

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(87) 482 final

Brussels, 19 October 1987

REPORT FROM THE COMMISSION

on the operation during 1986 of the export earnings stabilization
system set up by the third Lomé Convention and the Decision
on the association of the OCT with the EEC

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I. INTRODUCTION

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

"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.

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 the EEC institutions,
 - the replenishment of resources, and
 - the utilization and economic impact of transfers
- for the period 1 January to 31 December 1986.

3. The section on administration deals with requests for transfers for the 1985 application year, which was the first application year covered by the third ACP-EEC Convention and by the Council Decision of 1986 on the association of the overseas countries and territories.

II. ACTIVITIES OF THE ACP-EEC INSTITUTIONS

A. The ACP-EEC Council of Ministers

4. The ACP-EEC Council of Ministers held its 11th ordinary session in Bridgetown (Barbados) on 24 and 25 April 1985. Three items on the agenda concerned Stabex.

5. Replenishment of resources transferred to Congo and Gabon under the first ACP-EEC Convention: the Council noted that contacts were continuing between the Commission and these two countries.

6. As regards the request by twelve ACP States for application of the derogation referred to in Article 150(3) of the third ACP-EEC Convention,¹ both sides agreed that, in nine of these cases, the necessary conditions were not fulfilled. However, neither side shifted its position on the requests submitted by Sudan, Tanzania and Uganda: the ACP States are persisting with these requests which the Community does not consider acceptable. It was agreed that the matter would be examined further by the Committee of Ambassadors.

¹Cf. Annex XLIII to the Final Act of the third ACP-EEC Convention.

7. The ACP States also asserted that they retain their rights with regard to the transfers for the 1980 and 1981 application years which, because of the shortfall in resources for those two years, could not be covered in full. The Community, on the other hand, considers that all claims were extinguished when the balance of Stabex appropriations under the second Convention was allocated.

8. Finally, the Council approved the additional report on the implementation of the declaration on Article 166 of the third ACP-EEC Convention, prepared by the joint panel of experts referred to in Annex XXII of the Convention. The panel's original report, which had been approved by the Council of Ministers at its meeting on 21 June 1985, listed a number of questions which the panel had agreed to examine in greater detail. The additional report was submitted by the panel on 21 November 1985.

B. The ACP-EEC Committee of Ambassadors

9. The ACP-EEC Committee of Ambassadors met twice in 1986: its 22nd meeting took place on 24 March and its 23rd meeting on 10 November. Both meetings were held in Brussels.

10. The Committee's 22nd meeting was devoted entirely to preparations for the 11th meeting of the Council of Ministers, the main points of which are indicated above.

11. At its 23rd meeting, the Committee of Ambassadors was obliged to conclude that no progress had been made since the April meeting of the Council of Ministers on the question of the replenishment of resources transferred to Congo and Gabon under the first ACP-EEC Convention. In addition, the two sides again confirmed their respective positions regarding the outstanding portions of the transfer amounts for the 1980 and 1981 application years.

12. The same applies to the requests for "all destinations" derogations. In June 1986 Mozambique too submitted such a request, although it had not been fully examined by the time the Committee of Ambassadors' meeting took place.

13. On the basis of Decision No 7/85 adopted by the ACP-EEC Council of Ministers on 21 June 1985 and the proposal from the Commission, the Committee of Ambassadors agreed on the guidelines to be followed for the allocation of the 127 180 016 ECU balance remaining from the Stabex appropriation under the second Convention. These guidelines were adopted by the Committee of Ambassadors using the written procedure (Decision No 5/86 of 18 April 1986).

¹ For details of this Decision, see the Report on the operation of Stabex during 1985, COM(87)115 final, 20 March 1987, p.7.

C. Stabex Subcommittee

14. The Stabex Subcommittee met twice in 1986, on 11 April (11th meeting) and 17 October (12th meeting). Both meetings were held in Brussels and dealt exclusively with preparations for the Council of Ministers' meeting of 24 April and the Committee of Ambassadors meeting of 10 November respectively.

D. Joint Assembly

15. The Joint Assembly met at Vouliagmeni (Greece) from 22 to 26 September 1986. Stabex as such was not on the agenda.

III. THE ACTIVITIES OF THE EEC INSTITUTIONS

A. The Council

16. On 30 June 1986 the Council adopted a Decision reallocating the unexpended balance of the resources set aside under the fifth EDF for the stabilization of the export earnings of the overseas countries and territories. Under this Decision, the balance (3 742 944 ECU) was added to the appropriation set aside in the fifth EDF for the financing of projects and action programmes in the OCT.

