COMMISSION OF THE EUROPEAN COMMUNITIES

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COMPREHENSIVE REPORT ON THE
EXPORT EARNINGS STABILIZATION SYSTEM
ESTABLISHED BY THE LOME CONVENTION FOR
THE YEARS 1975 TO 1979

(Commission Staff Paper)

CONTENTS

FOREWORD

1. The Development Committee of the European Parliament has asked the Commission, once transfers under the export earnings stabilization system set up under the first Lomé Convention (Stabex) are completed, to prepare it a report summarizing the operations carried out under the system, the experience gained and the problems encountered, and indicating how the lessons learned in putting Stabex into practice were used to improve it during the negotiations for the new Convention.

2. The balance sheet for the period under consideration stands as follows: for 1975, 1976, 1977, 1978 and 1979, the five years of application of the export earnings stabilization system set up for the benefit of the Group of African, Caribbean and Pacific States (ACP) and the overseas countries and territories (OCT), the Commission of the European Communities has taken:

- 123 transfer decisions benefiting
- 37 out of the 59 ACP States and 2 OCT and relating to
- 24 products, for a total amount of
- almost 390 million EUA out of the 400 million EUA earmarked for the ACP (375 + 5) and OCT (20), to which must be added 5.9 million EUA returned to the system as contributions by ACP and OCT to the reconstitution of its resources; of that amount
- grants accounted for 67% and loans for 33%, and were used to compensate for
- loss of earnings due to local circumstances (69%) and losses due to cyclical factors (31%).

3. On the basis of the bare figures the time is ripe, now that all transfers under the 1975 system have been completed, to analyse and evaluate the system more fully and to place it in its historical, political, economic and financial context. That is the aim of this report.

INTRODUCTION

01. Heralded as a major innovation in international economic relations, the export earnings stabilization system set up under the first Lomé Convention and commonly known as Stabex has performed just as was intended. Over the five-year period it provided 37 ACP States[1] with a total of 388 million EUA in 119 transfers accorded to cover losses incurred on exports to the EEC of 24 out of the 38 products currently covered by the Lomé I system.

Of the amount transferred, 31% constituted "unemployment benefit", i.e. compensation granted to ACP States for loss of earnings caused by adverse market conditions in the Community, while 69% represented "sickness benefit", covering loss of earnings due to local circumstances. Thirty-three per cent of transfers was in the form of loans while 67% took the form of grants to the least developed ACP States, which are also the most vulnerable to market swings and local contingencies. Putting the system into practice confirmed that for the products covered, variations in earnings are due much more to fluctuating export volumes than to price movements.

It has thus proved possible to mitigate the short-term difficulties of producers and governments without distorting the free operation of the market, impeding the flow of international trade or compromising the effectiveness of existing world commodity agreements or the conclusion of new ones, three points, which they accounted for most of the reservations expressed when the Commission suggested the scheme (2).

Before examining Stabex as a whole, it is as well to recapitulate the political and economic circumstances of its creation.

Why Stabex, and how was it arrived at? This is of more than merely historical interest. In theory the problems facing commodity producing and exporting developing countries could be tackled in a number of ways. The choice of a suitable approach must follow on economic analysis. But to arrive at a realistic solution, putting forward a particular formula at the right moment is as important as actually choosing that formula. Secondly, it was the interaction of economic factors with political considerations which led to the emergence of the scheme described here.

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[1] ACP States signatory to the Lomé Convention or having acceded to it under Article 89 (newly-independent OCT) or Article 90 (new ACP States).

See § 122.3, which explains the differences between the various categories of country eligible for Stabex.

[2] See § 43.

02. The ideas behind Stabex

021. The problem of unstable export earnings

As a rule the beneficial effects of upswings in export earnings do not seem to offset the damage wrought by downward variations, even if the upward and downward movements appear of equal magnitude.

The disruption caused by fluctuations in export earnings takes several forms.

1. Investment planning is undermined, since a developing country's economic structure is often too rigid to allow it to make the most of an unexpected rise in export earnings, while a sudden fall in earnings leads to the cancellation or mothballing of projects in progress without there being any immediate prospect of replacing them by alternative schemes with a lower import content.

2. Variations in export earnings endanger the internal balance of public finances. When commodity prices are rising governments tend to increase public expenditure on consumption, which is difficult to cut back if there is a downturn. Loss of tax revenue then has to be offset by a heavier levy on producers' earnings or domestic debt with its concomitant inflationary risks. In either case the erosion of producers' real income can put them off producing for export and lead to a fall in export earnings and GNP.

3. The effect of fluctuating export earnings on the balance of payments is obvious.

022. Stabilization of prices and earnings

The fluctuation of commodity prices is not the only factor involved. Price stabilization alone cannot stabilize the developing countries' export earnings. On the contrary, it can even be harmful to their economic development, since by eliminating or reducing the part played by one of the market regulators it could increase the instability of export earnings if fluctuations in output are due to non-economic causes[1].

023. Aggregates which can be stabilized

Stabilization or support measures can be applied to different aggregates:

1. Balance of payments: the main object here is to establish or restore a balance between foreign currency outflows and inflows where there is a temporary shortfall in the latter[2]. Such support can be based on either

   the basic balance, or
   goods movements only[3], or

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[1] See § 024.1.
[2] See § 415.2.
[3] Or goods and services.

primary products, perhaps including certain products of first-stage processing.

Any stabilization measure taking the form of an injection of foreign currency into the exporting country obviously helps its balance of payments.

2. Stabilization of government revenue. Commodity exports generally provide the exporting country's government with revenue

in the national currency, derived from export duties and other direct or indirect taxes;
in foreign currency, through repatriation of the proceeds of sales on the markets of consumer countries.

The stabilization of export earnings can obviously affect both these factors.

3. Stabilization of the cash flow of the whole sector, and producer incomes in particular. The most suitable way of stabilizing producer incomes is through a single-product or multi-product marketing board. Such boards are generally public bodies charged with the following duties:

- Buying at guaranteed prices as much as the producer offers for sale. The guaranteed price is set by the authorities from time to time, and is obviously important as an incentive to peasants to increase output and market their produce through the board.

- Selling the commodity directly or indirectly in the consumer markets. Where the state of the market allows, the guaranteed price will be lower than the actual sale price and all or part of the difference goes to a stabilization fund on which the board can draw to pay the guaranteed price whenever the selling price falls below it.

- If necessary, helping to improve production methods, train producers and promote sales, etc.

4. Price stabilization: this is discussed below.

024. <u>The main ways to combat export earnings instability and its consequences</u>[1]

Broadly speaking there are four ways of influencing commodity-producing countries' export earnings.

1. Intervening in the market (world commodity agreements or arrangements):

Market intervention techniques are intended to act on commodity prices and involve sharing out the export market, controlling supply and sometimes creating buffer stocks. This approach comes up against a certain amount of opposition, usually expressed as an attachment to free market principles, which are merely the ideological reflection of obvious economic facts.

[1] Stabilization schemes can be conceived in either nominal or real terms. Here stabilization is considered in nominal terms; the tricky question of stabilization in real terms is examined below.

Since for most tropical agricultural products, price swings are due much more to variable crop size than to fluctuating demand, price stabilization works against consumers. A world agreement would encourage consumers to try and secure price stabilization levels lower than the likely average rate. But the position of consumers and producers is reversed where price instability is mainly a result of fluctuating demand, as is the case with most minerals; prices are influenced by changes in the economic climate in the industrialized countries rather than in the terms of supply[1].

Those opposed to commodity agreements offer other arguments: many commodities are produced and exported by industrialized as well as developing countries, and in many cases developing countries are major importers. This could mean that price stabilization would often benefit the industrialized countries more than the developing ones, and in some cases place an intolerable burden on the latter.

Furthermore, the reference price, i.e. the world price as quoted on major commodity exchanges, is often far removed from the real value of exporters' sales, as can be seen from what we know of export unit values.

Anyway, by definition price stabilization stabilizes prices and not earnings, which are the product of quantity times price, since it offers no solution to loss of earnings resulting from a volume decline; even the best commodity agreement is no help to a country whose output has been hit, driving it off the market or restricting the amount it is able to supply.

This is where earnings stabilization can complement price stabilization. Stabilizing the prices of the major commodities at world level with sufficient funds is the first step in tackling the problems of commodity exporting developing countries. But it cannot solve all these problems.

2. Preferential schemes

These schemes are by definition geographically limited, since they are based on a system of guaranteed prices supported by tariff or similar concessions to producers which are members of the agreement. This approach would have run into stiff opposition as it would have involved further barriers to international trade.

3. Non-market institutional systems with purchase and price guarantees

This would involve the establishment of bodies responsible for buying up specific amounts of the product covered by the agreement at a fixed price from the producing countries and then marketing them on a closed market, selling them on the world market, putting them in storage or denaturing them. This was the approach used in the old franc zone market organizations and the Commonwealth Sugar Agreement.

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[1] Plus the inherent problems of fixing prices and, where buffer stocks are concerned, quantities and intervention rules, so as to limit the incentive to produce surpluses.

4. Compensatory payments with no market intervention

The idea behind this sytem is to fix a reference level, and then guarantee the exporting countries cash transfers to make up all or part of the difference between the actual value of exports and this reference level.

This approach has the following advantages:

(a) it is conceptually simple;

(b) the operation of the system can be tailored to the situation of individual recipient countries;

(c) it shields exporting countries from the vicissitudes of the market while allowing it to continue to act as an indicator of the supply and demand position;

(d) it is relatively cheap and in some circumstances can be self-financing.

025. Choosing a scheme

In the specific context of ACP-EEC relations it was necessary to take decisions regarding:

1. The aim: balance of payments support or stabilization of earnings from commodity exports? Since the Acts of Accession mention commodities the second of these was chosen[1].

2. The method: compensatory payments on a product-by-product basis or on all commodities, i.e. product-to-product compensation? The product-by-product approach was chosen, out of consideration for the interests of producers, for whom a loss of earnings means less income, and because the second method would penalize countries with diversified exports, which would hardly encourage others to diversify.

3. Geographical cover: should the guarantee apply to exports to all destinations or only to the Community? Since there is no reason why the Community should underwrite risks resulting from events taking place in third-party countries or markets, it was felt fairer to restrict cover to exports to the Community. The above economic analysis, and various political constraints which meant that the schemes chosen

(a) must not interfere with the operation of the market
(b) must not create obstacles to international trade, and
(c) must be compatible with existing world agreements for the commodities concerned and not stand in the way of further agreements,

[1] It is not correct to say that this choice was dictated by purely formal considerations. As far as commodities are concerned the Acts of Accession simply took account of the actual economic situation in the countries involved. And what would have been the point of another scheme overlapping with the IMF's compensatory finance facility (CFF)?

led the Commission on 4 April 1973 to suggest that a system for stabilizing export earnings would be the most suitable way of giving effect to Part III of Protocol No 22 to the Acts of Accession[1].

03. The emergence of Stabex

As it turned out, the Commission's proposal could not have been more timely, but circumstances at the time did not make for easier negotiations.

031. A timely proposal

1. The instability of the developing countries' earnings from exports of their commodities had been an issue on the international agenda for years. One need only reflect on the intentions voiced at the Havana Conference[2], the host of theoretical studies devoted to the matter, the World Bank study on complementary financing prepared at the behest of UNCTAD[3], the IMF's compensatory finance facility (a different approach, involving balance of payments support, but based on similar considerations), colonial and postcolonial market organizations, and the various international commodity agreements and arrangements.

