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COMMISSION COMMUNICATION TO THE COUNCIL

REPORT

on the operation during 1976 of the system for stabilizing export earnings set up by the Decision on the association of the OCT with the EEC

SUMMARY

This annual comprehensive report on the operation during 1976 of the system for stabilizing export earnings set up by the Decision on the association of the OCT with the EEC is presented in accordance with the Internal Agreement on the financing and administration of Community aid. It deals with general developments since the first report, the results of the second year of application of the system and the economic effect of the transfers.

The main developments were the decisions to extend the guarantee provided by the system to include seven new products and to grant cover under the system for exports from the Republic of Comoros to all destinations; as regards the cooperation machinery, the finishing touches were added at the statistical level but there was still room for improvement in the provision of information to the Commission on the utilization of the resources.

In the second year of application of the system there were six applications involving two products. Two of the applications were made by OCT which had become independent, namely the Comoros and Djibouti, while the others were made by the following OCT: Gilbert Islands, Solomon Islands, New Hebrides and Tuvalu.

The transfers amounted to 3 300 355 ECU in all, allowance being made for Belize's contribution of 61 133 ECU to the reconstitution of the system's resources and the balance carried forward from 1975. A total of 2 962 470 ECU was carried forward to 1977.

In the case of the two countries which provided information to the Commission, the economic effect of the transfers unquestionably related to economic development and the expansion of trade.

1. Article 29 of the Internal Agreement on the financing and administration of Community aid requires the Commission to prepare an annual comprehensive report on the operation of the system for stabilizing export earnings as regards the ACP States and the overseas countries and territories.

2. On 12.4.78 the Commission presented to the Council the second comprehensive report on the operation during 1976 of the system set up by the Lomé Convention for stabilizing export earnings.

3. This comprehensive report is concerned with the application during 1976 of the system for stabilizing export earnings set up by the Council Decision of 29 June 1976 on the association of the overseas countries and territories with the European Economic Community. It deals with:

- (i) general developments since the first report was drawn up;
- (ii) the results of the second year of application of the system;
- (iii) the effect of the transfers on the economic development of the recipient countries and on the development of external trade.

I. GENERAL DEVELOPMENTS

4. The main developments since the first report were the new decisions adopted by the Council, but there were also developments affecting the cooperation machinery.

5. On 21.12.77 the Council decided to add the following products to the list in Article 19(1) of the Decision on the association of the OCT with the EEC, with effect from the year of application 1976: cloves, gum arabic, wool, mohair, pyrethrum, vanilla, ylang-ylang.

6. The extension of the list in Article 19 indicates the Community's desire to maintain as far as possible the parallel development of the systems for stabilizing the export earnings of the ACP States and the OCT respectively, since at its second meeting, held in Fiji on 13 and 14 April 1977, the ACP-EEC Council of Ministers took a similar decision to extend the list of products covered by the system for the ACP States.

7. As a consequence of that decision, a text containing inter alia a revised list of products covered by the system and subject to surveillance on importation into the Community was published as Council Regulation (EEC) No 2478/77 in Official Journal No L 287 of 11 November 1977.

For the year of application 1976 no OCT applied for a transfer in respect of the new products covered by the system.

8. Another decision of the ACP-EEC Council of Ministers in Fiji affects the administration of the system in respect of the OCT, namely the decision that the system can apply to exports from the Republic of Comoros and from Seychelles irrespective of destination¹. Pursuant to Article 1(5) of the Internal Agreement on the financing and administration of Community aid, those ACP States, which are former OCT that have become independent and have acceded to the Lomé Convention under Article 89, continue to be

¹ Seychelles was already accorded such treatment as an OCT

covered by the appropriation for stabilizing the export earnings of the OCT, provided for in Article 1(3)(c) of that Agreement¹.

9. This decision of the ACP-EEC Council of Ministers has had one immediate consequence, namely the application submitted by the Republic of the Comoros concerning its exports of copra irrespective of destination.

10. Reference should also be made to the exchanges of views between the Member States and the Commission which, as in 1975, enabled answers to be given to requests for information and proved very useful and fruitful.

