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INFORMATION DEVELOPMENT AND COOPERATION

THE LOME CONVENTION
THE STABILIZATION OF EXPORT EARNINGS

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THE STABILIZATION OF EXPORT EARNINGS

I. The problem of the instability of export earnings

A) The effects of unstable export earnings

As a general rule, the benefits of price rises do not seem to offset the disadvantages of price falls even if both variations appear to be of the same magnitude.

Disturbance caused by fluctuations in export earnings may take various forms.

1.- Such fluctuations disrupt investment planning because the economic structures of the developing countries are in many cases too rigid to enable them to take full advantage of an unexpected increase in their export earnings, whereas if these suddenly drop, projects in progress have to be abandoned or suspended, with no possibility of immediately substituting alternative projects with a smaller import content.

For developing countries dependent on highly unstable commodities, the tendency is therefore for a sudden rise in export earnings to lead to increased imports of consumer goods, while a sharp fall usually results in a worsening of the country's debt position.

2.- Fluctuations in export earnings also have the effect of upsetting the internal balance of public finances. When prices are rising, governments will often increase public current expenditure, which is difficult to cut back if the trend is reversed. The loss of tax revenue must then be offset either by higher rates of taxation on the producers' incomes, or by recourse to domestic borrowing with the risk of inflation which that entails. In either case, the erosion of the producers' real income may lead them to abandon production for export and thus precipitate the decline of export earnings.

3.- Lastly, the effects of fluctuations in export earnings on the balance of payments situation are obvious. If prices fall, these effects will be aggravated in many instances, by anticipatory movements on the part of transactors, such as transfers of capital abroad, faster payments for imports, delays in repatriating export earnings, etc.

Therefore, a policy aimed at stabilizing export earnings must not only act on the structures of the exporting country's economy but must also mitigate the current difficulties of transactors (producers and State) so that the latter do not react to unexpected fluctuations in export earnings in a way which would worsen the structural imbalances of the economy.

It is essential here that stabilization measures should be so devised that they are not open to the criticisms incurred by all systems which have the effect of insulating producers and exporters from market forces.

B) Price fluctuations and variations in the quantities exported

When the factors contributing to the instability of the developing countries'export earnings are analysed, it can be seen that fluctuation in commodity prices is not the only phenomenon involved. The Commission has studied the variations in export quantities, prices and earnings for fourteen main commodities exported by the developing countries, taking into account for each product a number of developing countries exporting between them from 60 to 70% of the developing countries'total exports of the product in question. Forty-four cases of variation were established in this way, and their analysis produces the following conclusions :

1.- If price fluctuations and variations in quantities are compared, it is apparent that :

- In 28 cases quantities fluctuate more sharply than prices. In 16 of these cases fluctuations in quantities are less than 20% ; in a further 6 cases they are between 20 and 30%, and in the remaining 6 cases they are greater than 30% ;

- In 16 cases price fluctuations are greater than variations in quantities.

This shows for the first time that quantities fluctuate relatively more sharply than prices. These quantity fluctuations are generally caused by one or other of the following factors or a combination thereof :

- price fluctuation following changes in the economic trend in the industrialized countries ;
- climatic conditions in the exporting developing countries ;
- independent factors such as drops in production due to strikes,accidents, wars,etc.

2.- If variations in quantities are compared with fluctuations in export earnings, it is apparent that :

- In 18 cases fluctuations in earnings are approximately equal to those in quantities ; consequently, variations in quantities have more or less offset price fluctuations, or vice versa.

Of these 18 cases the two variables fluctuated by less than 10% in 6 cases, by between 10 and 20% in 8 cases, and by more than 20% in 4 cases.

Where quantities and prices vary inversely, the smallest variation - in this case that of prices - is cancelled out.

- In 26 cases variation in prices and that in quantities have a cumulative effect thus considerably increasing the instability of export earnings.

Price stabilization is not enough in itself ,therefore ,to stabilize the developing countries'export earnings and consequently bring about the harmonious economic development of the developing countries which export commodities. On the contrary, it may even be detrimental to their economic development, since price stabilization amounts to restricting - to the disadvantage of the exporting developing countries - the possibilities of compensation which could be offered them over a period of time. By abolishing or diminishing the role of one of the market regulators,price stabilization alone could even make export earnings more unstable if fluctuations in production were caused by non-economic factors.

