

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(85) 416 final

Brussels, 22 July 1985

REPORT FROM THE COMMISSION TO THE COUNCIL

on the operation during 1984 of the export earnings
stabilisation system set up by the second Lomé Convention
and the Decision on the association of the OCT with the EEC

I. INTRODUCTION

1. Article 27 of the Internal Agreement on the financing and administration of Community aid stipulates :

"Each year the Commission shall draw up a comprehensive report for the Member States on the operation of the system of stabilisation of export earnings and the use made by the ACP States of the funds transferred.

The 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.

This Article shall also apply as regards the countries and territories."

2. This report covers the activities of the ACP-EEC institutions, the activities of EEC institutions, administration of the system, results, replenishment of resources and the utilisation and economic impact of transfers for the period 1 January to 31 December 1984.

The section on administration deals with requests for transfers for the 1983 application year.

II. THE ACTIVITIES OF THE ACP-EEC INSTITUTIONS¹

A. The ACP-EEC Council of Ministers

3. The ACP-EEC Council of Ministers held its ordinary session in Suva, Fiji, on 2 May 1984.
4. On that occasion it undertook a detailed examination of a number of issues discussed at previous sessions (Libreville 1982 and Brussels 1983), and in particular the problems arising from the financial state of the system in the 1980 and 1981 application years². The two sides restated their views on this matter.
5. Regarding the choice of a method for calculating transfers³, it was agreed that a working party of ACP and Commission officials would continue to study the technical aspects⁴.

¹ The meetings of the ACP-EEC institutions devoted to negotiations for the third Lomé Convention are not dealt with in this report.

² See the Commission report to the Council on the operation during 1980 of the system set up by the Lomé Convention for stabilising export earnings, COM(81)592 final of 21 October 1981, points 7 and 31; and the report for 1981, COM(82)864 final of 6 January 1983, points 5-11 and 44-45.

³ See the Commission report to the Council on the operation during 1981 of the export earnings stabilisation system set up by the Lomé Convention and the Decision on the Association of the OCT with the EEC, COM(82)864 final of 6 January 1983, points 12-15.

⁴ The working party met in June 1984 during the negotiations for the new Convention, see below, point 14.

6. The Council of Ministers asked the Committee of Ambassadors to look at the other general points left outstanding, including the use to be made of any balance of Stabex funds which might remain at the end of the second Convention
7. It also adopted a decision¹ delegating to the Committee of Ambassadors powers in respect of transfers for 1983 and replenishment of resources for 1975, 1976 and 1977.
8. Following the ACP States' request to have niébé included in the system and coverage extended to Niger's exports of niébé to other ACP countries, the Council of Ministers adopted a decision establishing that niébé is a variety of bean (No. 42 on the list of products in Article 25(1) of Lomé II), and extending the system, in accordance with Article 27, to cover Niger's exports of the product to other ACP States².
9. The Community was unable, however, to accept the ACP States' request to apply to Fiji the waiver in Article 46(3) of Lomé II, which would allow the system to apply to exports to all destinations.

In its statement, the Community pointed out that use of the waiver was for exceptional cases only. All past requests for a derogation had been judged against a single criterion, the main traditional direction of trade in products covered by the system. The fact that Fiji had been developing exports to customers other than the Community did not justify a use of the waiver, since the change was a result of commercial considerations rather than force majeure. Accordingly, the Community could not grant the request.

B. The ACP-EEC Committee of Ambassadors and the ACP-EEC Stabex Subcommittee³

10. The Committee of Ambassadors met in Brussels on 30 March 1981.
11. At the meeting the Commission representative said ACP States were often very late in sending in monthly statistical returns and reports on the utilisation of transfers. He drew attention to the crucial importance of this information for both the operation and the credibility of the system, adding that the Commission was prepared if necessary to supply technical assistance for this purpose.

¹ Decision 4/84, 2 May 1984.

² Decision 3/83, 2 May 1984.

³ The subjects discussed by the ACP-EEC Council and referred to in Section A are not covered here.

