

COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION

on the operation during 1987 of the
export earnings stabilization system set up
by the third Lomé Convention

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 stabilization 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."

2. This report covers
 - the activities of the ACP-EEC and EEC institutions,
 - the replenishment of resources,
 - the utilization and economic impact of transfers for the period from 1 January to 31 December 1987.

The section on administration deals with requests for transfers for the 1986 application year.

II. ACTIVITIES OF THE INSTITUTIONS

A. ACP-EEC institutions

3. The ACP-EEC Council of Ministers held its 12th session in Brussels on 14 and 15 May 1987. It was preceded by the 24th meeting of the Committee of Ambassadors, which also took place in Brussels, on 4 May 1987. The Committee of Ambassadors held its 25th meeting on 18 December.

The Stabex Subcommittee also met, on 6 November 1987.

4. At all these meetings the two sides continued their examination of some of the Stabex matters which they had previously discussed in 1986.
5. As regards the request by certain ACP States for application of the derogation referred to in Article 150(3) of the third Lomé Convention, both sides maintained their positions unaltered: the ACP States, unlike the Community, think that the requests submitted by Uganda, Tanzania, Sudan and Mozambique should be granted.

¹ See the Report on the operation of Stabex in 1986 (COM(87)482 final, 19.10.1987, pages 2-3).

6. Positions also remained opposed as regards requests for transfers for the 1980 and 1981 application years which, because of a shortfall in resources, could not be covered in full. At the meeting of the Stabex Subcommittee on 6 November, the ACP States introduced a new factor: they wished to establish a connection between the sums in question and the replenishment obligation arising out of transfers actually made for losses of export earnings in 1980 and 1981. The Commission representatives, on behalf of the Community, noted this new request and indicated that the Community would examine it as soon as its ACP partners formulated their views precisely and in writing.
7. As regards the decision to be taken by the ACP-EEC Council of Ministers on the possible reimbursement of certain transfers made under the first Lomé Convention, for which the replenishment conditions were not met, discussion was limited to an indication that the Community's examination of the matter was not yet complete.

B. EEC institutions

8. The Court of Auditors carried out its annual review of the appraisal of transfer requests for the 1984 and previous application years. The conclusions will be published in the Official Journal of the European Communities.

III. ADMINISTRATION OF THE SYSTEM

9. The Commission received a total of 70 transfer requests for the 1986 application year, presented by 34 ACP States.

Appraisal of these requests showed that 27 of them were inadmissible, and the other 43 led to transfers totalling 279 188 368 ECU (see point 11). The transfers were fully covered by the system's financial resources, which amounted to 293 393 515 ECU² including repayment of transfers during 1987 but not including interest on the Stabex account in 1987.

¹Transfers to Congo, Gabon, Senegal, Liberia and Madagascar, totalling 89 603 408 ECU.

²This sum breaks down as follows:

- carryover from 1985 application year	61 284 861 ECU
- appropriations for 1986 application year	185 000 000 ECU
- repayment in 1987 of Lomé II transfers	40 691 404 ECU
- interest on the Stabex fund in 1986	6 417 250 ECU

293 393 515 ECU

After appraisal of the requests for transfers presented for the 1986 application year, a sum of 19 456 639 ECU was carried over to the following financial year. This sum includes the interest on the Stabex account in 1987 - 5 251 492 ECU. Total interest on the account in 1986 and 1987 was thus 11 668 742 ECU.

10. Rejected requests for transfers

Seven requests were rejected because the dependence threshold had not been reached (Article 161 of the Convention):

<u>ACP State</u>	<u>Product</u>
Benin	Coffee
Comoros	Copra
Ethiopia	Cotton
Gabon	Wood in the rough
Papua New Guinea	Tea
Western Samoa	Bananas
Tanzania	Sisal

In the other cases where requests were rejected, there was no loss of export earnings in 1986:

