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THE EEC AND THE PACIFIC

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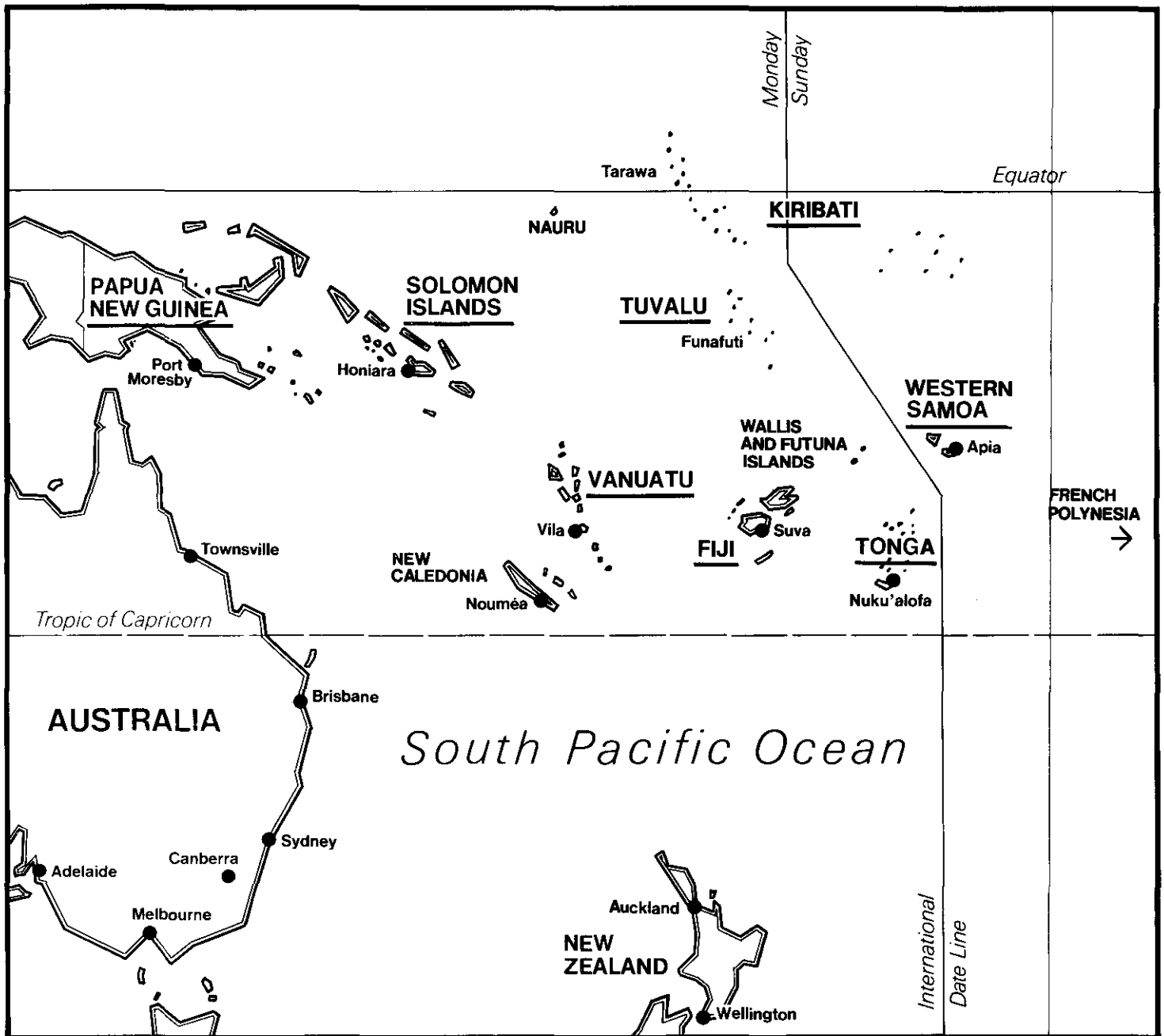
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PACIFIC STATES ASSOCIATED WITH THE EEC UNDER THE LOMÉ CONVENTION



DISTANCES: Sydney-Suva 3200km
 Wellington-Suva 2600 km
 Suva-Tahiti 3000 km
 Suva-Brussels 19000 km

scale:
 0 320 640 km
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THE EEC AND THE PACIFIC

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Introduction

About 22 islands, groupings or archipelagos which include independent nations, dependencies and former trust territories now in free association with the United States, New Zealand or Australia constitute the geographical and political area generally known as the "South Pacific".