2. In accordance with the wishes of the contracting parties, the enlargement of the Community was to increase the number of developing countries with which the Community had to negotiate the successor to the second Yaoundé Convention, provided they so desired. In preparing for the negotiations it was necessary both to preserve what had already been achieved by the Six under the Yaoundé Conventions and by the United Kingdom in its relations with the African, Caribbean and Pacific developing countries and to accommodate the concerns of developing countries as a whole. But the rise in the numbers of contractual partners was bound to dilute the preferences which they each enjoyed on their respective preferential markets.

At this point, therefore, the Community had to submit to its present and future associates a scheme which could flesh out the trade provisions of the projected Convention in the form of an export earnings stabilization system.

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[1] Part III of Protocol No 2 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. the Associated African States and Madagascar, and Commonwealth countries situated 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".

[2] The international conference held in Havana in 1947/48 was intended to do for international trade what Bretton Woods had done for the international monetary system. The most tangible result of the ambitious "Havana Charter" was the General Agreement on Tariffs and Trade, otherwise known as GATT.

[3] United Nations Conference on Trade and Development.

At the heart of the proposals was the section just mentioned of Protocol No 22 to the Acts of Accession: the link thereby established between sugar and other commodities meant that any action on sugar necessitated concomitant measures for them too.

3. The Commission's proposal was put forward in tempore non suspecto, i.e. six months before the Middle East crisis. So Stabex was not produced in reaction to the new international situation, but was an offer made by the Community quite independently of these developments on the world scene.

032. Tough negotiations

1. The Commission proposals set out in Memorandum No 500 of 4 April 1973 called for:

(a) The establishment of a reference price for each product based on a moving average of world prices over the five years preceding each new year of application, and of fixed reference quantities (each country's average exports to the Community in the five years before the entry into force of the agreement) to apply for the duration of the agreement.

(b) Weightings which could be added to the reference price to reflect the situation of different recipient countries.

(c) A credit line to be opened automatically where actual earnings fell below the reference level.

(d) Repayable transfers, but with derogations allowed for the poorest countries.

(e) A list of products (bananas, cocoa, coffee, copper, cotton, groundnuts, groundnut oil and sugar) chosen on the grounds of their importance to the beneficiary countries' economies and the degree of instability of the markets.

(f) Guidelines for the use of transfers.

(g) Financing from own resources, not subject to any ceiling and entered in the budget separately from the other resources allocated for cooperation with the countries concerned. This proposal was amended several times in the course of the negotiations to take account of the views of Member States and ACP States, and Commission discussions on various aspects of the scheme.

2. In accordance with procedure the Member States first considered the financial implications of the scheme and were unanimous in calling for a ceiling. The first consequence of this was to force the Commission to estimate foreseeable needs and reconsider the priorities: as a result, copper was withdrawn from the list of products covered.

The allocation of 395 million EUA (375 million EUA for the ACP States and 20 million EUA for the OCT) was incorporated into the overall package of resources the Community was to make available for financial cooperation with those countries. Thus Stabex forms part of the financial activities of the European Development Fund (EDF) although the Stabex money is kept separate and administered under separate rules from the EDF money proper.

The Member States also urged that the automatic machinery advocated by the Commission be replaced by a system allowing a certain margin of discretion. This explains the incorporation in the Convention of the "basis of the transfer" concept (Art. 19(3)) and of Article 19(4).

3. In the course of the negotiations the Community agreed to many of the requests made by the ACP States:

(i) The list of products covered by Stabex is admittedly not as long as the ACP States would have wished, but it goes further than the original Commission proposal.

(ii) The Commission had proposed a five-year reference period, but after protracted negotiations a moving four-year period was adopted (the negotiations partly coincided with the desire to take advantage of the commodity price boom).

(iii) The weightings idea was also abandoned in the face of opposition from the developing countries.

(iv) The Community's biggest concession concerned use of the transfers: the only undertaking the ACP States gave on this point was that they would inform the Commission how the transferred resources were used.

4. As the negotiations, and the Commission's internal discussions, progressed, other changes were made to the initial scheme:

(a) The dual reference quantity/reference price system was replaced by a single reference level based on export earnings, owing to the lack of a world price for many of the products on the list, substantial differences in many cases between world prices and unit values, statistical problems and a desire to reflect as closely as possible the reality of the transactions expressed in export earnings.

(b) Once the Stabex "train" had gathered sufficient momentum, the "locomotive" - sugar - was uncoupled: the arrangements for sugar are different from the Stabex scheme, though linked to it by the structure of the Lomé Convention, since Stabex and the sugar provisions constitute the two chapters of Title II.

Having run through the conception and gestation of the Stabex scheme, we will now describe the system as a whole.

04. Stabex is born (1 February 1975)

041. Product cover

1. Two sets of criteria were used to draw up the list of products (first subparagraph of Article 17(1)):

(a) Those adopted at the ACP-EEC negotiating conference held in Kingston in July 1974, viz: the importance of a product for the level of employment in the exporting countries; a deterioration in the terms of trade between the Community and the ACP State concerned; the level of development of the various ACP States.

(b) The long-term instability of earnings from a particular product because of price and/or quantity fluctuations and the dependence of the ACP States' economies on the product.

This dependence criterion manifests itself through "dependence thresholds" (Article 17(2)): a country's earnings from exports of the product concerned during the year preceding the year of application must have represented at least 7.5% of its total earnings from merchandise exports. For sisal the percentage is 5%, and in the case of least developed, landlocked or island ACP States, 2.5%[1]. One comment is called for here: the fact that these thresholds[2] are worked out anew each year is one of the things that give the system its flexibility and keep it rooted in economic reality.

2. On the basis of these criteria a list was drawn up comprising several groups of products (Art. 17(1)):

(a) a group of tropical commodities comprising more or less the list originally suggested by the Commission: cocoa, coffee, coconut products, cotton, groundnuts and bananas;

(b) a second group bearing certain resemblances to the first: leather, hides and skins, wood, tea, raw sisal, palm products and coconut products;

(c) products of first-stage processing derived from the commodities: groundnut oil and oilcake, cocoa paste and butter, coffee extracts and essences, etc.;

(d) iron ore, an addition accepted by the Community purely in order not to jeopardize the conclusion of an overall agreement.

There are two ways of reading the list. Counting the products by family, the total is twelve. But counting each member of the different families - and this is the right approach since each is "insured" separately - the total number of products covered is 29.

3. In certain special cases (Art. 17(4)), Stabex covers exports of the products in question irrespective of destination (for Burundi, Ethiopia, Guinea-Bissau, Rwanda and Swaziland).

4. To qualify for cover exports must have originated in the exporting ACP State within the meaning of Article 2 of Protocol No 1 to the Convention, which deals with rules of origin (Art. 17(5)).

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[1] The process of fixing these percentages was a difficult one - the parameters involved here to some extent determine both the cost of the system to the Community and the financial benefit to the ACP States. Initially the Commission submitted a proposal based on assessment of the ACP States' output and exports of the products covered. During the negotiations the political powers reduced the percentages originally proposed, arriving at the ones given here.

[2] See § 32.

042. The machinery

1. The Stabex machinery operates on the basis of the ACP States' export figures and the Community's import figures[1]. Provision was therefore made for statistical and customs cooperation to be established between the Commission and the ACP States (Art. 23(1)).

2. The statistics are used first of all for calculating the reference level for each ACP State and for each product. The reference level is the moving average of the earnings derived by each ACP State from its exports to the Community over the four years preceding each year of application (Art. 19(1))[2].

3. The statistics also serve to determine the actual results for each year of application. The first condition for an application for Stabex relief is that the actual earnings for a given year must be below the reference level. This condition has to be fulfilled, but it is also necessary for the difference to be greater than what is known as the "trigger threshold", which is normally 7.5%, or 2.5% for least developed, landlocked or island states (Art. 19(2))[3].

4. Once it is established that the dependence threshold has been cleared the difference between the reference level and actual earnings is the basis of the transfer (Art. 19(3)). The ACP State concerned may then apply to the Commission for a transfer; the Commission examines the request and, in conjunction with the applicant country, draws up a draft transfer decision (Art. 19(3) and (5)). But if the examination shows that the fall in earnings from exports to the Community is the result of restrictive trade measures discriminating against the Community, the request is not admissible (Art. 19(4)(a)). This rule is linked to the most-favoured-nation clause in Article 7(2) of the Convention and is the only immediate sanction available for non-observance of that clause.

5. A "transfer agreement" is signed by the Commission and the applicant state (Art. 22).

6. Advance payments can be made, normally six-monthly (Art. 19(6)).

043. Financial provisions (Art. 18)

1. A total amount of 375 million EUA[4] was allocated to Stabex for the duration of the Convention. This sum was divided into five annual instalments of 75 million EUA. The Council of Ministers could authorize the advance use of up to 20% of the following year's instalment. From the second year onwards the available resources comprised:

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[1]See § 33 below.
[2]See Appendix, notes 1 and 2.
[3]See § 32 below.
[4]The original amount, topped up from 1977 onwards by 5 million EUA to cover the costs resulting from the accession of three new ACP States to the Convention.

(i) The amounts carried over from previous years

(ii) The annual instalment of 75 million EUA (76.67 million EUA after the increase in the allocation)

(iii) Up to 15 million EUA from advance use of the following year's instalment (15.34 million EUA after the increase in the allocation)

(iv) Money returned to the system under the arrangement whereby the ACP States help reconstitute its resources under certain circumstances.

2. The allocation is basically designed as a revolving fund, with outgoings subsequently offset by reconstitution payments. This concept is reflected in the stipulation that ACP States which have received transfers (and these, be it noted, are interest-free) must help reconstitute the resources of the system on certain conditions (Art. 21(1))[1]. But countries regarded as least developed within the meaning of the financial and technical cooperation rules (Art. 48) are exempt from the requirement to contribute to the reconstitution of resources (Art. 21(5)).

05. <u>The arrangements for overseas countries and territories</u> (OCT)

On 29 June 1976 the Council of the European Communities adopted Decision 76/568/EEC[2] on the association of the overseas countries and territories with the EEC.

The first chapter of Title II of the Decision established a system of stabilization of the OCT's export earnings. It is identical to that set up under the Lome Convention except on two points:

(i) The allocation, which was set at 20 million EUA for five years. In this connection it was provided that any OCT acceding to the Lomé Convention would continue for the purposes of Stabex to come under the OCT allocation, but subject to Convention rules. This was because it is impossible to break down the total allocation to arrive at a "risk" figure for each country and then transfer that sum with the country when it changes status.

(ii) The Decision makes no provision for the six-monthly advances.

Partly because of this close resemblance between the two sets of arrangements and partly because few difficulties have been encountered in applying Stabex to the OCT, we have confined ourselves in this report to setting out the relevant figures.

06. Soon after the Convention was signed the ACP States and the Community agreed that the calendar year 1975 would be the first year of application of Stabex. In the four subsequent years the Convention institutions monitored and developed the operation of the scheme and the Community institutions gave their attention to it. Chapter 1 of this report will be devoted to the activities of the institutions and the development and administration of the system. Chapter 2 will consist of a general quantitative and cumulative overview, Chapter 3 will deal with the application of the rules, while in Chapter 4, which draws together the ground covered in the first three, we look at Stabex in the context of the beneficiary countries' economies, North-South relations and public opinion.

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[1] See § 37.
[2] See OJ No L 176, 1 July 1976.