12. Using the powers delegated by the Council of Ministers¹, the Committee of Ambassadors agreed on the advance use of a 13,852,363 ECU tranche of the allocation for the 1983 application year to cover transfers due in respect of 1982². The 1982 allocation would normally have accommodated all transfers due, but part of the money had already been used, in a similar transaction, to cover transfers for the 1981 application year³.
13. The ACP-EEC Stabex Subcommittee did not meet in 1984.

C. Expert working parties

14. Following the meeting of an ACP-EEC group of monetary experts between 29 May and 14 June 1984, it was possible to arrive at a method of calculation which answers most of the points of concern voiced in the past by the ACP States. The new method has been incorporated in Article 160 of the third Lomé Convention and will be used to deal with transfer requests as from the 1984 application year⁴.

This resolves a problem which had been affecting the management of Stabex and exercising the ACP-EEC institutions for a number of years. The new method is based on the practice followed by the Commission since 1976 in that it calls for the conversion of all sums into ECU before undertaking the various calculations of reference level, transfer base etc. involved in processing a transfer application. It differs from the traditional method in establishing a special mechanism for the conversion into ECU of actual earnings for the application year; this is triggered in the event of major fluctuations in the rate of exchange between the ACP currency concerned and the ECU.

¹ Decision 3/83, 20 May 1983.

² Decision 2/84, 30 March 1984

³ See the Commission's report to the Council on the operation during 1983 of the export earnings stabilisation system set up by the Lomé Convention and the Decision on the Association of the OCT with the EEC, COM(84)622 final, point 36.

⁴ Decision 2/85 of the ACP-EEC Council of Ministers of 22 February 1985 on transitional measures applicable from 1 March 1985 (Article 8).

.../...

D. The parliamentary bodies of the Convention

15. The Joint Committee met in Brazzaville from 20 to 24 February 1984 and the ACP-EEC Consultative Assembly in Luxembourg from 17 to 21 February 1984.
16. At the first of the two meetings the emphasis continued to be on the short-fall of funds for the 1980 and 1981 application years¹.
17. At the Luxembourg meeting the Community said that over and above the balance of payment aspect, it wanted to make Stabex into a real tool of development. The Assembly also discussed questions relating to the negotiations for the third Lomé Convention.
18. No resolution specifically on the subject of Stabex was adopted in 1984.

III. THE ACTIVITIES OF THE EEC INSTITUTIONS

A. The European Parliament

19. The European Parliament and its Committee on Development considered Stabex only in connection with the negotiations for the third Lomé Convention.

B. The Court of Auditors

20. The Court of Auditors carried out its customary review of the administration of transfer requests for the 1983 application year. The conclusions will be published in the Official Journal of the European Communities.

IV. ADMINISTRATION OF THE SYSTEM

21. The Commission received a total of 51 transfer applications for 1983, presented by 26 signatories of the second Lomé Convention².
22. It also received four transfer requests from OCT and 2 ACP States still covered by the OCT allocation. Those requests were not eligible, for the following reasons :

¹ See also point (e) of the final statement, dated 24 February 1984 (CA/CP/465 def. of 8.3.1984).

² Three of the requests were consolidated, so the total of inadmissible and admissible applications (27 plus 22) comes to 49, not 51.

French Polynesia	Copra oil	fluctuation threshold not reached
Vanuatu	Copra	" " "
Vanuatu	Cocoa	no loss on exports to all destinations
Belize	Bananas	no loss

A. Inadmissible requests (ACP)

23. Three requests were not admissible because the dependence threshold had not been passed (Article 29 of the Convention) :

Comoros	Copra
Guinea-Bissau	Bananas
Guinea-Bissau	Palm oil

24. Twelve requests were ineligible because the fluctuation threshold had not been passed (Article 37 of the Convention) :

Cameroon	Cocoa
Cameroon	Coffee
Comoros	Essential oils
Ghana	Cocoa
Guinea-Bissau	Groundnuts
Guinea-Bissau	Wood in the rough
Guinea-Bissau	Cashew nuts and kernels
Guinea-Bissau	Squid
Guinea-Bissau	Goat and kid skin leather
Sierra Leone	Coffee
Sierra Leone	Cocoa
Tonga	Vanilla

26. Seven requests were ineligible because no loss had been incurred :

Burundi	Coffee
Ethiopia	Groundnuts
Ethiopia	Hides and skins
Ethiopia	Beans
Grenada	Bananas
Grenada	Nutmeg and mace
Liberia	Iron ore

27. Six requests were rejected because there was a surplus on exports to all destinations (Article 38(2) of the Convention) :

Burkina-Faso	Cotton
Ivory Coast	Cocoa
Fiji	Coconut oil
Equatorial Guinea	Cocoa
Somalia	Bananas
Somalia	Hides and skins

.../...