In this event, a sudden and temporary cut in production would not be offset by price rises. As a result, not only would the country fail to achieve the level of earnings which it could have expected before prices were stabilized, but also producers would have no material incentive to step

up their production efforts during the following year. Moreover, in the case of products for which prices are not only unstable but also show a basic tendency to fall as a result of competition from synthetic products, mere stabilization of prices would have the effect of speeding up the production of substitute products.

C) The principal ways of remedying the instability of export earnings or its effects

Four different ways of influencing the export earnings of countries producing commodities can be distinguished :

- market intervention to influence the prices paid to producers ;
- the granting of trade preferences to certain producer countries ;
- ad hoc institutional solutions disregarding market mechanisms ;
- a system involving no interference with market mechanisms and providing for direct payements to producer countries to offset the difference, established ex post between export earnings and their reference level fixed by agreement.

1.- Market intervention

The techniques of market intervention to influence the prices of commodities involve breaking down the export market,monitoring supply and possibly establishing buffer stocks.

In the Community's case, these solutions would normally apply only in respect of those commodities of which it is the major world importer. The Community's dominant position on the world market could then enable it to influence the price of the product in question through an arrangement providing for market interventions.

These solutions imply :

- keeping supply under control which countries with small administrations cannot easily enforce on individual producers ;
- the financing of buffer stocks, which is often costly ;
- impartiality on the part of the consumer countries as regards sharing the benefits of the agreement in question among the producer countries. The wholesale transfer of these benefits to producers is often difficult to avoid,despite the possible repercussions of such a transfer on the growth of supply.

However, most of the consumer countries, are opposed to these solutions, which is easily understandable. Microeconomic analysis shows that if it were possible to predict the average level of prices for a commodity and to stabilize them at that level by means of a buffer stock,consumers would suffer as a result of stabilization wherever the instability of prices was mainly due to fluctuations in supply. This is the case with most tropical agricultural products which owe their unstable prices to production hazards much more than to fluctuations in demand.If the consumer countries reluctantly agree nonetheless to conclude a world agreement to stabilize the prices for a product of this kind , they will then be tempted to exert pressure on the producer countries to accept prices being stabilized at a relatively low level i.e. lower than the most probable average price.

However, the positions of the consumer and producer countries are reversed where price instability is mainly due to fluctuations in demand. This is the case with most mineral products (copper,for example), where prices are influenced far more by changes in the economic trend in the industrialized countries than by changes in the conditions of supply. Here, it is in the interests of the consumer countries to promote those stabilization measures which are within their reach, whereas the producer countries might prefer prices to remain unstable if they could predict to what extent and in what direction prices would fluctuate.

In any event, commodity market intervention will have a stabilizing influence on the export earnings of the producer countries only in respect of products whose prices are more unstable than the quantities exported.

Measures to stabilize world or commodity agreement prices cannot bring down the instability index for export earnings below that for quantities.

At world level, prices are generally more unstable than quantities exported where price instability is mainly due to fluctuations in demand in the consumer countries. This is the case with copper and most mineral products,tropical timber,cotton,rubber - in other words most of the major commodities used in industry.

On a smaller scale the same phenomenon is observed (prices more unstable than the quantities exported)where fluctuations in world prices are caused by supply disturbances in the main producer countries which are not signatory to a given commodity agreement.

In both cases,market intervention can stabilize not only prices but also the volume of transactions, and therefore the earnings of exporting countries.

If, however, market instability is mainly due to fluctuations of supply in the countries signatory to such an agreement,mere stabilization of prices is likely to make their export earnings still more unstable.

To sum up, market intervention

- is applicable on a less than worldwide scale only in a limited number of cases ;
- hardly satisfies the consumer countries in most cases,except where a relatively low stabilization price is fixed ;
- has an influence only on commodity prices,whereas the aim must be to stabilize the export earnings of the producer countries.

In view of these drawbacks,it would seem that market intervention techniques should not be used in the context of the Convention. In addition, the existence of world agreements for certain products does not mean that arrangements of a different type cannot be worked out to mitigate certain shortcomings in those agreements,which they would supplement.

2.- Preferential systems

Such systems are by definition geographically limited,based as they are on guaranteed price systems whereby the producer countries signatory to the relevant agreement are accorded tariff preferences or reductions in levies. A solution of this type while acceptable for products already subject to customs duties on importation or covered by the common agricultural policy, would raise serious objections if it entailed new barriers to international trade.