With the accession of the United Kingdom to the EEC, the independent Commonwealth countries of the Pacific, Africa and the Caribbean were invited to join the Lomé Convention. Three Pacific states - Fiji, Tonga and Western Samoa - became members of the first Lomé Convention which covered the period 1976 to 1980. Since then, five other countries have joined after obtaining independence: Papua New Guinea, Tuvalu (the former Ellice Islands), the Solomon Islands, Kiribati (formerly the Gilbert Islands and the Phoenix Islands) and Vanuatu (the former New Hebrides).

Thus, of the nine independent states in the South Pacific (as recognised by the United Nations), eight are members of the Second Lomé Convention, which links the European Community to 63 African, Caribbean and Pacific (ACP) states. Nauru, which qualifies as one of the richest countries in the world, is the only independent nation in the Pacific which is not a member of the Lomé Convention.

Although the independent nations in the South Pacific have wide-ranging geographical, historical and economic ties with Australia and New Zealand, they have maintained their close connection with the United Kingdom and, thanks to the Lomé Convention, a significant trade with the European Community. Australia and New Zealand are, however, the leading aid and trading partners for the Pacific states.

The EEC is seen, on the other hand, as the most "neutral" donor by the South Pacific nations. The Pacific members of the ACP group have, in fact, utilised the Lomé Convention to break new ground in their trade and aid ties with New Zealand and Australia (the Spartecca agreement(1)). They have put in a request, for instance, for the introduction of a special scheme for the stabilisation of export prices (in the first instance for coconut products) in their relationship with Australia and New Zealand. The Lomé Convention also acted as an incentive for an increase in aid from Australia and New Zealand to the Pacific nations.

French Polynesia, New Caledonia and Wallis and Futuna, French overseas territories in the South Pacific, are also eligible for the same terms as those granted to the independent nations in the region.

(1) The South Pacific Regional Trade and Economic Cooperation Agreement.

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I. HISTORICAL BACKGROUND
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Europe's links with the Pacific can be traced back to the early 16th Century when the thirst for adventure, money - and in some cases missionary zeal - brought a number of European explorers to the Pacific Islands.

Among the first Europeans to reach the Pacific were explorers from Spain and Portugal, including the legendary Ferdinand Magellan and Alvaro de Mendana and the Portuguese Jorge de Meneses who became the first European to "discover" New Guinea.

The Dutch exploration of the Pacific began at the end of the 16th and the beginning of the 17th Centuries. It was the Dutch navigator Abel Janszoon Tasman who discovered Tasmania, New Zealand, Tonga and some of the Fiji Islands.

British and French explorers began to venture into the Pacific at almost the same time. Captain James Cook made three voyages to the Pacific, discovering new islands each time he did so. Other famous explorers included James Fearn, Captain William Bligh of the "Bounty", and the Frenchmen La Perouse and Bougainville.

These men were in search of more than just adventure. The Pacific was already becoming known as a source of sandalwood, copra, palm oil, sugar and cocoa to the spice and perfume-starved Europeans who braved the seas and the treacherous "trade winds" to keep their capitals in Europe supplied with these precious commodities.

By the 19th Century, the Pacific had to some extent fallen victim to European rivalries and power struggles. Most of the islands were annexed by European powers, including Britain, France and Germany. The defeat of Germany in the first World War had an immediate impact in the Pacific: the former German colonies of New Guinea, Western Samoa and Micronesia which were occupied by Australia, New Zealand and Japan respectively in 1914, became mandated territories of the League of Nations in 1920. New Guinea was administered by Australia, Western Samoa by New Zealand and Micronesia by Japan.

The Second World War was fought in the Pacific between the Allied Nations on one side and the Japanese on the other. At the end of the War, the former mandated territories of the League of Nations became trust territories of the United Nations under the same administering countries.

Western Samoa became the first South Pacific island to become independent in 1962. Fiji and Tonga followed in 1970, and the other nations became sovereign states in rapid succession from 1976 to 1980.

