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THE EXPORT EARNINGS STABILIZATION SYSTEM (STABEX)

The Export Earnings Stabilization System (Stabex)

Stabex as an instrument of cooperation policy for commodities

Stabex, one of the instruments of cooperation between the European Community and the African, Caribbean and Pacific (ACP) States, was set up at the time of the first Lomé Convention in 1975, under the impetus of the debate on a new international economic order. In the context of North-South dialogue the advent of the system was welcomed as an exemplary, unique and original contribution by the Community to solving the problem of the instability of developing countries' export earnings. This contribution was all the more useful in view of the fact that the other instruments with a similar aim (the international commodity agreements) had begun to show their inadequacies, chief among these being their coverage of only a few products, mainly because consumer countries did not and still do not unanimously favour such an approach. In addition, there were difficulties in operating the few existing agreements and the fact that at best their only aim was to stabilize prices. Stabex moreover does not clash with the international commodity agreements where these exist, and is not an obstacle to new agreements.

The system is rightly considered to be one of the most faithful reflections of a basic tenet of Lomé Convention policy - secure, planned and neutral ACP-EC cooperation, with neutrality obtaining in both the operation of markets and the development of international trade.

Aims of the system

The system is often likened to "insurance against a bad year". In order to give the ACP States a more stable and predictable basis on which to plan their development, Stabex seeks to limit, by means of compensatory transfers of funds, the damage resulting from a loss of earnings by these countries on exports to the Community of certain agricultural products. Such losses can be caused by temporary problems in a particular country or sector or by wider market problems, resulting in a fall in export prices or a fall in the quantities exported, or both.

In line with the theory that a loss of export earnings from a particular product is only a manifestation of a deeper malaise affecting the sector in question or likely to do so in the future, a degree of priority is given to

using the transfers to finance programmes and projects in that sector. None the less, transfers may be used in other sectors, particularly if the aim is diversification.

Initially, the use to which the transfers were put was decided by the recipient country alone. Successive Lomé Conventions have progressively reinforced the procedures for monitoring the allocation and specific use of funds, and more particularly for ensuring their conformity with the aims of the System. The fourth Lomé Convention has brought an important further step: the field and details of use of each transfer will now be set out in an agreement between the recipient country and the Commission, having been determined within a "framework of mutual obligations".

Main features of the System

Stabex as a regional system

Stabex generally covers only the ACP countries' exports to the Community. However, it includes provision for extending the geographical coverage for exports through two types of derogation: that taking in exports to other ACP countries and that taking in exports to all destinations.

Stabex as a selective system (products covered)

Under the "product-by-product" approach adopted, Stabex applies only to agricultural and forestry products and a few fishery products, plus products which have undergone first-stage processing (e.g. sawn wood, cocoa paste, butter and powder and groundnut oil). During the life of the first two Lomé Conventions, Stabex also applied to iron ore. The number of products covered by the system has risen from 29 under Lomé I to 49 under Lomé IV, taking in almost all the agricultural commodities exported by the ACP countries, with the notable exceptions of sugar and meat, for which there are separate protocols, and tobacco.

Financial conditions governing transfers

During the period covered by the first three Lomé Conventions, only transfers to the least-developed ACP countries were grants. Transfers to all the others could in certain cases be repayable. Conditions were nevertheless very favourable: transfers were interest-free, there was a grace period, it was possible to make payments in several yearly instalments (from Lomé II onwards) or to offset repayments against new transfers or make repayments in local currency (Lomé III). Under Lomé IV, even the principle of "replenishment" of Stabex resources by the ACP countries has been discarded, and all transfers will now be paid as grants.

Determining transfer rights

Actual export earnings for the year of application for each of the products concerned are measured against a reference level - the average of export earnings over the preceding four years (Lomé I - Lomé III) or over four out of the preceding six, the "high" and "low" years being excluded (Lomé IV).

For any loss of earnings observed to give rise to a transfer, certain conditions must be fulfilled.

First, the loss must not be the result of a deliberate policy, and particularly not one of discrimination against the Community. Only real losses, including those brought about by voluntary restraint of exports incumbent on ACP countries as a result of commodity agreements, bring entitlement to transfers.

