

COMMISSION OF THE EUROPEAN COMMUNITIES

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Brussels, 5 November 1984

COMMISSION COMMUNICATION TO THE COUNCIL

concerning the application of Article 21(4) of the
first Lomé Convention to transfers made as loans to
Congo and Gabon for the 1975 application year

I. PURPOSE OF THE COMMUNICATION

1. The purpose of this communication is to propose to the Council that the Community request the ACP-EEC Committee of Ambassadors, to decide under Article 21(4) of the first Lomé Convention, that the transfers made as loans to Congo and Gabon for the 1975 application year be repaid.

2. Article 21(2) of the first Lomé Convention stipulates:

"The ACP States which have received transfers shall contribute, in the five years following the allocation of each transfer, towards the reconstitution of the resources made available for the system by the Community".

3. The following ACP States received transfers in the form of loans for the 1975 application year:

<u>ACP State</u>	<u>Product</u>	<u>Amount</u>
Fiji	Coconut oil	615 140
Cameroon	Wood in the rough	3 601 423
Congo	Wood in the rough	7 361 677
Gabon	Wood in the rough	6 703 311
Ghana	Wood in the rough	5 176 408
Ivory Coast	Wood in the rough	15 000 000

4. Of these six transfers, that made to Fiji was fully repaid in 1978 since the conditions for replenishment laid down in Article 21(3) had been fulfilled in the 1977 application year.

5. In the case of the five transfers for wood in the rough, one of the conditions never materialized. For structural reasons the quantities have remained below the reference level. These countries' wood exports have been affected by the gradual exhaustion of forestry stocks together with falling Community demand for ACP wood in the rough.

6. Article 21(4) stipulates:

"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 of 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;
- rights to repayment are to be waived."

7. The observation period specified in Article 21(2) ended in 1980 for transfers made for the 1975 application year. A decision was taken by the Libreville ACP-EEC Council of Ministers of 13/14 May 1982 on the transfers made to Cameroon, the Ivory Coast and Ghana in the context of the problem of the shortage of funds. After an examination of each individual case, it was agreed that the sums owed by these three ACP States, which had transfer entitlements with respect to the 1981 application year, would be charged against these transfers and, on this condition, rights to repayment would be waived.¹

8. As regards the transfers made for 1975 to Congo and Gabon, which had not requested transfers for 1981, it was decided to postpone repayment for a year, and on 20 May 1983, the Council delegated to the Committee of Ambassadors the power to take a decision to that effect.

9. The Committee of Ambassadors must therefore take a decision pursuant to Article 21(4) of the first Lomé Convention before the end of the year. The purpose of this communication is to propose such a decision, as indicated in point 1.²

II. GROUNDS

10. The decision the ACP-EEC Council of Ministers is called on to take pursuant to Article 21(4), must, for each of the ACP States concerned, take particular account of three factors, namely the situation of and prospects for

- the balance of payments
- exchange reserves
- foreign indebtedness.

¹ A similar decision was reached in the case of the sums owed in respect of the transfers made to Fiji and Madagascar for the 1976 application year.

² See Annex I for the overall situation regarding transfers made for the 1975 and 1976 application years.

The Commission has done its best to gather information on these three factors from the most appropriate sources.¹

11. The balance of payments situation² in Congo seems to have been strained since 1976, tending downwards if anything. Gabon, in contrast, has had a number of surpluses and the trend for 1984 is good, although the 1983 results cast doubt on this forecast.

12. The level of exchange reserves:³ no clear trend in the case of Congo, while the trend for Gabon, despite setbacks, is upwards.

13. The level of foreign indebtedness⁴ seems to be of about the same order for both the ACP States in question. Each has debts amounting to some US\$1 500 million. There is one difference in that Congo has doubled its debt since 1976 while Gabon's increased by only a third over the same period. Debt servicing is becoming a heavy burden for both countries since debts have been increasing faster than exports over the past few years.⁵

14. Although the above analysis does not paint a particularly optimistic picture of the economic trends and prospects in Congo and Gabon, it should be pointed out that the situation of these two countries does not differ significantly from that of the ACP countries affected by the Libreville decision:⁶ the case of Gabon is comparable to that of Fiji, a comparatively well-off ACP State while Congo's situation corresponds to that of the ACP States such as Ghana, with greater economic problems.