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II. ECONOMIC BACKGROUND

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With a total population of about 4.8 million (predominantly of Melanesian or Polynesian origin, except for Fiji, where 50% of the population is of Indian origin, and Kiribati, whose inhabitants are mainly Micronesian) and a land area covering 551,039 sq km, the islands and archipelagos in the South Pacific share certain economic characteristics which are, to some extent, common to other island economies in the Caribbean and the Indian Ocean.

For one thing, all the Pacific countries except Papua New Guinea have small populations who work for the most part in the subsistence sector of the economies. The export income of most of the islands comes from the sale of a narrow range of tropical agricultural products and, in some cases, even from exports of a single product. Most of the islands are also vulnerable to climatic changes and especially to cyclones which can wreak havoc with agricultural production.

Transport is another major problem. The islands are at a distance not only from each other but also from major markets, which means very high internal and external transport costs. Some of these nations also face serious balance of payment difficulties, especially in the face of the high cost of oil. In general, however, the economies of the Pacific ACP states are carefully managed.

On the other hand, food production, housing and health are also sectors which do not pose serious problems for most South Pacific nations, although nutritional problems, particularly in the developed areas, are a recent phenomenon. The main emphasis of development action in the South Pacific must therefore be on job creation, expansion, diversification of productive capacity and the improvement of rural life in general.

The South Pacific islanders remain very attached to their traditional culture, a fact which aid agencies have to take into account when they draw up programmes of development projects in the region.

The coconut

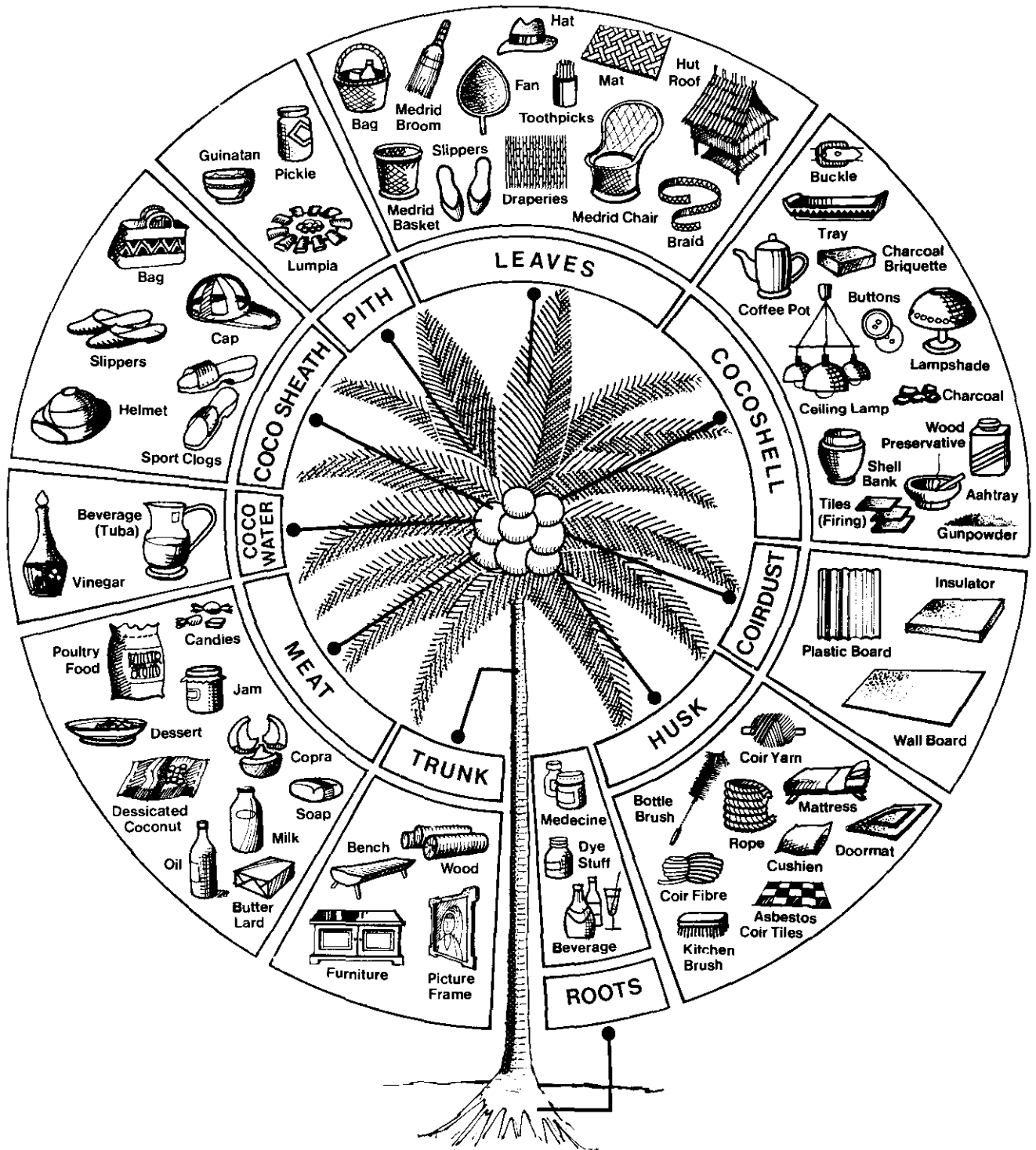
No discussion of the South Pacific economy would be complete without at least a brief reference to the importance of the coconut - known as the "tree of life" - which to most South Pacific islanders is a source of food, drink - and money.