<u>ACP State</u>	<u>Product</u>
Burkina Faso	Hides and skins
Burkina Faso	Oilcake
Burundi	Tea
Cameroon	Cocoa
Fiji	Coconut oil
Grenada	Bananas
Guinea-Bissau	Wood
Guinea-Bissau	Cotton
Guinea-Bissau	Palm products
Malawi	Coffee
Uganda	Coffee
Uganda	Cotton
Western Samoa	Cocoa
Western Samoa	Oilcake
Sao Tome and Principe	Cocoa
Sudan	Cotton
Tanzania	Coffee
Tanzania	Cotton
Tanzania	Cashew nuts
Tanzania	Tea

11. Transfers agreed

After appraisal, 43 requests were found to entitle 27 ACP States to transfers:

<u>ACP State</u>	<u>Product</u>	<u>Amount in ECU</u>
Benin	Oilcake	1 395 535
Benin	Palm nut and kernel oil	3 589 471
Burkina Faso	Shea nuts	2 690 995
Burkina Faso	Cotton	1 782 613
Burkina Faso	Sesame seed	364 879
Cental African Republic	Cotton	1 681 896
Comoros	Cloves	2 977 156 ¹
Ivory Coast	Wood	44 954 653 ¹
Ethiopia	Beans	6 344 738
Gambia	Groundnuts	3 330 728
Gambia	Groundnut oil	1 328 737
Grenada	Cocoa beans	371 379
Guinea-Bissau	Groundnuts	2 069 162
Guinea-Bissau	Shrimps and prawns	388 231
Equatorial Guinea	Cocoa beans	1 079 795
Kiribati	Copra	1 639 090
Malawi	Tea	2 370 156
Mali	Cotton	14 180 528
Mauritius	Tea	2 950 299
Mozambique	Cashew nuts and kernels	1 065 009
Mozambique	Copra	299 093
Mozambique	Cotton	6 216 147
Mozambique	Tea	3 627 855
Niger	Hides and skins	736 814
Papua New Guinea	Copra	7 569 597
Papua New Guinea	Coconut oil	17 067 636
Papua New Guinea	Palm products	21 764 451
Rwanda	Tea	3 398 714
Solomon Islands	Copra	12 328 129
Solomon Islands	Palm products	6 657 167
Western Samoa	Wood in the rough	122 513
Western Samoa	Copra	259 211
Western Samoa	Coconut oil	4 299 597
Senegal	Groundnut products	54 567 358
Sudan	Groundnuts	3 272 524
Sudan	Groundnut oil	8 114 018
Sudan	Sesame seed	590 168
Sudan	Oilcake	5 519 522
Chad	Cotton	12 776 377
Togo	Shea nuts	651 838
Tonga	Coconut oil	1 254 017
Tuvalu	Copra	102 407
Vanuatu	Copra	11 438 165
Total		279 188 368

¹ Of this amount, 36 363 934 ECU was used by the Ivory Coast authorities to meet repayment obligations. The actual transfer was therefore 8 590 719 ECU, and the net total of transfers over the year was therefore 242 824 434 ECU.

12. Reductions following consultations

In many cases, examination of export and production trends for the product in question in the applicant ACP State revealed major changes. In some of these cases, the Commission asked for consultations with the ACP State concerned under Article 164 of the Convention. In six cases the consultations showed that a reduction was in order:

(i) reductions applied as a result of a decline in production marketed:

<u>ACP State</u>	<u>Product</u>	<u>%</u>	<u>Amount in ECU</u>
Burkina Faso	Sesame seed	53.25	415 611
Guinea-Bissau	Prawns and shrimps	40	258 820
Tuvalu	Copra	14.42	17 255

(ii) reductions applied as a result of total exports accounting for a smaller share of production:

<u>ACP State</u>	<u>Product</u>	<u>%</u>	<u>Amount in ECU</u>
Benin	Oilcake	15.19	250 000
Comoros	Cloves	9.2	301 650

(iii) reduction applied as a result of a decline in the Community's share of total exports:

<u>ACP State</u>	<u>Product</u>	<u>%</u>	<u>Amount in ECU</u>
Sudan	Groundnuts	6.66	233 752

13. Results by product

Total funds transferred for each of the products covered were as follows:

<u>Product/Group of products</u>	<u>Number of transfers</u>	<u>Amount in ECU</u>	<u>%</u>
Groundnut products	6	72 682 527	26.03
Cocoa/copra products	10	56 256 942	20.15
Wood	2	45 077 166	16.15
Cotton	5	36 637 561	13.12
Palm products	3	32 011 089	11.47
Tea	4	12 347 024	4.42
Oilcake	2	6 915 057	2.48
Beans	1	6 344 738	2.27
Shea nuts	2	3 342 833	1.20
Cloves	1	2 977 156	1.07
Cocoa	2	1 451 174	0.52
Cashew nuts	1	1 065 009	0.38
Sesame seed	2	955 047	0.34
Hides and skins	1	736 814	0.26
Shrimps and prawns	1	388 231	0.14

Funds transferred to cover losses of export earnings on oilseeds in general (groundnut, copra and palm products, sesame seed, shea nuts and cashew nuts, oilcake) account for the majority of transfers (26 out of 43) and 62.05% of the amount spent (173 228 504 ECU). Transfers for this group of products and for cotton and tea, which have also been affected by the appreciable drop in market prices, account for four fifths of the funds allocated (222 213 089 ECU) and 35 transfers out of the total of 43.

14. Results by recipient country

The funds transferred to each of the 27 recipient ACP States were as follows:

<u>ACP State</u>	<u>Number of transfers</u>	<u>Amount in ECU</u>
Senegal	1	54 567 358
Papua New Guinea	3	46 401 684
Ivory Coast	1	44 954 653
Solomon Islands	2	18 985 296
Sudan	4	17 496 232
Mali	1	14 180 528
Chad	1	12 776 377
Vanuatu	1	11 438 165
Mozambique	4	11 208 104
Ethiopia	1	6 344 738
Benin	2	4 985 006
Burkina Faso	3	4 838 487
Western Samoa	3	4 681 321
Gambia	2	4 659 465
Rwanda	1	3 398 714
Comoros	1	2 977 156
Mauritius	1	2 950 299
Guinea-Bissau	2	2 457 393
Malawi	1	2 370 156
Central African Republic	1	1 681 896
Kiribati	1	1 639 090
Tonga	1	1 254 017
Equatorial Guinea	1	1 079 795
Niger	1	736 814
Togo	1	651 838
Grenada	1	371 379
Tuvalu	1	102 407

Two points are particularly notable in this breakdown. The first is that transfers allocated to the three main recipient countries (out of 27) accounted for more than 52% of the total. The second point is that very considerable amounts were transferred to the Pacific states, in particular because of the exceptional fall in their receipts from oilseed exports. In total, six Pacific states received 84 501 980 ECU, more than 30% of the total expenditure under the Stabex system.

IV. REPLENISHMENT OF RESOURCES

15. The Commission continued its investigation of the conditions for reimbursement of transfers to which the arrangements stipulated in Article 43 of the second Convention apply. It has established the following replenishment obligations:

<u>ACP State</u>	<u>Product</u>	<u>Application Year</u>	<u>Amount in ECU</u>
Cameroon	Coffee	1981	5 459 706
Jamaica	Bananas	1980	3 238 995

The Commission also examined the conditions for reimbursement of transfers made in 1986 as part of the allocation of the remaining balance of the Stabex appropriation from the second Convention.

The examination showed that the following transfers met the conditions for replenishments, with immediate effect:

<u>ACP State</u>	<u>Product</u>	<u>Amount in ECU</u>
Cameroon	Coffee	3 487 581
Cameroon	Cocoa	5 164 378
Ivory Coast	Coffee	23 891 906
Jamaica	Bananas	1 056 413
Papua New Guinea	Coffee	4 701 792 ¹
Papua New Guinea	Cocoa	1 141 840 ¹

The Commission notified the ACP States of the results of these investigations. By virtue of Article 43(4) of the second Convention these States are obliged to reimburse the amounts indicated above at the rate of one fifth a year after a period of deferment of two years from the time of notification.

16. The conditions for replenishment have still not been met in the case of the following sums paid under the second ACP-EEC Convention:

¹Of the total of 2 863 547 ECU.