B. The European Parliament

17. A member of the European Parliament (Mr Arturo Escuder Croft, ED-E) put a Written Question to the Commission (No 2161/86). The reply to this question has appeared in the Official Journal of the European Communities.

C. The Court of Auditors

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

¹OJ No C/143-7-6-87-P-42

IV. ADMINISTRATION OF THE SYSTEM

19. The Commission received a total of 38 transfer applications for the 1985 application year, presented by 20 ACP States.

A. Inadmissible requests

Of these applications, 13 were ineligible.

20. Two requests were judged inadmissible because the dependence threshold had not been passed (Article 161 of the Convention):

<u>ACP State</u>	<u>Product</u>
Burundi	cotton, not carded or combed
Solomon Islands	sawn wood

21. Eleven requests were inadmissible because the fluctuation threshold had not been passed (Article 162 of the Convention):

<u>ACP State</u>	<u>Product</u>
Chad	cotton, not carded or combed
Comoros	copra
"	vanilla
"	essential oils
Gabon	wood in the rough
Grenada	fresh bananas
Guinea-Bissau	groundnuts
"	cashew nuts and kernels
"	shrimps
Vanuatu	cocoa beans
"	copra

¹ There were no applications from OCT.

B. Admissible requests

22. After appraisal, 25 applications were found to entitle the applicant country to a transfer:

<u>Recipient ACP State</u>	<u>Product</u>	<u>Amount in ECU</u>
Benin	palm kernel oil	3 454 606
Comoros	cloves	2 058 262
Côte d'Ivoire	wood in the rough	4 907 781
Ethiopia	coffee	21 119 708
"	beans	6 968 238
Fiji	coconut oil	263 918
Gambia	groundnut products	4 721 625
"	oil cake	20 525
Guinea-Bissau	cotton	225 603
"	palm nuts	198 712
Mozambique	cotton	97 166
"	cashew nuts	2 232 855
"	tea	6 617 256
Niger	beans	5 873 613
Samoa	wood in the rough	59 208
Sao Tome and Principe	cocoa	1 626 901
Senegal	groundnut products	27 567 437
Sudan	groundnut products	28 873 394
"	oil cake	13 697 302
Tanzania	cotton	1 114 311
"	cashew nuts	4 321 555
"	raw sisal	3 472 194
Togo	cocoa	9 314 603
Tonga	copra products	501 720
"	vanilla	109 985
Total		149 418 479

C. Reductions following consultations

23. In 18 cases where examination of export and production trends for the products in question in the applicant ACP State revealed major changes, the Commission asked for consultations with the ACP State concerned under Article 164 of the Convention. In five cases the consultations showed that a reduction was in order.

24. Reductions applied as a result of a decline in total exports of the product as a proportion of marketed production:

<u>ACP State</u>	<u>Product</u>	<u>%</u>
Fiji	copra oil	15.48
Tonga	vanilla	63.09

25. Reductions applied as a result of a decline in exports to the Community as a proportion of total exports of the product:

<u>ACP State</u>	<u>Product</u>	<u>%</u>
Gambia	groundnut products	15.24
Sudan	groundnut products	23.295
Tanzania	raw sisal	22.47

D. Results by product

26. Total funds transferred for each of the products covered are as follows:

<u>Product</u>	<u>No of transfers</u>	<u>Amount in ECU</u>	<u>%</u>
groundnut products	3	61 162 456	40.9
coffee	1	21 119 708	14.1
oil cake	2	13 717 827	9.2
beans	2	12 841 851	8.6
cocoa	2	10 941 504	7.3
tea	1	6 617 256	4.4
cashew nuts	2	6 554 410	4.4
wood in the rough	2	4 966 989	3.3
palm products	2	3 654 318	2.4
raw sisal	1	3 472 194	2.3
cloves	1	2-058 262	1.4
cotton	3	1 437 080	1
coconut/copra products	2	765 638	0.5
vanilla	1	109 985	0.1
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	25	149 418 478	100