1. ACTIVITIES OF THE INSTITUTIONS, DEVELOPMENT AND MANAGEMENT OF THE SYSTEM

11. Activities of the institutions

111. Institutions set up under the Lomé Convention

1. ACP-EEC Subcommittee on Stabex

(a) The ACP-EEC Subcommittee on Stabex:

met for the first time on 17 June 1975 to examine the important matter of the initial period of application of the system. Given the Community's resolve to allow the ACP States to benefit from the system irrespective of the date of entry into force of the Convention - it being understood that no payment could be made before that date - there were two possible formulas:

(i) to work on the basis of twelve-month periods, starting on 1 March 1975;

(ii) to work on the basis of the calendar year, starting with 1975.

For reasons related mainly to the general method of compiling external trade statistics, it was decided by mutual agreement to adopt the second formula, i.e. the calendar year.

(b) At its meeting on 24 February 1976 the Subcommittee was given a report on progress made in getting the system underway. On that occasion the ACP States raised a number of points aimed at improving Stabex, notably with regard to the reference period, and pointed out that the system was subject to distortion where an ACP State had suffered a sharp fall in export earnings in the reference period established by Article 19 of the Convention. The ACP States were in fact requesting nothing less than an amendment of the Convention, and of a highly specific article at that (Article 19), the result of a hard-fought compromise in the negotiations. The Community pointed out that it could legitimately be asked whether any benefit that might result from such an amendment was sufficient to justify upsetting a balance which had been achieved only at the price of much effort.

(c) The Subcommittee held its third meeting on 14 March 1977 to examine requests which had been presented by the ACP States at the first meeting of the ACP-EEC Council of Ministers concerning the reference period, the list of products covered by the system and the extension of the guarantee under the system to cover exports to all destinations. The question of the final date for submitting requests for transfers was also on the agenda.

The discussions on the first three items resulted in the clarification of a number of points with a view to their examination by the Committee of Ambassadors. With regard to the question of the final date for submitting requests for transfers, the ACP spokesman indicated that the ACP States were agreeable to the principle of such a final date and proposed that it be 31 March of the year following each year of application.

(d) The Subcommittee met again on 7 February 1978, primarily with a view to preparing for the meeting of the ACP-EEC Committee of Ambassadors and the third meeting of the ACP-EEC Council of Ministers. The meeting provided the opportunity to carry out an initial examination of (a) the requests submitted by the ACP States concerning the addition of new products to the list in Article 17(1) of the

Convention and (b) three requests for transfers from certain ACP States submitted in 1977 for 1975, which the Commission had not been able to entertain.

The Subcommittee did not meet in 1979 or in 1980.

2. The Committee of Ambassadors

(a) At its meeting on 28 March 1977, the Committee of Ambassadors noted the progress made in discussions on the reference period, the list of products covered and the guarantee for exports to all destinations and also agreed that in future requests for transfers under the system should be presented to the Commission by the ACP States not later than 31 March of the year following each year of application.

(b) On 28 February 1978 the Committee expressed the opinion that the Stabex system was operating satisfactorily on the whole.

The ACP States did, however, point out the difference of opinion that still existed with the Community as a result of the Commission's refusal to entertain the requests for transfers submitted in 1977 for 1975 by Gabon, Kenya and Mali. They also expressed the wish to have sesame seed, tobacco, sisal products, cashew nuts and shea kernels added to the list of products covered by the system.

(c) At its meeting on 7 March 1979 the Committee agreed to refer the following to the ACP-EEC Council of Ministers:

an invitation to the Commission, in the light of the results of the good offices procedure, to exaine the three requests for transfers for 1975;

a recommendation that with effect from 1 January 1979 sesame seed should be included in the list of products covered by the system.

For the other products which the ACP States had asked to be included it was agreed to recommend further examination of the problems which would be raised by their inclusion, with a view to reaching a solution in the negotiations of the new Convention.

(d) In 1980, the Committee met:

(i) on 18 January to prepare the Decision concerning transitional measures extending the application of Title II of Chapter 1 of the first Lomé Convention beyond 1 March 1980 until the entry into force of Lomé II or until 31 December 1980, whichever was the earlier;

(ii) on 15 April, to prepare the Decision on the inclusion of sesame seed with effect from 1 January 1978 in the list of products given in Article 17(1) of the first Lomé Convention.

3. The ACP-EEC Council of Ministers

(a) The first meeting of the ACP-EEC Council of Ministers was held on 14 and 15 July 1976 at Brussels. At this meeting the export earnings stabilization system was referred to only in passing.

(b) The ACP-EEC Council met at Suva (Fiji) on 13 and 14 April 1977. This second meeting found the Community in general agreement on all the points raised by the ACP States and this agreement resulted in a number of decisions and other acts which were to apply from the year of application 1976 onwards.

(i) With regard to the reference period, the ACP-EEC Council took note of a Community statement to the effect that where an ACP State gave evidence of difficulties arising in a year characterized by exceptional events, the gravity of which was recognized by the international community, the Community was ready to seek a solution to the difficulties, on a case-by-case basis and in conjunction with the ACP State concerned, by placing the most favourable possible interpretation on existing provisions.

(ii) The following products were added (Decision No 3/77) to the list given in Article 17(1) of the Lomé Convention: cloves, gum arabic, wool, mohair, pyrethrum, vanilla, ylang-ylang.

(iii) The facility provided for in Article 17(4) of applying the system to exports irrespective of destination was extended by Decision No 4/77 to the following ACP States: Cape Verde, the Comoros (which now enjoys virtually 100% coverage of exports), Lesotho, Western Samoa, Seychelles and Tonga.

(c) At its third meeting, which was held in Brussels on 13 and 14 March 1978, the ACP-EEC Council examined the problem of belated requests for transfers for 1975. On a proposal from the ACP States it agreed to initiate, via the two Chairmen, the good offices procedure provided for in Article 81(2) of the Convention.

The ACP-EEC Council also asked the Committee of Ambassadors to continue its examination of the ACP States' request concerning the addition of the products referred to at the previous Committee of Ambassadors meeting.

As for the inclusion of mining products other than iron ore, the ACP States pointed out that they were hoping to bring this question up again in the negotiations for the next Convention.

(d) At its fourth meeting, held in Freeport (Bahamas) on 22 March 1979, the ACP-EEC Council endorsed a Committee of Ambassadors recommendation calling upon the Commission, in the light of the results of the good offices procedure, to examine the three requests for transfers for 1975[1]. By means of a decision entered in the minutes, the ACP-EEC Council authorized the Commission to draw from the 1976 instalment the sums necessary to meet the three requests concerned.

After considering an ACP request for the inclusion of sesame seed with effect from 1 January 1978, the ACP-EEC Council decided to refer the matter to the Committee of Ambassadors, with the recommendation that the Committee examine the possibility of agreeing to that date in accordance with the ACP States' request.

(e) At its meeting in Lomé on 31 October 1979 the ACP-EEC Council decided, pursuant to Article 18(2) of the Lomé Convention, that part of the annual instalment for year of application 1979 could be drawn on in advance for year of application 1978.

(f) At its fifth meeting, held in Nairobi on 8 and 9 May 1980, the ACP-EEC Council accepted the ACP request that the inclusion of sesame seed in the list of products covered by the system should take effect on 1 January 1978.

The ACP-EEC Council also decided at this meeting that any balance unexpended at the end of the final year of application of the system under the first Lomé Convention should be transferred to the first annual instalment of the appropriation for the export earnings

[1] See § 126.

stabilization system under the second Convention. Contributions towards the reconstitution of the system's resources - repayment of transfers made in respect of years of application 1975 to 1979 - will also be added to the appropriation.

4. Parliamentary institutions of the Lomé Convention

(a) At the end of the meeting held at Maseru (Lesotho) from 28 November to 1 December 1977, the ACP-EEC Consultative Assembly adopted a final declaration containing a reference to the export earnings stabilization system; it welcomed the satisfactory application of certain major aspects of the Convention, such as Stabex and financial and technical cooperation, but asked that speedy action be taken to remedy any shortcomings found.

(b) At the end of the meeting held from 27 to 29 September 1978, the Consultative Assembly adopted a resolution containing the following references to the export earnings stabilization system:

"(the Consultative Assembly)

invites the ACP States and the Community to work out together solutions to the difficulties arising in the operation of the Stabex system, in particular as regards the transfers to which certain ACP countries can legitimately lay claim;

calls for the successor Convention to the Lomé Convention to make special provisions for aiding the ACP States to resolve the problem of marketing mining products (particularly copper and phosphates) and rubber, at stable and remunerative prices, according to the Stabex method, or by other appropriate means."

(c) At the meeting of the Joint Committee of the ACP-EEC Consultative Assembly held at Arusha (Tanzania) from 25 to 28 February 1980, the rapporteur-general, Mrs K. Focke, made an introductory statement analysing the achievements of Lomé I against the background of the forthcoming implementation of Lomé II; the statement expressed satisfaction at the way Stabex had operated. This favourable comment was included in the final declaration published at the end of the meeting.

112. <u>The Community institutions</u>

1. The European Parliament

The European Parliament showed a very keen interest in Stabex from the time it was first mooted and its interest has never abated since the system came into operation. This has manifested itself in various ways:

(a) The European Parliament's Committee on Development and Cooperation asked Mr Aigner in 1977 to prepare a report on initial experience with the Stabex system. On the basis of this report, the European Parliament adopted on 17 February 1978 the following resolution[1]:

on the communications from the Commission of the European Communities to the Council on:

[1] OJ No C 63, 13.3.1978.

- the operation during 1975 of the system set up by the Lomé Convention for stabilizing export earnings (Stabex)

- the operation during 1975 of the system set up by the decision on the association of the OCT with the EEC for stabilizing export earnings

the reports from the Commission on the use of the funds transferred for 1975 under the export earnings stabilization system set up by the Lomé Convention

and on the first results of the export earnings stabilization system for 1976.

The European Parliament,

- having regard to the report of the Committee on Development and Cooperation (Doc. 539/77).

1. Recalls that it was the European Parliament in particular which helped to develop and decide the principles of Stabex, believing that the introduction of such a system would be of considerable political significance in that it establishes a precedent at international level and offers a practical solution, even if only partial, to the problems of the developing countries which produce raw materials.

2. Expresses satisfaction at the fact that all instruments and machinery needed for the application of Stabex were set up so quickly.

3. Regards this diligence as evidence of the determination of the ACP, the OCT and the Community to respect the commitments entered into and of the importance they attach to their implementation.

4. Notes the fact that during its first two years of application the system, despite its relative complexity, functioned properly and thus entirely fulfilled its dual role of providing protection firstly against economic risks and secondly against reduced earnings for which the ACP State or OCT concerned cannot be held responsible.

5. Is particularly gratified by the fact that, for 1975 and 1976, 56 and 76% respectively of the total transfers went to the least developed ACP countries.

6. Notes the Commission's reports on the use of the funds transferred for 1975 which show that the greater part of these funds were spent on agricultural or infrastructural programmes, but is concerned that not all the ACP States are utilizing the funds in the spirit of the system's objectives.

7. Approves the decisions taken by the ACP-EEC Council of Ministers at its meeting in Fiji concerning a degree of extension of the Stabex system.

8. Recalls, however, that the operation of Stabex is tied to the existence of an overall budget fixed for the duration of the Lomé Convention and that this constraint makes it impossible to extend the system's expenditure indefinitely; notes in this connection that for the purposes of transfers effected in the first two years of operation of the system, the budget appears adequate.

