

COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT OF THE COMMISSION 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

INTRODUCTION

1. Under Article 27 of the Internal Agreement on the financing and administration of Community aid, the Commission is required to draw up each year for the Member States a comprehensive report on the operation of the export earnings' stabilization system (Stabex) and the use made by the ACP States of the funds transferred, indicating in particular the effect of the system on the economic development of the recipient countries and on the development of external trade.
2. This report is concerned with the application of the system during 1980 to the ACP States signatory to the Lomé Convention and gives information about operations relating to former OCTs that have acceded to the Lomé Convention but are still covered by the OCT allocation as far as the system for the stabilization of export earnings is concerned.
3. The cooperation machinery described in the first comprehensive reports has continued to function satisfactorily on the whole and hence does not call for any detailed remarks.
4. In this report, which is concerned with the first year of application of the system set up by the second Lomé Convention, the Commission will examine the activities of the ACP-EEC institutions and the development of the system, and look at the application of the texts and the results.
5. The third part of the report will deal with the use made by the ACP States of the funds transferred and the effect of the system on the economic development of the recipient countries.

PART ONE : ACTIVITIES OF THE ACP-EEC INSTITUTIONS AND DEVELOPMENT OF THE SYSTEM

Chapter 1 : Activities of the institutions

§ 1. ACP-EEC Subcommittee on the Stabilization of Export Earnings and Committee of Ambassadors.

The ACP-EEC Subcommittee on the Stabilization of Export Earnings did not meet in 1981.

6. The Committee of Ambassadors met on 19 June 1981 to settle the matter of the reduction of Stabex transfers for the year of application 1980. In view of the lack of sufficient funds to meet transfer requests in full and in pursuance of Article 34(2), the ACP-EEC Council of Ministers, meeting in Luxembourg on 9 and 10 April 1981, had instructed the Committee to work out the detailed arrangements for the reduction by 20 June.

On the basis of a report from the Commission advocating that only one criterion should be adopted for differentiating between reductions in transfers for the year in question, namely that, in pursuance of Article 46(2), transfers to States included in the list of least developed countries should be reduced by a smaller amount than the others, the Committee, acting on the proposal from the ACP co-chairman, decided as follows :

- transfers of less than 1 million ECU were not reduced;
- transfers to least developed States were reduced by 40.49 %;
- transfers to other States were reduced by 52.64 %;
- the amounts of these reductions corresponded roughly to the ratio 1 : 1.3 set for the two groups of States ($52.64 \div 40.49 = 1.3$).

§ 2. ACP-EEC Council of Ministers.

At its meeting in Luxembourg on 9 and 10 April 1981, the ACP-EEC Council of Ministers had four Stabex items on its agenda.

7. First, the problem of the lack of funds had to be dealt with under the relevant provision of the Convention, namely Article 34. Pursuant to Article 34(1) the Council authorized the use in advance of 20 % of the 1981 instalment for transfers for 1980 under the export earnings stabilization system.

Despite this decision, it was already apparent that the amount available would not be sufficient and the Council therefore empowered the Committee of Ambassadors to reduce the amount of the transfers to be made, pursuant to Article 34(2). In the interest of speedy implementation of the transfers, the Committee of Ambassadors was to reach its decision by 20 June 1981.

8. Secondly, the Council of Ministers took a decision on the case of Kiribati. Since the country's deposits of phosphate - chief export hitherto - are exhausted, with the result that it now exports only copra, mostly to destinations other than the Community, the derogation provided for in Article 46(3) of the Convention could be granted. The Council therefore decided that from 1 January to 31 December 1982 the export earnings stabilization system would apply to exports from Kiribati whatever their destination.
9. Three decisions by the Commission rejecting requests by Ethiopia and Upper Volta (1) for transfers in respect of 1979 were contested by the two States in question. The Council decided that the Commission, after carrying out a further examination of the requests on the basis of any new information presented by the countries concerned, would take a final decision by 10 June 1981 at the latest (2).
10. Lastly, with regard to the addition of new products to the list, the Council called upon the Committee of Ambassadors to prepare decisions on the basis of studies carried out by the Commission. It also agreed that any decision taken could be implemented only with effect from 1 January 1981, pursuant to Article 26 of the Convention. Accordingly, the Council delegated its powers of decision in this matter to the Committee of Ambassadors.

§ 3. Parliamentary bodies of the Lomé Convention.

11. At the meeting of the Joint Committee of the ACP-EEC Consultative Assembly held in Luxembourg from 22 to 24 September 1980 and the meeting of the Consultative Assembly which followed from 24 to 26 September, the main item on the agenda, as at Arusha in February 1980, was the examination of the report by Mrs. Katharina FOCKE on the results obtained under the first Lomé Convention in the light of the forthcoming entry into force of the second Lomé Convention. A resolution adopted at the end of the proceedings endorsed, in so far as Stabex was concerned, the resolution of the Joint Committee by stating that "as a whole, Stabex has been applied satisfactorily", even though "the existence of certain difficulties" had to be recognized; the resolution also called for a report assessing the impact of Stabex on the economies of the recipient States.

§ 4. European Parliament.

12. On the basis of the report by Mr. WAWRZIK (3), drawn up to mark the signature of the second Lomé Convention the European Parliament adopted the following resolutions at its plenary session on 17 November 1980 :

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- (1) Upper Volta / cotton : no loss on exports to all destinations; Ethiopia / sesame seed and Upper Volta / groundnuts : dependence thresholds not reached.
 - (2) Commission decision of 16 June 1981 (see page 6, point 20).
 - (3) PE-66.710 of 12 March 1981.

Parliament

- " Takes the view that the Stabex system introduced under Lomé I imposes much greater obligations upon the EEC than existing raw materials' agreements and regards it as a practical first step towards improving relations between raw materials producers and consumers; welcomes the fact that experience so far with Stabex has been largely positive for the ACP and that, in contrast to the generalized system of preferences in particular, the least developed countries have benefited most from the system;
- " Feels that the Commission could usefully prepare a study showing the specific economic consequences for the various ACP countries;
- " Notes with satisfaction that the effectiveness of Stabex, the financial resources available and the range of products covered have been substantially increased under Lomé II; welcomes in particular the fact that the ACP-EEC Council of Ministers can in future, according to the circumstances, apply Stabex to internal ACP trade, which will have a favourable effect on trade cooperation between the ACP States".

