

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(85) 804 final

Brussels, 6 January 1986

## SUPPLEMENTARY COMMISSION REPORT TO THE ACP-EEC COUNCIL OF MINISTERS

on the application from a number of ACP States for the  
derogation provided for in Article 150(3) of the the  
third Lomé Convention.

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## I. Background

1. Annex XLIII to the Final Act of the third Lomé Convention contains the following declaration:

Community declaration on Article 150(3):

"The Community has taken note of the derogation requests made during the negotiations under Article 150(3) by the following ACP States: Benin, Burkina Faso, Fiji, Guyana, Mali, Mauritius, Niger, Sao Tome and Principe, Sudan, Tanzania, Togo and Uganda.

On the basis of the Commission's report to the Council of Ministers, the Community undertakes to notify its position to the Council not later than six months after the signing of the Convention."

The signing took place on 8 December 1984.

2. In December 1984 the Commission started investigating the situation of each of the 12 ACP States requesting a derogation. These investigations, conducted in conjunction with the ACP State concerned, were completed in May in the case of the following seven ACP States: Benin, Burkina Faso, Fiji, Mali, Niger, Sao Tome and Principe and Togo. In June the Commission presented its first report assessing the requests of these seven ACP States (1).
3. Since then, examination of the requests made by the five other ACP States, again conducted in liaison with the authorities of the States concerned, have also been completed. These requests were made by Guyana, Mauritius, Uganda, Sudan and Tanzania. The assessment of these requests is the subject of this report, which supplements that presented in June.

## II. Criteria for assessing the requests

4. First and foremost, it should be noted that the provision of Article 150(3) permitting derogations, from one of the fundamental principles of Stabex, namely that the exports covered by the system are those destined for the Community, applies only in exceptional circumstances.

Possible derogations from this principle are considered solely with a view to extending the application of the system to those ACP States which otherwise would not have benefited from the system, or benefit only marginally.

5. The main criterion for evaluating the possibility of an "all destinations" derogation has always been the destinations to which the ACP State in question has traditionally sent the bulk of its exports. Given that the derogation is valid, for each country, for all products covered by the system, the assessment is made, for each ACP State in question, in respect of all the products to which the system might apply, thus excluding other products exported but not eligible under the system.

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(1) COM(85) final of 31 May 1985.

If it is shown that an ACP State traditionally sends the bulk of its exports of products covered by the system to the Community, it will not be granted a derogation.

6. If, on the other hand, scrutiny of the statistical data shows that an ACP State traditionally sends the bulk of its exports of the products covered to markets other than that of the Community, the Council may decide to grant the derogation under Article 150(3).

When such a possibility is under consideration, other criteria also come into play, notably the repercussions of such a decision on the financial stability of the system.

### III. Assessment of the request

#### (a) Mauritius

7. The assessment of the request made by Mauritius was confined to the sole product eligible under the system, tea. Annual export earnings from this product account for about 2% of total export earnings.

Annex I shows that most exports of this product are sent to the Community market (51% in 1977-83; 65% in 1979-83). The preconditions for granting a derogation under Article 150(3) are therefore not satisfied.

#### (b) Guyana

8. In the case of Guyana, none of the products covered by Stabex is exported in proportions even approaching the threshold (see Annex II concerning the major product, wood). Regardless of the destination, the country does not qualify under the system at present.

Since the granting of a derogation would therefore have only symbolic value, it is proposed that Guyana's request be turned down.

(c) Uganda, Sudan and Tanzania

9. Uganda, Sudan and Tanzania traditionally export the bulk of their products covered by the system to destinations other than the Community (see Annexes III, IV and V).

Their requests may therefore be considered as eligible. Nevertheless, they should be examined more closely in relation to other assessment criteria.

i) Repercussions of a derogation on the financial stability of the system

10. The first of these criteria concerns the repercussions of such a derogation on the financial stability of the system.

A simulation was carried out to assess the effect of such a derogation during Lomé I. The results of this simulation showed that it led to additional expenditure of just over 137 million ECU for the period in question, 36.5% of the corresponding appropriation for the system.

The same simulation, carried out in relation to justified requests for transfers (1) made during the first four years of the system's application under Lomé II led to additional expenditure of some 200 million ECU.

11. This is a considerable amount and everything leads one to believe that, since the products covered (above all groundnuts, cotton and coffee) are regarded as products with a high risk of fluctuation, and the dependence and fluctuation thresholds for Lomé III are lower than under Lomé II, this is a reasonable - and probably optimistic - estimate of the additional expenditure the derogation requested would entail for the system's total appropriation of 925 million ECU (over 20% of the appropriation).
12. This appropriation represents a considerable increase compared with that of Lomé II, the aim at this increase being to avoid the difficulties encountered at the beginning of the second Convention. This increase did not, however, take into account the possibility of a derogation of the size of the one now under consideration, which would undoubtedly undermine the financial stability of the system considerably.

It should also be noted that the danger of destabilization is all the greater in that the three ACP States concerned fall within the category referred to in Article 155(3) of the third Convention and are thus exempt from the obligation to repay the transfer.