The coconut, which grows naturally in the South Pacific, is not only the major subsistence diet for the islanders, their livestock and poultry, it is also, in most cases, the only source of income for education, church, health and travel.

The islanders, in fact, use every part of the coconut. For example, the stems are used for building purposes and to burn fires, the leaves are woven into baskets, coconut oil is extracted, the coconut itself is eaten and the fibre used to make clothes. The many different products obtained from the coconut tree are shown in the illustration.

THE COCONUT PALM

THE TREE OF LIFE



Agriculture and mining

Although oil exploration is under way in Tonga and Fiji, no commercial usage of the oil has begun as yet. Copper and gold mining in Papua New Guinea and gold mining in Fiji are important activities. Agriculture is, however, still the most important economic sector in the South Pacific.

The main agricultural cash crops in the South Pacific include sugar (Fiji), coffee (Papua New Guinea), cocoa (Papua New Guinea and Western Samoa), palm oil (Papua New Guinea and Solomon Islands), rubber (Papua New Guinea), tea (Papua New Guinea), and, of course, copra (produced in all eight countries).

Other substantial export earners - with a potential for expansion - are the forestry and fishing sectors.

Industries

Industrial development has been limited in the region, although agro-based industries such as palm and coconut oil milling, rice milling, fish canning and saw milling are potential growth areas. Other industries include boat building, furniture making, the manufacture of soft drinks, and clothing.

Tourism

The untapped tourism potential of the Pacific states is well known but, to date, only Fiji has taken any major steps to develop its tourist industry. The emphasis is very much on preserving the region's natural environment by adopting a careful approach towards the development of this sector.

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III. REGIONAL COOPERATION
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The need for a concerted regional approach to common problems facing the independent countries of the Pacific was recognised in 1971 when the South Pacific Forum was set up by Australia, the Cook Islands, Fiji, Nauru, New Zealand, Tonga and Western Samoa.

The Forum was established in 1971 to facilitate cooperation and consultation between the independent and self-governing countries of the South Pacific on questions of trade, economic development, transport, tourism, energy and other related matters. The permanent secretariat of the Forum, established in Fiji in 1973, is known as the South Pacific Bureau for Economic Cooperation (SPEC) and has the following tasks:

- to identify opportunities for the modification of trade patterns, bearing in mind the objectives of regional trade expansion;
- to investigate ways in which industrial and other development can be rationalised, using the concept of regional enterprise;
- to look at the scope of free trade among the island member countries;
- to establish an advisory service on sources of technical assistance, aid and investment finance;
- to help coordinate action on regional transport.

SPEC is also involved in the coordination of regional aid through projects, especially under the LOME Convention and with the United Nations Development Programme.

The South Pacific Commission, which was founded in 1947 by six governments with territories in the area (France, the Netherlands, New Zealand, the United Kingdom, Australia and the United States of America), is the second regional organisation in the Pacific.

This Commission, whose members include all independent and self-governing countries and territories in the South Pacific, has an advisory and consultative role. The South Pacific Commission undertakes programmes in the fields of health, social and rural development and fisheries, and the teaching of the English language.

