

European Communities

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Background Information



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ONE YEAR OF THE LOMÉ CONVENTION

On April 13 and 14 the joint EEC/ACP* Council of Ministers held its second session in Fiji, to review the functioning of the Lomé Convention one year after it came into force. Some notes on the progress in the various sectors of the Convention follows, including, where appropriate, a summary of the discussion which took place at Fiji.

This can, however, only be a provisional appreciation, one year is not sufficient time to present a definitive Lomé 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 cooperation actions are only just getting off the ground.

Lomé Institutions

The institutional framework of Lomé 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 treated. However, the problems which have arisen, and the search for solutions and improvements in the functioning of the Convention should not obscure the real progress which has occurred in the various sectors of this vast cooperation enterprise.

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

I. COMMERCIAL COOPERATION

The commercial provisions of the Convention, which antedated 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 States. The small remaining fraction benefits from a preference over other third country imports.

In return ACP countries have only the obligation to apply most favoured 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 the UK 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, <u>as a percentage of the total</u>		
<u>Imports from ACP</u>	<u>1973</u>	<u>1975</u>
German Federal Republic	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
U.K.	28.4	23.9
Belgium/Luxembourg	9.7	7.5
EEC 9	100	100
<u>Exports to ACP</u>		
German Federal Republic	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
U.K.	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, eg coffee, cocoa.
- *Almost the entirety of exports of some products go to the EC market (excluding intra 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 favourable than the Convention was granted to 4 ACP States to allow them to maintain their traditional exports. Other problems which 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 which 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 favourable treatment for tomatoes and melons originating in the ACP States.

On other trade problems, including rum, bananas, animal feedstuffs and the generalised 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 their Generalised System of Preferences for 1977 and their offer on tropical products in GATT.

II. APPLICATION OF THE SUGAR PROTOCOL

The sugar protocol, annexed to the Lomé 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

	<u>Annual quota given by the Protocol (1)</u>	<u>Total amount delivered (1) (2)</u>
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 which 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 majeure. 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 stabilising rôle, in contrast to the wild fluctuations which the world sugar market has experienced 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.

Up until now no ACP sugar has been bought by European intervention stocks, showing that it has always been able to be sold on the market above the guaranteed price.

Results of Fiji Meeting: Sugar

The ACP States emphasised the gravity of the effect of reducing the agreed export quantities for sugar for those States who 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 emphasised 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 stabilising 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 were made, benefitting 18 countries for a total amount of almost 73 million units of account.

- * 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, in particular the ACP States would like to see the system extended to cover other products.

STABEX TRANSFERS FOR 1975

	<u>Product</u>	<u>Amount of transfer in u.a.</u>
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 REPUBLIC	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.

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 Lomé 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.

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 very rapidly.

This programming establishes an indicative programme 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%
- industrialisation	11.9%
- infrastructure	27.2%
- social development	15.4%
- miscellaneous	9%

As provided by Article 48 of the Convention, the programmed aid pays a 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, however, allowed EC Member States to coordinate their own bilateral aid with that of the EC as such.

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

	Total means disposable 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, since then adjustments to take into account accession of six new states brings this to 3,054.1 million units of account.

Exceptional Aid

Besides 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, Comores) 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. Numerous schemes were put forward, and the EC has approved, with agreement by the ACP, a first programme 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. 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 industrialisation 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 programme 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 which have been financed:

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

	<u>million of u.a.</u>	<u>% of total</u>
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 Lomé Convention, and the Industrial Development Centre, 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 by investments in ACP countries.

ANNEX I

ACP STATES

AFRICA

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

CARIBBEAN

Bahamas	Jamaica
Barbados	Surinam
Grenada	Trinidad and Tobago
Guyana	

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 Comores (13/9/76).

On 28/3/1977 three further countries - Sao Tomé and Príncipe, 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 Comores, Seychelles, Sao Tomé and Príncipe be included in the list of least developed ACP States.

ANNEX 2

PROJECTS JOINTLY FINANCED BY EC AND FUNDS FROM ARAB OIL PRODUCERS

<u>Project</u>	<u>Country</u>	<u>Arab Funds</u>
Extension of Port of Douala	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
Tambova 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
Development of Gijuba Valley	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 1,000 million units of account. 250 u.a. are provided by Arab Funds, 139 million u.a. by the ADF and 36 million u.a. by the EIB.