Next, certain circumstances must be checked:

- Exports of the product concerned must account for a significant portion of the ACP country's total exports. The importance of the product is judged by the dependence rate (exports of the product as a percentage of total exports during the year preceding the year of application), which must exceed a certain threshold. Dependence thresholds have been gradually reduced, beginning at 7.5% (2.5% for the least-developed, landlocked and island countries) in Lomé I, falling to 6% (1.5%) in Lomé III and now to 5% (1%) in Lomé IV.
- At times, losses of earnings from exports to the Community may be offset by increased earnings from exports to other destinations. Where this occurs, only net losses (all destinations) will result in a transfer.
- During the first three Conventions, the loss of earnings had to be a certain percentage of the reference level - the "fluctuation rate" represented by the earnings losses had to clear the threshold, again 6% or 1.5% (Lomé III). This provision has been left out of the new Convention. Instead, the recipient countries will now be liable for an "excess" on their loss of earnings of 4.5% (1% for LLDCs) of the reference level. This "excess" is, however, confined to a certain percentage of the loss (not greater than 20% for the least-developed and landlocked ACP countries and not greater than 30% for the others). It does not apply at all to amounts under ECU 2 million (least-developed and landlocked ACP countries) or ECU 1 million (island ACP countries).

Financial resources

Stabex is financed from the European Development Fund. The allocation for the System for the first five years of the fourth Lomé Convention is ECU 1.5 billion (325 million in Lomé I, 550 million in Lomé II and 925 million in Lomé III). In order to prevent early exhaustion the sum is

divided into one-year instalments. The financial resources of the system will be supplemented by repayments of previous transfers (Lomé I to Lomé III) and by the yield from the investment of ordinary Stabex resources on the financial markets (Lomé III and IV).

Other systems of compensatory payment by the Community

A system similar to that for the ACP countries was set up to run concurrently for the overseas countries and territories. It too is financed from the EDF.

In 1986 a similar five-year arrangement, financed from the budget, was set up for the eight least-developed countries which were not signatories to the third Lomé Convention. From the 1990 year of application they will be only seven in number, as Haiti is joining the ACP States.

Stabex since 1975

Between the 1975 and 1988 years of application (up to the penultimate year of Lomé III), Stabex transfers totalled ECU 2.295 billion, and went to 51 ACP States. Almost half the amount (ECU 1.053 billion) went to the least-developed States. If we focus on the third Lomé Convention, 36 countries have so far received transfers totalling ECU 1 236 million. Over 40% of this amount (ECU 525 million) went to the least-developed ACP States.

By virtue of the fact that it is triggered automatically and acts fast, the system is well thought of by the ACP countries, particularly those with economies dependent on a small number of agricultural products covered by Stabex.

The system does, however, have its limits. These are primarily financial. It ran into trouble at the beginning of the 1980s (1980 and 1981 years of application), and again in the 1987 and 1988 years of application. During these four years, Stabex resources were insufficient to meet the demand for transfers, admittedly high because of large falls in the world prices of several of the ACP countries' major exports: coffee, cocoa, all oil crops, cotton and tea. As a result, extra finance from the various European Development Funds was made available to the system: in excess of ECU 70 million for 1981, with over 40 million being project grants rather than transfers, and ECU 245 million for 1987 and 1988; depending on the year in question, this made it possible to meet between 50% and 65% of transfer entitlements.

None the less, it should not be forgotten that Stabex was able to meet all requests for transfers in ten years out of a fourteen-year period.

The years in which there were problems demonstrate amply that a system of this type cannot be completely effective while world markets for agricultural products are in disarray. The most dramatic manifestation of this situation is the failure of the international agreements for coffee and cocoa - the main Stabex products.

It should be remembered that Stabex came into being in the early 1970s, when there was some optimism over the prospects for regulating economic relations between the industrialized North and the commodity-supplying South in a way which would satisfy both parties. Stabex was certainly not conceived to be the only guarantee of stability in commodity export earnings, it was to work together with other facilities. In the light of this, its aim is to stabilize earnings around a trend, not to reverse the trend, a task which must be performed by other mechanisms.

