European Community
BACKGROUND INFORMATION

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BACKGROUND NOTE

No. 15/1977

May 24, 1977

THE LOME CONVENTION : A NORTH / SOUTH INITIATIVE

The Lome Convention and the European Community's methods of providing aid and trade to the developing world has been the subject of considerable discussion and analysis recently by government leaders and economists in the West. The European Community's experience with the Lome Convention enabled government leaders of the major industrialized nations at the Downing Street summit in London in early May to formulate their position for the Conference on International Economic Cooperation, to be held in Paris late this month.

The importance of reaching a satisfactory resolution to a North/South dialogue lends particular significance to an examination of the Lome Convention one year after it came into force. The Lome Convention signatories encompass 52 nations and represent a population of more than 271 million, including the 19 nations that, according to United Nations criteria, are among the poorest in the world. The Community is the largest trade partner of the ACP states as a whole, absorbing 54 per cent, according to 1970 figures, of their exports and supplying 44 per cent of their imports.

The Lome Convention is an imaginative approach to improving the ACP states' economies through trade and aid stimuli that the ACP states themselves are involved in determining.

It allows virtually free access to the Community market for imports originating in the ACP with no reciprocity of trade obligations required by the EC. Through the STABEX system, it stabilized export earnings for single-export countries in hard times, thus establishing a harmonious and stable relation between producers and users of raw materials.

The joint EEC/ACP* Council of Ministers held its second session in Fiji on April 13 and 14 to review the functioning of the Convention. This article includes some notes on the progress in the various sectors of the Convention as well as, where appropriate, a summary of the discussion that took place at Fiji.

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* For a list of the African, Caribbean and Pacific (ACP) signatories of the Lome Convention see Annex.

It is clear that this report presents only a provisional appreciation, since one year is not sufficient time in which to present a definitive Lome balance-sheet. It is not yet possible to measure the impact of the commercial provisions on the evolution of trade, financial cooperation is not yet in full swing and other cooperative actions are only just beginning.

Lome Institutions

The institutional framework of Lome is already in operation. It is within these organs -- Council of Ministers, Committee of Ambassadors, special committees and the Consultative Assembly -- that the dialogue between EEC and ACP partners has taken place, and where problems of interpretation and application of the Convention have largely been traded. The problems that have arisen, however, and the search for solutions and improvements in the functioning of the Convention should not obscure the real progress that has occurred in the various sectors of this vast cooperation enterprise.

I. COMMERCIAL COOPERATION

The commercial provisions of the Convention, which anteceded formal ratification and came into force on July 1, 1975, guarantee free access to the Community market to more than 99% of imports coming from the ACP nations. The remaining fraction benefits from a preference over other third-country imports.

In return, ACP countries are required only to apply Most Favored Nation treatment to EC imports, and not to discriminate between member states of the EC. In the vast majority of cases the ACP states apply a non-preferential regime, meaning sometimes that the preferential regimes that some states used to apply either to the EC of Six or to Britain have been eliminated. Others, however, have maintained or reestablished preferential regimes to avoid the inflationary pressure of higher import prices.

Breakdown by EEC member states of trade with ACP, as a percentage of the total

Imports from ACP	1973	1975
Federal Republic of Germany	18.3	21.7
Denmark	0.9	1.5
France	21.7	24.8
Ireland	0.6	0.5
Italy	11.0	8.4
Netherlands	9.4	11.7
Britain	28.4	23.9
Belgium/Luxembourg	9.7	7.5
EEC 9	100	100
Exports to ACP		
Federal Republic of Germany	17.8	17.7
Denmark	3.0	1.6
France	27.4	30.2
Ireland	0.3	0.6
Italy	8.4	8.2
Netherlands	7.0	8.9
Britain	30.4	27.3
Belgium/Luxembourg	5.7	5.5
EEC 9	100	100

EEC/ACP TRADE : A FEW FACTS

* ACP exports to the EC represent, on average, 50% of their total exports (compared to 15% to USA).

* This figure is much higher for certain products, e.g. coffee, cocoa.

* Almost the entirety of exports of some products go to the EC market (excluding intro-ACP trade). This is the case for ground nuts, palm oil, bananas, skins and hides. For sugar, the quantity the EC guarantees to purchase represents 60% of total exports.

* Breakdown of EC exports from the ACP (1975)
  - agricultural products 40.7%
    (of which 15.5% are products covered by the Common Agricultural Policy)
  - oil 34.5%.