E. Results by recipient country

27. Total funds transferred to each recipient country are as follows:

Sudan	42 570 696 ECU
Ethiopia	28 087 946
Senegal	27 567 437
Togo	9 314 603
Mozambique	8 947 277
Tanzania	8 908 060
Niger	5 873 613
Côte d'Ivoire	4 907 781
Gambia	4 742 150
Benin	3 454 606
Comoros	2 058 262
Sao Tome and Principe	1 626 901
Tonga	611 705
Guinea-Bissau	424 315
Fiji	263 918
Samoa	59 208
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16	149 418 478

V. REPLENISHMENT OF RESOURCES

28. In the case of some of the repayable transfers made under Lomé I, the repayment conditions laid down by Article 21(3) of that Convention have at no time been fulfilled during the 5-year observation period referred to in Article 21(2). Consequently, the ACP-EEC Council of Ministers must take decisions in accordance with Article 21(4) on the following transfers:

<u>Application year</u>	<u>ACP States</u>	<u>Product</u>	<u>Transfer</u>
1975	Congo	Wood in the rough	7 361 677
1975	Gabon	Wood in the rough	6 703 311
1979	Liberia	Iron ore	7 586 943
1978	Senegal	Groundnut oil	49 882 295
1978	Senegal	Oil cake	15 224 094
1979	Madagascar	Vanilla	2 845 088

29. The Commission has also investigated the conditions for reimbursement of transfers to which arrangements stipulated in Article 43 of the second Convention apply. It has established the following replenishment obligations:

<u>Year of application</u>	<u>ACP State</u>	<u>Product</u>	<u>Transfer</u>
1980	Côte d'Ivoire	Coffee	19 195 390
1980	Kenya	Coffee	10 032 204
1980	Madagascar	Vanilla	1 211 202
1980	Senegal	Oil cake	8 253 832
1980	Senegal	Groundnuts	30 353 160
1981	Cameroon	Cocoa	8 084 683
1981	Côte d'Ivoire	Coffee	27 601 201
1981	Kenya	Coffee	16 448 532
1981	Madagascar	Coffee	2 688 131
1981	Papua New Guinea	Coffee	7 360 518
1981	Papua New Guinea	Cocoa	4 482 798
1981	Papua New Guinea	Copra	1 082 569
1981	Papua New Guinea	Coconut oil	906 347
1981	Senegal	Groundnuts	20 525 673
1982	Papua New Guinea	Coffee	16 344 445
1982	Papua New Guinea	Cocoa	4 201 081
1982	Papua New Guinea	Copra products	3 604 036
1983	Madagascar	Sisal	1 461 636

30. 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, following a grace period of two years from the time of notification.

In order to meet their reimbursement obligations, some ACP States made use of the possibility provided for in Article 4 of Decision No 5/86 of the Council of Ministers, allocating the unexpended balance of the Stabex appropriation under the second ACP-EEC Convention, of offsetting these obligations against their entitlement to a share in the reallocation.

VI. ECONOMIC IMPACT AND UTILIZATION OF TRANSFERS

A. Utilization reports

31. The Commission checked whether the ACP States which had received transfers had complied with the obligation incumbent on them under Article 41(3) to submit a report on the use to which the transferred funds have been put within 12 months of the signing of the transfer agreement.

The situation as at 1 July 1987 was as follows:

<u>Application year</u>	<u>No of transfers</u>	<u>No of utilization reports received</u>
1982	37	24
1983	21	10
1984	14	10

At regular intervals, the Commission has reminded the ACP States which have not done so to send their utilization reports.

32. None of the reports sent to the Commission has revealed utilization that does not comply with the system's objectives as laid down in Article 23(2).

B. Economic impact of the system

33. The size of transfer 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 transfers can be of considerable importance to the country concerned; the following examples show disbursements as a percentage of total export earnings (all products, all destinations, 1985):

Comoros	10.01%
Sudan	8.80%
Ethiopia	6.35%

34. The impact of 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 alone (1985). The following percentages are given by way of example:

Tanzania	Sisal	139.28%
Niger	Beans	1 168.17%
Sudan	Groundnut products	217.80%

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

List of ACP States' drawings under the system of
compensatory payments set up by the IMF

<u>Country</u>	<u>Million SDR</u>	<u>Last month of 12-month period</u>	<u>Month of drawing</u>
Zambia	68.8	11/85	2/86
Ethiopia ¹	35.3	6/85	2/86
Madagascar	16.1	12/85	5/86
Gambia ¹	4.71	9/86	9/86

¹ ACP State exempt from obligation to replenish the resources transferred under Stabex.