11. The machinery for cooperation with the countries and territories, as described in the report for 1975, continued to function satisfactorily on the whole. Accordingly there is no need to make any special comments on any of the points mentioned in the first report.

12. However, although cooperation has been progressing satisfactorily at the statistical level, difficulties have arisen in respect of the application of Article 22 of the Decision. The Commission has been able to obtain unofficial information on the utilization of the resources transferred for 1975, but it has so far failed in its efforts to obtain from the Belize and New Hebrides authorities the information that should be provided annually. The Commission strongly deplors this delay in applying the spirit, if not the letter, of Article 22; it can only harm the excellent reputation of the system.

II. SECOND YEAR OF APPLICATION OF THE SYSTEM

13. The Commission has received six applications for transfers for 1976 from the OCT appropriation. Four of these applications are from OCT proper: Gilbert Islands, Solomon Islands, Tuvalu and the Condominium of the New Hebrides; the other two are from OCT which have become ACP States through accession to the Lomé Convention under Article 89, namely the Republic of the Comoros and the Republic of Djibouti.

14. These six applications were admissible since the dependence and fluctuation thresholds provided for by the Decision on the association of the OCT with the EEC had been exceeded under the conditions set.

15. Examination of the trend of total exports from the countries and territories concerned did not show any significant change and consequently there was no need for consultations within the meaning of Article 21(4) of the Decision.

16. The overall results for the latest year of application of the Decision are as follows:

¹ Djibouti and Surinam are the other two ACP States affected by the provisions of Article 1(5) of the Agreement but they are not covered by the guarantee irrespective of the destination of their exports.

<u>OCT</u>	<u>PRODUCT</u>	<u>AMOUNT OF TRANSFER IN EJA</u>
GILBERT ISLANDS	COPRA	1 083 098
SOLOMON ISLANDS ¹	COPRA	1 273 640
NEW HEBRIDES	COPRA	327 364
TOTALU ¹	COPRA	64 417
		<hr/>
		2 748 519
<u>ACP</u>		
COMOROS ¹	COPRA	286 508
DJIBOUTI ¹	RAW HIDES, SKINS AND LEATHER	265 328
		<hr/>
		551 836
		<hr/>
		3 300 355

17. Four of the six countries concerned received non-repayable transfers whereas Gilbert Islands and New Hebrides will be required to contribute towards the reconstitution of the resources made available for the system. For 1976, 57% of transfers were therefore made in the form of grants and 43% in the form of loans.

18. The transfers concern only two products: copra (92%) and raw hides, skins and leather (8%). Unlike in 1975, when the transfers compensated for falls in earnings resulting from the adverse economic situation or from local circumstances, in 1976 local circumstances were the dominant cause.

19. With regard to the reconstitution of the resources, the Commission, in accordance with Article 23(3) of the Decision and the practical arrangements embodied in the exchange of letters which takes place on the occasion of each transfer, carried out the necessary investigations in connection with the two transfers made for 1975 to OCT which had undertaken to contribute to the reconstitution of the system's resources. The investigations showed that in the case of Belize the conditions laid down in the Decision as necessitating reconstitution of the resources had been met, whereas this was not the case for New Hebrides. The Commission notified the OCT concerned of its findings.

20. The authorities of Belize informed the Commission that they fully agreed with the figures arrived at and accordingly paid back the sum of 61 133 EJA into the system within the prescribed period. The balance of 78 517 EJA from the transfer to this country of 139 650 EJA will be handled in the manner provided for in Article 23 of the Decision.

21. In accordance with Article 20(3) of the Decision, the unexpended balance for 1976, namely:

4 000 000 EJA	(1976 allocation)
+ 2 201 653 EJA	(remaining from 1975)
- 61 133 EJA	(amount paid back by Belize)
- 3 300 316 EJA	(transfers for 1976)

2 832 470 EJA

will be carried forward automatically and added, with effect from 1 January 1978, to the amount available for the year of application 1977.

III. EFFECT OF THE TRANSFERS ON THE ECONOMIC DEVELOPMENT OF THE RECIPIENT COUNTRIES AND ON THE DEVELOPMENT OF EXTERNAL TRADE

22. Article 29 of the Internal Agreement on the financing and administration of Community aid stipulates that the Commission's annual 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.