<u>ACP State</u>	<u>Product</u>	<u>Year of payment</u>	<u>Amount in ECU</u>
Fiji	Coconut oil	1981	842 295
"	"	1982	510 459
"	"	1983	788 481
"	"	1986	470 318
Ghana	Cocoa products	1982	25 606 655
"	"	1984	31 160 673
"	"	1986	16 357 158
Kenya	Coffee	1987	13 779 130
Madagascar	Sisal	1984	1 461 636
"	Coffee	1986	1 717 318
"	Vanilla	1986	395 039 ¹
Papua New Guinea	Cocoa	1986	1 721 707 ¹
"	Copra products	1986	1 270 491

17. With regard to transfers for the first year of application of the third Lomé Convention, covered by the replenishment arrangements and paid in 1986,² the replenishment conditions were not met in these cases either.
18. In 1987 there was further repayment of transfers made under the second Lomé Convention for which the obligation to replenish had been established, and notified to the authorities of the ACP State concerned, during the preceding years. To date the ACP States have, either by direct repayment or by amounts offset against new transfer rights, reimbursed 62 969 350 ECU, including 37 266 011 ECU since the beginning of 1987.

V. ECONOMIC IMPACT AND UTILIZATION OF TRANSFERS

A. Utilization reports

19. The Commission regularly reminds the ACP States which have received transfers under the second Lomé Convention of their obligation under Article 41(3) to submit within twelve months of the signing of the transfer agreement a report on the use to which the transferred funds have been put.

The situation as at 31 December 1987 was as follows:

¹Of a total of 2 863 547 ECU

²Transfers to Senegal (27 567 437 ECU for groundnut products) and to Fiji (263 918 ECU for coconut oil). The transfer of 4 907 781 ECU to Ivory Coast (wood in the rough) was paid only in 1987.

<u>Application year</u>	<u>Number of transfers</u>	<u>Number of utilization reports received</u>
1982	37	34
1983	21	13
1984	14	10
Allocation of remaining balance under Lomé II	27	5

20. The Commission also received the first utilization reports on transfers paid for 1985, the first year of the application of the new Convention. Of 20 reports due by 31 December 1987, the Commission had received 11.
21. The Commission's initial examination of the contents of the reports which have arrived has not revealed any utilization of transferred funds which does not comply with the system's objectives as laid down in Article 147(2) of the Convention. On the other hand, as some of the reports were not sufficiently specific, the Commission has pointed this out and requested further information on the utilization of the funds.

The Commission is in touch with the authorities of the ACP States concerning both the reports on which it has commented and the reports which have not yet arrived.

B. Economic impact of the system

22. Transfers often represent a significant contribution to the export earnings of the recipient countries. In particular, this contribution has largely compensated for the very marked drop in the world market price of certain commodities. Despite a collapse in the price of oilseeds (down about 50% in ECU terms between 1985 and 1986 for groundnut oil and by about 60% for cocoa/copra products and palm products), some of the ACP States which export these products have maintained the earnings usually supplied by these exports.

Stabex transfers increased earnings from exports of oilseed products by about 50% in the cases of Benin and Gambia, more than 70% for Papua New Guinea and more than 80% for Senegal.

The additional income provided by Stabex has, in relative terms, been even more significant for some of the small Pacific states: it represented about one and a half times the export earnings of Western Samoa and more than two and a half times those of Vanuatu and the Solomon Islands, where the Stabex transfer was 25% greater than total 1986 export earnings.

Transfers allocated in 1987 were also of considerable value to ACP States which export cotton and tea. They amounted to about a quarter of Chad's and Mali's cotton export earnings, and 20% and almost 40% respectively of Rwanda's and Mauritius's tea export earnings.

23. Stabex transfers have made an important contribution to the development budgets of some ACP States. For example, the funds transferred to Papua New Guinea will provide a large proportion of the finance for a series of rural development projects.
24. In other cases, Stabex transfers have stabilized producers' incomes. An advance on the transfer to Chad, along with additional EDF finance, helped provide the bulk of a revolving fund for cotton harvest purchases.