Particular trade problems

Besides sugar (see later) various specific problems have been raised at ambassadorial or ministerial level, and solutions have been sought to maintain trade in products of particular importance for the economies of one or another ACP state.

This has happened for beef, where a regime more favorable than the Convention was granted to 4 ACP states to allow them to maintain their traditional exports. Other problems that arose include bananas, rum and cattle-cake made from groundnuts.

Trade cooperation; discussion at Fiji Council meeting

At the Council meeting the EEC reminded the ACP states that both sides were under obligation to give notice when they intended to adopt trade policy measures that could harm their partners' interests. For their part, the ACP states requested, and the EEC accepted, that consultations should begin with a view to granting more favorable treatment for tomatoes and melons originating in the ACP states.

On other trade problems, including rum, bananas, animal feedstuffs and the generalized system of preferences, it was agreed that talks should continue.

More general trade concerns were also expressed in the EC/ACP meetings and were taken into account by the EC in framing its Generalized System of Preferences for 1977 and its offer on tropical products in GATT.

II. APPLICATION OF THE SUGAR PROTOCOL

The sugar protocol, annexed to the Lome Convention, is a particular innovation in policy for primary products, involving reciprocal guarantees of purchase and delivery of specified quantities and a semi-indexation of prices. The latter is achieved since the price offered for ACP sugar must be within the range of prices obtained for sugar within the EC.

The protocol covers a quantity of 1.4 million tons of raw sugar (i.e. about 1,221,500 tons of white sugar) or about 60% of total ACP sugar exports.

DELIVERIES OF SUGAR FOR THE 1975/76 SEASON

	Annual quota given by the Protocol (1)	Total amount delivered (1) (2)
Barbados	49,300	50,430
Fiji	163,600	135,000
Guyana	157,700	154,190
Mauritius	487,200	487,040
Jamaica	118,300	119,920
Kenya	5,000	-
Madagascar	10,000	10,030
Malawi	20,000	20,000
Uganda	5,000	2,960
Congo	10,000	-
Swaziland	116,400	114,300
Tanzania	10,000	10,120
Trinidad and Tobago	69,000	68,940
TOTAL	1,221,500	1,173,000

(1) in metric tons, white sugar

(2) by the protocol, an ACP state that does not deliver the agreed quantity (beyond a 5% margin of tolerance) has its quota reduced by the amount of the shortfall. This does not apply if the reason for the failure to deliver was force majeur. In this case the state is granted an additional time to deliver (Mauritius) or the quota is simply maintained (Fiji).

Some difficulties have arisen concerning the interpretation of the range of reference prices, but both sides have now agreed with the principle that ACP cane sugar producers should receive receipts comparable to the net receipts guaranteed to EC beet sugar producers.

Despite some initial difficulties in application, the system has clearly had a stabilizing role in contrast to the wild fluctuations experienced by the world sugar market in recent years. For the first season, the guaranteed price was fixed below the world price; for the second, the situation was totally reversed and the price is at least twice the world price.

No ACP sugar has been bought by European intervention stocks until now, indicating that it has always been possible to sell it on the market above the guaranteed price.

Results of Fiji Meeting: Sugar

The ACP states emphasized the gravity of the effect of reducing the agreed export quantities for sugar for those states that failed to meet their quotas in the 1975/76 period. The EEC, after explaining the reasons for this, announced that as an autonomous political gesture it would reinstate for those countries their original export entitlement. The EEC emphasized that this would be done in view of the difficulties ACP states may have had in applying the provisions of the protocol in its first year of application; this concession, however, should not constitute a precedent.

The Council took note of the fact that two further ACP states, Zambia and Liberia, wished to accede to the sugar protocol, and agreed that the cases should be examined.

III. STABEX

The first application of the system for stabilizing export earnings was for the year 1975, and the first payments were made in July 1976, scarcely three months after the Convention came into force. A total of 26 transfers was made benefitting 18 countries for a total amount of almost 73 million units of account. (U.A. = about $1.13 on May 16)

* 68% of the transfers covered revenues lost because of falls in demand;
* 32% covered loss through decline in production due to natural disasters.

* 57% went to the poorest ACP states in the form of grants; it is expected that this percentage could reach 77% in 1976.

There have been some exchanges of views on the modalities of STABEX. The ACP states would like to see the system extended to cover other products.