A solution such as this can only be envisaged where the commodities exported by the countries signatory to an agreement account for only a small proportion of the world market. If this condition were not met, the preferential system would have no real content.

Lastly, it should be noted that a system of preferential prices backed up by tariff and levy instruments would mean that machinery would have to be set up to ensure that Community industries processing the commodities covered by the agreement in question were internationally competitive.

3.- Non-market institutional solutions (guaranteed purchase and price)

This approach requires the setting up of bodies to buy from the producer countries specific quantities of the product covered by the agreement at the price fixed, for subsequent disposal on the Community market, putting back on the world market, storage or denaturing.

The principle behind the Commonwealth Sugar Agreement places it in this category. Such a system provides maximum gurantees for the producer countries but would probably be:

- politically unacceptable to all the Member States of the Community as it covers a large number of products;
- ineffective in the long term, since the system would insulate the producer and consumer countries party to the agreement in question from market constraints unless accompanied by measures affecting production structures.

4.- Non-intervention on the market and compensatory payments

The basic principles behind this kind of system are the following:

- the fixing of a reference price by product (and where applicable by country) for "traditional" quantities;
- a gurantee for those countries receiving a transfer of financial resources equal to all or part of the difference between the actual value of exports to the Community (price x quantities exported) and the reference value (price x quantities).

Such a system would offer the following advantages :

- its principle is simple;
- it permits adjustment of the transfers going to countries most affected by the instability of their export earnings, whatever the reason for this instability;
- it protects the recipient countries against market contingencies while allowing the market to retain its role as an indicator of pressures, arising from scarcities, between supply and demand;
- it is relatively cheap to run and can even, under certain conditions, be self-sufficient.

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In view of the economic analysis summarized above and a number of political constraints, which dictate that the system to be set up should:

- not interfere with the free play of market forces;
- not create obstacles to international trade;
- be compatible with world agreements where these exist for the products in question and not obstruct the conclusion of new world agreements,

the Commission proposed, on 4 April 1973 that a system of stabilizing of export earnings would be the most appropriate way of implementing Part III of Protocol N° 22 to the Act of Accession [1].

Christened by the press the "Deniau Plan" after the member of the Commission of the European Communities then responsible for Development and Cooperation, this proposal was the subject of long and difficult negotiations successfully concluded under Mr Claude Cheysson, who succeeded Mr Deniau.

[1] Part III of Protocol N° 22 states that "The Community will have as its firm purpose the safeguarding of the interests of all the countries referred to in this Protocol" - i.e. AASM and independent developing Commonwealth countries in Africa, the Indian Ocean, the Pacific Ocean and the Caribbean - " whose economies depend to a considerable extent on the export of primary products, and particularly of sugar. The question of sugar will be settled within this framework, bearing in mind with regard to exports of sugar the importance of this product for the economies of several of these countries and of the Commonwealth countries in particular."

It would certainly be interesting to trace the development of ideas between 4 April 1973 and 1 February 1975 and follow the system's chequered career from the initial proposal, which to say the least was at the outset far from arousing unqualified enthusiasm whether among the industrialized countries, including some of those within the Community, or among other developing countries, and which now it is completed may not perhaps fulfil all the hopes placed in it by the ACP States, to the final text agreed by the negotiators. Unfortunately this would require too much space, and the reader is accordingly asked to content himself with the following comments on "STABEX" - the code name given to the system - as defined by the Convention.

II. The stabilization system in the Convention

Stabex "has the aim of remedying the harmful effects of the instability of export earnings and of thereby enabling the ACP States to achieve the the stability, profitability and sustained growth of their economies." The products covered by the system, its machinery, the financial arrangements and its other aspects will be described here successively.

A. The products covered

1.- For the purpose of compiling the list of products, two sets of criteria were taken into consideration:

- those adopted at Kingston, namely the importance of the product for the level of employment in the exporting country, the deterioration in the terms of trade between the Community and the ACP State concerned, and the level of development in the different ACP States;
- the fact that earnings from a product are traditionally unstable because of fluctuations in prices and/or quantities, and the dependence of the economies of the ACP States on these products.[1]

The dependence criterion is expressed by fixing a "dependence threshold". In normal circumstances, export earnings from the product in question must, in the year preceding each year of application, represent at least

[1] See appendix for brief statistical information on this question.