In addition, the improvements suggested by Parliament in order to make Stabex an even more effective instrument include a reference to the question of indexation and the recommendation that the list of products covered be extended to include processed products.

13. Furthermore, on the basis of a report by Mrs. CASTELLINA devoted solely to Stabex and dealing with the relevant Commission communications to the Council, the special report by the Court of Auditors and the Commission's observations thereon, Parliament adopted a number of resolutions reviewing Stabex operations and concluding that, generally speaking, the range of instruments and mechanisms required for the implementation of Stabex had functioned satisfactorily under Lomé I. The proposals for improvements accompanying this review reveal points of concern very similar to those already expressed in connection with Mr. WAWRZIK's report.
14. The members of the European Parliament have tabled written questions concerning Stabex. They were Mr. PEARCE (Q.E. n° 390/80 and n° 623/81) and Mr. PONIATOWSKI (Q.E. n° 760/81). The answers to these questions will appear in the Official Journal by the end of 1981.

§ 5. Court of Auditors.

15. The Court of Auditors made its routine examination for the year of application 1979, i.e. the operations carried out by the Commission in 1980. The conclusions of this examination of the final year of application of the Lomé I arrangements can be consulted in the Official Journal of the European Communities.

Chapter 2 : Development of the System

16. 1980 was the first year of application of the second Lomé Convention so far as Stabex is concerned. All the changes made to the system by the new Convention accordingly came into effect; these changes have been dealt with in considerable detail in earlier reports and there would seem to be no need to repeat them here.
17. In addition to this general development, a number of specific changes may be noted :
 - the accession to the Convention pursuant to Article 185 of States which have become independent but continue, so far as Stabex is concerned, to be covered by the funds allocated to the OCT; the States in question are Saint Vincent and the Grenadines and Vanuatu;
 - Zimbabwe's accession to the Convention pursuant to Article 186, as a result of which the Stabex appropriation was increased by 7 million ECU, raising the annual allocation for the remaining four years of the Convention by 1,750,000 ECU;
 - the two-year derogation granted to Kiribati, pursuant to Article 46(3), whereby its exports to all destinations are covered by the system.
18. With regard to the possible addition of new products (nutmeg, mace, tobacco, citrus fruit and sisal products), under Article 26 no decision can take effect before 1 January 1981.
19. The accession of Greece to the Community had no effect on Stabex for the year under consideration; trade between the ACP States and Greece will not be taken into account until 1982 for year of application 1981.

PART TWO : APPLICATION OF THE TEXTS AND THE RESULTS

Chapter 1 : Application of the texts

§ 1. Closure of the accounts for 1979.

20. Two ACP States had disputed the Commission's decision to reject three requests for transfers in respect of 1979, and the ACP-EEC Council of Ministers decided that the final decision would be taken by 10 June 1981 at the latest. However, the results of studies on the cases in question supplied by the ACP States concerned did not invalidate the arguments and grounds underlying the Commission's decision to reject the requests.

Consequently, on 16 June 1981 the Commission finally rejected the three requests, thus closing the accounts for 1979.

21. For year of application 1980, the Commission received forty-eight requests for transfers from a total of thirty-five States signatory to the second Lomé Convention. In addition, three requests for transfers were received from two OCTs within the meaning of the Decision of 16 December 1980 which have become independent and have acceded to the second Lomé Convention but continue, so far as Stabex is concerned, to be covered by that Decision.

§ 2. Requests rejected pursuant to Articles 38, 25, 29, 37 and 39.

22. The fifteen requests rejected can be divided into three groups :

- i. The first group comprises requests considered inadmissible pursuant to Article 38; this year there are four such requests :

- Papua-New Guinea (cocoa) : request late and based on earnings from exports to all destinations
- Comoros (vanilla) : virtually the whole of 1980 production in storage
- Dominica (copra products) : no loss on exports to all destinations
- Sudan (sesame seed) : no loss on exports to all destinations.

- ii. The second group comprises requests in respect of which at least one of the conditions of admissibility (Articles 25, 29 and 37) is not fulfilled. This applies to the following ten requests :

- Mali (shea kernels) : product not included in the list of products covered
- Upper Volta (groundnuts) : dependence thresholds not reached
- Ghana (cocoa paste) : dependence thresholds not reached
- Guinea Bissau (sawn wood))
- Equatorial Guinea (cocoa)) no loss incurred or fluctuation thresholds
- Uganda (coffee)) not reached
- Sudan (cotton))
- Sao Tome (cocoa))
- Togo (coffee))
- Zaïre (coffee))

iii. Lastly, the request made by Burundi in respect of cotton was reduced by 100 % pursuant to Article 39 (3) for reasons of storage, which places its request in the same category as the above rejected requests.

§ 3. Application of Article 39 (3)

23. With regard to the thirty-three remaining requests from twenty-seven ACP States and the three requests made by two OCTs, consultations had to be held with the requesting States in respect of fifteen requests - affecting fourteen States - since there had been significant changes in the trend of production and total exports of the products in question, necessitating the application of Article 39 (3).

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

- Madagascar (vanilla) : 29.9 % cut in the transfer base
- Mali (groundnut products) : 28.4 % cut
- Tanzania (coffee) : 8.2 % cut
- Comoros (copra) : 32.7 % cut
- Somalia (raw hides and skins) : 22.9 % cut
- Rwanda (coffee) : 27.2 % cut
- Sierra Leone (palm nuts and kernels) : 7.3 % cut
- Kenya (coffee) : 4.1 % cut
- Guinea Bissau (groundnuts) : 14.3 % cut.

ii. Fall in the ratio between total exports and production of the product in question, combined with a reduction in the product's share of exports to the Community :

- Senegal (groundnut products) : 19.9 % cut in the transfer base
- Senegal (oil-cake) : 24 % cut
- Fiji (coconut oil) : 28.2 % cut
- Sudan (groundnuts) : 38 % cut.

iii. Transfer entitlement scaled down to the loss suffered on exports to all destinations :

- Kiribati (copra)
- Vanuatu (cocoa).