9. Regards respect for the objective criteria which determine the rules of application of Stabex to be essential; believes that in the absence of such respect the system would very soon become inoperable,

10. Considers that Stabex is merely one component of development and cooperation policy and that its scope and impact should therefore be seen in this light.

11. Emphasizes once again that there can be no question of attempting to use Stabex to resolve all the problems of the ACP and OCT countries involving their balances of payments and raw materials; believes that solutions to these problems can only be found in the framework of Agreements concluded on a broader basis and that the Community must accept special responsibility in this matter.

12. Points out that it is still too early to be able to assess the impact of Stabex on the economic and commercial situation of the ACP and OCT beneficiary countries.

13. Instructs its committee to submit a report on this aspect at the appropriate time.

14. Instructs its President to forward this resolution and the report of its committee to the Council and Commission.

(b) Four Members of the European Parliament have put down written questions concerning the system. They are Lord Reay (Written Question No 236/77), Mr Petersen (Written Question No 1179/77), Mr Denis (Written Question No 957/79) and Mr Pearce (Written Question No 390/80); the Commission's answers were published in the following issues of the Official Journal: C 206 of 29 August 1977, C 175 of 24 July 1978 and C 19 of 24 January 1980; the answer to the last question will be published towards the end of this year.

(c) It was at a meeting of the Committee on Development and Cooperation that the Commission was asked to present this comprehensive report.

In the draft opinion of the Committee on Development and Cooperation to the Committee on Budgetary Control concerning the discharge for 1978 with regard to expenditure under the development aid policy, Mrs K. Focke, rapporteur for opinion, referred - without prejudice to any conclusions that might be drawn from a more detailed examination of the functioning of the system - to certain statements in the working paper produced by the Committee on Budgetary Control (and even in the special report of the Court of Auditors) which were partly due to a misunderstanding of the system's objectives.

(d) Mrs Castellina was asked to draw up for the Committee on Development and Cooperation a report dealing _inter alia_ with the export earnings stabilization system.

2. The Council of the European Communities

The Council is of course closely involved in preparing Community positions on matters relating to the system for presentation to the ACP-EEC Council of Ministers, and in preparing and conducting the negotiations for the renewal of the Convention and the Decision on the association of the OCT. In addition, as the recipient of annual reports on the functioning of the system and reports from the ACP States and the OCT on the use to which the transfers have been put, the Council has a supervisory role to play in the operation of the system.

3. The Economic and Social Committee

The Economic and Social Committee looked at the system as part of its examination of the overall implementation of the Lomé Convention and the Decision on the association of the OCT.

4. Supervision of the discharge of the Community's financial obligations

(a) The Audit Board

Prior to the establishment of the Court of Auditors, the discharge of the Community's financial obligations was supervised by the Audit Board, which examined Stabex operations for year of application 1975. The remarks of the Audit Board and the replies given by the Commission of the European Communities can be found in the Report of the Audit Board on the accounts for the 1976 financial year, followed by the replies given by the institutions (XIX/236/78, Volume II, Part 2: the European Development Fund).

(b) The Court of Auditors

From year of application 1976 onwards, supervision of the discharge of the Community's financial obligations was taken over by the Court of Auditors, whose activities fall under three main headings:

(i) Normal supervision of annual operations, in the course of which the Court may review the operations of preceding years. The remarks of the Court and the replies given by the Commission with regard to 1975 and 1976 can be found in OJ No C 313 of 30 December 1978 (pages 147-153) and in OJ No C 326 of 31 December 1979 (pages 212-219) for year of application 1977. The remarks on operations in 1979 will be published in the Official Journal in late December 1980.

(ii) On 19 July 1979 a special report by the Court of Auditors was sent to the Community institutions. The text of this report and a statement by the Commission on the various points raised in it can be found in Annex 11.A to this report.

(iii) The Court carries out inspections in the ACP States, in the course of which it also looks into problems arising out of the implementation of the system. The Court draws up reports following its visits and the Commission supplies any additional information requested.

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This brief summary of the activities of the Community institutions and the institutions set up under the Convention shows how the Commission, which is responsible for administering the system, is supervised in its task and also how the institutions endeavour to strike a balance between the rules laid down by the contracting parties and changing circumstances. There follows a more detailed description of the main decisions which have affected the development of the system.

12. Development of the system since 1975

121. The texts governing the system on its entry into force were:

1. As regards the ACP States:

(a) Chapter 1 of Title II (Articles 16 to 24), Article 48 and Article 59(6) of the Lomé Convention, plus Article 2 of Protocol No 1 on the definition of the concept of "originating products",

(b) Article 1(3)(a) and Articles 26 to 29 of the Internal Agreement on the financing and administration of Community aid,

(c) Articles 53 and 54 of the Financial Regulation of the EDF,

(d) Regulation (EEC) No 158/76 of 20 January 1976 (replaced by Regulation (EEC) No 2478/77 of 7 November 1977) making imports into the Community of products covered by Stabex subject to surveillance.

2. As regards the OCT:

(a) Chapter 1 of Title II (Articles 18 to 26), Article 30(1)(b), Annex I and Article 2 of Annex II to the Decision of 29 June 1976 on the association of the OCT with the EEC,

(b) Article 1(3)(c) and (5) and Articles 26 to 29 of the Internal Agreement, together with the texts specified above under (c) and (d).

Following their implementation some of these legal provisions were amended by decisions of the ACP-EEC Council of Ministers, as indicated below.

122. Changes concerning the states

1. When it was signed on 28 February 1975, the Lomé Convention linked the European Communities with 46 ACP States.

Three states acceded to the Convention with effect from 1 November 1978 under the ratification procedure provided for in Article 90 of the Convention. They were Cape Verde, Papua New Guinea and Sao Tome and Principe.

Following accession of these states, the total appropriation under the system was increased by 5 million EUA for the three years of application 1977-79 in order to allow for any additional costs without adversely affecting the interests of the original ACP States.

2. A number of overseas countries and territories gained their independence between 1976 and 1980. They acceded to the Convention as ACP States under the procedure provided for in Article 89 but continued for financial purposes to be covered by the OCT appropriation. The ten states in question, and the dates on which they acceded to the Lomé Convention, were as follows:

Suriname	16 July 1976	Tuvalu	17 January 1979
Seychelles	27 August 1976	Dominica	27 February 1979
Comoros	13 September 1976	Saint Lucia	28 June 1979
Djibouti	2 February 1978	Kiribati	30 October 1979
Solomon Islands	27 September 1978	Saint Vincent	27 February 1980

3. In order to take account of the above developments in this account of the various aspects of the system, the following terminology will be used throughout:

- Group I: original ACP States (signatories to the Lomé Convention),
- Group II: Group I plus the three states which acceded to the Convention under Article 90 (Cape Verde, Papua New Guinea and Sao Tome and Principe),
- Group III: Group II plus the states referred to above in point 2, which acceded to the Convention under Article 89,
- Group IV: original OCT as at 29 June 1976,
- Group V: OCT as at 30 June 1980.

123. <u>ACP States for which the guarantee under the system covers all exports irrespective of destination</u> (Article 17(4) of the Convention)

This guarantee, which constitutes an exception inasmuch as it derogates from the principle of covering only exports to the Community, is accorded to least developed ACP States which traditionally send the bulk of their exports to the markets of non-Community countries. Under this arrangement the rules of the Convention are applied without cross-checking of statistics to exports of the products covered from the states in question, irrespective of destination.

1. The ACP States which were the original beneficiaries under Article 17(4) of the Convention were the following: Burundi, Ethiopia, Guinea-Bissau, Rwanda and Swaziland[1].

2. By Decision No 4/77 of the Council of Ministers, taken at Suva (Fiji) in 1977, the following were added: Cape Verde, Comoros, Lesotho, Seychelles, Tonga and Western Samoa.

3. Lastly, a number of other ACP States which, like Comoros and Seychelles, acceded to the Convention under Article 89 and as OCT already benefited under the provision in question, continued to do so: these states were : the Solomen Islands and Tuvalu.

124. <u>List of products</u>

1. The system originally covered 29 individual products grouped under 12 headings; at its meeting in Suva the ACP-EEC Council of Ministers decided to include seven additional products with effect from year of application 1976:

cloves,	pyrethrum,
gum arabic,	vanilla,
wool,	ylang-ylang.
mohair,	

2. At its meeting in Nairobi in May 1980, the Council of Ministers decided to add sesame seed to the list with effect from 1 January 1978.

3. With regard to other products which the ACP States have asked to be included:

(i) for some products the request was not renewed;

(ii) in the case of others, the ACP States' request was met in the new Convention;

(iii) for another group of products, the Community has undertaken to examine the problems to which they give rise with a view to a possible decision under the new Convention;

(iv) in the case of a last group, the difficulties are such that it would appear to be unrealistic to consider including them in the list of products covered by Stabex[2].

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[1] See Joint Declaration on Article 17(4) annexed to the minutes of the negotiations for the first Convention.

[2] For the substantive problems concerning the list of products, see § 31.

125. Adjustments to reference periods

1. The text used as the basis for adjusting reference periods is the "Fiji Declaration", which is given above in §111.3(b)(i). This declaration was applied in the extreme cases of Cape Verde and Guinea-Bissau. A long period of drought in Cape Verde and Guinea-Bissau's fight for independence effectively wiped out from 1971 until 1975 - and indeed until 1976 - any meaningful basis of reference for quantities. For this reason the Commission, taking as a basis the Fiji Declaration, considered that the spirit of the system required that reference quantities be extrapolated from the quantities exported by Cape Verde and Guinea-Bissau in the past.

The practical consequence was that data on quantities relating to the years preceding the events referred to above, namely 1959 to 1962, were adopted initially in the case of Guinea-Bissau (i.e. for year of application 1976) and 1967 to 1970 in the case of Cape Verde (year of application 1977), while for the unit values the normal reference period was adopted (1972-75 initially in the case of Guinea-Bissau and 1973-76 for Cape Verde). Subsequently, the first years of the quantity component of the reference level were progressively replaced by the normal reference years, thus: 1960, 1961, 1962, 1976; 1961, 1962, 1976, 1977; 1962, 1976, 1977, 1978 in the case of Guinea-Bissau, which will be fully covered by the normal arrangements from year of application 1980 onwards; and 1968, 1969, 1970, 1977; 1969, 1970, 1977, 1978 in the case of Cape Verde, which will be covered by the normal arrangements from year of application 1981 onwards.

2. It is worth pointing out that Article 36(3) of the new Lomé Convention makes provision for a short reference period, i.e. three years, where an ACP State starts processing a product traditionally exported in the raw state or begins exporting a product which it did not traditionally produce.

126. The good offices procedure

At its meeting on 13 and 14 March 1978, the Council of Ministers decided to initiate, via its two Chairmen, the good offices procedure provided for in Article 81(2) of the Convention in order to settle the matter of the belated requests for transfers for 1975 which the Commission considered it could not entertain owing to the lack of funds for the year in question as a result of the automatic carryover of the unexpended balance to the annual instalment for 1976.

Following this decision, the representatives of the two Council Chairmen jointly drew up a memo concluding that the Council of Ministers should be recommended to invite the Commission to examine the three requests in question because of the difficulties raised by the administration of the system's first year of application. They did, however, stress that in future, no requests in respect of those years for which the 31 March deadline fixed by the Committee of Ambassadors had expired could be entertained and that, for reasons of equity, these three requests could not, in so far as making funds available was concerned, enjoy a privileged position compared with other requests submitted within the prescribed time limit.