7.5% of total earnings from exports of goods. For sisal, this proportion is reduced to 5%, and for the least developed, landlocked or island ACP States, to 2.5%. The dependence threshold principle calls for twe remarks:

- the fact that these thresholds are recalculated each year is one of the factors which gives the system its dynamic character and keeps it close to economic reality. The annual calculation of the thresholds provides a "photograph" of the trend of the economy of the product concerned in the general economic trend of each country;
- the fixing of a lower threshold for the least developed, landlocked or island ACP States denotes the negotiators' concern to reserve special treatment for these States.

Some of the criteria mentioned above are applicable as long as the system is in operation. If, a year or more after the Convention has come into force, it appeared that one or more products not yet included were to assume considerable importance for one or more of the ACP States and be subject to sizeable fluctuations, the Council of Ministers can decide to include such product or products among those covered by the scheme.

2.- Application of the above criteria led to the compilation of a list comprising several groups of products:

- a number of tropical commodities more or less corresponding to the seven products originally proposed by the Commission: groundnuts, cocoa, coffee, cotton, coconut products, bananas;
- a number of products which are similar in some ways to those of the first group: hides, skins and leather, wood, tea, raw sisal, palm products;
- certain products obtained from commodities after initial processing: groundnut oil and oilcake, cocoa paste and butter, extracts, essences or concentrates of coffee, etc.;

- iron ore, which the Community agreed to include only for the sake of not jeopardizing the achievement of an overall agreement, for it remains firmly opposed to the extension of the system to mineral products.

There are two ways of looking at the list. If the products are taken by family, the number is 12. If the number of members in the different families are counted - which is what really has to be done since each produc is "insured" separately - the number is 29.

3.- The system applies to products originating in the ACP States and exported by them to the Community, i.e. which are released for home use in the Community or brought under inward processing arrangements there in order to be processed.

In certain special cases, the system covers all exports, whatever their destination. At the time of signature, this derogation concerns Burundi, Ethiopia, Guinea Bissau, Rwanda and Swaziland. This list of countries could, if necessary, be amended by mutual agreement.

B. The machinery

1.- Central to the machinery is the use of the ACP States' export statistics and the Community's import statistics. Because the statistics may not tally for various reasons (time lag between shipment and clearance through the Community customs, rerouting of cargoes to a different destination, etc.), they will have to be cross-checked in order to arrive at definitive figures. The fob values are to be taken into account. Because fob values are generally used for export statistics and cif values for import statistics, these figures will either have to be cross-checked, or else a fob/cif coefficient will have to be applied.

To facilitate these cross-checks, and generally ensure that the system works rapidly and well, statictical and customs cooperation will be set up between the Commission and the ACP States. Within this framework, the ACP States and the Commission will take any practical measures to facilitate the exchange of information and the submission of requests for

transfers.

2.- The statistics will be used in the first place to calculate the reference level for each ACP State and for each product. This reference level is the moving average, for the four years preceding each year of application, of each ACP State's earnings from its exports to the Community. The reference level for 1975, for example, will be calculated on the basis of the results of the years 1971 to 1974, for 1976 on the basis of the results from 1972 to 1975, and so on.

3- Secondly, the actual results for each year of application can be determined from the statistics. The first condition which must be met if the system is to be brought into action is that actual earnings in a given year must be lower than the reference level. Although necessary, this condition is not sufficient, for in addition this difference must be higher than a threshold known as the "activation" or "fluctuation" threshold. This is normally 7.5%, but for the least-developed, land-locked or island countries it is 2.5.%.

4.- Once it is established that the activation threshold has been passed, the difference between the reference level and actual earnings constitutes the basis for the transfer.

Each ACP State concerned must apply to the Commission for a transfer; the latter examines the request and draws up a draft transfer decision in conjunction with the requesting State.

If, however, the examination shows that the fall in earnings from exports to the Community is the result of trade policy measures which are restrictive or discriminate against the Community, the application cannot be considered.

Moreover, apart from the normal case of fluctuations due to market and production contingencies and apart from the case of a restrictive trade policy, there are many other reasons why export earnings may fall. For instance, although exports remain constant in volume, the proportions going to their different destinations may vary; commodity exports may fall because

local processing develops or local consumption increases; exports may also fall as a result of a natural disaster or a reduction in demand.

