

# Community aid to the Third World: the Lomé Convention

## European File

Some 3 000 million human beings have an annual income lower than the monthly earnings in industrialized countries. In a number of Third World countries, the annual income is less than our weekly earnings. Underdevelopment is the divide which radically separates the two halves of the world. The characteristics are well-known: malnutrition, illiteracy, unemployment, sickness, epidemics. This is well illustrated by the following sets of figures:

- one American alone consumes as much energy as 1 100 citizens of Rwanda;
- Europe has one doctor for every 580 persons, Kenya has one for every 25 600;
- each year industrialized countries consume 497 kilos of cereal per person. Third World countries consume 194.

The principal causes of underdevelopment are:

- population growth: whilst a high birth rate is often considered as a measure of prosperity in industrialized countries, in poor countries it often causes under-nourishment. Farming cannot keep up with this scale of population growth;
- shortage of natural resources: with few exceptions, Third World countries do not possess the resources needed either to meet their own needs or to export a surplus to earn the foreign currency needed to buy the goods they lack. This situation is aggravated by climatic hazards (droughts, floods, etc.) which can ruin many

years of effort in a few days. The natural environment in many Third World countries has deteriorated as a consequence of these climatic factors but also due to ill-suited farming techniques. In the Sahel countries, for example, the desert is still spreading;

- the world economic system: the majority of Third World countries have achieved political independence, but they are still subject to the economic order created by and for Western countries. Whilst, for example, between 1961 and 1964 Tanzania needed 7.5 kilos of coffee to buy a Swiss watch, ten years later it required twice as much. These fluctuations in terms of trade tend to cause an imbalance between imports and exports, a drop in purchasing power and a deterioration in developing countries' financial situations.

The objectives of Third World countries have turned towards:

- raw materials: maintaining and even increasing their purchasing power by indexing rates, stabilizing their export earnings and processing products on the spot rather than in developed countries;
- industrial development: the redeployment of international industrial activities to give Third World countries a greater share; encouragement of Western industrialists to invest in poor countries, preferential access for Third World manufactured products to the markets of rich countries, the transfer of technology from industrialized to developing countries;
- agriculture: expansion and diversification of the agricultural output of poor countries to help meet their needs;
- aid from rich countries: increasing the total amount of aid; cancelling the enormous debt incurred by poor countries; ensuring protection against the effects of inflation.

### **Why does the Community help developing countries?**

How could the European Community not help poor countries? How could it contemplate doing nothing whilst 3 000 million human beings continue to starve to death? Apart from these fundamental moral imperatives there are a number of other justifications for Community aid to Third World countries:

- if nothing is done to narrow the gap between rich and poor countries, the consequence could be violent conflict. Europe would be highly exposed in such a conflict;
- the Community has a direct interest in helping Third World countries on which it depends more than other major industrial powers.
  - Energy dependence: Europe imports about 55% of its energy needs. Oil represents 60% of the value of Community purchases from the Third World.

The Nine's efforts to reduce consumption and develop other energy sources may reduce but will not eliminate this dependence.

- Dependence on raw materials: though they are often less irreplaceable than oil, these raw materials constitute the basis of the economic activity and everyday life of Europeans. Coffee to cotton, manganese to copper: Community dependence on developing countries stands at around 90%.
- The economic crisis has hit all industrial countries and has obliged them to find new export markets. The Third World was the Community's first client: in 1978 it accounted for 38% of Europe's exports whilst the USA only took 13% and Eastern Europe 8%. The Third World market is all the more interesting for Europe since it wants mostly capital goods. Two-thirds of the Nine's exports to developing countries is composed of products from the electrical and mechanical industries. The more the Third World countries develop, the more they will need our capital goods and our know-how.

Alongside its Member States, the European Community has an important role to play in development and cooperation. The common customs tariff unites the Nine in relation with the rest of the world and the Community is seen to act as a unified body on the international scene. Only at the Community level can decisions be taken on customs duty reductions to help Third World countries.

The Community's own effort is not a duplication of the work of member countries. By contrast, the Community tries to coordinate and complement the work of individual countries. For this reason the Nine speak with one unified voice in the major international negotiations on development — the Community often speaks in their name — and are increasingly trying to coordinate their national aid policies for the Third World.

### **Extensive cooperation**

For historic reasons the European Community has given special assistance to a certain number of African, Caribbean and Pacific countries but it has not concentrated all its aid in this area.

- The Nine have progressively developed a Community development aid policy of interest to all Third World countries. The main elements of the policy are as follows:
  - generalized preferences which encourage industrialization in Third World countries and offer them preferential access to the markets of the industrialized countries. The Community was the first to apply (in July 1971) the recommendation of the United Nations Conference on Trade and Development (UNCTAD) requiring all industrialized countries to introduce special customs for the exports of manufactured and semi-manufactured goods from Third World countries. The Community's regime covers 296 processed agricultural products and all industrial goods coming from a good 100 developing countries.