At its meeting on 22 March 1979, the Council took note of and agreed to the results of this good offices procedure and invited the Commission to examine the requests presented by Gabon, Kenya and Mali for the year 1975.

This examination resulted in two transfers, the examination of Kenya's case having led to the conclusion that there were no grounds for a transfer to this country, as no losses of export earnings from sisal were experienced on an all-destinations basis[1].

Gabon had experienced, along with most of the other African timber-exporting countries in 1975, a drop in earnings due to the fall in European demand. On the basis of the cross-checked statistics of Gabon and the Community, a transfer for 6 703 311 EUA was made.

For Mali, the request concerned a re-examination of the transfer already paid for 1975, as a result of a statistical adjustment. The examination revealed that the request was soundly based and resulted in an additional transfer of 496 501 EUA.

The processing of these late requests submitted for 1975 resulted therefore in transfers totalling 7 199 812 EUA for the two countries concerned, which brings the total amount of transfers for 1975 to 75 985 880 EUA.

Concerning the question of how the funds were to be charged, the ACP-EEC Council of Ministers took the following decision:

"If, as a result of this examination by the Commission, it is necessary to proceed with financial transfers, the Council of Ministers authorizes the Commission to reconstitute the 1975 allocation for this purpose and, if the funds available on this allocation appear insufficient, to utilize the 1976 allocation to cover the necessary amounts up to the limit of 20% of this allocation."

As a consequence of this decision, the funds were charged as follows:

- 2 213 932 EUA to the 1975 instalment (total of the funds available under this instalment);
- 4 985 880 EUA to the 1976 instalment, this sum being considerably below the limit of 20% of the instalment. The unexpended balance for 1976 was thus reduced from 37 864 065 EUA to 32 878 185 EUA, which was carried over as of right, by virtue of Article 18(3) of the Lomé Convention, to the 1977 operation.

13. Management of the system

Article 18(1) of the Lomé Convention stipulates that the amount allocated to the system by the Community shall be managed by the Commission. The way in which this is done is described in § 131. The involvement of the ACP States in the management of the system is described in § 132. Management by the Commission in conjunction with the ACP States dovetails naturally with the institutional framework of the Community, as described in § 133. Lastly, a complete case history will show how the system actually works (§ 134).

131. Management by the Commission

1. The bulk of the work of managing the system is handled by the Export Earnings Stabilization Division (VIII/D/3)[2] of the Operations Directorate in the Directorate-General for Development of the Commission of the European Communities.

[1] See § 342.

[2] The division comprises a head, two principal administrators, two senior administrative assistants, two administrative assistants and two secretaries, i.e. a total of only nine officials.

2. This division carries out all the conceptual[1,2] and management[3,4] tasks entailed by the system, except for payments and receipts, which are the province of Directorate E, Finance and Administration. In carrying out its tasks, the division calls upon the following for assistance:

the Commission delegates in the ACP States,

other units of the Directorate-General for Development (desk officers, units responsible for trade or statistics, technical departments),

other Commission departments, particularly the Legal Service, Financial Control, Customs Union Service and the Translation Service, but also the Directorates-General for Agriculture and Industrial Affairs,

the relevant trade and business interests concerned by the particular product, where this is necessary in order to examine difficult cases; this involves seeking information from trade associations or individual importers or business representatives. Information gathered via these channels obviously remains confidential.

3. The division endeavours to assist other departments seeking its help, e.g. external relations, departments responsible for training, information departments.

4. Most of the division's work is done in Brussels. Missions to the ACP States are necessary:

(i) for launching the system, when new products are added to the list of products covered or when a new state accedes to the Convention,

(ii) for examining and dealing with cases of exceptional difficulty (no more than ten cases so far),

(iii) in order to re-establish cooperation with a given ACP State where it has broken down.

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[1] Studies on the products to be covered; resources required; determination of attitude to be adopted in situations not specifically provided for by the texts; contributions to related work at international level, and so on.

[2] The division has called in external consultants on only one occasion: with the agreement of the ACP Group, a contract was awarded to five Community consultancy firms in 1977 for compiling and processing the data required for a satisfactory solution to the cif/fob question.

[3] Identification of correspondents in the ACP States; performance on behalf of the Commission of the tasks listed at the end of § 132; monitoring of the financial situation; periodic reports, and so on.

[4] Wherever possible this work is automated and rationalized by the use of data processing techniques and standard forms, worked out in collaboration with the ACP Group (see Annexes II.B.to E).

132. Management in conjunction with the ACP

In this connection a distinction must be drawn between the management of the system in the framework of the institutions set up under the Convention - which has been dealt with in § 111 - and relations between each requesting ACP State and the Commission.

One of the criticisms levelled against the system is that it is managed unilaterally by the Commission alone.

If this were the case, the situation would be particularly serious as it would be contrary to the provisions of the Convention, which requires that the Commission must examine requests "in conjunction with the ACP State concerned" (Article 19(4)(a)) and that "statistical and customs cooperation shall be instituted" (Article 23(1)).

However, the way things are done in practice is simply a matter of common sense: nothing could be done without the cooperation of each ACP State, which is involved in every aspect of the system and at each stage of implementation, viz:

- compilation and transmission by each ACP State of statistics for its exports of the products covered by the system and its total exports (Article 17(1), (2) and (4); Article 23);
- certification of the origin of products (Article 17(5));
- lodging of request for transfer (Article 19(2));
- cross-checking of ACP and EEC statistics (Article 17(1));
- examination of the transfer request (Article 19(4));
- consultations in the event of significant change in the trend of total exports from the requesting ACP State (Article 19(4)(b));
- drawing up of the transfer decision (Article 19(5));
- signing of the transfer agreement (Article 22);
- notification to the Commission of the use to which transfers have been put (Article 20);
- implementation of Article 21 governing the contribution by certain ACP States towards the reconstitution of the system's resources.

The above list indicates the responsibility of each ACP State for the management of the system and should suffice to dispel the criticisms made in this connection.

It should be added that a good deal of the work carried out by the ACP States falls on the "Stabex correspondents" who are to be found in each of the ACP States which could potentially benefit under the system. These correspondents, who are freely chosen and officially appointed by the national authorities, are responsible first and foremost for ensuring a regular flow of statistics to the Commission. Depending on what is decided by the national authorities, the correspondents' area of responsibility varies and in many cases embraces all the operations leading up to the signing of the transfer agreement.

The correspondents' main professional activities reflect widely differing backgrounds: ministry officials, customs officers, officials of statistical departments, product boards, central banks, employees of public, semi-public or private enterprises, and so on.

133. Commission management of the system as an integral part of the institutional framework of the Community

As pointed out above (§ 111), any decision by the institutions set up under the Convention requires, so far as the Community is concerned, the adoption of a Community position, which is decided by the Council; similarly, it has been shown (see § 112) that the other Community institutions have to be kept informed concerning the implementation of the system.

To complete the picture, it should be pointed out that the Member States are notified of Commission proposals for transfers and can request additional information on them.

134. Management of the Stabex system - Case history: Senegal 1978

1. A good example of the transfer procedure in action is to be found in the operations concerning the transfer made in 1979 to compensate Senegal for the loss of export earnings from groundnut oil which it suffered in 1978. Other cases could be chosen, but the advantage of this particular one is that it presents if not all then at least the majority of the difficulties which can arise in managing Stabex.

2. In this case, as with all other transfer operations - and indeed for all states and products in respect of which a transfer might have to be made - there is a basic infrastructure already in position. As soon as the system was set up, a few months after the signing of the Convention, the Commission started looking for Stabex correspondents. The correspondent for Senegal is the Director of the Caisse de Péréquation et de Stabilisation des Prix, who is appointed by the Senegalese Government. At the same time, the requisite statistical data for Senegalese exports were compiled using monthly figures (a prerequisite for the examination of any request for an advance), and from the customs administrations of the Member States for Community imports.

3. The transfer for groundnut oil was carried out in two phases. The first phase was set in motion by the Senegalese Government, which presented on 1 July 1978 a request for a six-monthly advance on the final transfer. The second phase was concluded with the final payment of the transfer in 1979.

(a) Examination of the request for an advance (Article 19(6))

(i) The request

As a result of the serious drought which affected a large proportion of groundnut production in the 1977/78 season, the Senegalese Government rapidly found itself faced with serious difficulties, notably with regard to payments to producers. A study of the facts showed that Senegal would certainly be entitled to a transfer in 1979 and accordingly the Government, on 1 July 1978, requested a six-monthly advance of CFAF 4 500 million, i.e. around 16 million EUA.

(ii) Examination of the request

When examining a request for an advance, the Commission normally follows the step-by-step procedure described below.

In the case under consideration the amount requested as an advance represented a relatively small proportion of the amount eventually to be transferred, so the Commission needed only to check on the basis of the two sets of statistics that the 16 million EUA requested was comfortably within the margins of error and safety normally allowed.

This simplified procedure meant that the examination could be speeded up. The decision to pay the advance was taken by the Commission on 14 July 1978 and the agreement for an advance on the transfer was signed on 17 July 1978, sixteen days after the request had been received. Payment followed immediately upon the signing of the advance agreement.

Under the terms of the agreement, the Senegalese Government undertook to refund any sum overpaid when the exact amount of the final transfer to which it was entitled became known.

In more usual cases of requests for advances under the first Lomé Convention, failure to meet certain conditions could render a request inadmissible: they included:

(i) the need for the Commission to be in possession of monthly data at least for the four reference years and for the first six months of the year of application in respect of which the request was made;

(ii) the need for the figures presented by the ACP State in support of its request to show a substantial fluctuation in earnings from exports of the product in question in the first six months by comparison with the reference period.

Where these conditions were met, the Commission examined the case. If the statistical data had not been cross-checked in connection with a previous transfer, the Commission checked that there were no disparities between the data and worked out a figure for the advance by comparing a standard annual profile of quantities exported by the ACP State (imported by the EEC), constructed on the basis of monthly exports (imports) in the past, with the profile for the first six months of the year of application, allowing for a safety margin. Except where the request relates to a product for which a transfer has already been made and for which, therefore, a basis for cross-checking exists, the amount of the advance must be calculated on the basis of figures for imports into the EEC. The safety margin takes account of the possibility of consultations pursuant to Article 19(4)(b).

(b) Examination of the request for a transfer

(i) The request (Article 19(3))

As with requests for an advance on a transfer, only an ACP State can set in motion the procedure leading up to the transfer itself. In the case of groundnut oil from Senegal, the request was made on 27 February 1979.

(ii) Examination of the request (Article 18(1))

Immediately the request for a transfer is received, the Commission sets in motion the following procedure:

- Thresholds (Articles 17(2) and 19(2))

The first stage in the examination of the request consists in checking whether the two thresholds - dependence threshold and fluctuation threshold - have been reached. This check is carried out on the basis of the statistical data supplied by the ACP State and in the national currency of that state. In the case of groundnut oil from Senegal, the rate of dependence (32.89%) was well in excess of the threshold (7.5%), as was the fluctuation rate (52.40%).

- Indirect application of Article 17(4)

The second operation involves checking - by reference to ACP figures - whether there is also a loss of earnings on exports to all destinations and whether this loss is in excess of the loss on exports to the Community[1]. In the case of Senegal, there was a loss of CFAF 76 000 million on exports to all destinations, i.e. in excess of the CFAF 67 000 million on exports to the Community.