In some of the situations which have just been enumerated - and the above list is not exhaustive - there might be a risk of the system coming into play where economic conditions did not justify it. To deal with this risk, the Commission ascertains whether the trend of the applicant ACP State's total exports reveals important changes. If so, the Commission and the applicant State consult to determine whether, and to what extent, the amount of the transfer would be affected.

5.- When these examinations and the necessary consultations have taken place and the transfer decision has been drafted in conjunction with the applicant State, the Commission then adopts this decision, which is rendered operative by the conclusion of a "Transfer Agreement" between the Commission and the applicant State.

6.- It is important that there should be arrangements for payments on account, for the reasons mentioned in the first part above, particularly because transfers have a stabilizing effect only if they are made as far as possible simultaneously with the first effects of the fall in earnings and also because if the time lag were too great, the transfers might actually have a destabilizing effect.

The Convention expressly provides for this possibility, since it refers to "advances normally six-monthly". This provision is fundamentally relatively easy to apply if it is borne in mind that the annual profile of a country's exports is generally constant in time. In other words, the monthly pattern of exports varies little, which means that seasonal adjustment factors can be used.

What does vary, however, is the monthly amplitude. The amount of the advances will therefore be determined by the use of seasonal adjustment factors and by taking into account variations in the amplitude.

To sum up, these are straightforward tasks making use of well-established statistical techniques but involving a considerable amount of work. This work, however, will not be without purpose, nor will it be dictated by perfectionism : the logic of the system itself requires it.

C) Financial arrangements

1.- A total amount of not more than 375 million u.a. has been set aside to finance the stabilization system for the life of the Convention. This amount is divided into five annual instalments of 75 million u.a.+). Any remainder of an annual instalment is automatically carried over to the following year. If transfers to be made in any year should exceed the amount of the annual instalment, the Council of Ministers amy authorize, except of course in the final year, an advance drawing of up to 20 % of the following instalment.

The above is a summary of the provisions in the Convention. In practice they mean :

- that everthing has been done to see that the system can play its part throughout the life of the Convention and that accordingly there is no justification for the fears sometimes expressed that it will rapidly run out of funds;
- that as from the second year, on the assumption that the first instalment has not been wholly spent, the resources available would be as follows :
  - any remaining carried forward from preceding years,
  - the annual instalment of 75 million u.a.,
  - up to 50 million u.a. which can be drawn in advance on the following year's instalment,
  - resources set aside for the system in accordance with the principle that the ACP States will, under certain conditions, contribute to the reconstitution of the fund.

Of course, if no money is carried over, if no contribution is made to the reconstitution of the fund, and if as much as 20 % of the following year's instalment has had to be drawn, i.e., assuming the worst, then obviously available resources might be only 90 million u.a. for the first year, 75 million u.a. for the second, third and fourth years, and 60 million u.a. for the last year. Although this is a sphere ruled by uncertainties, the possibility that the worst might happen is remote.

+) If this amount were regarded as an insurance premium and related to the "risk" to be covered (see the total shown in the second part of the appendix), it would be found that it represented approximately 4 % of that risk.

Nonetheless, the negotiators insisted on preparing for such a possibility, and had a clause inserted in the Convention which stipulates that the Council of Ministers may reduce the amount of the transfers to be made under the system on the basis of a report submitted to them by the Commission.

If, as is expected and account is taken of contributions to reconstitute the fund, there are any funds left over after the expiry of the Convention, the Council of Ministers will decide how these amounts are to be spent.

2.- The States which have received transfers - which, it should be emphasized, are interest-free - are to contribute to the reconstitution of the system's resources if the Commission notes that, for any year and for any product, the unit value of exports+) is greater than the reference unit value and that the quantity actually exported to the Community is at least equal to the reference quantity. In this case, the recipient State is required to pay back into the system within the limit of the transfers it has received, an amount equal to the reference quantity multiplied by the difference between the reference unit value and the actual unit value.

Some examples are called for. In them the reference value is assumed to be 10 000, obtained by multiplying a reference unit value of 100 by a reference quantity of 100, and the country in question will be assumed to have received during the preceding year a transfer amounting to 1 000.

- Case 1 :
The actûal unit value is 120, and the actual quantities are 80, so that actual earnings are 9 600. Although the unit values have risen, the country not only does not have to pay anything back into the fund, but may ask for a transfer.

- Case 2 :
The unit value is 105, actual quantities are 100. In this case actual earnings amount to 10 500 and the country pays back 500.