List of Stabex products (Lomé IV)

1. Oil crops
 - groundnuts
 - groundnut oil
 - coconuts
 - copra
 - coconut oil
 - palm oil
 - palm nut and kernel oil
 - palm nuts and kernels
 - sesame seed
 - cashew nuts and kernels
 - cotton seed
 - oil cake
 - shea nuts and kernels
 - shea nut oil
2. Tropical products used for drinks
 - cocoa
 - cocoa husks, shells and skins and other waste
 - cocoa paste
 - cocoa butter
 - cocoa powder
 - extracts, essences and concentrates of coffee
 - tea
3. Textile fibres
 - cotton
 - cotton linters
 - sisal
 - wool
 - fine hair of Angora goat - Mohair
 - jute¹
4. Wood
 - wood in the rough and squared wood
 - sawn wood
5. Hides and leather
 - raw hides and skins
 - leather of bovine animals
 - sheep and lamb skin leather
 - goat and kid skin leather
6. Spices
 - vanilla
 - cloves
 - pepper
 - nutmeg and mace
7. Rubber
8. Fruit and vegetables
 - fresh bananas
 - dried bananas
 - peas
 - beans
 - lentils
 - mangoes
9. Fishery products
 - shrimps and prawns
 - squid, octopus and cuttlefish
10. Other products
 - gum arabic
 - pyrethrum
 - essential oils

¹ Only within the system for least-developed countries which are not signatory to the Lomé Convention

Stabex transfers per beneficiary country 1975-1988

(in ecus)

order	ACP State	Number of transfers	Amounts attributed	Amounts replenished	Net amounts received
1	Côte d'Ivoire	10	402,584,039	69,169,041	333,414,998
2	Senegal	9	262,642,810	48,451,671	214,191,139
3	Cameroon	8	168,751,579	22,064,664	146,686,915
4	Papua-New Guinea	15	154,624,713	37,618,217	117,006,496
5	Sudan (*)	15	146,401,014		146,401,014
6	Ethiopia (*)	11	123,907,146		123,907,146
7	Kenya	4	104,679,646	23,195,412	81,484,234
8	Ghana	3	90,647,339	5,176,408	85,470,931
9	Chad (*)	7	54,364,706		54,364,706
10	Togo (*)	11	53,564,064		53,564,064
11	Rwanda (*)	12	52,989,824		52,989,824
12	Tanzania (*)	13	50,473,947		50,473,947
13	Benin (*)	27	42,584,152		42,584,152
14	Mali (*)	11	40,755,108		40,755,108
15	Burundi (*)	7	40,537,782		40,537,782
16	CAR (*)	14	40,296,020		40,296,020
17	Gambia (*)	19	38,241,780		38,241,780
18	Solomon Isls. (*)	14	38,081,313		38,081,313
19	Mauritania (*)	2	37,000,450		37,000,450
20	Niger (*)	8	29,264,387		29,264,387
21	Vanuatu (*)	11	28,870,179		28,870,179
22	Malawi (*)	6	24,288,385		24,288,385
23	Mozambique (*)	8	21,451,157		21,451,157
24	Swaziland (*)	5	21,414,187		21,414,187
25	Uganda (*)	8	20,595,453		20,595,453
26	Madagascar	7	20,242,505	6,570,985	13,671,520
27	West. Samoa (*)	20	19,079,644		19,079,644
28	Sierra Leone (*)	7	18,328,403		18,328,403
29	Guinea-Bissau (*)	16	17,819,176		17,819,176
30	Comoros (*)	20	17,001,908		17,001,908
31	Burkina Faso (*)	10	15,626,176		15,626,176
32	Gabon	2	9,831,270		9,831,270
33	Sao Tomé (*)	4	9,230,664		9,230,664
34	Tonga (*)	19	8,984,179		8,984,179
35	Liberia	1	7,586,943		7,586,943
36	Congo	1	7,361,677		7,361,677
37	Equat. Guinea (*)	4	6,595,919		6,595,919
38	Dominica (*)	3	6,427,781		6,427,781
39	Kiribati (*)	7	6,340,956		6,340,956
40	Grenada (*)	10	5,774,402		5,774,402
41	Lesotho (*)	5	5,655,272		5,655,272
42	Somalia (*)	5	5,512,701		5,512,701
43	Fiji	6	5,379,813	2,114,974	3,264,839
44	Jamaica	1	4,295,408		4,295,408
45	Mauricius	1	2,950,299		2,950,299
46	Cape Verde (*)	5	1,733,525		1,733,525
47	St. Lucia (*)	1	1,618,999		1,618,999
48	St. Vincent (*)	1	913,286		913,286
49	Djibuti (*)	3	691,851		691,851
50	Tuvalu (*)	10	455,445		455,445
51	Belize (*)	2	342,364		342,364
TOTAL		429	2,294,791,746	214,361,372	2,080,430,374