¹ See Annexes II to V. The investigation ran into major difficulties especially as regards more recent years, and assessing prospects proved even more difficult than gauging the current situation. The figures, some of which are provisional or even estimated, should be regarded as confidential.

² See Annex II.

³ See Annex III.

⁴ See Annex IV.

⁵ See Annex V.

⁶ See point 7 above; a comparison based on the main factors is also shown in Annex V.

15. Unlike the ACP States dealt with by the Libreville decision, neither Congo nor Gabon have had transfer entitlements since 1981 against which repayments could have been offset. It is undesirable to postpone yet again the decision which must be taken pursuant to Article 21(4) of the first Lomé Convention. To avoid discriminating against the ACP States whose transfer entitlements were reduced by an amount equivalent to the sums owed to the system, it would be appropriate that Congo and Gabon also repay the sums owing on their transfers.

16. A suitable rate of repayment would be one fifth per year, by analogy with Article 43(4) of the second Lomé Convention.

III. PROPOSAL

17. Under Article 2 of Decision 4/84 of the ACP-EEC Council of Ministers of 20 May 1984, the power of decision provided for in Article 21(4) of the first Convention has been delegated to the Committee of Ambassadors with respect to the 1975, 1976 and 1977 application years.

The Commission proposes that the Council approve the position outlined above to be taken by the Community on the Committee of Ambassadors.

18. A draft article containing the proposed decision is annexed (Annex VI).

SITUATION OF REPAYABLE TRANSFERS ALLOCATED FOR THE YEARS
OF APPLICATION 1975 AND 1976

Year of Application	ACP State	Product	Amount in ECU	Repayments received on the basis of art. 21(2) and (3) of the first Convention .	Amounts concerned by the Libreville decision (May 1982)
1975	Cameroun	Wood in the rough	3.601.423	-	3.601.423
	Congo	idem	7.361.677	-	-
	Ivory Coast	idem	15.000.000	-	15.000.000
	Fiji	Coconut oil	615.140	615.140 (in 78)	-
	Gabon	Wood in the rough	6.703.311	-	-
	Ghana	idem	5.176.408	-	5.176.408
		TOTAL		38.457.959	615.140
1976	Cameroun	Cocoa Paste	463.558	463.558 (in 78)	-
	Fiji	Coconut oil	1.499.834	1.253.399 (in 78)	246.435
	Sierra Leone	Iron ore	3.977.274	-	(1)
	Madagascar	Raw sisal	1.762.943	-	1.762.943
		Cloves	1.139.516	1.139.516 (in 80)	-
	TOTAL		8.843.125	2.856.473	2.009.378
			-		
	GRAND TOTAL		<u>47.301.084</u>	<u>3.471.613</u>	<u>25.787.209</u>

(1) In the case of Sierra Leone, which was included in the list of least-developed ACP States in the Second Convention the debt was cancelled.

BALANCE OF PAYMENTS (1)

	1976	1977	1978	1979	1980	1981	1982	1983	tendency 1984
1. <u>Congo</u>									
Mill \$	- 94,6	- 59,3	- 8,1	- 26,9	+ 80,6	- 335,6	- 84 ^e	n.a. (2)	↓
2. <u>Gabon</u>									
Mill \$	+ 146,5	- 14,5	+ 173,8	+ 278,6	+ 348,0	+ 304,3	+ 403 ^p	+ 95 ^e	↑

Source : IMF, International Financial Statistics; p = provisional; e = estimated (both confidential)

(1) Definition : "overall balance" = [current account] + [net long term capital movements]
 = [(trade balance) + (net services) + (net unrequited transfers)]
 + [(direct investment) + (portfolio investment) + (other long term capital)]

In terms of IMF : International Financial Statistics, this definition refers to the following items of the position 77 :
 [(aa - ab) + (ac - ad) + (ae + ag)] + [(ba) + (bd) + (be)]

(2) a substantial deficit is to be expected; result of current account roughly - 450 Mill. SDR

p.m. 1975 transfers to the Congo and Gabon, converted into US Dollars at the exchange rate of 31 December 1983, amount to 7,9 Mill. US \$ and 7,27 Mill. US \$ respectively.