§ 4. Application of the Fiji Declaration on the reference level

24. Application to the case of Dominica

In a Note Verbale of 1st April 1980, the Dominican Government requested a derogation from the provisions of Article 36 of the Second Lomé Convention on the basis of the Declaration adopted by the ACP-EEC Council of Ministers meeting in Fiji in April 1977.

The facts presented by Dominica in support of its request were as follows :

- i. The economic and social infrastructure of the entire island was seriously damaged when Hurricane David struck on 29 August 1979.
- ii. The severity of the damage caused to the island's economy was recognized by a resolution adopted on 19 October 1979 by the United Nations Economic Commission for Latin America, which called for continuous, urgent and generous help from the international community for the island's reconstruction and rehabilitation efforts.
- iii. The Community had itself recognized the seriousness of the situation on the island by speedily making extensive assistance (emergency aid and food aid) available immediately after the hurricane.

Taking into consideration the text of the Fiji Declaration, which states :

"for the purposes of applying the provisions relating to the reference period, where an ACP State reports difficulties due to a year characterized by exceptional events, the seriousness of which has been recognized by the international community, the Community declares itself ready to seek on a case-by-case basis, in conjunction with the ACP State concerned, a solution to these difficulties through as favourable as possible an interpretation of the existing provisions",

the Commission, following discussions with the Dominican authorities and taking into account the special circumstances affecting the banana crop, which is at the mercy of frequent destructive hurricanes, decided that until normal production conditions were restored on the island the reference level would be calculated on the basis of the 1975-78 period ; in other words, in the future only the production years not affected by a hurricane will be gradually incorporated into the reference period.

25. Turning to the previous cases in which the Fiji Declaration was applied, as a result of the gradual introduction of "actual" years in the calculation of the reference level, the two transfers made to Guinea Bissau this year were based on normal reference levels for the first time. In the case of the transfer to Cape Verde, as the reference period for 1980 now contained only one "notional" year, here too the Fiji Declaration will cease to apply in 1981.

B 5. Payment of advances pursuant to Article 40 (3)

26. A number of advances were paid in 1980 and 1981 in order to ensure continuity between the two Conventions. These advances, which are deductible from transfers, concerned groundnut products from two West African States seriously hit by drought and Caribbean States affected by a hurricane which destroyed virtually their entire production of bananas. An advance was also made to Madagascar in respect of vanilla.

27. The advances amounted to 37,650,000 ECU, broken down as follows :

- Commission decision of 13 June 1980	
. Senegal : groundnut products	25,000,000 ECU
- Commission decision of 28 October 1980	
. Gambia : groundnut products	4,650,000 "
. Jamaica : bananas	2,200,000 "
. Dominica : bananas	1,800,000 "
. St Lucia : bananas	1,300,000 "
- Commission decision of 13 February 1981	
. Madagascar : vanilla	1,000,000 "
- Commission decision of 20 May 1981	
. Gambia : groundnut products	1,000,000 "

By a decision of 28 October 1980, the Commission made an advance of 700,000 ECU to St Vincent (in respect of bananas) from the OCT allocation.

§ 6. Replenishment of the resources made available to the system

28. In accordance with Article 21 (3) of the Lomé Convention and the specific arrangements laid down in the letters exchanged when each transfer is made, the Commission carried out the necessary calculations regarding transfers made for the years 1975 to 1979 inclusive to countries required to help replenish the system's resources which had not repaid in full the sums due. It was found that on the basis of the 1980 results there was no case in which the conditions laid down by the Convention for replenishment were fulfilled.

29. In the case of transfers for 1975, the ACP-EEC Council of Ministers will have to decide, taking into account the balance of payments situation and prospects, foreign exchange reserves and external indebtedness of the ACP States concerned, whether the amounts to be recovered should be repaid in whole or in part, immediately or over a period, or whether the claim should be waived.

For this purpose the Commission will draw up a paper containing all the requisite information so that the Council can take a decision in the light of all the facts.

§ 7. Application of Article 34

As the combined total of the resources made available to the system pursuant to Article 18 (5) of the First Convention and Article 33 of the Second Convention was insufficient to cover all transfers, it was necessary to apply Article 34 of the Second Convention.

30. The ACP-EEC Council of Ministers meeting in Luxemburg decided, pursuant to Article 34 (1) of the Second Convention, to draw 20 % from the instalment for year of application 1981 (ACP-EEC Council of Ministers Decision No 2/81 of 10 April 1981).

The ACP-EEC Council of Ministers, meeting in Nairobi on 8 and 9 May 1980, decided pursuant to Article 18 (5) of the First Convention to transfer on the expiry of the First Convention the unexpended balance of Stabex funds to the first annual instalment under the system set up by the Second Convention (ACP-EEC Council of Ministers Decision No 7 of 9 May 1980), which means that the total amount available to meet transfer entitlements for year of application 1980 is as follows :

1980 annual instalment	110,000,000 ECU
Drawing from 1981 instalment	22,000,000 ECU
Unexpended balance from First Convention	5,975,905 ECU
Total	<hr/> 137,975,905 ECU

If the resources available are compared with the transfer entitlements, which come to 261,107,143 ECU, the cover rate works out at 52.84 %, equivalent to a shortfall of 123,131,238 ECU.

31. Article 34 (2) of the Second Convention stipulates that in such a situation the ACP-EEC Council of Ministers may, on the basis of a report by the Commission, reduce the amount of the transfers to be made. Article 46 (2) stipulates that in such an event account must be taken of the special difficulties of the least developed ACP States.

In the light of these considerations the ACP-EEC Committee of Ambassadors (see page 2, point 6) decided on the following percentage rates of reduction (in round figures) :

- 40.49 % (corresponding to a cover rate of 59.51 %) for the least developed ACP States,
- 52.64 % (corresponding to a cover rate of 47.36 %) for the other ACP States,

with transfers of less than 1 million ECU being paid in full.

32. Payments to the ACP States signatory to the Convention amount to 137,975,905 ECU, i.e. the total sum available. The three transfers to the States covered by the OCT allocation are not being reduced, as the funds provided for by the OCT Decision of 16 December 1980 are sufficient.