+) The reference level is the product of the reference quantities multiplied by the reference unit value. The same applies to the actual earnings. Whereas for the purpose of transfers it is enough to know the figures relating to the reference level and actual earnings, each of the factors has to be taken separately to implement the provisions for reconstituting the fund.

- Case 3 :

The unit value is 120, the actual quantities 100. Because the country has received one transfer only of 1000, it will have to pay back 1000, though its actual earnings amount to 12 000.

- Case 4 :

The unit value is 100, the actual quantities are 110. Although actual earnings are 11 000, the country is not required to pay anything back, since the actual unit value does not exceed the reference unit value.

3. If, on expiry of the five-year period referred to in paragraph 2, the resources have not been fully reconstituted, the Council of Ministers, taking into consideration in particular the situation and prospects for the balance of payments, exchange reserves and foreign indebtedness of the ACP States concerned, may decide that the sums outstanding are to be reconstituted wholly or in part, in one or more instalments, or that rights to repayment are to be waived.

4. States regarded as being among the least developed within the meaning of the Title on financial and technical cooperation are exempted from having to make any contribution to reconstitution of the fund.

D) Other aspects of the system and final comments

1. It will be noted that States receiving transfers will be free to decide for themselves how the funds shall be used. They will nonetheless be required to inform the Commission each year of the use which has been made of the amounts transferred.

2. The period of application of this system will be the same as that laid down for financial and technical cooperation.

3. It will also be noted that the stabilization system has two lists of least developed countries: the "least developed, land-locked or island countries" to which the special dependence and activation thresholds apply, and the "least developed countries" within the meaning of the arrangements for financial and technical cooperation, which are the only ones not required to contribute to the reconstitution of the fund.

4. It will be recalled that under Article 118 of the Treaty of Accession, measures taken under Protocol No 22 are extended to include the OCT. This means that these Countries and Territories will also be covered by the stabilization system under a decision to be taken by the Council of the European Communities. This decision will be closely modelled on Chapter 1 of Title II, any special points arising from the statute of the OCT being taken into consideration.

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In setting up a system of export earnings stabilization, the Convention is making a major innovation in international economic relations. Apart from the IMF system of compensatory financing, which is substantially different from the stabilization system negotiated by the Community and the ACP States both in its purpose and in its methods, this is the first time that industrialized countries and developing countries exporting commodities have agreed to set up a system designed to guarantee the latter a certain level of export earnings by shielding these earnings against the fluctuations to which they are normally exposed by the action of market forces and the hazards of production.

The considerable political significance of this innovation cannot be overestimated. This is an initial practical response, incomplete though it is, to a number of anxieties which have for decades passed prevented the development of harmonious and balanced relations between those who produce raw materials and those who use them.

A case for special treatment: sugar

Protocol N° 17 annexed to the Act concerning the Conditions of Accession and the Adjustments to the Treaties provided that until 28 February 1975 the United Kingdom was authorized to import from the exporting countries and territories referred to in the Commonwealth Sugar Agreement, on certain terms, quantities of sugar within the negotiated price quotas under that Agreement, and Title III of Protocol N° 22 stated that the Community would have as its firm purpose the safeguarding of the interests of all the countries referred to in that Protocol whose economies depended to a considerable extent on the export of primary products and particularly of sugar.

The arrangements for this product had to be laid down within this framework and were to take account, as regards sugar exports, of its importance for the economy of several of the above countries, in particular the Commonwealth countries.

The result of protracted negotiations between the ACP States and the EEC, the special arrangements implementing these intentions now appear in Title II, Chapter 2 of the Lomé Convention, and the conditions of implementation of the Article in question are laid down in a Protocol annexed to the Convention and accompanied by declarations relating thereto.

The agreement which the Contracting Parties reached provides for the exporting ACP States to supply, and for the Community to purchase and import, specified quantities of sugar at a guaranteed minimum price. These commitments have been entered into for an indefinite period, although there is a legal possibility of denunciation after five years subject to two years' notice.

The guaranteed price, expressed in units of account, for unpacked sugar of standard quality is negotiated annually cif European ports, within the price range obtaining in the Community. In fact, this guarantee relates to sugar which could not be marketed on satisfactory terms at prices freely negotiated between sellers and buyers.