- Application of Article 19(4)(a)

This provision requires the Commission to check whether the request has to be declared inadmissible because "the fall in earnings from exports to the Community of the products in question is the result of a trade policy measure of the ACP State concerned adversely affecting exports to the Community in particular" (Article 19(4)(a)). The Senegal case did not come into this category.

- Cross-checking (Article 17(1))

Cross-checking is one of the trickiest stages in the examination of a case[2]. Comparison of the statistics from the two sources almost invariably reveals divergences and this proved to be the case with Senegal. Following market research and comparisons with other available sources, and after consultations with the Senegalese Ambassador on 24 April to discuss cross-checking and the choice of a mutually acceptable statistical basis, a cross-checking formula was agreed.

The agreed basis for cross-checking comprised the quantities imported into the EEC and the fob unit values for Senegalese exports to the Community.

- Calculation of the basis of the transfer (Article 19(1) and (3))

Once a basis for cross-checking has been adopted, calculation of the basis of the transfer is an entirely automatic process carried out in accordance with Article 19:

reference level	121 992 933
less actual earnings in year of application	55 483 206
basis of transfer	66 509 727

- Consultations pursuant to Article 19(4)(b)[3]

There was no call for consultations in the case under consideration. The Commission found that the drop in production, quantities marketed and

[1] See § 342.
[2] See § 33.
[3] See § 341.

exports was due entirely to the drought, local consumption having remained on a par, in terms of absolute value, with consumption in the reference years, and that exports to the Community as a proportion of total exports of groundnut oil had also remained at a level comparable to that of the reference period.

- Calculation of the amount to be paid

This calculation too is automatic. It consists in subtracting from the basis of the transfer the amount of the reduction and the advance, if any.

The amount to be paid is thus obtained:

Basis of transfer	66 509 727
	- 16 627 431[1]
Amount of transfer	49 882 296
Less advance	16 000 000
Amount to be paid	33 882 296

(iii) The transfer decision (Article 19(5))

The Commission took decisions on the Senegal and other transfers on 22 May 1979, by means of written procedure, following the delivery of favourable opinions on the various transfer proposals by the Commission Legal Service and Financial Control.

(iv) Signing of the transfer agreement (Article 22)

The transfer agreement was signed on 23 May 1979. In other words, less than two months had elapsed since 31 March and the signing of the agreement was followed within a few days by payment of the balance.

The agreement was accompanied by an exchange of letters signed by Senegal and the Commission in which the Senegalese State undertook to contribute towards the reconstitution of the resources of the system under the conditions laid down by the first Lomé Convention.

(c) Report on use (Article 20)

(i) Article 20 of the Lomé Convention stipulates that the recipient ACP State shall inform the Commission annually of the use to which it has put the resources transferred.

(ii) The Senegalese Government sent a report to the Commission on 1 February 1980 concerning the use to which it had put both the advance - not compulsory according to the texts - and the transfer made in 1978 and 1979 respectively.

The report states that 22% of the amount was used to finance development projects, which are described in detail in the report, while 78% went to improving the accounts of the Caisse de Péréquation et de Stabilisation des Prix. Of this latter amount, 42% went on payment of debts for the purchase of seed and equipment and the remaining 58% was used to finance agricultural subsidies.

[1] Deduction taken following Senegal's decision not to avail itself of its right to a transfer within a limit of 20%.

(d) Provisions relating to the reconstitution of the system's resources (Article 21)

In May 1980 the Commission departments found that the conditions laid down in Article 21(3) of the Convention were not fulfilled and that Senegal was not therefore obliged to repay the transfer, whether wholly or in part.

The general rule is that the checking operation will be repeated each year until the transfer has been repaid or until 1984, whichever is the earlier; if the amount of the transfer has not been wholly repaid by then, Article 21(4) of the Lomé Convention will be applied.

(e) Timetable of operations

- Date of request for advance	1 July 1978
Commission decision on payment of advance	14 July 1978
Signing of agreement for advance on transfer	17 July 1978
Issue of payment order by the appropriate department	17 July 1978
- Date of request for transfer	27 February 1979
Consultations	24-26 April 1979
Transfer decision by the Commission	22 May 1979
Signing of transfer agreement	23 May 1979
Issue by the appropriate department of the order for payment of the balance	23 May 1979
Report on use	1 February 1980
Checking with regard to possible reconstitution of resources	28 May 1980

2. GENERAL PERFORMANCE

21. Results[1]

211. General survey

1. In accordance with the system of classification described in §122.3, every time we refer to a purely financial aspect we shall make the distinction between Group II, which was allocated 380 million EUA, and Group IV, which was allocated 20 million EUA. A total of 123 transfers have been made to 39 ACP States or OCT to the tune of 389 811 711 EUA in all, to offset a drop in export earnings in respect of 24 products.

2. Of the 46 states in Group I, 30 have received some 96 transfers totalling 376 289 144 EUA. Three transfers totalling 1 206 564 EUA went to Cape Verde, one of the three states that acceded to the Convention in 1978, under Article 90.

3. Of the 24 transfers made to Group IV states, four (1.7 million EUA) were for the benefit of Group V countries or territories. There have been 20 transfers (10.5 million EUA) to ACP States that acceded to the Convention under Article 89, eleven made while they were not yet independent and nine for which the transfer agreement was signed once the country had become an independent ACP State.

Table 1 : Overall results

	Number of transfers	Number of recipient states	Number of products	Amount in EUA	As % of allocation
Group II					
ACP States - 1975(46)	96	30	23	376	
ACT States - Art. 90(3)	3	1	1	1	99%
	99	31	23	377	
Group IV					
ACP States - Art.89(10)	20	6	6	10	
OCT	4	2	2	2	60%
	24	8	6	12	
TOTAL	123	39	24	390	97%

The breakdown by state and by product is given in Annex I, Tables 3 and 4.

[1] These results are shown in Tables 1 to 20 in Annex I.

212. <u>Nature of transfers - position regarding individual countries</u>

1. Of the 119 transfers to Group III states (including 20 coming from the OCT allocation), 102 (or 86%) consist of grants to least developed states under Article 48. The remaining 17 are interest-free loans.

The four transfers to Group V states are loans, a large proportion of which have, moreover, been paid back (see §216 below).

Table 2 : Breakdown of loans and grants

	ACP States Article 48	ACP States Former OCT Article 48	Other ACP States	OCT & Kiribati
Number of transfers Percentage	84 68%	18 15%	15 12%	6 5%
Amount in million EUA Percentage	254 65%	8 2%	123 32%	4 1%
	Grants: 263 million EUA 67%		Loans: 127 million EUA 33%	

2. It can be seen that 262 915 561 EUA, or 67.4% of the amounts transferred, went to least developed states. This result may seem surprising at first sight. Given that the Stabex system is based on trade, one would have thought that it would benefit first and foremost those ACP States that had a wide range of products to export and lively trade flows, that is the most advanced states. This is not in fact the case, for several reasons:

(i) Under the first Lomé Convention, 36 out of 59 states (61%) were classified as least developed and, hence, did not have to replenish the system. The lower thresholds applicable to these states also proved a valuable asset.

(ii) The risk of having to cope with a considerable loss of earnings is greater the fewer the products a given state has to offer on the market; this is why Nigeria, for example, has never used the system whereas Stabex has turned out to be an important means of aiding many of the least developed ACP States.

(iii) It is also true that a state's scope for timely action using its own financial and administrative resources to limit losses in an affected sector depends on its level of development.

(iv) Lastly, it must be admitted that there is an element of "chance" However, its significance should not be overestimated in view of the abovementioned intrinsic factors.

All this goes to prove that Stabex is a system of particular relevance to this category of state. This has become clear during the period covered by Lomé I and efforts to aid these states are to be stepped up even further during the period covered by Lomé II.

3. Three states acceded to the Convention, following ratification, pursuant to Article 90. A 5 million EUA allocation was added at this time. In all, three transfers have been made to one of these three states, involving a total of 1.2 million EUA (which is less than the 5 million EUA added). This shows that the accession of these states has not adversely affected the advantages accruing to the original signatory states, as stipulated by Article 90.

4. The largest transfer, amounting to 49.8 million EUA, went to Senegal, followed by those to Mauritania (33.3 million EUA) and Sudan (27.2 million EUA). The state that has received the largest number of transfers is Benin (12, involving a total of 20.3 million EUA), followed by Uganda (8, amounting to 20.5 million EUA in all).

213. <u>Position regarding individual products</u>

Transfers have been made in respect of 24 products (out of the 32 listed). The list of transfers, broken down by product, is given in Annex 9.

Nearly 40% of total transfers were for groundnut products (groundnuts, shelled or not; groundnut oil; groundnut oilcake), 16% for iron ore, 11% for cotton and 10% for wood in the rough (owing to a cyclical problem specific to 1975, which was the year in which 99% of transfers for wood in the rough were made).

Five products - the three groundnut products, iron ore and cotton - account for two thirds of the transfers. There is no rational explanation for this phenomenon, especially in view of the fact that its causes vary, being due both to local circumstances and cyclical problems. Therefore, the question of whether it was possible to foresee this concentration becomes pointless. It should simply be noted that the concentration on the products in question, especially groundnuts and cotton, leads to the conclusion that it is the Sahel that has had to make the most use of the system.

Table 3: Breakdown by product

24 out of 32 products = 75%	Groundnuts	Iron ore	Cotton	Wood in the rough	Other
Amount (million EUA)	156	62	43	39	90
%	40	16	11	10	23
Number of transfers	18	7	19	7	72
%	15	6	15	6	59

214. <u>Circumstances leading to a drop in earnings</u>

Some 271 million EUA (69% of the total disbursed) has been paid out in respect of products (mainly groundnut products and cotton) on which the export earnings were affected by local circumstances, often of a physical nature (drought, hurricanes, plant disease, etc.). In this connection, 44% of transfers went to the Sahel.

Of the 271 million EUA, 14 million EUA (4% of the total) was paid out when mines were closed down[1]. On this occasion, the accident insurance aspect of Stabex was used as life assurance as well.

The remaining third, 119 million EUA, was transferred because of the economic trend within the Community, which caused a drop in export earnings. The products affected in 1975 were wood in the rough, hides, skins and leather, cotton and copra. For the following years sisal, iron ore and sawn wood can be added to the list.

Table 4: Breakdown of reasons for drop in export earnings

(million EUA)

Local circumstances	257
Mine closures	14
Total	271 (69%)
Economic trend in the EEC	119 (31%)
Grand total	390

215. Advances

The following table sums up the advances made on transfers:

Table 5: Summary of transfer advances

Year of application	State and number of advance agreements	Amount of advance		% of final transfer	% of total annual transfers
1978	Senegal [2]	19 000 000	69%	29%	-
	Gambia [1]	1 510 000	5.5%	61%	
	Tonga [1]	160 000	0.5%	65%	
	Mauritania [1]	7 000 000	25%	21%	
	Total [5]	27 670 000	100%	Average 27%	17%
1979	Gambia [2]	3 692 000	60%	73%	-
	Dominica [1]	2 480 000	40%	86%	
	Total [3]	6 172 000	100%	Average 78%	9%
Grand total	8	33 842 000		-	9%

Little use has been made by the ACP States of the possibility of obtaining an advance under Article 19(6) of the Convention, the Commission having received a mere ten or so requests. This figure should be set against the 163 requests for transfers received by the Commission.