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IV. TRADE AND AID
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Australia and New Zealand are the main trading partners and the leading source of official development assistance for the independent nations in the South Pacific. Next in line is the European Economic Community and its member states (in particular Britain, Germany and France), followed by Japan and the United States

Papua New Guinea is by far the leading trading nation in the region with both imports and exports exceeding the one billion dollar mark in 1980. Major exports include copper and cocoa. Fiji, with total imports worth 630 million dollars and exports valued at 300 million dollars, comes next. Fiji's main export is sugar. Total imports and exports in the other six South Pacific countries are of a much lower order.

In 1980 Australia, New Zealand and Japan all ran a surplus in their trade with the eight countries, while the European Community ran up a trade deficit of about 320 million ECU with the South Pacific nations in the same year. Total European exports in 1980 to the Pacific were valued at 71 million ECU and included such items as steel, machines and cars. Total exports from the South Pacific to the EEC in the same year were worth 388 million ECU and consisted of such commodities as copper and cocoa from Papua New Guinea, sugar from Fiji and other tropical products including copra, coconut oil and palm oil.

Trade with the EEC is limited because of the vast distances between the two regions. However, the facility of access to the European Community market provided by the Lome Convention has made it possible for the South Pacific nations to diversify their export markets.

International aid to the South Pacific has increased since 1976, with the highest increase coming from Australia and New Zealand. Although Japan and the United States have also stepped up their aid to the region, the European Community is still far ahead in terms of both Lomé Convention assistance and bilateral assistance from member states, particularly from the United Kingdom.

Of total international assistance to the eight countries worth over 430 million dollars in 1980, about 100 million dollars were given by EEC countries bilaterally. Details of assistance under the Lome Convention are given below.

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V. FORMS OF EUROPEAN COMMUNITY ASSISTANCE
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All the African, Caribbean and Pacific (ACP) countries enjoy the same relationship with the European Community under the terms of the Lomé Convention. They are entitled to EEC financial and technical assistance which is programmed for a five-year period, covering the duration of the Lomé Convention.

All South Pacific ACP states except Fiji and Papua New Guinea are considered 'least developed' under the Lomé Convention. Thus the funds are made available in the form of grants (except for some regional projects). They are used for specific development projects which are drawn up by the governments concerned in collaboration with the EEC. As such these projects reflect the development priorities of the ACP countries. The European Development Fund is the financing body for all projects undertaken in countries adhering to the Lomé Convention.

Money for development projects is also provided by the European Investment Bank, the EEC's long-term financing body. This money is, however, in the form of loans, often with an interest subsidy from the European Development Fund, or in the form of risk capital.

Another special feature of the Lomé Convention is the EEC's strong commitment to furthering regional cooperation. This is achieved through aid to specific regional cooperation projects given by the EDF's special section reserved for regional aid. This aid is also programmed for a five-year period. The Pacific ACP states received 10 million ECU under Lomé I and 25.9 million ECU under Lomé II for cooperation in this area.

In addition to such programmed aid, the EEC is also a major source of "non-programmable" aid, including emergency aid for the ACP countries. Emergency aid, designed to help victims of natural disasters, is extremely important for countries in the Pacific, the Indian Ocean and the Caribbean which are particularly prone to hurricanes and cyclones.

The Convention also makes special provisions for widening trade opportunities for the ACP states. The Lomé Convention members have duty free access to European markets for over 99% of all their exports. Such preferential treatment is unilateral and requires no reciprocal exemption for European goods. The ACP states must not, however, discriminate between goods sent from the different EEC member states.

The scheme for the stabilisation of export earnings (STABEX), which provides compensation for shortfalls in earnings generated from agricultural exports, is another major component of the Lomé Convention. Whenever a shortfall occurs in the export earnings from a specific product, the difference between this shortfall and the average earnings for the previous years from exports to the EEC is compensated by a transfer from the EEC to the ACP state in question. The transfer is generally in the form of a grant. For most ACP countries these transfers constitute a valuable contribution to their trade balances.

In addition, the sugar protocol ensures guaranteed outlets for 1.3 million tonnes of ACP sugar at prices fixed in terms of European domestic levels. The protocol is of crucial importance to the sugar-producing countries in the ACP group. Fiji is the only Pacific ACP State benefitting from the sugar protocol.