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(1) i.e. without taking into account the reductions made because of the problem of inadequate resources for the 1980 and 1981 application years.

ii) Benefits for the three applicant ACP States under the system without a derogation

13. As said earlier, provision for the possibility of a derogation from the basic principle that only exports to the Community are taken into consideration was made with a view to extending the application of Stabex to ACP States which, without such a derogation, would not qualify under the system or benefit only marginally.

However, this is far from being the case of the three ACP States requesting a derogation. At present they are amongst the major beneficiaries of the system, even without a derogation.

14. This is the case of Sudan, which received nearly 74 million ECU in transfers over the whole period of the first two Conventions (1975-84), making it the second biggest beneficiary. It is also true of Tanzania, which, with nearly 40 million ECU, stands in sixth place. It is also true of Uganda, although to a lesser extent, which, with more than 20 million ECU, lies in fifteenth place and is thus also one of the main beneficiaries (1).

There is every reason to believe that in view of the products exported by the three ACP States in question, the system will continue to cover their exports to the Community in a satisfactory manner, as it has in the past.

15. The granting of a derogation would certainly increase the existing coverage to a considerable degree, as we have seen. But this argument is also valid for the other ACP States. The only solution at this point is for industrialized importing countries other than the Community to decide to play their part in international efforts to stabilize the developing countries' export earnings.

What can be said is that in view of the results up to now, the lack of a derogation has not led to exclusion of these three ACP States from the system, nor have they benefited only marginally.

16. One can therefore justifiably question even the grounds for such a measure, the advisability of which is extremely debatable from the point of view of the system's financial stability.

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(1) Statistics for the period 1975-84 show that

- over this period, 15 ACP States received transfers totalling more than 20 million ECU,

- 15 received transfers totalling between 5 and 20 million ECU and

- 16 received transfers totalling less than 5 million ECU.

17. For the reasons set out above, the Commission believes that the requests made by Uganda, Sudan and Tanzania should also be turned down.

## ANNEX I

Country : MAURITIUS

Relevant product : TEA

Source : National statistics

Currency: ECU

	1. Exports to all destinations	2. Exports to the EEC	2 as % of 1
1977	5.784.000	309.000	5
1978	7.104.000	2.168.000	3
1979	3.875.000	3.875.000	100
1980	3.739.000	1.009.000	27
1981	4.871.000	2.205.000	45
1982	6.459.000	4.713.000	73
1983	9.270.000	6.516.000	70
TOTAL	41.102.000	20.795.000	51

ANNEX II

Country : GUYANA

Relevant product : WOOD

Source : National statistics

Currency: ECU

	1. Exports of all products to all destinations	2. Exports of wood to all destinations	3. Level of dependence
1977	228.940.000	1.978.000	0,86
1978	228.397.000	1.812.000	0,79
1979	211.509.000	2.986.000	1,41
1980	N/D	N/D	-
1981	310.190.000	4.845.000	1,56
1982	246.330.000	5.120.000	2,08
1983	217.175.000	3.553.000	1,64
TOTAL	1.442.541.000	20.294.000	1,41

The above calculations show that the threshold was never reached during the period in question.



COUNTRY : UGANDA

Relevant products : coffee

Source : i) Comtrade - Geneva

CURRENCY : ECU

ii) National statistics

	<u>1. EXPORTS TO ALL DESTINATIONS</u>	<u>2. EXPORTS TO THE EEC</u>	<u>3.2 AS A % OF 1</u>
1977	479,523,000	157,620,000	37.12
1978	247,409,000	120,721,000	48.78
1979	310,737,000	158,724,000	51.08
1980	243,075,000	114,627,000	47.16
1981	210,337,000	86,201,000	40.98
1982	314,184,000	134,794,000	42.90
1983	378,047,000	164,719,000	43.57
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TOTAL	2,183,312,000	937,406,000	42.94

COUNTRY : SUDAN

RELEVANT PRODUCTS :

oil-cake, groundnuts, raw and hides skins, sesame seeds, groundnut oil

Source : i) Comtrade - Geneva  
ii) National statistics

CURRENCY : ECU

	1. EXPORTS TO ALL <u>DESTINATIONS</u>	2. EXPORTS TO <u>THE EEC</u>	3. 2 AS A <u>% OF 1</u>
1977	424,871,000	149,129,000	35.10
1978	306,517,000	106,796,000	34.84
1979	307,683,000	84,139,000	27.35
1980	266,279,000	98,749,000	37.08
1981	285,594,000	89,339,000	31.28
1982	243,721,000	84,547,000	34.69
1983	n.a.	n.a.	
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TOTAL	1,834,665,000	612,699,000	33.40
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Country : TANZANIA

RELEVANT PRODUCTS :

cotton, sisal, cashew nuts and kernels, coffee, tea

Source : i) Comtrade - Geneva  
ii) National statistics

CURRENCY : ECU

	<u>1. EXPORTS TO ALL DESTINATIONS</u>	<u>2. EXPORTS TO THE EEC</u>	<u>3. 2 AS A % OF 1</u>
1977	334,623,000	154,868,000	46.28
1978	238,925,000	105,774,000	44.27
1979	200,294,000	104,020,000	51.93
1980	195,853,000	92,541,000	47.25
1981	274,919,000	127,104,000	46.23
1982	246,201,000	114,798,000	46.63
1983	250,429,000	108,976,000	43.52
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TOTAL	1,741,244,000	808,081,000	46.41