[1] Sierra Leone 1976: 3 977 274 EUA.
Swaziland 1978 and 1979: 9 855 991 EUA.

Eight requests resulted in payments totalling 34 million EUA, representing 9% of the 390 million EUA transferred.

As a proportion of the eventual transfer, the advance varies between 21% and 86%. For Dominica, where the banana crop was totally destroyed by a hurricane, it was quite easy to make a reliable calculation of the amount to transfer, which explains the size of the advance in relation to the transfer.

All requests for advances were made in respect of transfers rendered necessary by a drop in export earnings caused by local circumstances.

216. Reconstituting the system's resources[1]

1. From the results[2] it can be seen first of all that, of the 99 transfers made to Group II states, 15 were loans. Three transfers have been paid back in their entirety, another partly (84%)[3]. Of the 123 million EUA transferred in the form of loans, the 4 million EUA due so far has been paid back into the system in the normal way.

Of the other 11 transfers that have to be repaid, five were for wood in the rough (1975), two for iron ore and four for Senegal and Madagascar (see Annex I, Table 18).

2. Of the 24 transfers for Group IV states, six were loans (see Annex I, Table 17).

The two transfers to the New Hebrides have been paid back. Three of the four remaining have been paid back to the tune of 40%. Of the 4 million EUA transferred in the form of a loan, 2.5 million, or 59% has been repaid.

217. Financial results

Tables 19 and 20 in Annex I show the financial pattern of the Stabex transactions. An annual instalment can be increased by sums carried over from previous unexpended balances, replishments and by drawing on the following year's instalment (up to a ceiling of 20%). This is what happened in 1975 and 1978. For 1976 and 1979, therefore, the preceding years' advances had to be deducted from the relevant instalments.

In addition to the fact that it was necessary to invoke Article 18(2) twice for advances on the ACP allocation, it should be noted that although the overall figures balance out well (377 million EUA transferred out of an allocation of 380 million EUA, or 99%), there was a very uneven spread over the years[4], whereas a "normal" pattern would have involved drawing upon 20% of the total allocation each year.

[1] These results are shown in Annex I, Tables 16 to 18.
[2] See §37 for the application of the provisions on reconstitution.
[3] See Annex I, Table 16.
[4] This coincides with the remark made in the appendix (Note 3) evaluating the resources needed for the Stabex system which states that there is no way of telling for which year a transfer will be required.

Table 6: Breakdown of the amounts transferred over the five years - ACP allocation

Year	Amount (million EUA)	Percentages in relation to the amount transferred	Aggregate percentages
1975	80	21	21
1976	37	10	31
1977	34	9	40
1978	164	43	83
1979	63	17	100
Total	378	100	

The OCT allocation has proved quite generous since 12 million EUA has been transferred out of the 20 million allocated (60%), and even the three years during which the highest sums were paid out did not exceed their instalments.

Table 7: Breakdown of the amounts transferred over the five years - OCT allocation

Year	Amount ('000 EUA)	Percentages in relation to the amount transferred	Aggregate percentages
1975	3 960	31.5	31.5
1976	3 300	27.5	59
1977	1 463	12	71
1978	268	2	73
1979	3 324	27	100
Total	12 316	100	

22. Stabex under the fourth European Development Fund[1]

Since the first Lomé Convention's Stabex system comes under the fourth European Development Fund (EDF) for financial purposes, its significance must be assessed in relation to other financial aid from the fourth EDF, in spite of its very specific nature. The comparison can be made on two levels, both on a general plane and by comparing, for each state, the total national appropriation and any Stabex payments.

[1] Tables 21 to 24 in Annex I illustrate these developments.

Several significant facts emerge if we compare the sums transferred to Group II ACP States under Stabex with the fourth EDF as a whole. With an allocation amounting to 11% of the total, transfers account for 16% of sums committed and 28% of sums paid out (as at 1 August 1980). This is due to the fact that Stabex operations, by their very nature, can be implemented more speedily than those governed by other provisions.

Drawing a comparison with the total national appropriations is tricky because different systems are involved. The national appropriations come under the indicative programmes and are the result of detailed studies made on the basis of objective and structural criteria and linked to specific projects, whereas Stabex transfers are inevitably unforeseeable. It is none the less interesting to note that, for certain states that have unfortunately suffered large losses of export earnings, such transfers have provided substantial compensation which, in volume terms, can be as much as double the allocation under the indicative programme, benefiting particularly these states referred to in Article 48 of the first Lomé Convention.

221. Of the 380 million EUA Stabex allocation (Group II), 377 million EUA has been transferred (99%).

Table 8: Stabex under the fourth EDF - commitments (49 states)

(million EUA)

1 Stabex allocation	2 Total transfers	3 = 2/1	4 4th EDF amount	5 Amount committed	6 = 5/4	7 = 1/4	8 = 2/5
380	377	99%	3 466	2 429	70%	11%	16%

Once the amount of the transfer has been decided, the transfer agreement is signed and payment follows immediately, whereas the time taken to pay a sum committed under the EDF can vary depending on the nature of the project. This is why 28% of the payments made under the fourth EDF as at 1 August 1980 were in fact Stabex payments. Since the 1979 Stabex payments have to be made in August, the proportion at the end of that month will be 36%.

Table 9: Stabex under the fourth EDF - disbursements (49 states)

(million EUA)

1 Stabex amount	2 Stabex disbursed	3 = 2/1	4 4th EDF committed	5 4th EDF disbursed	6 = 5/4	7 = 1/4	8 = 2/5
377	310	82%	2 429	1 115	46%	16%	28%

The same comparison was made for the period covered by Lomé I up to 1978, with approximately the same result (30% for disbursements in column 8).

Table 10: Stabex under the fourth EDF (at 31 December 1978) - (49 states)

(million EUA)

	1 Stabex	2 Stabex disbursed	3 = 2/1 (%)	4 4th EDF committed	5 4th EDF disbursed	6 = 5/4 (%)	7 = 1/4	8 = 2/5
Amount	170	169	99.42	1 614	558	34.59	10.51	30.22
As % of allocation	44.66	44.40	-	46.57	16.11	-	-	-

From a financial viewpoint, therefore, Stabex is a very dynamic and important element since over a third of the sums paid out under the fourth EDF during the period covered by Lomé I come from the Stabex allocation.

222. Stabex and the total national appropriations

When studying the size of the Stabex transfers compared with the total national appropriations, we can see that recipients fall into three categories.

The first contains six states which have received Stabex transfers equivalent to between 66% and 116% of their indicative programmes and for which Stabex is the dominant factor in terms of relative value in their fourth EDF aid packages.

Table 11

('000 EUA)

State	Amount of Stabex transfer	Amount of total national appropriation	%
Dominica[1]	2 892	2 500	116
Senegal	65 106	59 000	110
Swaziland[1]	13 225	12 000	110
Mauritania[1]	37 000	33 600	110
Gabon	6 703	9 000	74
Gambia[1]	7 515	11 300	66

[1]States referred to in Article 48.

This category consists of four states referred to in Article 48 and two states that may have to replenish the system ultimately. They alone account for over a third of the Stabex transfers whereas their total national appropriations represented only some 7% of the overall appropriation for all states.

The second category contains 26 states, most of them listed in Article 48, which received transfers equivalent to between 10% and 66% of their indicative programmes. Lastly, the third category contains the remaining 27 states, which received rather insignificant Stabex transfers compared with their total national appropriations (between 0% and 10%).

Table 12

Transfers in proportion to ind. programmes	Number of states (of which Art. 48 states)	Amount under Stabex		Amount under indicative programme		Average %
0 - 10%	27 - (11)	13 840	4%	801 825	42%	1.73
10 - 66%	26 - (19)	241 756	62%	1 000 190	52%	24.17
66 - 71.6%	6 - (4)	132 442	34%	127 400	6%	103.96

It is only natural that there should be such a disparity (34% of transfers for six states and 4% for 27 states). Since Stabex is designed to offset injury to states which have suffered a drop in their export earnings, it places them on a par with the others regardless of development structures and level, which are taken into account when deciding upon the total national appropriations.

Of the 17 states for which Stabex transfers have meant a substantial increase in total disbursements under the fourth EDF (30% of the indicative programme or more), only five count among the most developed states. This category received 67% of the Stabex transfers whereas their total national appropriations accounted for only 23% of the overall amount.

Table 13

States[1]	Amount under Stabex		Amount under indicative programme		Average proportion
17	260 842	67%	437 440	23%	60%

[1]for which Stabex transfers are equivalent to over 30% of the indicative programme.

Finally, of the 22 states that have not received any Stabex transfer, six do not export significant quantities of any of the products covered by the system and are hence not affected by it. Of the 16 remaining, seven are on the list in Article 48.

Table 14

22 states have not received any Stabex transfers

Six do not export significant quantities of products covered by Stabex:

Bahamas	Guyana
Barbados	Suriname
Botswana	Zambia

The remaining 16 do have products covered by Stabex:

Equatorial Guinea	Nigeria
Grenada	Papua New Guinea
Guinea[1]	Saint Lucia[1]
Jamaica	Saint Vincent and the Grenadines[1]
Kenya	Sao Tome and Principe[1]
Lesotho[1]	Seychelles
Malawi[1]	Trinidad and Tobago
Mauritius	Zaire

[1]States referred to in Article 48 of Lomé I.

3. APPLICATION OF THE RULES AND UNDERLYING PROBLEMS

31. Export cover[1]

In §111.3 we saw how the list of products "insured" and the possibility of all-destinations export cover evolved following decisions of the ACP-EEC Council of Ministers and in response to the ACP States' demands. Here we will attempt to clarify the question of export cover in general.

311. The destination of exports

The rule is, and should remain, that the exports covered are those to the EEC; there is no reason why the Community should assume financial responsibility for mitigating the ill-effects of events taking place on markets other than its own.

Nevertheless, the Community was aware from the outset that a few ACP States, which were moreover among the least developed, and significant exporters of only one or two commodities, traditionally directed the bulk of their Stabex products to markets other than those of the Community. To have refused an exception to the rule on their behalf would have deprived them of Stabex insurance even though exports of these commodities were their principal source of revenue.

Thus from the entry into force of the Convention five countries enjoyed "all-destinations" cover. To this number were subsequently added former OCT which had enjoyed a similar facility before acceding to the Convention, and three other ACP signatories which fulfilled the criteria indicated in the preceding paragraph or for some practical reason were unable to send some of their exports to the Community.

But all-destinations cover is nevertheless a flagrant derogation from one of the basic Stabex principles, which is that the scheme should be strictly limited to products from countries to which the contracting parties have agreed to accord the most favourable treatment possible. Article 17(4) refers to "special cases". Given the problems which prompted the derogation it admits, which relate to countries and not to certain commodities exported by particular countries, all-destinations cover can be accorded only to a country, for all its exports of Stabex products.

2. For years the ACP States have been asking the Community to extend the stabilization facility to export earnings from trade between themselves. Now the second Lomé Convention permits this, on certain conditions (Article 27). The difficulties which arise in this connection are of two kinds:

(a) At the moment inter-ACP trade in commodities covered by Stabex and exported to the EEC is negligible and likely to remain so for a good while yet in contrast to their trade in certain other commodities (African grains, livestock, cola nuts, etc.) which has traditionally been considerable. Stabex cannot be used to solve problems which in practice do not arise.

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[1] To be read in conjunction with Annex I, Tables 25 and 29.