STABEX TRANSFERS FOR 1975

	Product	Amount of transfer in u.a.
BENIN	Groundnuts	464,330
	Coffee	1,174,883
	Cotton	4,299,556
	Cattle-cake	1,191,079
BURUNDI	Cotton	965,602
	Skins	520,053
CAMEROON	Raw wood	3,601,423
CENTRAL AFRICAN EMPIRE	Coffee	353,108
CONGO	Raw wood	7,361,677
IVORY COAST	Raw wood	15,000,000
ETHIOPIA	Coffee	9,339,683
	Skins	5,080,364
FIJI	Coprah oil	615,000
GHANA	Raw wood	5,176,408
UPPER VOLTA	Groundnuts	685,239
MALI	Cotton	648,503
NIGER	Groundnuts	5,441,294
SOMALIA	Fresh bananas	1,296,907
	Raw skins	635,238
SUDAN	Raw skins	1,658,579
TANZANIA	Cotton	1,887,082
TOGO	Coffee	2,680,324
UGANDA	Cotton	1,748,932
WESTERN SAMOA	Cocoa	276,978
TOTAL		72,785,065

* Least developed ACP states, benefitting from non-returnable transfers.

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Results of Fiji Meeting: STABEX

The EEC was, to a large extent, able to meet the wishes of ACP to extend STABEX. It was agreed that the following products should be added to the scheme:

Vanilla	Mohair
Cloves	Gum arabic
Pyrethum	Ylang-ylang
Wool.	

The joint Council also agreed that Western Samoa, Tonga, Seychelles, The Comoros, Cape Verde and Lesotho should benefit from Article 17 (4) of the Lome Convention, allowing exports irrespective of destination to be considered eligible for the STABEX system.

Regarding the request by the ACP states that certain mineral products and rubber should be included in the STABEX system, the Council adopted a resolution providing for close consultation on the occasion of international negotiations aimed at identifying possible solutions to the problems encountered in the supply and marketing of such commodities.

On May 16, STABEX conventions for 1976 were signed in Brussels, covering 11 allocations for nine ACP countries totaling 24,140,823 u.a. (more than $27 million).

IV. FINANCIAL AND TECHNICAL COOPERATION

Programming

Before the Convention came into force, preparatory work had already begun on financial and technical cooperation, which allowed the detailed programming to be completed rapidly.

This programming establishes an indicative program for each ACP state, based on its own development priorities, identifying, within the framework of a fixed financial package, the projects for which a contribution by the European Development Fund (EDF) is envisaged.

The sectoral breakdown of the projects decided upon, as a percentage of the total programmed aid, is as follows:

-rural development	36%
-industrialization	11.9%
-infrastructure	27.2%
-social development	15.4%
-miscellaneous	9%

As provided by Article 48 of the Convention, the programmed aid pays particular attention to the needs of the least developed; 65% of the total aid will go to the poorest 24 ACP states.

The main objective of the programming was to allow the ACP states to best integrate EC aid into their own development plans; it has also allowed EC member states to coordinate their own bilateral aid with that of the EC.

The first credits were transferred a few weeks after the Convention came into force. The balance sheet thus far is as follows:

	Total means disposible for duration of the Convention* (millions of u.a.)	Amount engaged up to 31/3/77
EDF (total)	3,000	565.5
of which: grants	2,100	413.4
special loans	430	53.4
risk capital	95	25.3
STABEX	375	73
Normal European Investment Bank Loans	390	50.6

*Figures at time of signature. Adjustments since then to take into account accession of six new states bring this figure to 3,054.1 million units of account.

Exceptional Aid

In addition to the amount for indicative programming, a further 50 million units of account (reconstitutable for the duration of the Convention up to a total of 150 million u.a.) is reserved for exceptional aid for ACP states facing grave difficulties resulting from natural disasters or other extraordinary circumstances.

49 million units of account were engaged in one year in this category for 11 ACP states. In four cases (Niger, Somalia, Mauritius, Madagascar), this was for natural disasters (cyclone, drought); in the other cases (Zaire, Zambia, Malawi, Botswana, Rwanda, Lesotho, Comoros), the Community intervention was to help face grave problems resulting from situations of tension or conflict, particularly in Southern Africa.

Regional Projects

10% of the available financial resources of the Convention are reserved for regional or inter-regional projects.Many plans were put forth, and the EC has approved, with agreement by the ACP, a first program of more than 200 million u.a. The proposed projects fall into a wide variety of categories including infrastructure, industrial and agricultural production, education and training. These include: a clinker works set up jointly for the Ivory Coast, Togo and Ghana (18 million u.a.); the Senegal River Valley development (15 million u.a.); the East and Central African Transport System, covering Zaire, Zambia, Rwanda and Burundi (31 million u.a.). (u.a. = about $1.13) To these can be added actions benefitting all or a large number of ACP states - for example, trade promotion.