For processed agricultural produce, the Community has reduced its customs duties; it has abolished duty for industrial products completely whilst setting quantitative restrictions in some cases;

- food aid: the Community sends food — often in cases of emergency — to countries who request it to help them counter undernourishment. Since 1968, the Community has delivered more than 10 million tonnes of cereals, 600 000 tonnes of powdered milk, 250 000 tonnes of butter oil. The 1979 programme envisages the distribution of 720 000 tonnes of cereals, 150 000 tonnes of milk powder and 45 000 tonnes of butter oil at a total value of 500 million European units of account<sup>1</sup> or 700 million dollars;
  - financial and technical cooperation: the Community supplies financial and technical aid to those Third World countries which are not associated to it by any special agreements. Although limited, this aid is increased regularly: 20 million EUA in 1976, 45 million in 1977, 70 million in 1978, 110 million (about 150 million dollars) in 1979. The money helps finance projects to increase the agricultural output of the recipient countries (mostly located in Asia and Latin America). The Community also gives special aid to those Third World countries worst hit by the rise in oil prices. Last but not least, it makes funds available to non-government organizations involved in the battle against underdevelopment. Those funds have increased continuously from 2.5 million EUA in 1976 to 12 million EUA (or 15 million dollars) in 1979.
- The Community has woven a very tight network of trade agreements with numerous Third World countries. These cover three large geographical zones:
- the southern Mediterranean: eight countries (Algeria, Morocco, Tunisia, Egypt, Israel, Jordan, Lebanon and Syria) signed commercial, industrial, technical and financial cooperation agreements with the Community in 1976 and 1977. The main provisions of these agreements are: unrestricted access to Community markets for industrial goods, customs preferences for certain agricultural goods, financial aid up to a total of 670 million EUA over five years, or around 900 million dollars;
  - Latin America: apart from non-preferential trade agreements with Argentina, Brazil, Mexico and Uruguay, a number of agreements have been made with other countries dealing with trade in textiles and crafts;
  - Asian countries: non-preferential trade agreements have been made with Bangladesh, India, Pakistan and Sri Lanka. Cooperation is also growing with countries belonging to ASEAN — the Association of South-East Asian Nations. A number of sectoral agreements also deal with trade in textile and craft products, and the export of sugar from India and jute from Bangladesh have been the subject of special agreements.

---

<sup>1</sup> 1 EUA = about £0.65 (at exchange rates current on 5 October 1979).

## The ACP-EEC Convention

Fifty-seven African, Caribbean and Pacific countries (the ACP countries) have concluded a new Convention with the Community covering a five year period (1980-1985) and which will follow on from the first Lomé Convention signed in February 1975. The new Convention was signed in Lomé on 31 October 1979.

These Conventions originate from the early days of the Community. When the first six countries signed the Treaty of Rome in 1957, some of them were still colonial powers. The fourth part of the Treaty consequently dealt with Community aid to countries which were still dependent. After independence, 18 African countries still wished to stay associated with the Community. In July 1963 the Yaoundé Convention was signed setting up a free trade zone between the 18 and the Community. It also covered financial aid and institutional matters.

After the entry of the United Kingdom, Denmark and Ireland into the Community in 1973, several British Commonwealth countries in Africa, the Caribbean and the Pacific decided to join the countries already associated to negotiate a cooperation agreement with the Nine.

The originality of the cooperation between the Community and the ACP countries is based on four principal elements:

- the durability of cooperative relations, based on a legal system and a freely negotiated contract between equal partners: the Community for one and the 57 ACP countries for the other;
- the creation between the two regional groups of a unique contract which excludes all manipulation or economic or ideological discrimination;
- the existence of common institutions permitting a constant and constantly improving dialogue. A consultative assembly brings together members from the European Parliament and representatives from the ACP countries. The ACP-EEC Council of Ministers — the higher body — meets once per year and is assisted in its duties by a committee of ambassadors;
- the wide and coherent range of areas covered by the cooperation: for the first time, a group of industrialized countries has developed an integrated policy towards a group of Third World countries. Financial aid, industrial cooperation, stabilization of export earnings, preferential trade agreements — all problem areas of underdevelopment have been considered. For example, financing the construction of a processing plant for agricultural produce can only be effective if agricultural production is improved and if the produce can be traded in the countries concerned and in European markets.