23. The same Article also stipulates that the Commission shall forward to the Member States the reports it receives.

The information obtained concerning the Republic of the Comoros was transmitted along with the information from the other ACP States in document COM(77)02 final of 19 October 1977. With regard to Djibouti, the report consists of information provided by the President of the Council of Government of Djibouti when he visited the Commission; the funds were used for the development of the "red seaweed" used in beauty preparations, a product for which there are markets in the Community.

The Commission will transmit to the Member States the reports on the utilization of the funds transferred to Belize and the New Hebrides as soon as they are in its possession¹.

24. The fact that of the four countries receiving transfers for 1975 only the two referred to above and not the principal recipient (New Hebrides: 61% of the amount transferred) have supplied information (see paragraph 13) obviously makes it impossible to form a true impression of the economic effect of the transfers.

25. It may be pointed out, however, that in the two cases in question the transfers were not allocated to the products occasioning the transfer but to diversification schemes: the President of the Council of Government emphasized this very point in the case of Djibouti and the same is true of the Comoros, where the funds transferred went on a scheme for improving export crops (vanilla, cloves and bananas).

26. It may also be noted that in both cases the funds were used for practical projects aimed specifically at the promotion of export crops. These projects are bound, therefore, to contribute both to the economic development of the recipient countries and to the expansion of external trade. They are thus fully in tune with the spirit in which the system was conceived.

¹The report from the Belize authorities has just reached the Commission. Pending the transmission of more detailed information, the following may be noted:

- B \$150 000 to the Banana Control Board,
- B \$100 000 to the Forestry Department,
- B \$ 68 986 to the Marketing Board.

Breakdown of "SCABEX" transfers for 1975 and 1976

According to national currency requested by the OCM

National currency	Amount transferred in ECU			Proportion of total in %		
	1975	1976	1975+1976	1975	1976	1975+1976
French franc	1 658 697	879 200	2 537 897	92.2	26.6	49.8
German mark	139 650	-	139 650	7.8	-	2.7
Pound sterling	-	2 421 155	2 421 155	-	73.4	47.5
Belgian franc	-	-	-	-	-	-
Dutch guilder	-	-	-	-	-	-

CALCULATION OF THE AMOUNT OF THE RECONSTITUTION TO BE MADE AVAILABLE BY BELIZE

Product : Saw wood

Reference period : 1971 - 1974

Year under examination : 1975

	Quantity exported	Export values, national currency	Average of monthly exchange rates during period	Export values E.U.A.	Export Unit
Information concerning the reference period	$Q_{Ref} = 926$	345,880	1.88803	183,195	$\overline{UV}_{Ref} = 197$
Information concerning the year under examination	$Q_{EX} = 1,271$	756,870	2.25690 +	335,358	$\overline{UV}_{EX} = 263$

Article 23(3)

1. $\overline{UV}_{EX} > \overline{UV}_{Ref}$

2. $Q_{EX} \geq Q_{Ref}$

Amount of reconstitution

$$= Q_{Ref} \left[\overline{UV}_{EX} - \overline{UV}_{Ref} \right]$$

= 61,133 E.U.A.

Information

Amount of transfer : 139,650

E.U.A.

Date of transfer : 25 February, 1977

Reconstitution as a proportion of transfer : 43.77%

+ Calculated from monthly average rates, Jan. - Apr. and daily rates 1-10 May, £ 1 = B \$ 4, from 11-31 May daily rates and June - Dec.; monthly rates, US \$ 1 = B \$ 2.

Annexe 1/2

La décision de réajustement n° II/15/STABEX du 16.2.1971 entre le
 France et l'Association des Nouvelles-États et la CEE

Examen des conditions de reconstitution visées au § 3 de l'art. 23 de la
 décision du Conseil relative à l'Association des États et Territoires
 d'Outre-Mer à la Communauté Economique Européenne, par voie des statistiques
 relatives à 1976

Produit coprah

Base de données + statistiques CEE

Valeur de référence pour la période de référence 1971 à 1974

$$\frac{27.611 + 29.580 + 27.919 + 26.693}{4} = 24.723$$

4

Valeur unitaire de référence pour la période de référence 1971 à 1974

(M/T)

$$\frac{11,76 + 8,75 + 17,22 + 39,18}{4} = 19,23$$

4

Année d'imposition - 1976 : -

Quantité 1976 = 29.302
 (tonnes métriques)

Valeur 1976 426.492

(1 000 . . .)

