

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 627 final

Brussels, 28 October 1980

COMMISSION COMMUNICATION TO THE COUNCIL
PURSUANT TO ARTICLE 29 OF THE INTERNAL AGREEMENT ON
THE FINANCING AND ADMINISTRATION OF COMMUNITY AID

REPORT
ON THE OPERATION DURING 1979 OF THE SYSTEM SET UP BY
THE LOME CONVENTION FOR STABILIZING EXPORT EARNINGS

COM(80) 627 final

-1-

INTRODUCTION

1. Under Article 29 of the Internal Agreement on the financing and administration of Community aid, the Commission is required to prepare an annual report on the operation of the system for stabilizing export earnings (Stabex), indicating in particular its effect on the economic development of the recipient countries and on the development of external trade.
2. This report is concerned with the application of the system during 1979 to the ACP States signatory to the Lomé Convention and gives information about operations relating to former OCTs that have acceded to the Lomé Convention but are still covered by the OCT allocation as far as the system for the stabilization of export earnings is concerned.
3. The cooperation machinery described in the first comprehensive reports has continued to function satisfactorily on the whole and hence does not call for any detailed remarks.
4. In this report the Commission will examine the activities of the ACP-EEC institutions and the development of the system, and look at the fifth year of application of the texts and the results.

For the effect of the transfers on the economic development of the recipient countries, reference should be made to the comprehensive report on the years 1975 to 1979, and in due course to the objective study which will be undertaken from 1981 when all the facts needed to produce a general survey will be available.

PART ONE: ACTIVITIES OF THE ACP-EEC INSTITUTIONS AND DEVELOPMENT OF THE SYSTEM

Chapter One: Activities of the institutions

§1. ACP-EEC Subcommittee on the Stabilization of Export Earnings and Committee of Ambassadors

5. The ACP-EEC Subcommittee on the Stabilization of Export Earnings did not meet in 1980 to discuss the application of the system set up under the first Lomé Convention.

6. The ACP-EEC Committee of Ambassadors met on 18 January 1980 to prepare for the adoption of the decision on transitional measures enabling Title II, Chapter 1 of the first Convention to be applied from 1 March 1980 until the entry into force of the new Convention or until 31 December 1980, whichever is the earlier.

The Committee met again on 15 April 1980 to prepare the decision on the inclusion of sesame seed in the list of products in Article 17(1) of the first Convention as from 1 January 1978.

§2. ACP-EEC Council of Ministers

7. Meeting in Nairobi on 8 and 9 May 1980, the ACP-EEC Council of Ministers decided to approve the ACP request for the inclusion of sesame seed among the products covered by Stabex, with effect from 1 January 1978.

8. The Council also decided at Nairobi to allocate whatever balance remained after the final year of application of the Lomé I system to the first year's instalment of the amount earmarked for the Lomé II system. Sums paid in to replenish the system as repayments for transfers made for the years 1975 to 1979 inclusive will likewise be added to the Lomé II allocation.

§3. Parliamentary bodies of the Lomé Convention

9. At the meeting of the Joint Committee of the ACP-EEC Consultative Assembly held at Arusha (Tanzania) from 25 to 28 February 1980 Mrs Katharina Focke, rapporteur général, presented an introductory report outlining the achievements of Lomé I with a view to the forthcoming entry into force of Lomé II, and including a favourable assessment of the operation of the Stabex system. The assessment was incorporated into the final statement issued at the close of the session.

§4. European Parliament

10. In the Committee on Development and Cooperation's draft opinion for the Committee on Budgetary Control regarding discharge of the 1978 Budget in relation to expenditure on development aid policy, the rapporteur,

Mrs K. Focks, noted certain statements in the Budgetary Control Committee's working paper - and even in the Court of Auditors' report - which stemmed partly from a misunderstanding of the system's aims, without prejudice to whatever conclusions might be drawn from a more detailed study of its operation.

§5. Court of Auditors

11. On 19 July 1979 a special report by the Court of Auditors was circulated to the Community institutions. The text of the report, plus an analysis, will be appended to the comprehensive study on the operation of Stabex from 1975 to 1979.

For the Court's routine study of the 1979 operating year, see the relevant conclusions when published in the Official Journal of the European Communities.