Chapter 2 : The results

§ 1. Overall results

33. A. Results of the 1980 operation by ACP State

Recipient ACP State	Product	Amount of transfer in ECU
Burundi (1)	Coffee	11,023,569
Cape Verde (1)	Bananas	214,764
Central African Rep. (1)	Coffee	968,396
Comoros (1)	Copra	246,447
"	Essential oils	852,402
Ivory Coast	Coffee	19,195,390
Dominica (1)	Bananas	2,527,944
Fiji	Coconut oil	842,296
The Gambia (1)	Groundnuts	3,791,992
"	Groundnut oil	3,191,205
"	Oil-cake	1,134,175
Guinea Bissau (1)	Groundnuts	1,259,747
"	Palmnuts and kernels	273,919
Jamaica	Bananas	3,238,995
Kenya	Coffee	10,032,204
Kiribati (1)	Copra	497,742
Lesotho (1)	Mohair	242,279
Madagascar	Vanilla	1,211,202
Malawi (1)	Tea	1,330,961
Mali (1)	Groundnut products	2,551,615
Rwanda (1)	Coffee	6,555,031
St Lucia (1)	Bananas	1,349,538
Western Samoa (1)	Cocoa	1,222,990
Senegal	Groundnut products	30,353,160
"	Oil-cake	8,253,832
Sierra Leone (1)	Palmnuts and kernels	947,774
Somalia (1)	Bananas	1,423,385
"	Raw hides and skins	415,854
Sudan (1)	Groundnuts	13,415,560
Tanzania (1)	Coffee	6,254,957
Chad (1)	Cotton	2,539,846
Tonga (1)	Copra products	602,239
Tuvalu (1)	Copra	14,495
		137,975,905

(1) States listed in Article 155 (3).

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34. B. Results of the 1980 operation by ACP State covered by the OCT allocation

ACP State covered by OCT allocation	Product	Amount of transfer in ECU
St Vincent	Bananas	913,286
Vanuatu	Copra-	
	coconut oil	3,776,616
Vanuatu	Cocoa beans	410,207
		5,100,109

§ 2. Results by country

35. Of the 137,975,905 ECU transferred to ACP States signatory to the Second Lomé Convention, 64,848,826 ECU, i.e. 47 % of the total, was paid to the least developed ACP States, which, pursuant to Article 46 (1) c), are not required to contribute towards the replenishment of the system's resources. The other ACP States' share was 73,127,079 ECU (53 %). If the three transfers to St Vincent and Vanuatu are included, the two foregoing percentages become 49 % and 51 % respectively.

§ 3. Results by product

36. For the individual products the results are as follows (excluding States covered by the OCT allocation) :

Products	Amounts in ECU	%
Groundnut products	[32,904,775]	(39.55)
Groundnuts	18,467,299	
Groundnut oil	3,191,205	
Oil-cake	9,388,007	
Total Groundnuts (1)	63,951,286	46.35
Coffee	54,029,547	39.16
Bananas	8,754,626	6.3
Cotton	2,539,846	1.84
Copra products	[602,239]	1.60
Copra	758,684	
Coconut oil	842,296	
Total copra products	2,203,219	
Tea	1,330,961	0.96
Cocoa	1,222,990	0.89

Products	Amounts in ECU	%
Palm nuts and kernels	1,221,693	0.89
Vanilla	1,211,202	0.88
Essential oils	852,402	0.62
Raw hides and skins	415,854	0.30
Mohair	242,279	0.18
	137,975,905	100.00
<u>of which, products</u>		
- affected by the economic situation	63,249,184	45.84
- affected by local contingencies	74,726,721	54.16

(1) Transfers in respect of oil-cake for 1980 mainly concerned groundnut oil-cake.

37. It can be seen that two products accounted for 85.51 % of the amounts transferred ; in one case local contingencies were the cause of the fall in earnings (groundnuts : 46.35 %), whereas the other product (coffee : 39.16 %) was affected by unfavourable economic circumstances, but also by adverse local circumstances in some cases.

§ 4. Analysis of the situation regarding Stabex for year of application 1980 with particular reference to the shortfall in the funds available for that year

38. It should be noted first of all that this situation has occurred before. There is a clear analogy with 1978, as in that year total transfers were equivalent to 2.17 times the annual allocation under the First Lomé Convention. The amount by which requests exceed the annual allocation for 1980 is very similar (2.37 times).

The main difference this year is that the Convention has only just entered into force whereas in 1978 savings carried over from previous years and the decision by one State not to claim its full entitlement ensured that the funds available fully covered the transfers to be paid (1).

- (1) This raises a problem which has never been settled and for which there would seem to be no final solution, namely that no method of forecasting, however precise, can predict exactly when transfers may have to be made. Although it is possible to assess approximately how large an appropriation will be needed over a number of years, there is no means of foreseeing or preventing short-term swings similar to those experienced in the case of year of application 1980.

39. More specifically, the reason for the high level of requests for 1980 was the combination of three hazards, one affecting groundnuts (representing 47.5 % of total requests), another affecting coffee (39.6 %) and the third resulting from the hurricane in the Caribbean (5.1 %). It should be noted that in none of these cases was the substantial drop in production offset to any extent by healthy prices. In the case of groundnuts, substitute oil seeds from the temperate regions held down prices, while American production and the weakening of demand had a similar effect in the case of coffee.

In addition, there is the fact that the first two hazards (those affecting groundnuts and coffee, representing 87 % of the total) struck products with high reference levels. In the case of Ivory Coast, for example, the minimum transfer that can be made for coffee, i.e. corresponding to the minimum loss required for the fluctuation threshold to be exceeded, works out at 37 million ECU.

40. There is a further significant factor aggravating the situation. In 1976 and 1977, commodity prices recorded sharp rises which in some cases cannot be explained by market analysis alone. It is significant that the amounts transferred for these two years were the lowest in the five years covered by the First Lomé Convention (10 % and 9 % respectively of the total).

In 1977 especially, rising prices and expanding production made for exceptional export earnings.