New forms of financial aid

Eight industrialization projects were financed with risk capital, managed by the EIB, for a total amount of 25 million u.a. Other special financing sections have yet to get off the ground - for example, the aid for small and medium sized

businesses. In the section of aid for micro-economic developments, however, a first program has been initiated in Cameroon (25 rural development schemes, and others should soon follow.

Breakdown of financing by sectors

Although it is too soon to attach much significance to the sectoral breakdown after one year of the EDF, the figures show the wide range of activities that have been financed:

EDF financing by sectors (1/4/76 to 31/3/77)

	million of u.a.	% of total
Development of production	250	61.5
of which: industrial	136	33.5
rural	113	28
Transport and communications	101	25
Social (education, health, water, dwellings)	45	11
Trade promotion	9	2
TOTAL	405	100
Exceptional aid	49	
STABEX	73	
Miscellaneous	34	

V. INDUSTRIAL COOPERATION

Besides the various decisions to finance industrial developments, industrial cooperation has been furthered by establishing, in 1976, two institutions to encourage European industrial investment in ACP countries beyond that furnished by EIB. These institutions are the Industrial Cooperation Committee, a joint board to oversee the implementation of the relevant articles of the Lome Convention, and the Industrial Development Center, whose objective is exchange of information and contacts between EC and ACP operators, and research into industrial possibilities in ACP countries. The IDC should also help to better channel investment decisions, by assuring that the commercial perspectives, especially on the EC market, are fully taken into account.

Although still in its infancy, the IDC has already done preparatory work on 300 projects, 80 of which were presented by European industrialists interested in investments in ACP countries.

ANNEX I

ACP STATES

AFRICA

Benin*
Botswana*
Burundi*
Cameroon
Cape Verde*
Central African Empire*
Comoros*
Congo
Ivory Coast
Ethiopia*
Gabon
Gambia*
Ghana
Guinea*
Guinea-Bissau*
Equatorial Guinea
Upper Volta*
Kenya
Lesotho*
Liberia
Madagascar
Malawi*
Mali*
Mauritius
Mauritania*
Niger*
Nigeria
Uganda*
Rwanda
Sao Tome and Principe*
Senegal
Seychelles*
Sierra Leone
Somalia*
Sudan*
Swaziland*
Tanzania*
Chad*
Togo*
Zaire
Zambia

CARIBBEAN

Bahamas
Barbados
Grenada
Guyana
Jamaica
Surinam
Trinidad and Tobago

PACIFIC

Fiji
Papua and New Guinea
Western Samoa*
Tonga*

Countries marked with an asterisk* are the least-developed ACP states, according to Article 48 of the Convention.

Originally 46 ACP countries signed the Convention. These were joined by three former "Pays et Territoires d'Outre Mer": Surinam (16/7/76), Seychelles (27/8/76) and Comoros (13/9/76).

On 28/3/1977 three further countries - Sao Tome and Principe, Cape Verde and Papua and New Guinea - signed Acts of Accession. The commercial aspects of the Convention already apply to these countries in anticipation of ratification by signatories of the Convention.

The Fiji meeting of the ACP/EEC Council decided that the Comoros, Seychelles, Sao Tome and Principe be included in the list of least-developed ACP states.

ANNEX 2

PROJECTS JOINTLY FINANCED BY EC AND FUNDS FROM ARAB OIL PRODUCERS

Project	Country	Arab Funds
Douala Port Extension	Cameroon	Arab Bank for Economic Development in Africa (ABEDIA)
Congo Railway	Congo	Kuwait Fund for Arab Economic Development (KFAED), ABEDIA
Regional Cement Works	Togo	ABEDIA
Kpong Dam	Ghana	Saudi Development Fund (SDF), KFAED, ABEDIA
Tamboa Railway	Upper Volta	KFAED ABEDIA
Selingue Dam	Mali	SDF,KFAED, ABEDIA,Abu Dhabi Fund for Arab Economic Development (ADFAED)
Relocation of population hit by drought	Somalia	SDF
Gijuba Valley Development	Somalia	Arab Fund for Economic and Social Development (AFESD)
Goluen-Gelib Highway	Somalia	ADFAED, AFESD, KFAED
Nouakchot-Kiffa Nema Highway	Mauritania	ADFAED, AFESD, KFAED

These ten projects represent a total investment of about 1 billion units of account. 250 million u.a. are provided by Arab Funds, 139 million u.a. by the EDF and 36 million u.a. by the EIB.