The guaranteed price for the next eighteen months is fixed at 225,30 u.a. per tonne cif, corresponding on 1 February 1975 to a United Kingdom price of £ 151.15, but in practice the ACP States and the United Kingdom have agreed on a price of £ 260 per ton for sugar shipped in 1975. For the next months, the quantities agreed total 310 000 tonnes, white sugar equivalent, while for each 12-month period from 1 July to 30 June the total of the same quantities - which in any case could not exceeed 1 400 000 tonnes - will be around 1 220 000 tonnes.

Seen in the context of a commodities policy, it can be acknowledged with satisfaction that this agreement breaks new ground and sets a remarkable precedent in several respects:

i) Institutionally, it creates a special link between a group of various developing countries and the European Economic Community, so much so that the text governing the common organization of the market for the product in question will include a Title V on the imports concerned. In addition, the duration of the commitments is indefinite and not linked to the life of the Convention, although they form an integral part of the latter.

ii) As an instrument of price policy, it introduces what is virtually price indexing, since the guaranteed price is fixed within a Community range of sugar year prices, which, as is known, is the subject of annual proposals by the Commission worked out in the light of the economic situation at the time. Another point worthy of note is that the Commission will consult the exporting ACP States before submitting its community price proposals to the Council.

iii) As an instrument of trade policy, it ensures guaranteed purchase, which is of particular importance for the steady development of the exporting ACP States, and guaranteed supply for the Community without adversely affecting free marketing on its own markets.

iv) Lastly, as an instrument of international relations policy, the reciprocal, balanced commitments it comprises are a token of the aspirations of partners who are aware of the importance of what is at stake and who see in this agreement the fulfiment, in a specific sector, of their hope of securing a fairer and less unstable economic order.

APPENDIX

Data on the principal exports which may be covered by STABEX

1. STABEX products as percentage of total exports

Botswana	raw hides, skins and leather (9 %)
Burundi	coffee (86 %), cotton (3 %), raw hides, skins and leather (6%)
Cameroon	cocoa (23 %), coffee (26 %), wood (12 %)
Central African Republic	coffee (23 %), wood (21 %), cotton (18 %)
Chad	cotton (69 %)
Congo, People's Republic of	wood (42 %)
Dahomey	palm products (34 %)
Ethiopia	coffee (38 %), raw hides, skins and leather (13 %)
Fiji	coconut oil (5 %)
Gabon	wood (32 %)
Gambia	groundnuts, groundnut oil and oilcake (94 %)
Ghana	cocoa (61 %), wood (19 %)
Ivory Coast	cocoa (15 %), coffee (23 %), wood (29 %)
Jamaica	bananas (4 %)
Kenya	coffee (22 %), tea (11 %)
Liberia	iron ore (71 %)
Madagascar	coffee (30 %), sisal (3 %)
Malawi	tea (17 %), groundnuts (7 %)
Mali	cotton (39 %), groundnuts (7 %)
Mauritania	iron ore (73 %)
Niger	groundnuts (15 %), groundnut oil (9 %)
Rwanda	coffee (61 %), raw hides and skins (4 %)
Senegal	groundnuts and groundnut oil (35 %)
Sierra Leone	iron ore (10 %), palm nuts and kernels (5 %)
Somalia	bananas (26 %)
Sudan	cotton (56 %), groundnuts (9 %)
Swaziland	cotton (3 %)
Tanzania	coffee (19 %), cotton (13 %), sisal (9 %)
Togo	cocoa beans (26 %), coffee (13 %)
Tonga	copra (50 %)
Uganda	coffee (66 %), cotton (15 %), tea (5 %)
Upper Volta	groundnuts and groundnut oil (8 %), cotton (22 %)
Western Samoa	copra (45 %), cocoa (28 %)

Sources : International Financial Statistics, November 1974, and National Statistics

2. Imports into the EEC (9) from the ACP (1973)

	1,000 u.a.
Groundnuts (shelled)	102,169
Groundnut oil	83,085
Cocoa beans	288,418
Cocoa butter	39,189
Cocoa paste	12,391
Raw coffee	350,271
Cotton, not carded or combed	126,855
Copra	763
Coconut oil	6,716
Palm oil	27,027
Palm kernel oil	20,685
Palm nuts and kernels	32,029
Bovine cattle leather	20,512
Tropical wood (in the rough)	440,111
Tropical wood (sawn)	73,920
Fresh bananas	56,721
Sisal	27,926
Iron ores	275,890
TOTAL	1.984.678