B. Reductions following consultations

The following consultations were held under Article 39(3) of the Convention, on the grounds stated :

27. Marketed output of product accounts for a declining share of total exports :

		<u>% reduction</u>
Solomon Islands	Copra	7.3
Guinea-Bissau	Sawn wood	29
Sudan	Groundnuts	14,35
Tanzania	Raw sisal	18 ¹

28. Decline in the Community's share of total exports of the product :

Tanzania	Raw sisal	11.2 ¹
----------	-----------	-------------------

C. Alignment on losses to all destinations where this is lower than losses on exports to the Community

29. Transfer entitlements on four applications were reduced to the level of losses on exports to all destinations :

Grenada	Cocoa beans
Togo	Cocoa
Madagascar	Raw sisal
Sao Tomé and Príncipe	Cocoa

V. RESULTS

A. Breakdown by country

<u>30. ACP State</u>	<u>Product</u>	<u>Sum in ECU</u>
Ethiopia	Cotton	1,665,021
Ethiopia	Sesame seeds	3,150,900
Guinea-Bissau	Sawn wood	267,121
Guinea-Bissau	Shrimps and prawns	710,289
Madagascar	Raw sisal	1,461,636
Sao Tomé and Príncipe	Cocoa	3,397,335
Sudan	Groundnuts	7,900,891
Tanzania	Raw sisal	3,472,424
Tanzania	Cashew nuts and kernels	1,943,394
Grenada	Cocoa beans	1,230,867
Guinea-Bissau	Palm nut and kernel oil	437,356
Mali	Groundnut products	3,200,724
Solomon Islands	Copra	1,463,356

¹ Reduction on two separate grounds.

<u>ACP State</u>	<u>Product</u>	<u>Sum in ECU</u>
Solomon Islands	Sawn wood	34,791
Swaziland	Cotton products	5,085,350
Rwanda	Hides and skins	497,157
Togo	Coffee	4,190,324
Togo	Cocoa	9,543,759
Tonga	Copra products	732,546
Tonga	Bananas	11,034
Tuvalu ¹	Copra	7,384
Kiribati	Copra	64,548
TOTAL		50,468,149

C. Results by product

<u>31. Product*</u>	<u>Sum in ECU</u>	<u>%</u>
Cotton products (2)	6,750,371	13.38
Sesame seeds (1)	3,150,900	6.24
Sawn wood (2)	301,912	0.60
Shrimps and prawns (1)	710,289	1.41
Raw sisal (2)	4,934,060	9.78
Cocoa (3)	14,171,961	28.08
Groundnut products (2)	11,101,615	22.0
Cashew nuts and kernels (1)	1,943,394	3.85
Palm nuts (1)	437,356	0.87
Copra products (4)	2,267,776	4.49
Hides and skins (1)	497,157	0.98
Coffee (1)	4,190,324	8.30
Bananas (1)	11,034	0.02
50,468,149		100

Note that two products alone (cocoa and coffee) account for 50.08% of transfers for the 1983 application year.

VI. REPLENISHMENT OF RESOURCES

32. After investigation the Commission found that the conditions for replenishment of resources set out in Article 21(3) of the first Lomé Convention were not fulfilled in 1983 in respect of any of the repayable transfers made under Lomé I.

¹ Decision 3/85 of the ACP-EEC Council of Ministers (22 February 1985) renewed Kiribati's "all destinations" waiver for the 1983 application year.

* The number in brackets indicates the number of transfers for each product.