EXCHANGE RESERVES, END OF PERIOD (1)

	1976	1977	1978	1979	1980	1981	1982	1983	tendency 1984
1. <u>Congo</u>									
Mill \$	12,17	13,53	9,43	42,23	85,90	123,37	37,01	29 ^p (2)	?
2. <u>Gabon</u>									
Mill \$	116,16	9,91	22,57	20,13	107,50	198,85	311,88	255,7 ^p (3)	↑

Source : IMF, International Financial Statistics; p = provisional (confidential)

(1) Definition : total reserves minus gold = SDR\$ + reserve position in the fund + foreign exchange

(2) end of October 1983; this figure does not include a possible overdraft in the Franc Zone arrangements, which might be important.

(3) end of September 1983.

p.m. 1975 transfer to the Congo : 7,99 Mill. US \$, to Gabon 7,27 Mill. US \$ at 31.12.83 exchange rate.

EXTERNAL DEBT, END OF PERIOD (1)

	1976	1977	1978	1979	1980	1981	1982	1983
<u>1. Congo, Mill \$</u>								
a) Debt outstanding incl. undisbursed	730,4	820,9	1.005,3	1.049,7	1.239,9	1.628,9 ^r	1.803,6 ^p	1.700 ^e
b) Debt outstanding disbursed (DOD)	421,0 58%	510,5 62%	778,3 77%	862,5 82%	941,5 76%	1.133,4 ^r 70%	1.369,9 ^p 76%	1.400 ^e 82%
<u>2. Gabon, Mill \$</u>								
a) Debt outstanding incl. undisbursed	1.175,9	1.331,5	1.592,8	1.603,9	1.394,3	1.210,1 ^r	1.597,7 ^p	1.400 ^e
b) Debt outstanding disbursed (DOD)	1.079,5	1.279,4	1.277,6	1.311,0 81,8%	1.188,6 85,2%	1.043,7 ^r 86%	871,4 ^p 55%	890 ^e 64%

Source : World Bank, World debt tables, 1982-83 edition; r = revised; p = provisional; e = estimated (both confidential)

(1) Defined as public or publicly guaranteed debts that have an original or extended maturity of more than one year, which are owed to non-residents and are repayable in foreign currency.

p.m. 1975 transfer to the Congo : 7,99 Mill. US \$, to Gabon 7,27 Mill. US \$ at 31.12.83 exchange rate.

Table 1 Comparison of some indicators for the assessment of the external debt situation

Debt service to exports ratio¹, %

	1976	1977	1978	1979	1980	1981	1982	1983
Congo	8,8	11,0	8,1	19,6	9,6	<u>9,2</u>	<u>18^p</u>	<u>32^e</u>
Gabon	6,1	9,2	20,8	17,6	<u>16,0</u>	<u>11,9</u>	<u>12^p</u>	<u>15^e</u>
Madagascar	3,9	3,7	4,3	7,4				
Fiji	2,3	2,3	4,4	2,6	3,2	4,7		
Ivory Coast	8,8	10,1	12,8	18,1	<u>24,1</u>	22,7		
Ghana	5,9	3,3	6,5	5,5	5,3	9,1		
Cameroon	5,4	5,8	7,9	7,7	<u>8,7</u>	<u>10,9</u>	4,0	
Africa, south of the Sahara	5,8	4,9	7,5	7,6				

Source: cf. Annex IV (item TDS/XGS), and own calculations (underlined); p = provisional; e = estimated (both confidential).

¹Total debt service: interest and amortization in % of export earnings (goods and services).