Valeur unitaire 14,56

(1 . . . M/T)

Conclusion

(La première condition de reconstitution n'est pas remplie, la valeur unitaire
 1976 étant inférieure à la valeur unitaire de référence.)

Annex 2/3

Transfer Agreement No 11/75/NH/STABEX of 16 February 1977 between the Anglo-French Condominium of the New Hebrides and the EEC

Examination of the conditions of reconstitution in Article 23(3) of the Council Decision on the association of the overseas countries and territories with the European Economic Community on the basis of statistics for 1976

Product: copra

Basis of cross-checking: EEC Statistics

Reference quantity for reference period 1971 to 1974:

$$\frac{27\ 671 + 29\ 580 + 14\ 948 + 26\ 693}{4} = 24\ 723$$

Reference unit value for reference period 1971 to 1974:

(NHF 1 000/tonne)

$$\frac{11.76 + 8.75 + 17.22 + 39.18}{4} = 19.23$$

Year under examination - 1976:

1976 quantity = 29 302
(tonnes)

1976 value = 426 492
(NHF 1 000)

Unit value 1976: 14.56
(NHF 1 000/tonne)

Conclusion

The first condition of reconstitution is not fulfilled, the unit value for 1976 being lower than the reference unit value.

Operative from July for 1975 and 1976

OCF	1975	1976	1975	1976	Total
BELIZE	Sawn wood	-	139 650	-	139 650
Total			139 650	-	139 650
COMORES	Copra	Copra	298 304	286 508	584 812
Total			298 304	286 508	584 812
DJIBOUTI	Raw hides, skins and leather	Raw hides, skins and leather	255 894	265 328	522 222
Total			255 894	265 328	522 222
GILBERT ISLANDS		Copra	-	1 083 098	1 083 098
Total				1 083 098	1 083 098
NEW HEBRIDES	Copra	Copra	1 103 499	327 364	1 430 863
Total			1 103 499	327 364	1 430 863
SOLOMON ISLANDS	-	Copra	-	1 273 640	1 273 640
Total				1 273 640	1 273 640
TUVALU	-	Copra	-	64 417	64 417
Total				64 417	64 417
TOTAL			1 798 347	3 300 355	5 098 702

Approved by OCF

(in ECU)

Annex 3

VIII/264/78-EN

1/

Product	1975		1976		Total	
	Amount	%	Amount	%	Amount	%
Sawn wood	139 650	7.8	-	-	139 650	2.7
Copra	1 401 803	77.9	3 035 027	92.0	4 436 830	87.0
Raw hides, skins and leather	256 894	14.3	265 328	8.0	522 222	10.2
TOTAL	1 798 347	100.00	3 300 355	100.00	5 098 702	100.00

Breakdown by product

2/

Products	1975	%	1976	%	Total	%
Suffering from economic situation	555 198	30.87	551 836	16.72	1 107 034	21.71
Suffering from local circumstances	1 243 149	69.13	2 748 519	83.28	3 991 668	78.29
TOTAL	1 798 347	100.00	3 300 355	100.00	5 098 702	100.00

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III. Nature of disbursements

	1975	%	1976	%	Total	%
Grants	555 198	30.87	1 889 893	57.26	2 445 091	47.96
Loans	1 243 149	69.13	1 410 462	42.74	2 653 611	52.04
	1 798 347	100.00	3 300 355	100.00	5 098 702	100.00

IV. Utilization of annual instalments

	1975	%	1976	%	Total	%
Disbursements	1 798 347	44.96	3 300 355	82.51	5 098 702	63.73
Balance	2 201 653	55.04	699 645	17.49	2 901 298	36.27
Annual instalment	4 000 000	100.00	4 000 000	100.00	8 000 000	100.00

V. Reconstitution

OCT	Product	Year of application	Transfer	Amount repaid	As % of transfer
BELIZE	Sawn wood	1975	139 650	61 133	43.77