33. In the case of the following transfers, for which no obligation to make full reimbursement had been established at the end of the observation period referred to in Article 21(2) of the first Lomé Convention, the ACP-EEC Committee of Ambassadors has still to take a decision under Article 21(4) :

<u>Application</u> <u>Year</u>	<u>Country</u>	<u>Product</u>	<u>Transfer</u>	<u>Amount to be</u> <u>reimbursed</u>
1975	Congo	Wood in the rough	7,361,677	-
1975	Gabon	Wood in the rough	6,703,311	-
1978	Liberia	Iron ore	7,586,943	-
1978	Senegal	Groundnut oil	49,882,295	-
1978	Senegal	Oil-cake	15,224,094	-

The Commission has reported to the Council of Ministers recommending the recovery of the first two sums.

It will report again in September indicating what action should be taken under Article 21 of the first Lomé Convention in respect of the other three cases.

VII. ECONOMIC IMPACT AND UTILISATION OF TRANSFERS

A. Prior indication of proposed use and utilisation reports for 1980 and 1981

34. Advance indication of the proposed use of funds transferred for 1983 reached the Commission within the time limit fixed by the second Lomé Convention. Of the final utilisation reports for 1981 and 1982¹, on the other hand, only half have reached the Commission; this is an improvement on previous years, but it still seems that ACP States are often failing to make the connection between the reports and the efficiency and credibility of the system.

¹The reports were due in 1983 and 1984 respectively.

.../...

35. Examination of the reports sent to the Commission reveals that in the overwhelming majority of cases the proposed use appears to be consistent with the system's objectives as laid down in the Convention :

(a) allocation to agricultural projects for the purpose of :

- (i) increasing or re-establishing production potential,
- (ii) diversification,
- (iii) food self-sufficiency;

(b) support for producer prices.

B. Economic impact of the 1983 transfers

36. The size of transfers as a proportion of recipient countries' export earnings varies according to the losses sustained, the product in question and the share of total exports for which it accounts, and the structure of exports (proportion of total exports taken by the Community).

Sometimes, the importance of these transfers is notable; the following examples show disbursements as a percentage of total export earnings (all products, all destinations, 1982, measured in ECU);

Sao Tomé and Principe	31.13%
Tuvalu	64.64%
Tonga	19.71%

37. The impact of the transfers made can of course be seen even more clearly when disbursements in respect of a given product are related to export earnings (all destinations) from that product (1983). The following percentages are given by way of example :

Mali : groundnut products	722.51%
Swaziland : cotton products	93.36%
Togo : cocoa	58.33%
Ethiopia : sesame seeds	95.05%
Sudan : groundnuts	55.38%
Sao Tomé and Principe : cocoa	43.16%

These figures confirm the importance of the flow of substitute funds provided by the system and consequently its contribution to the stabilisation of the ACP States' export earnings, particularly in the case of the poorest countries.

DRAWINGS SINCE 1 JANUARY 1983 UNDER THE IMF'S COMPENSATORY PAYMENTS SYSTEM

<u>Country</u>	<u>Million SDR</u>	<u>Last month of 12-month period</u>	<u>Month of drawing</u>
Belize ²	3.6	3/83	6/83
Fiji ¹ X	4.75	9/84	1/85
Ghana ¹ X	120.5	12/82	8/83
Ghana ¹ X	58.2	5/84	12/84
Jamaica	72.6	12/83	6/84
Madagascar ¹ X	14.4	12/83	6/84
Malawi ^{1,2} X	12.2	9/82	3/83
Malawi ^{1,2} X	13.8	12/83	8/84
Mauritius ²	7.5	8/84	3/85
Niger ²	12.0	12/82	7/83
Niger ²	12.0	12/83	10/83
Western Samoa ^{1,2} XX	1.2	12/82	6/83
Sierra Leone ^{1,2} XX	20.7	6/82	7/83
Somalia ²	32.6	6/84	3/85
Sudan ^{1,2} X	39.1	6/82	3/83
Swaziland ^{1,2} XX	9.0	12/82	6/83
Zaire	114.5	3/83	12/83
Zambia	97.2	12/82	4/83
Zimbabwe	56.1	12/82	3/83

¹ The Xs indicate transfers under Stabex for the years in question (1982 and 1983).

² ACP State not required to contribute to replenishment of resources.