Chapter 2: Development of the system

12. A letter dated 4 July 1980 from the Ambassador of Zambia, co-chairman of the Stabex Subcommittee, contains a request by the ACP Group for the inclusion among Stabex products of nutmeg and mace, which are important for the economy of Grenada.

Assuming the request is granted, it will not be possible to add these products to the list until a year has elapsed from the entry into force of Lomé II.

PART TWO: FIFTH YEAR OF APPLICATION OF THE TEXTS AND THE RESULTS

Chapter One: Application of the texts*

§1. Application of Article 19(4)(b)

13. Significant changes in the trend of total exports by certain ACP States were noted in relation to six requests. Talks were accordingly held with the applicant countries to see whether these changes would affect the size of the transfers.

In the case of Mali (groundnuts), the Commission came to the conclusion that the change observed should not affect the size of the transfer.

This was because the total fall in groundnut exports was a result of Mali's decision to switch output to oil mills, which made it just possible to maintain groundnut oil exports.

In the other five cases agreement was reached on a cut in the transfers requested:

* The implementation of Article 17(1) and (4) and of the Fiji Declaration for the year 1979 calls for no comment.

- (i) Central African Republic (cotton): in 1979 the proportion of cotton exports going to the Community fell by 12.39% in relation to the reference period, occasioning a cut of 12.39% in the transfer base;
- (ii) Uganda (tea): in 1979 the proportion of tea exports going to the Community fell by 16.01% in relation to the reference period, occasioning a cut of 16.01% in the transfer base;
- (iii) Sudan (groundnuts): in 1979 the proportion of groundnut exports going to the Community fell by 41.52% in relation to the reference period, occasioning a cut of 41.52% in the transfer base;
- (iv) Sudan (sesame) : a fall of 23.39 % in the proportion of production exported, together with a fall of 10.34 % in the proportion of exports to the EEC, led to a cut of 31.31 % in the transfer base;
- (v) Swaziland (iron ore) : the 22.57 % reduction corresponds to the foreign exchange saved as a result of the closure of the mine and cessation of production.

§2. Replenishment of Stabex resources

14. In accordance with Article 21(3) of the first Lomé Convention and with the practical arrangements contained in the letters exchanged when each transfer is made, the Commission carried out the necessary calculations regarding transfers made for the years 1975 to 1978 inclusive to countries required to help replenish the system's resources which have not refunded the requisite amounts.

The calculations showed that the conditions laid down in the Convention for triggering the replenishment procedure were fulfilled in respect of the total amount transferred to the Republic of Madagascar for 1976 (for cloves), i.e. 1 139 516 EUA.

§3. Requests refused (1979)

15. Out of 28 requests received from 20 ACP States (including two that had acceded to the Lomé Convention under Article 89), 11 were turned down on the following grounds:

- dependence threshold not reached:

Benin (palm oil)
" (palm nut and kernel oilcake)
Ethiopia (sesame)
Guinea-Bissau (sawn wood)
Upper Volta (groundnuts);

- fluctuation threshold not reached:

Tonga (bananas);

- no loss of earnings on exports to all destinations¹:
Upper Volta (cotton);
- no loss of earnings in relation to reference period:
Congo (wood in the rough)
Guinea-Bissau (palm nuts and kernels);
- Tonga's loss of earnings on copra has been amply offset by increased earnings from the expansion in processing to produce coconut oil;
- while the (technically debatable) figures supplied by Togo showed a loss of earnings on cocoa beans, the Community's statistics pointed to a large surplus.

Chapter 2: The results

§1. Overall results

16.A. Results of the 1980 operation by ACP State:

<u>Recipient ACP State</u>	<u>Product</u>	<u>Amount of transfer in EUA</u>
Benin	Cotton not carded or combed	349 246
Cape Verde	Bananas	429 352
Central African Republic	Cotton not carded or combed	3 846 980
Chad	cotton not carded or combed	2 664 588
Gambia	Groundnut oil	3 999 947
Gambia	Groundnut oilcake	1 026 143
Guinea-Bissau	Groundnuts, shelled or not	2 480 509
Madagascar	Vanilla	2 845 088
Mali	Groundnuts, shelled or not	3 894 154
Sudan	Groundnuts, shelled or not	27 190 125
Sudan	Sesame	2 632 923
Swaziland	Iron ore	4 365 532
Tonga	Vanilla	58 632
Uganda	Cotton, not carded or combed	3 806 872
Uganda	Tea	3 093 453
TOTAL		62 683 544