A few figures show the effect of this situation on transfers for 1980. To take the case of one such transfer, one arrives at the following orders of magnitude for export earnings expressed in national currency :

1976	:	80
1977	:	134
1978	:	86
1979	:	86
1980	:	89

If 1977 is excluded, 1980 looks like a normal year. More significant is the fact that if earnings had been a little lower in 1977 - around the 132 mark for a State with a fluctuation threshold of 6.5 % (115 for States with a 2 % threshold) - there would be no entitlement to a transfer.

41. Lastly, it was considered worthwhile to look into the financial impact of the changes made to the system by the new Convention. As none of the transfers made concern any of the new products added to the list, the effects are to be found mainly in the lowering of thresholds and the possibility of "globalizing" certain groups of products. For 1980, the extra cost incurred as a result of the changes was 17 million ECU, equivalent to 6.5 % of the total, over and above the automatic 1 % increment required by Article 39 (2) of the Convention.

42. The reasons for the appropriation having been exceeded are, therefore, many and various and it is the combination of these diverse factors that has produced the present situation.

Such a situation, which cannot be regarded as exceptional since it already occurred in 1978 - though in different circumstances - is inherent in the system.

Stabex was originally designed to operate over a five-year period within the fixed framework of a financial appropriation. The situation that has developed this year cannot be regarded as surprising as the negotiators made provision for it in Article 18 (4) of the First Convention and Article 34 (2) of the Second Convention.

Since it is estimated that the appropriation of 550 million ECU earmarked for the period of validity of the Second Lomé Convention will work out roughly equal to overall requirements, it would seem unrealistic to speculate on the possibility of the appropriation being increased - at the expense, inevitably, of other EDF cooperation instruments. If, for example, the original appropriation had been 1,000 million ECU, one fifth of which (plus the drawing of 20 %) would have been sufficient to cover total transfers for 1980, the result would inevitably have been that funds would have been lying idle during the lifetime of the Convention. The rate of Stabex payments under the First Convention fully bears this out.

PART THREE : USE OF TRANSFERS BY THE ACP STATES AND EFFECT OF THE SYSTEM ON THE ECONOMIC DEVELOPMENT OF THE RECIPIENT COUNTRIES

§ 1. Use of transfers for 1980

43. Any statement regarding the effect of transfers for 1980 on the economic development of the recipient countries would be premature. In accordance with Article 41 (2), the following advance information has been provided by the ACP States concerned regarding the use to which the transfers have been put :

Burundi/coffee (11,023,569 ECU)

"the Council of Ministers, meeting on 22 July 1981, decided to allocate virtually all the funds to the equalization fund in order to support producer prices".

Cape Verde/bananas (214,764 ECU)

"the Stabex transfer for 1980 will be used for the promotion of food production".

Comoros/copra (246,447 ECU), essential oils (852,402 ECU)

"we intend to use the transfer funds on various development projects designed to improve our country's economic situation, particularly in the sphere of agriculture".

Ivory Coast/coffee (19,195,390 ECU)

"the Stabex funds will probably be used to promote agricultural development through the BNDA".

Dominica/bananas (2,527,944 ECU)

"budgetary support in the agricultural sector".

Fiji/coconut oil (842,296 ECU)

"The transfers received under reference No. 13/75/FI/STABEX and No. 14/76/FI/STABEX were used to finance in part the Copra Industry Loans Scheme whereby a support price is paid if the market price of copra falls below a minimum level, and recovery of the loan is made when prices rise above this chosen level.

It is proposed that the transfer now applied will be used mainly for the same purpose. However, in view of the generally poor returns obtained from copra, efforts are being made to diversify the cropping in the copra areas, and one of the main crops chosen is cocoa. Whereas for the years 1979 and 1980 it was possible to pay F\$ 1900 per tonne for dried cocoa beans, the price has had to be dropped to F\$ 1000 per tonne for the period January to March 1981. The likely effects of this very severe drop in price on the cocoa development plans 1981-85 are being considered, as also

is the advisability of a support price for cocoa at a level above the present depressed price. If a support price for cocoa is approved it is likely that some of the transfer now being applied for will be used as a loan fund, thus assisting in diversification in accordance with Title II, Chapter I, Article 23, Section 2."

Gambia/groundnuts (3,791,992 ECU), groundnut oil (3,191,205 ECU), oil-cake (1,134,175 ECU)

"With regard to Article 41 (2) I would wish to indicate the probable uses to which the transfer will be put. Stabex funds will be used in the following areas :

- (i) Government development efforts with special emphasis on the agricultural and infrastructural sectors.
- (ii) Assistance to the Cooperative Movement and the Gambia Produce Marketing Board to strengthen and enhance the role of these institutions in the production and in the distribution of agricultural inputs".

Jamaica/bananas (3,238,995 ECU)

"Purchase of field boxes for use in quality control areas and vehicles for leaf-spot control program".

Kenya/coffee (10,032,204 ECU)

"It is accordingly requested that the said funds should be made available to the Kenya Government during the current financial year by way of reimbursement to claims. The projects for which the funds are needed are shown below (in Kenya pounds) :

I. Ministry of Livestock Development

1. Cotton Development Project	16,000
2. Agricultural Machinery Testing Unit	14,000
3. Pilot Soil and Water Conservation	180,000
4. Nyahururu Large-Scale Farmers Training Centre	30,000
5. Eldoret Large-Scale Farmers Training Centres	40,000
6. Small-Scale Farmers Training Centres	15,000
7. Agricultural Engineering for Mechanization for Small-Scale Farms	40,000
8. Entomology and Biological Control	26,075
9. Forest Research Department	25,000
10. Horticultural Research Project	80,000
11. Sugar Research Station - Kibos	30,000
12. Dryland Farming Research Project	40,000
13. Kisii Research Station	35,000
14. Matuga Research Station	38,000
15. Soil, Plant and Seed Inspection Regulatory Services	55,000
16. Coastal Agricultural Research Station	80,000
17. Maintenance of Stations	50,000
18. Soil and Conservation Works	200,000
19. Irrigation and Drainage Branch	64,350
20. KEFRO Headquarters - Muguga	241,386