Sector by sector the new Convention covers the following aspects:

- trade cooperation*: virtually all products from ACP countries can enter the Community without incurring customs duties. The Community demands no reciprocal

action by its partners. The list of products that benefit from free entry to the Common Market has been enlarged in relation to the preceding Convention since it now covers more than 99.5% of ACP exports. For certain products which compete directly with European agriculture, the Community, while not according them completely free access, has nevertheless agreed to give them preferential treatment. A special protocol drawn up for ACP countries guarantees them a sugar export price equivalent to that offered to European producers. These different trade advantages are particularly useful to ACP countries since 50% of their exports go to the Community. This percentage is often above 60% and in the case of a country such as Togo is as high as 90%;

- *stabilization of export earnings*: the 'Stabex' mechanism is the most original aspect of the EEC-ACP Conventions compared to classic development aid thinking. It is not enough to give money and to allow Third World goods into the markets of industrialized countries; exports must also be assured of reasonable earnings. 'Stabex' works like an insurance against bad years. The Community guarantees a minimum income to ACP countries for their earnings from exporting a certain number of basic products to the Common Market. Forty-four products — compared to 34 in the preceding Convention — are now covered by this system. The principal products are cocoa, coffee, peanuts, tea, sisal. In principle, 'Stabex' applies only to goods exported to the Community and only when the export earnings from the product amount to more than 6.5% of the total export earnings of the country concerned (2% for the poorest countries). When export earnings drop compared to the previous year's average, the Community compensates the lost earnings. In general, Community aid should be reimbursed when export earnings return to a satisfactory level but this obligation is not applied to the 35 least-developed countries. The new Convention has introduced a system along similar lines covering certain minerals: the Community assures manufacturing countries the minimum protection needed to keep their export production potential;
- *financial and technical cooperation*: the European Development Fund (EDF) contributes to financing the development of ACP countries on the basis of programmes drawn up by each of them. Four major sectors share most of the Community aid: rural development, industrialization, economic infrastructure and social development. Regional cooperation work, specific projects benefiting small and medium-sized companies and 'micro-projects' of local interest, all receive aid from the Fund in addition to the loans on favourable terms from the European Investment Bank (EIB). The funds available to ACP countries have been increased by around 72% (in dollars) by the new Convention;
- *industrial and agricultural cooperation*: the new Convention considerably reinforces this cooperation by explicitly placing it in the context of growing interdependence between Europe and the ACP countries. Cooperation will be stepped up in areas such as energy prospecting, new energy sources, maritime transport and fishing. Private European investment will be encouraged by a general clause which could open the way for Community investment protection agreements which guarantee — through bilateral accords — the equality of treatment between Member States. The resources of the common Industrial

*Community financial aid to ACP countries*

(million EUA)

	Lomé I	Lomé II New Convention
EDF	3 076	4 542
Grants	2 145	2 928
Special loans	445	504
Risk capital formation aid	97	280
Stabex	380	550
Minerals	—	280
EIB	390	685
Outside of the Convention	—	380 <sup>(a)</sup>
<b>Total million EUA</b>	<b>3 457</b>	<b>5 607</b>
<b>Million dollars</b>	<b>4 320</b>	<b>7 457</b>

(a) covering in particular EIB aid for mining and energy projects. In addition, some 300 million EUA should be available as food aid during the period of the Convention.

Development Centre which is responsible for promoting contacts between economic operators will be increased. In the area of agriculture and rural development — which currently accounts for 40% of the EDF funds — a technical cooperation centre is also being set up.



On top of the arrangements, progress and innovation introduced by this new Convention, the essential point is that it confirms the choice of policy and the nature of interregional relations between a group of industrialized countries and a group of developing countries. In the general context of relations between the North and South of the globe, Community countries and ACP countries are attempting an original form of cooperation. Its ambitions, its demands and its potential, accord the different partners a particular responsibility in a much larger play of forces: the development of the Third World and the continuance of peace ■



---

The contents of this publication do not necessarily reflect the official views  
of the Institutions of the Community.

---

#### **Commission of the European Communities**

Information offices (countries fully or partially English speaking\*)

- Ireland** 29 Merrion Square, Dublin 2 — Tel. 76 03 53
- United Kingdom** 20 Kensington Palace Gardens, London W8 4QQ — Tel. 727 80 90  
— 4 Cathedral Road, Cardiff CF1 9SG — Tel. 37 16 31  
— 7 Alva Street, Edinburgh EH2 4PH — Tel. 225 20 58
- Canada** Association House (suite 1110), 350 Sparks Street,  
Ottawa Ont. K1R 7S8 — Tel. 238 64 64
- USA** 2100 M. Street, N.W. Suite 707,  
Washington D.C. 20037-USA — Tel. 202-872 83 50  
— 245 East 47th Street, 1 Dag Hammarskjold Plaza,  
New York, N.Y. 10017 - U.S.A. — Tel. 212-37 13804

\* Offices also exist in other countries including all Member States.



Office for Official Publications  
of the European Communities  
Boîte postale 1003-Luxembourg

ISSN 0379-3133

Catalogue number : CC-AD-79-017-EN-C