EEC delegations in the Pacific ACFs

The European Commission maintains two delegations in the Pacific, one in Suva, Fiji and another in Port Moresby, Papua New Guinea. Sub-offices have been opened in the Solomon Islands (Honiara), Western Samoa (Apia) and in Tonga (Nuku'alofa).

These delegations are responsible for the day to day application of the Lomé Convention, and work in close cooperation with the governments of the eight Pacific members of the Convention.

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VI. EEC FINANCIAL AND TECHNICAL ASSISTANCE TO THE PACIFIC STATES
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Under the first Lomé Convention the total amount of programmed and non-programmed aid committed to the Pacific states by the EEC came to 111 million ECU. Under the second Lomé Convention, the total programmed amount will be between 84 and 101 million ECU, to which have to be added non-programmed aid - emergency aid, Stabex transfers, and interest subsidies on EIB loans - given during the course of the five-year Convention.

Although implementation of projects was difficult in the beginning of Lomé I Convention because of the remoteness of the Pacific countries and the lack of knowledge of EDF procedures, the commitment rate of EEC aid under Lomé 1 was between 95 to 100% in most of the countries (in 1982).

The largest portion of EEC aid goes to individual development projects undertaken in the Pacific states under the national indicative programmes. EDF aid to such projects totalled 55.6 million ECU under the first Lomé Convention (1976 to 1980) and will rise to between 84 million ECU and 101 million ECU under the second Lomé Convention (see table).

The priorities of governments in the Pacific are reflected in the projects which are submitted each year to the EDF for financing. The Pacific states asked for assistance in the following major sectors under Lomé I:

- infrastructure, including financing for roads, airstrips, jetties, telecommunications and port development schemes;
- rural development and agriculture;
- industrial cooperation;
- training and technical assistance, trade promotion and studies.

For instance, the infrastructure needs, especially the transport and communication requirements, of island developing countries are clearly reflected in the priorities drawn up by the Pacific governments and the projects financed by the EEC. In Fiji alone, about 6.5 million ECU of the total EEC aid figure of 9.9 million ECU (under Lomé 1) was spent on road and transport improvement schemes, including the construction of rural roads, the building of jetties for the outer islands, and the construction of airstrips. In Kiribati inter-island telecommunication projects are a major priority in the EEC's aid programme.

In the agriculture and rural development sectors, EEC funds have been applied to reforestation, fisheries development, the promotion of livestock farming, and the provision of bulk storage and handling facilities for coconut oil and copra pellets. The financing of hydro-electric projects and the issuing of lines of credit for national development banks is another major use for EEC funds in the Pacific states.

EDF Regional Fund

The EEC spent a total of 10 million ECU for regional development projects in the Pacific states under the first Lomé Convention. The money was spent on a regional satellite telecommunication network, a telecommunication training centre in Fiji (co-financed with Australia and New Zealand), certain programmes carried out by the University of the South Pacific (marine resources, applied agricultural research, and integrated rural development), the purchase of containers for the Pacific Forum Line and navigational equipment for Tonga's airport.

The resources allocated to regional cooperation in the Pacific under the second Lomé Convention were increased to 25.9 million ECU. The money is being used for the improvement of communication facilities, a regional telecommunication network, feasibility studies and pilot projects in the field of alternative energy, the provision of containers to the Pacific Forum Line, assistance to the Forum Fisheries Agency, and, possibly, for further support for the University of the South Pacific.

Emergency Aid

European Community emergency aid, following in the wake of Hurricane Arthur and Hurricane Oscar which hit Fiji in 1981 and 1983 respectively, was used by Fiji for the reconstruction of houses (1981) and the rehabilitation of the agricultural potential of the damaged areas (1983). Under Lomé I, Fiji received a total of 3.8 million ECU from the EEC as emergency assistance. Under Lomé 2, the EEC has agreed to give 2.5 million ECU to Fiji following the havoc caused by Hurricane Oscar in 1983.

Tonga has also received EEC emergency aid for a total of 1.6 million ECU. This included 200,000 ECU in 1977 to repair earthquake damage, and an additional 1.4 million ECU in 1982 for housing reconstruction after Hurricane Isaac hit the island.