Sub-total 1,299,811

II. Ministry of Livestock Development

1. Veterinary Clinic Centres	45,000
2. Drugs, Sera and Vaccines	834,000
3. Foot and Mouth Disease Control Plant Equipment	45,000
4. General Veterinary Services Pastoral Areas	125,000
5. Kabete Veterinary Laboratory	222,500
6. Wellcome Institute for Research on Foot and Mouth Disease	36,000
7. Construction of Water Supplies	35,000
8. National Animal Research Station Naivasha	213,000
9. Other Animal Research Stations	105,000
10. Bee Industry Development	30,500
11. Sheep and Goat Development Project	80,000
12. Grazing Block Development North Eastern Province	46,000
13. Athi River Meat Training	61,000
14. A.H.I.T.I. Kabete	79,420
Sub-total	1,957,420

III. Ministry of Environment and Natural Resources

1. Radio Network	91,450
2. Kenya Rangeland Ecological Monitoring Unit	35,000
3. Mineral Survey and Exploration	177,000
4. Wildlife Conservation and Management Services	104,000
5. Wildlife Research Provinces	80,500
6. Wildlife Conservation Services Provinces	693,000
7. Education Unit	62,000
8. Fisheries Development	155,700
9. Kenya Marine and Fisheries Research Institute	210,000
Sub-total	1,608,650
Grand total	4,865,650

Finally, may I point out the above named list is not exhaustive and will be discussed in more details with the EEC Delegation Officials here in Nairobi at the appropriate time".

Kiribati/copra (497,742 ECU)

"under art. 41.2 Second Lomé Convention Government of Kiribati expects that funds will be used for copra price stabilization".

Lesotho/mohair (242,279 ECU)

"transfer of about 220,000 maloti to be utilized by the livestock products marketing services (L.P.M.S.) through special account with Lesotho National Development Bank for the following projects for mohair goat farmers :

- a) improvement of collection and conditioning of mohair through :
- purchase of three collection trucks (64,000 m)
 - erection of warehouse (70,000 m)
 - purchase of 20 double bale presse (12,000 m)
 - cash reserve for direct purchase from the farmers (30,000 m).

b) contribution to establishment of angora breeding station for 66,000 m. Estimates will be refined and final figures given during systematic reporting".

Madagascar/vanilla (1,211,202 ECU)

"The transfer will probably be used for the purchase of raw materials and components and spare parts for industry, particularly the agri-foodstuffs industry".

Malawi/tea (1,330,961 ECU)

"Credits to smallholders via National Rural Development Programme and Smallholders Sugar Authority".

Mali/groundnuts (2,551,615 ECU)

"In accordance with Article 41 (2) of the Convention, the transfer will probably be used as follows :

- 1) agricultural production : allocation to the Price Surveillance and Regulation Office (OSRP) which is authorized to act, directly or indirectly, through integrated development schemes (in particular ODIPAC) to support price levels and ensure a guaranteed price for farmers producing groundnut and cereal products.
- 2) processing of groundnut products : action to ensure at least partial coverage of the operating deficit where this has been caused by a fall in export earnings during 1980".

Rwanda/coffee (6,555,031 ECU)

"The Government plans to pay the transfer into the OCIR equalization fund, since the purpose of this fund is to strongly support the coffee price paid to the producer in the interests of maintaining a guaranteed purchase price of RF 120/kilo of parchment coffee. The Rwanda Government attaches great importance to maintaining this price, irrespective of the state of the world market, in order to give its producers a fair income (In Rwanda, one out of every two peasant farmers is a coffee producer).

At the current reference price of 120 cents per pound of marketable coffee, fob Mombasa, the equalization fund disburses RF 12,000 per tonne of parchment coffee purchased and higher processing and transport costs are envisaged as a result of increased fuel prices.

Replenishment of the reserves of the OCIR equalization fund will not only help to uphold domestic coffee prices, but should also enable the fund to subscribe development bonds, these being one means of funding the development budget under which investment projects are planned for 1981 in the economic and social sectors, including a number of schemes to improve the quality of the coffee produced".

Saint Lucia/bananas (1,349,538 ECU)

"Rehabilitation of agricultural sector and the restoration of social and economic infrastructure, i.e. : road repairs, roofing and general repairs to housing. Assistance for repair of fishing boats and equipment. Field rehabilitation for bananas and food".

Saint Vincent and the Grenadines/bananas (913,286 ECU)

"Rehabilitation of agricultural sector and restoration of economic infrastructure, including planting material and chemicals".

Western Samoa/cocoa (1,222,990 ECU)

"the proposed utilization of the 1980 Stabex transfer is for the following development projects (in WS tala) :

Department of agriculture

1. Cocoa rehabilitation and development	98,000
2. Reforestation	600,000
3. Coconut hybridization	42,500
4. Selected seedling cocoa replanting	40,000
5. Dairy production	42,000
6. Animal health service	46,000
7. Plant protection	102,000
8. Agricultural inputs fertilizers and chemicals	800,000
	<u>1,670,500</u>

The above utilization proposal is aimed basically at strengthening and expanding the productive capacity of the agricultural sector which will minimise the adverse effects on the overall economy brought about by the fluctuations inflicted by external trade factors. The 800,000 WS tala proposed to be earmarked for subsidising the cost of agricultural inputs for planters is being currently reviewed as to whether the funds could be further effectively utilized for providing an export subsidy through the proposed price or stabilization schemes of copra, cocoa and banana exports".

Senegal/groundnut products (30,353,160 ECU), oil-cake (8,253,832 ECU)

"The Senegal Government intends to use any Stabex transfer, whether in the form of an advance or final payment, to assist the rural population and prepare for the next farm year, particularly the groundnut crop (groundnut and oleaginous products)."

Sierra Leone/palm nuts and kernels (947,774 ECU)

"in accordance with art. 23, para 2 and art. 41, para 1 and 2, government intends to utilize transfer of 947,774 ECU for development of agriculture, more particularly on following projects :

1) Kambia integrated agricultural development project	Le 300,000
2) Torma bum rice development project	Le 500,000
3) Farmers' finance company	Le 430,000

Total : Le 1,230,000, equivalent of 947,000 ECU".

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Somalia/bananas (1,423,385 ECU), raw hides and skins (415,854 ECU)

"the funds will be used to promote and develop various banana projects and improve hide and skins quality with a view to overcoming the problem currently encountered in these two areas".