Table 2 Comparison of some indicators for the assessment of the external debt situation

Debt/exports ratio¹, %

	1976	1977	1978	1979	1980	1981	1982	1983
Congo	143,6	146,4	204,6	151,6	91,4	<u>94,2</u>	<u>114^e</u>	<u>130^e</u>
Gabon	79,5	86,0	86,2	64,6	<u>48,8</u>	<u>36,2</u>	<u>37^e</u>	<u>41^e</u>
Madagascar	57,6	63,0	69,3	134,1				
Fiji	22,2	25,4	21,7	22,0	29,8	40,4		
Ivory Coast	58,8	69,2	91,3	110,7	<u>114,1</u>	132,5		
Ghana	74,4	76,8	80,5	76,3	77,4	113,7		
Cameroon	71,3	84,1	85,9	94,8	<u>95,3</u>	<u>111,1</u>		
Africa, south of the Sahara	64,7	65,6	93,9	88,9				

Source: cf. Annex IV (item DOD/XGS), and own calculations (underlined); e = estimated (confidential).

¹Public debt outstanding disbursed in % of export earnings (goods and services).

Table 3 Comparison of some indicators for the assessment of the external debt situation

Reserves/debt ratio¹, %

	1976	1977	1978	1979	1980	1981	1982	1983
Congo	2,9	2,8	1,5	5,6	9,8	11,6	<u>2,7^e</u>	<u>2^e</u>
Gabon	10,8	0,9	1,9	2,0	9,7	22,3	<u>35,8^e</u>	<u>29^e</u>
Madagascar	21,9	28,2	19,2	0,8				
Fiji	204,7	183,3	170,1	136,0	99,9	61,8	56,3	
Ivory Coast	6,6	9,9	16,3	4,7	1,1	0,8	0,5	
Ghana	17,9	24,0	41,0	44,5	34,8	27,7	28,5	
Cameroon	8,5	5,4	4,9	8,6	10,3	4,4	4,2	
Africa, south of the Sahara	46,6	36,2	20,0	30,5	38,5	18,6		

Source: cf. Annex IV (item RES/DOD), and own calculations (underlined); e = estimated (confidential).

¹Exchange reserves in % of debt outstanding disbursed.

Table 4 Comparison of some indicators for the assessment of the external debt situation

Reserves/import ratio¹, months

	1976	1977	1978	1979	1980	1981	1982	1983
Congo	0,3	0,3	0,2	0,8	0,9	<u>1,4</u>	<u>0,3</u>	<u>0,3^e</u>
Gabon	1,0	0,1	0,2	0,2	<u>0,7</u>	<u>1,2</u>	<u>1,9</u>	<u>1,5^e</u>
Madagascar	1,1	1,7	1,2	0,1				
Fiji	4,5	5,1	4,1	3,1	3,2	2,2		
Ivory Coast	0,4	0,8	1,4	0,4	<u>0,05</u>	0,1		
Ghana	1,4	2,0	3,6	4,8	2,9	2,8		
Cameroon	0,6	0,5	0,4	0,9	<u>0,9</u>	<u>0,4</u>		
Africa, south of the Sahara	3,1	2,4	1,7	3,0				

Source: cf. Annex Iv (item RES/MGS), and own calculations (underlined); e = estimated (confidential).

¹ Exchange reserves in months of total imports (goods and services).

DRAFT

Decision of the ACP-EEC Committee of Ambassadors
concerning the replenishment of certain resources
transferred under Stabex by virtue of the first
Lomé Convention

THE ACP-EEC COMMITTEE OF AMBASSADORS,

Having regard to the first Lomé Convention, and in particular Article 21(4) thereof;

Whereas the resources transferred to Congo and Gabon under the export earnings stabilization system for the 1975 application year have not been replenished;

Whereas in the case of transfers made to other ACP States for the application years 1975 and 1976 which had not been repaid after a five-year period, the Committee of Ambassadors agreed to offset the repayments against the transfers those States were entitled to for the 1981 application year;

Whereas the economic situation in Congo and Gabon is comparable to that of the States in question;

Whereas Congo and Gabon should be treated in the same way as the countries referred to above;

Whereas contributions to resource replenishment should be made in several instalments,

HAS DECIDED AS FOLLOWS:

Sole Article

The resources transferred to Congo and Gabon for the 1975 application year under the export earnings stabilization system set up under the first Lomé Convention shall be replenished at the rate of one fifth per year from 1985.