STABEX

For the period to the end of 1981, the Pacific countries had received a total of 23.89 million ECU from the EEC for the stabilisation of their export earnings under the two Lomé Conventions. The various transfers involved covered shortfalls in export earnings from copra, wood, cocoa beans, bananas and vanilla.

Although the general rule under Stabex regulations in the Lomé Convention is that the transfers cover shortfalls in exports to the EEC, in the case of the Pacific states, except Papua New Guinea and Fiji, this rule has been waived and their exports to all destinations are taken into account when Stabex transfers are calculated.

Total Stabex aid to the Pacific countries under the first Lomé Convention amounted to 12.2 million ECU. Aid under the second Convention stood at 11.69 million ECU for 1980 and 1981.

The Stabex transfers made to the Pacific states have been in the form of grants (except in the case of Fiji and Papua New Guinea), a formula followed for least developed countries. In other cases they are interest-free loans, the repayments of which go towards replenishing the system's resources.

Sugar Protocol

The European Community's commitment to purchase specific quantities of ACP cane sugar every year is written into a special Sugar Protocol annexed to the Lomé Convention. The protocol, which has to some extent replaced the Commonwealth Sugar Agreement, is of particular interest to Fiji, since that country exports 169,000 tonnes of cane sugar (the equivalent of 163,600 tonnes of white sugar) to the EEC every year.

European Investment Bank

The EIB invested 32.9 million ECU under Lomé I in two Pacific states: 8.9 million in the Higaturu Oil Palm Project in Papua New Guinea, which is also being financed by the Commonwealth Development Corporation, and 24 million ECU in a hydroelectric scheme in Fiji.

Under Lomé II, Papua New Guinea has received an EIB loan totalling 52 million ECU (40 million ECU on commercial terms and 12 million ECU on easy terms from risk capital resources) for the OK Tedi mining project. This is the first - and largest - such loan made by the EIB under the chapter in Lomé II which allows the Bank to support mining and energy projects of mutual ACP and EEC interest in the ACP countries.

Fiji has received a 12 million ECU loan, at a subsidized interest rate, for a hydro-electric scheme, while a number of other loans have been made from risk capital resources: to Tonga (1 million ECU for the Tonga Development Bank); to Vanuatu (1 million ECU for the Vanuatu Development Bank); to Western Samoa (4 million ECU for a hydro-electric power scheme); and to the Pacific Forum Line (5 million ECU).

Centre for Industrial Development

The Brussels-based Centre for EEC/ACP Industrial Development (CID) was set up under the Lomé Convention to encourage contacts between EEC and ACP businesses and industries.

The Centre held its Pacific Regional Seminar in Fiji in October 1981 and has sent official missions to Fiji, Papua New Guinea, Solomon Islands, Tonga, Vanuatu and Western Samoa. Antennae have been set up in Fiji (the Economic Development Board performs this function), the Solomon Islands, Tonga, Vanuatu and Western Samoa. The South Pacific Bureau for Economic Cooperation has agreed to become the Centre's antenna for regional or tripartite projects (i.e. joint ventures involving EEC/ACP, Australia and New Zealand) in the area.

EEC ASSISTANCE TO THE PACIFIC STATES

(million ECU)

	Lomé I (1975-80)	Lomé II (1980-85)
- financial and technical coopération (project aid)	55.69	83.9 - 101.4
- Emergency aid	4.0	4.1 (80 - 83)
- Stabex	12.2	11.69 (80-81)
- European Investment Bank	33.1	75 (80-82)
- Interest subsidy on EIB loans	6.1	4
 Total =====	 111.09 =====	 179.69 - 197.19 =====

OTHER PUBLICATIONS CONCERNING "DEVELOPMENT"

Other EEC publications about the Community's relations with the Third World can be obtained from the following address:

Spokesman's Group and Directorate-General for Information
Publications distribution service, Room 2/84
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1. Dossiers

- Dossiers Lomé II
Communauté européenne - Afrique, Caraïbes, Pacifique
Offprint of the 'Courier', special edition
- The European Community's development cooperation policy, 1980
Offprint of the 'Courier', n° 69,
- How to participate in contracts financed by the European Development Fund
Development Series - 1981 n° 3
- European Development Fund Procedures
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2. SERIES: "INFORMATION" ET "EUROPE INFORMATION"

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