Sudan/groundnuts (13,415,560 ECU)

"As was indicated in the meeting all transfers will be utilized in supporting the rehabilitation programme and the groundnut seed improvement project".

Tanzania/coffee (6,254,957 ECU)

"also be advised that utilization of the Stabex transfer would be as follows (in TSh) :

a) Morogoro canvas mill	38,000,000
b) Kagera sugar factory	8,000,000
c) NMC godown (Kipawa DSM)	1,500,000
d) Cashew nut factory Tunduru	4,300,000
e) Kilombero factory - irrigation	2,000,000
f) NMC godown Morogoro	1,000,000
g) Dakawa ricefarm - irrigation	4,690,000
h) Pyrethrum factory - Mafinga	2,210,000
	61,700,000

Chad/cotton (2,539,846 ECU)

"The Government intends, in accordance with the Second Lomé Convention, to use the transfer for financing the 1982-83 cotton crop (contribution towards purchase of inputs) and accordingly requests that the Commission be informed that the transfer should be paid in FF into the account opened on behalf of the Republic of Chad at the BEAC in Yaoundé. The Chad Government will issue the necessary instructions with regard to the settlement of invoices concerning the purchase of inputs".

Tonga/coconut products (602,239 ECU)

"Subject to Government consideration, the transfer is likely to be used to support the coconut industry directly in the form of, one, supporting Tonga's price stabilization scheme for coconuts, two, providing for local costs of coconut replanting scheme and coconut pest control".

Tuvalu/copra (14 495 ECU)

"With regard to the utilization of the transfer (Art. 41 of the Convention), the funds once the transfer has been agreed will be paid to the Copra co-operative Society to assist it to maintain a stable producer price on the outer islands".

Vanuatu/copra products (3,776,616 ECU), cocoa (410,207 ECU)

"Parliament has just approved legislation setting up commodities marketing board one of functions of which is to stabilize prices paid for prescribed commodities".

Intention is to hold Stabex funds in special account for eventual transfer to stabilization fund expected to be set up by board. Transfer to be made when Minister of Finance satisfied with establishment and operations of board. If Government revenue continues to be affected by low commodities sales income however it is possible that part will be transferred to Government revenue account to support development drive".

Central African Republic/coffee (968,396 ECU)

"The agency in receipt of the transfer is the Caisse de Stabilisation et de Péréquation des Produits Agricoles which will use the funds for coffee and/or cotton projects."

Guinea-Bissau/groundnuts (1,259,747 ECU), palm nuts and kernels (273,919 ECU)

"The equivalent will be paid into the National Development Fund and be used to finance rural development projects."

- 44. This information - a Second Lomé Convention innovation - is very general in some cases. However, Article 41 (2), which requires the provision of such information, brings political responsibilities into play since a financial decision is involved. Hence, this procedure cannot be compared with the technical cooperation arrangements already well established, such as the transmission of statistical data or the cross-checking and other procedures operating within the system according to well-defined rules.

Consequently, there can be cause for satisfaction that in almost all cases this additional and new difficulty with which the ACP States have been confronted has not slowed down the implementation of transfers. Also, on the basis of these initial encouraging results, there is good reason to expect better results in future years from those quarters where there is scope for improvement.

§ 2. Economic impact of transfers for 1980

- 45. The relative proportion of transfers effected under the system in relation to the export earnings of recipient countries varies according to the extent of the losses sustained, the share of the country's overall exports accounted for by the product or products concerned, and the structure of exports (Community share of total exports).

In a number of cases, the proportion is remarkably high. Disbursements expressed as a percentage of total export earnings (all products, all destinations, for 1979, calculated in ECU) were as follows :

Gambia (three transfers)	28.33 %
Dominica	22.06 %
Guinea-Bissau (two transfers)	14.93 %
Burundi	14.54 %
Vanuatu (two transfers)	13.84 %

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Tonga	11.66 %
Cape Verde	9.97 %
Senegal (two transfers)	9.17 %
Western Samoa	9.02 %
Comoros (two transfers)	8.66 %

46. The impact of the transfers obviously stands out far more clearly when one looks at the transfers made for a specific product and the export earnings (all destinations) corresponding to that same product (1980). The following percentages illustrate this :

Sierra Leone (palm nuts and kernels)	297.47 %
Sudan (groundnuts)	157.65 %
Dominica (bananas)	132.80 %
Mali (groundnut products)	101.31 %
Comoros (copra)	85.56 %
Gambia (groundnut oil)	78.62 %
Gambia (oil-cake)	73.28 %
Western Samoa (cocoa)	72.26 %
Cape Verde (bananas)	70.60 %
Comoros (essential oils)	62.21 %

These data reveal the extent of the compensatory flows provided by the system for the sectors in question and consequently of the guarantee in respect of the ACP States' export earnings, particularly for the least developed among them.

§ 3. Utilization reports and economic impact of Lomé I transfers

47. With regard to the transfers made during the Lomé I period, the Commission is collecting the utilization reports for 1979, the last year of application, as well as late reports for previous years. These reports will subsequently be transmitted to the Council without comment, since an evaluation is due by the end of the year ; this will provide more detailed information and it will be possible to assess the effect of Lomé I transfers on the economic development of the recipient countries.

CONCLUSION

48. Stabex has been criticized in connection with 1980, and the fact that the allocation for that specific year was too small has drawn a variety of comment. Two criticisms in particular have been aimed at the nature and role of the system. One criticism was that the problems experienced by Stabex for that year were structural and not occasioned by the economic situation, whereas another view was that faced with the collapse of Stabex, priority should in future be given to seeking and concluding commodity agreements based on prices.

49. This report makes it clear that Stabex has not collapsed. The machinery provided for under the Convention has functioned correctly, and here, credit is once again due to the ACP States for their excellent cooperation. All of the funds available have been allocated, which represents a substantial figure of almost 138 million ECU. An analysis of the situation for 1980 shows, moreover, that the problem encountered probably derive from economic circumstances ; this observation is endorsed by the fact that the Stabex fund for the OCT functioned perfectly. At the very most, criticism could be levelled at the rigidity of the financial rules which do not always permit a flexible response to situations which vary greatly by definition.