(*) Non replenishing ACP States.

Stabex transfers per product 1975-1988

Product/Group of products	Years of application					
	1975-1979		1980-1984		1985-1988	
	Amounts	% of total	Amounts	% of total	Amounts	% of total
1. Oils and Fats	177,959,153	45.65%	195,579,120	29.22%	377,120,483	30.52%
Groundnut products	139,360,279	35.75%	133,258,043	19.91%	165,696,842	13.41%
Coco/copra products	10,571,240	2.71%	31,625,346	4.72%	99,096,674	8.02%
Palm products	7,800,126	2.00%	6,712,032	1.00%	77,070,841	6.24%
Sesame seed	2,632,923	0.68%	3,150,900	0.47%	955,047	0.08%
Cashew nuts and kernels			4,903,831	0.73%	7,619,419	0.62%
Shea nuts			1,937,603	0.29%	5,821,886	0.47%
Cotton seed	17,594,585	4.51%	13,991,365	2.09%	37,780	0.00%
Oil Cake					20,821,994	1.69%
2. Tropical Beverages	24,391,780	6.26%	397,669,542	59.41%	636,436,294	51.51%
Coffee	14,494,289	3.72%	246,582,657	36.84%	432,953,622	35.04%
Cocoa/cocoa products	1,521,161	0.39%	148,836,782	22.24%	157,577,568	12.75%
Tea	8,376,330	2.15%	2,250,103	0.34%	45,905,104	3.72%
3. Textiles	63,936,851	16.40%	46,893,740	7.01%	92,100,593	7.45%
Cotton	43,359,441	11.12%	36,534,333	5.46%	84,264,086	6.82%
Sisal	20,577,410	5.28%	9,068,448	1.35%	3,472,194	0.28%
Mohair			1,290,959	0.19%	4,364,313	0.35%
4. Spices	5,207,237	1.34%	6,648,340	0.99%	12,716,947	1.03%
Vanilla	2,903,720	0.74%	5,159,394	0.77%	1,732,909	0.14%
Cloves	2,303,517	0.59%	851,095	0.13%	10,984,038	0.89%
Nutmeg and mace			637,851	0.10%		

Product/Group of products	Years of application							
	1975-1979		1980-1984		1985-1988		1975-1988	
	Amounts	% of total	Amounts	% of total	Amounts	% of total	Amounts	% of total
5. Wood	39,992,067	10.26%	390,631	0.06%	95,265,988	7.71%	135,648,686	5.91%

6. Other	16,535,087	4.24%	22,180,504	3.31%	21,977,853	1.78%	60,693,444	2.64%

Bananas	5,813,366	1.49%	14,220,660	2.12%	193,267	0.02%	20,227,293	0.88%
Beans	170,596	0.04%	4,996,671	0.75%	19,186,589	1.55%	24,183,260	1.05%
Essential oils	848,489	0.22%	1,339,873	0.20%			1,510,469	0.07%
Gum arabic	608,802	0.16%			281,637	0.02%	848,489	0.04%
Pyrethrum	9,093,834	2.33%	913,011	0.14%	1,928,129	0.16%	890,439	0.04%
Hides and skins			710,289	0.11%	388,231	0.03%	11,934,974	0.52%
Shrimps and prawns							1,098,520	0.05%
7. Iron ore (1)	61,789,536	15.85%					61,789,536	2.69%

TOTAL	389,811,711		669,361,877		11,235,618,158		2,294,791,746	

(1) Is no more covered by Stabex since Lome III.