (*)
Rép. Laô	Rép. Lao	-	Rép. Lao	Rép. Lao (*)	-
R.U. Tanzanie	-	R.U. Tanzanie	R.U. Tanzanie	-	Rép. Tanz (*)
Rwanda	-	Rwanda	Rwanda	-	Rwanda (*)
Samoa	-	Samoa	Samoa	-	Samoa (*)
Sao Tome et Pr	-	Sao Tome et Pr	Sao Tomé et Pr	-	Sao Tome et Pr (*)
Sierra Leone	-	Sierra Leone	-	-	-
Somalie	-	Somalie	Somalie	-	Somalie (*)
Soudan	-	Soudan	Soudan	-	Soudan (*)
Sri Lanka	-	-	Sri Lanka	Sri Lanka	-
Tchad	-	Tchad	Tchad	-	Tchad (*)
Togo	-	Togo	Togo	-	Togo (*)
Yemen	Yemen	-	Yemen	Yemen (*)	-
Yemen dém.	Yemen dém.	-	-	-	-
Zaire	-	-	Zaire	-	Zaire

Article 148

1. Les produits couverts sont les suivants:

Code NIMEXE

1. Arachides en coques ou décortiquées	12.01-31 à 12.01-35
2. Huile d'arachide	15.07-74 et 15.07-87
3. Cacao en fèves	18.01-00
4. Pâte de cacao	18.03-10 à 18.03-30
5. Beurre de cacao	18.04-00
6. Café vert ou torréfié	09.01-11 à 09.01-17
7. Extraits, essences ou concentrés de café	21.02-11 à 21.02-15
8. Coton en masse	55.01-10 à 55.01-90
9. Linters de coton	55.02-10 à 55.02-90
10. Noix de coco	08.01-71 à 08.01-75
11. Coprah	12.01-42
12. Huile de coco	15.07-29, 15.07-77 et 15.07-92
13. Huile de palme	15.07-19, 15.07-61 et 15.07-63
14. Huile de palmiste	15.07-31, 15.07-78 et 15.07-93
15. Noix et amandes de palmiste	12.01-44
16. Peaux brutes	41.01-11 à 41.01-95
17. Cuirs et peaux de bovins	41.02-05 à 41.02-98
18. Peaux d'ovins	41.03-10 à 41.03-99
19. Peaux de caprins	41.04-10 à 41.04-99
20. Bois bruts	44.03-20 à 44.03-99
21. Bois simplement équarris	44.04-20 à 44.04-98
22. Bois simplement sciés longitudinalement	44.05-10 à 44.05-79
23. Bananes fraîches	08.01-31
24. Thé	09.02-10 à 09.02-90
25. Sisal brut	57.04-10
26. Vanille	09.05-00
27. Girofle (antofles, clous et griffes)	09.07-00
28. Laines en masse	53.01-10 à 53.01-40
29. Poils fins de chèvre de mohair	53.02-95
30. Gomme arabique	13.02-91
31. Pyrèthre (fleurs, feuilles, tiges, écorces, racines) et sucs et extraits de pyrèthre	12.07-10 et 13.03-15
32. Huiles essentielles non déterpénées de girofle, de niaouli et d'ylang-ylang	33.01-23
33. Graines de sesame	12.01-68
34. Noix et amandes de cajou	08.01-77
35. Poivre	09.04-11 et 09.04-70
36. Crevettes	03.03-43
37. Calmars	03.03-68
38. Graines de coton	12.01-66
39. Tourteaux d'oléagineux	23.04-01 à 23.04-99
40. Caoutchouc	40.01-20 à 40.01-60
41. Pois	07.01-41 à 07.01-43, 07.05-21 et 07.05-61
42. Hancots	07.01-45 à 07.01-47, 07.05-25, 07.05-65 et ex 07.05-99
43. Lentilles	07.05-30 et 07.05-70
44. Noix muscades et macis	09.08-13, 09.08-16, 09.08-60 et 09.08-70
45. Amandes de Karité	12.01-70
46. Huiles de Karité	ex 15.07-82 et ex 15.07-98
47. Mangues	ex 08.01-99
48. Bananes séchées	08.01-3511

2. A la présentation de chaque demande de transfert, l'Etat ACP choisit entre les systèmes suivants:

- a) chaque produit énuméré au paragraphe 1 constitue un produit au sens du présent chapitre;
- b) les groupes de produits 1 et 2, 3 à 5, 6 et 7, 8 et 9, 10 à 12, 13 à 15, 16 à 19, 20 à 22, 23 et 48, 45 et 46, constituent chacun un produit au sens du présent chapitre.

ESTIMATION DES PERTES DE RECETTES POTENTIELLES SUR UNE PERIODE

DE CINQ ANS (EN MILLIONS DE \$, VALEUR 1981)

(pays du groupe D non compris)

Pays exportateurs / Pays importateurs	Total tous PMA (arrondi)	Afghanistan	Bangladesh	Buthan	Haïti	Laos	Maldives	Nepal	Yemen (arab rep.)	Yemen (peoples rep.)	Sous-total PMA non ACP (arrondi)	Sous-total PMA/ACP (arrondi)	Pertes couvertes par système existant	Pertes couvertes par extension du système
	CEE	660/860	22/30	38/47	0	15/22	0,3	0	7,5/8,5	2/3	2,9/3,2	90/110	570/750	570/750
US	270/340	2/4	11/14	0	24/35	0,8	0	2,7/3,1	0,5	0,3	40/60	230/280	-	270/340
Japon	140/160	2/3	7,5/8	0	0,5	2/3	0	0,3	2/3	1,5/1,7	15/20	125/140	-	140/160
EFTA	100/125	1,2/2,8	2,2/2,3	0	3,9/4,5	0	0	0	0,5	1,5	11/13	89/112	-	100/125
(- Pays nordiques)	(40/50)	(0)	(1,-)	(0)	(1,2/1,6)	(0)	(0)	(0)	(0,5)	(0,5)	(3/4)	(37/46)	(-)	(40/50)
(- Suisse)	(40/50)	(1,2/2)	(1,2/1,3)	(0)	(2,2/2,4)	(0)	(0)	(0)	(0)	(1,-)	(6/7)	(34/43)	(-)	(40/50)
(- Autriche)	(20/25)	(0,8)	(0)	(0)	(0,5)	(0)	(0)	(0)	(0)	(0)	(2)	(18/23)	(-)	(20/25)
Australie	20/25	0	2/2,5	0	0	0	0	0	0	0	2/3	18/22	-	20/25
Canada	20/25	0	2/4	0	0	0	0	0	0	0	2/4	18/21	-	20/25
Nouvelle Zélande	10/15	0	1/2	0	0	0	0	0	0	0	1/2	9/13	-	10/15
TOTAL	1220/1550	27/40	64/80	0	43/62	3/4	0	10/12	5/7	6/7	161/212	1059/1338	570/750	650/800
											1220/1550	1220/1550		