17.B. Results of the 1980 operation for ACP States acceding to the Lomé Convention under Article 89

<u>Recipient ACP State</u>	<u>Product</u>	<u>Amount of transfer in EUA</u>
Comoros	Cloves	431 155
Dominica	Bananas	2 892 944
TOTAL		3 324 099

¹It should be noted that after it was decided to include sesame seed from 1 January 1978 Sudan entered a request for this product relating to 1978 which was turned down for the reason given.

§2. Results by country

18. A total of 59 838 456 EUA (95.5 %) was transferred to least developed ACP States, which are not required to contribute towards the replenishment of Stabex resources. For the five financial years taken together, grants account for 67.5 % of payments.

§3. Result by product

19. For the individual products the results are as follows (excluding states having acceded to the Convention under Article 89):

<u>Products</u>	<u>Amount in EUA</u>	<u>%</u>
Groundnuts	33 564 788	53.55
Groundnut oil	3 999 947	6.38
Groundnut oilcake	1 026 143	1.64
Cotton, not carded or combed	10.667.686	17.02
Bananas	429 352	0.68
Tea	3 093 453	4.94
Iron ore	4 365 532	6.96
Vanilla	2 903 720	4.63
Sesame	2 632 923	4.20
	<hr/>	<hr/>
TOTAL	62 683 544	100.00

of which products affected by:

- the economic situation : 0,0 %
- local contingencies : 100,0 %

§4. Balance to be carried over

20. In accordance with the decision adopted by the ACP-EEC Council of Ministers meeting in Nairobi on 8 and 9 May 1980 (see point 8), the balance remaining at the close of financial years 1975 to 1979 inclusive (a sum of 5 975 905 EUA) has been carried over to the first year's instalment of the amount earmarked for the Lomé II system.

Conclusion

21. As this report shows, the system has operated satisfactorily and no further comments are necessary on this score; the comprehensive report summing up activities from 1975 to 1979 will be appearing shortly. It was therefore felt unnecessary to look here at the effects of transfers on the economies of recipient states and external trade patterns.

22. Reports on the use of the resources transferred for 1978, and also for 1979 as far as possible, are not legally required to be submitted by the date of issue of this report; these matters will be covered in the course of the objective study on the general topic of the impact of transfers, which will be put in hand in 1981.

ANNEX 1

List of drawings under the International Monetary Fund's compensatory payments system carried out since 1.1.1979 (1)

Country	Million SDRs	Last month of relevant 12-month period	Month of drawing
Guinea Bissau x (2)(3)	1,10	12/78	4/79
Tanzania x (2)(3)	20,25	12/78	5/79
Ethiopia (3)	18,00	12/78	8/79
Malawi (3)	9,50	2/79	8/79
Kenya	69,00	3/79	8/79
Uganda xx (2)(3)	5,00	3/79	8/79
Uganda xx (2)(3)	25,00	10/79	9/79
Jamaica	31,75	10/79	9/79
Burundi (3)	9,50	6/79	10/79
Malawi (3)	9,50	5/79	11/79
Soudan x (2)(3)	36,00	12/79	11/79
Liberia x (2)	20,50	6/79	12/79
Dominica x (2)(3)	0,95	12/79	12/79
Ethiopia (3)	18,00	6/79	12/79
Mauritania (3)	10,50	6/79	1/80
Guyana	6,25	12/79	1/80
Uganda xx (2)(3)	25,00	9/79	1/80
Mali x (2)(3)	5,10	12/79	3/80
Madagascar x (2)	29,20	12/79	7/80
Equatorial Guinea	6,40	5/80	7/80

- (1) List requested by the European Parliament's Committee on Development and Cooperation.
- (2) The "x" denote the number of transferts received by the ACP State concerned in 1978 and 1979.
- (3) ACP States not required to contribute to the replenishment of resources.