50. Commodity agreements clearly supplement rather than compete with a system such as Stabex. By reducing price fluctuations, world agreements could reduce the number of Stabex requests though Stabex continue to offer protection against production risks which cannot be provided by any market organization system. Hence, the Commission has endeavoured to ensure Stabex compatibility with existing world agreements and has taken an active part in the negotiation and administration of new agreements. In a new world economic order comprising more commodity agreements than in the past, Stabex will remain the last resort for producers.

Annex I

List of drawings under the International Monetary Fund's compensatory payments system carried out since 1 January 1980

Country	Million SDRs	Last month of relevant 12-month period	Month of drawing
Mauritania (2)	10.5	6/79	1/80
Guyana	6.25	12/79	1/80
Uganda XX (1)(2)	25.0	9/79	1/80
Mali X (1)(2)	5.1	12/79	3/80
Madagascar X (1)	29.2	12/79	7/80
Equatorial Guinea	6.4	5/80	7/80
Tanzania X (1)(2)	15.0	3/80	9/80
Sudan X (1)(2)	21.8	12/80	11/80
Chad X (1)(2)	7.1	12/80	1/81
Central African Republic X (1)(2)	9.0	12/80	1/81
Dominica X (1)(2)	1.95	12/80	2/81
Grenada (2)	2.1	12/80	4/81
Saint Vincent X (1)(2)	1.3	12/80	3/81
Saint Lucia X (1)(2)	2.7	3/81	4/81
Equatorial Guinea	4.7	10/80	4/81
Mauritius	40.5	5/81	4/81
Samoa (2)	2.0	6/81	4/81
Sudan X (1)(2)	45.7	12/80	4/81
Jamaica X (1)	37.0	12/80	4/81
Ethiopia (2)	18.0	6/81	5/81
Tanzania X (1)(2)	15.9	6/81	/81
Uganda X (1)(2)	45.0	6/81	/81
The Gambia XXX (1)(2)	9.0	6/81	/81

(1) The "X" denote the number of transfers received by the ACP States concerned for 1979 and 1980.

(2) ACP States not required to contribute to the replenishment of resources.

Cumulative transfers prior to the application of Article 34(2)

Country	Product	Cumulative transfers prior to the application of Article 34(2)
Burundi (1)	Coffee	18 525 195
Cape Verde (1)	Bananas	214 764
Central African Rep. (1)	Coffee	1 627 397
Comoros (1)	Copra	246 447
"	Essential oils	852 402
Ivory Coast	Coffee	40 532 892
Dominica (1)	Bananas	4 248 229
Fiji	Coconut oil	1 778 588
The Gambia (1)	Groundnuts	6 372 472
"	Groundnut oil	5 362 846
"	Oil-cake	1 905 990
Guinea-Bissau (1)	Groundnuts	2 117 015
"	Palm nuts and kernels	273 919
Jamaica	Bananas	6 839 447
Kenya	Coffee	21 183 952
Kiribati (1)	Copra	497 742
Lesotho (1)	Mohair	242 279
Madagascar	Vanilla	2 557 569
Malawi (1)	Tea	2 236 690
Mali (1)	Groundnut products	4 288 009
Rwanda (1)	Coffee	11 015 781
Saint Lucia (1)	Bananas	2 267 910
Samoa (1)	Cocoa	2 055 245
Senegal	Groundnut products	64 093 584
"	Oil-cake	17 428 751
Sierra Leone (1)	Palm nuts and kernels	1 592 741
Somalia (1)	Bananas	2 392 010
"	Raw hides and skins	415 854
Sudan (1)	Groundnuts	22 544 954
Tanzania (1)	Coffee	10 511 504
Chad (1)	Cotton	4 268 231
Tonga (1)	Copra products	602 239
Tuvalu (1)	Copra	14 495
		261 107 143

(1) ACP States not required to contribute to the replenishment of resources.

Breakdown of transfers for 1980 according to currency requested by ACP States

Recipient ACP State	Product	Amount of transfer in ECU	French Franc	Deutsche Mark	Pound Sterling
Burundi (1)	Coffee	11 023 569		X	
Cape Verde (1)	Bananas	214 764		X	
Central African Rep. (1)	Coffee	968 356	X		
Comoros (1)	Copra	246 447	X		
"	Essential oils	852 402	X		
Ivory Coast	Coffee	19 195 390	X		X
Dominica (1)	Bananas	2 527 944			X
Fiji	Coconut oil	842 296			X
The Gambia (1)	Groundnuts	3 791 992			X
"	Groundnut oil	3 191 205	X		X
"	Oil-cake	1 134 175	X		
Guinea-Bissau (1)	Groundnuts	1 259 747			X
"	Palm nuts and kernels	273 919			X
Jamaica	Bananas	3 238 995			X
Kenya	Coffee	10 032 204		X	
Kiribati (1)	Copra	497 742		X	
Lesotho (1)	Mohair	242 279	X		
Madagascar	Vanilla	1 211 202		X	
Malawi (1)	Tea	1 330 961			X
Mali (1)	Groundnut products	2 551 615			X
Rwanda (1)	Coffee	6 555 031	X		
Saint Lucia (1)	Bananas	1 349 538	X		
Samoa (1)	Cocoa	1 222 990		X	
Senegal	Groundnut products	30 353 160		X	
"	Oil-cake	8 253 832		X	
Sierra Leone	Palm nuts and kernels	947 774			X
Somalia (1)	Bananas	1 423 385		X (30%)	X (70%)
"	Raw hides and skins	415 854	X		
Sudan (1)	Groundnuts	13 415 560			X
Tanzania (1)	Coffee	6 254 957			X
Chad (1)	Cotton	2 539 846			X
Tonga (1)	Copra products	602 239	X		
Tuvalu (1)	Copra	14 495	X		

(1) ACP States not required to contribute to the replenishment of resources.

Recipient ACP State OCT allocation	Product	Amount of transfer in ECU	French Franc	Deutsche Mark	Pound Sterling
Saint Vincent Vanuatu "	Bananas Copra products Cocoa beans	913.286 3.776.616 410.207	X X		X