(b) Even if circumstances did change, a number of tricky technical problems would have to be overcome to provide cover for this trade using the normal Stabex machinery:

(i) such trade does not seem to be systematically recorded in customs statistics;

(ii) it is difficult to determine the origin of the traded products, which may have been entered in the records in both the country of consignment and one or more countries of transit.

It is therefore advisable to approach whatever situations may arise with caution, taking all the factors into consideration.

312. <u>The type of product covered</u>

1. Stabex is designed to provide cover, in accordance with certain aims and on certain terms, for products exported to the Community which are important for the economy, export earnings and employment in the exporting ACP States and liable to wide variations in price and/or quantity. Behind these criteria lie other considerations:

(i) intervention to stabilize earnings must not destroy Stabex's neutrality in respect of the market nor its compatability with commodity agreements;

(ii) care must be taken to see that a product is covered only where the price component of export earnings corresponds to economic reality;

(iii) the emphasis should be on commodities not covered by other special arrangements.

2. The foregoing considerations dictated that the commodities chosen for the Stabex list should consist essentially of the ACP States' major traditional export crops plus certain products of first-stage processing derived from them. In this connection it should be noted that on the one hand some products are consumed without processing (bananas), whereas in other cases cover extends from the primary product to the furthest stage of processing which can reasonably be carried out in the producing country[1].

3. Other kinds of produce - those identical or similar to Community crops - are not included in Stabex, mainly because it offers insurance against falls in output, a safety net Community producers do not have. Nevertheless, it should be noted that some of these products are covered by protocols or other arrangements which may provide even greater cover than Stabex (sugar and beef, for instance).

4. The only ore included was iron ore, and the Community indicated at the end of the negotiations that it did not intend to agree to further mineral products being added to the list. The reasons were as follows:

(a) Production and marketing of ores. In particular, it is generally vertically integrated from the mine to a certain stage of processing. The various links in

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[1]Groundnuts provide an obvious example, though not the only one. Stabex provides cover for shelled or unshelled groundnuts and unrefined or refined groundnut oil.

this chain operate a system of transfer pricing between themselves which is often meaningless in economic terms. Thus one factor in the "export earnings" concept is so unreliable that it is well-nigh impossible to arrive at a figure for "real" export earnings - and the potential for abuse of the system is considerable.

(b) If Stabex covered ore from certain countries (e.g. copper from Papua New Guinea, Zaire and Zambia) to the exclusion of other producers supplying Community consumers (Chile or Peru, for instance), this would mean that, given the oligopolistic structure that is usual on both the supply and demand side for these commodities (for most other Stabex products buyers and sellers are numerous), distortions would arise and destroy one of the system's strengths, its neutrality in respect of the market.

(c) Some ores, or the related products derived from processing them, have strategic importance and some countries therefore tend to consider them in this light and not merely from the economic standpoint. This means that economic factors become secondary and the data on which the system functions becomes even less meaningful.

(d) Even if these objections could be ignored, the cost of including the main ores in Stabex would be quite prohibitive.

Thus mineral products are not suitable for inclusion in Stabex. Nevertheless the problems faced by exporting countries are real ones. For this reason Title III of the second Lomé Convention contains provisions designed to assist these countries by means of a special financial facility aimed not at export earnings but at production and export capacity.

5. On several occasions the Community has been faced with the question of ACP States' earnings from tourism. It has always been opposed to including these in Stabex on the grounds that tourism is not an export commodity within the meaning of the system[1].

313. <u>Export cover and the economic effects of extending the Stabex list</u>

1. Tables 25 to 39 in Annex I give a comprehensive breakdown in figures of the lists of Stabex products at the different stages of the system's development (including the cover rate and "insurance premium").

2. But these figures are only approximate. Because they take as their basis EEC imports of a given product from all ACP States they

(a) fail to reflect total exports of the product from ACP States enjoying all-destinations cover, which means that the total value "insured" by Stabex is higher than the figures given in Table I.25;

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[1] On technical grounds the inclusion of earnings from tourism would be unworkable, as it would require solutions to such controversial matters as: what constitutes a tourist, the definition and basis of assessment of his expenditure, i.e. the earnings to be insured, and restriction of cover to Community nationals.

(b) take no account of the fact that because of the dependence threshold rule a proportion of the total is not covered by the system. This has the opposite effect, in that it reduces the total amount actually insured and thus lowers the cover percentages given in Table I.27. This effect can only be precisely quantified if analysed for each product separately, but it could lead to an estimated 15-20% reduction in the total import figures.

3. Setting these difficulties aside, the following figures cast light on some of the scheme's fundamental characteristics:

(a) Products added to the original Lomé I list both during the lifetime of the Convention and in the negotiations for its successor add up to a fairly negligible total; over 95% of the "total value" covered by Lomé II was already on the original Lomé I list (Annex I.25). This is a clear indication that it has become increasingly difficult to find further "holes" in the Stabex safety net[1] or, in other words, that the law of diminishing returns applies to international negotiations too.

(b) The product list is heavily concentrated round a handful of commodities: the five major products out of the 44 account for about 75% of the total value of imports; they are, in descending order, coffee, cocoa beans, wood in the rough, iron ore and tea (1978: 74.86%). The first two of these commodities account for over half of total imports of the 44 products (Annex I.25).

(c) Imports of beans and shrimps exceed those of gum arabic, which in turn are greater than those of raw sisal. And one would not expect imports of cocoa butter to exceed those of bananas.

314. <u>Some technical problems</u>

These remarks on product cover would be incomplete without a reference to some technical problems which could take on a political dimension:

(i) ACP States have in the past asked for products to be added to the list which are non-existent in terms of statistical and customs nomenclature or exist only in conjunction with other products.

(ii) To render Stabex operative for some products such as leather, hides and skins it may be necessary to aggregate figures in ways not foreseen at the time of the negotiations.

(iii) For statistical reasons again it may become essential to alter previous combinations. For example, it was found that instead of classing oilcakes with the primary products from which they are derived they should be classed together under a separate heading.

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[1]The ACP States have recently asked for nutmeg and mace to be included in the list of Stabex products. These commodities are important to Grenada, the world's second biggest exporter.

32. Trigger rates and thresholds and the operation of Stabex

321. Assessing rates and thresholds

1. Under the Lomé Convention, to apply for a transfer, ACP States must have passed both the dependence and fluctuation thresholds (Arts. 17(2) and 19(2)).

2. The level of export earnings these thresholds represent is worked out on a national currency basis. Since the rate of dependence is worked out with reference to total earnings from merchandise exports it is necessarily calculated on the basis of the ACP States' figures, with earnings expressed in national currencies. Except in the case of countries covered by the Article 17(4) derogation, the European unit of account cannot be used to measure the ACP State's exports to non-Community destinations. To prevent any distortion the same method was used to work out the flucutation rates.

3. Assessing dependence rates involved deciding whether to proceed on a product-by-product basis or with the product "families". The second approach, known as "globalization", was used in only two cases out of 123 in the first four years of Stabex operation. This shows clearly that globilization is far from being an automatic rule, and in fact has only been used in exceptional cases to cope with really extraordinary circumstances, and not without posing considerable problems.

Under the first Lomé Convention the rule for Stabex transfers was the product-by-product approach, whereby each product on the list must pass the dependence threshold before a transfer can be considered[1].

Because of the controversy which this issue has aroused it is worth setting out the considerations which prompted the Commission's stand. The possibility of "globalizing" of several products for the purposes of the dependence threshold - in itself a departure from the strict product-by-product approach of Stabex - came up because of an ambiguity in the wording of Article 17, which states that "the system shall apply to an ACP State's earnings ... if ... earnings from the export of the product or products ......". On the narrow, literal interpretation, this could be taken as making it possible to add up the export earnings from several related products (shelled or unshelled groundnuts plus oil plus oilcake, or cocoa beans plus cocoa paste plus cocoa butter) so that the overall "package" exceeds the threshold. Article 19(1) does not admit of this interpretation for working out the transfer.

On the strength of Article 17(2) some ACP States have tried repeatedly to get the Commission to accept "globalized" requests. With two exceptions the Commission rejected these applications, and the applicant states

[1]In negotiating the second Lomé Convention the contracting parties agreed on a formula allowing the ACP States to choose between a product-by-product approach and globalization for each transfer application. This finally settles a point which had given rise to a certain amount of controversy.

considered that by acting thus it was interpreting the article in a manner out of line with the letter of the Convention. The two exceptions admitted involved really extraordinary circumstances; if Stabex had not provided assistance it would have failed in its purpose.

(i) The first case concerned the consequences of a severe drought. This disaster wiped out the entire groundnut crop, causing a sharp drop in the dependence rate for each sub-product, taking it below the threshold. But in a catastrophic situation of this nature the Commission was unwilling to withhold Stabex aid and, exceptionally, agreed to a request based on the globalization of all groundnut products.

(ii) The other case concerned a situation where refusal of the globalized request would have seriously threatened the continuation of industrialization in the cocoa sector, which had only just got off the ground. The sum transferred was repaid in full the following year in any case.

These two cases accounted for 1.5% of total transfers.

322. Results

Out of a total of 138 transfer applications submitted since 1975[1], 18 (about 13%) were rejected because one or other of the thresholds had not been reached (in twelve cases the dependence threshold and in the other six the fluctuation threshold).

However, a relatively steady pattern can be observed in the straight averages of both dependence and fluctuation rates. An average of the fluctuation rates weighted by the reference levels alters the series slightly[2].

Table 15: Average dependence and fluctuation rates

Year	Dependence rate average	Fluctuation rate average	Weighted average fluctuation rates
1975	15.65	41.15	22.30
1976	15.78	41.19	38.57
1977	17.21	42.17	20.35
1978	25.99	40.44	27.03
1979	16.59	32.14	48.54
Total	18.44	42.80	28.15

[1]Group II. (In the case of Group IV only one of the 25 requests submitted failed on the grounds that the fluctuation threshold was not reached).

[2]To prevent distortion caused by exchange rate variations artificial reference levels have been worked out for this purpose by dividing the basis of the transfer by the fluctuation rates.

33. Statistical problems in operating Stabex: the use of cross-checking[1]

331. General remarks

Whenever an ACP State applies for a transfer under the export earnings stabilization system, the Commission, in conjunction with the applicant state, tries to get as accurate a picture as possible of the real state of trade between that country and the EEC in the product concerned.

All kinds of factors work to complicate this task. There are nearly always discrepancies between different sets of statistics, and it is impossible to say prima facie which is to be preferred. Some of the complicating factors are:

- shipping time[2]
- the importer's decision on when to clear the goods for release for free circulation or admission for inward processing
- the relationship between the fob and cif values
- changes in the destination of the goods before customs clearance (sale on consignment, re-export)
- weight loss (drying out, deterioration, damage)
- exchange rates
- errors and omissions.

The problems involved in using statistics are therefore multifarious. In addition, three fundamental but often contradictory imperatives of the Stabex system must be observed:

(i) maximum reliability which is not to say perfection;

(ii) statistics must be made available as quickly as possible so that transfers can be made rapidly, as the Convention requires;

(iii) the formula adopted must be as stable as possible so that a high level of certainty can be incorporated in the system in the long run.

In the search for statistical "truth" there comes a time when one simply has to accept a given figure as final; it would be pure chance if exports of a particular product from country A to country B were equal to B's imports of that product from A. This result could only come about in the theoretical case of perfectly planned economies, where the figures reflect the plans rather than reality. In any other circumstances - and they vary widely - import and export figures will differ or even contradict each other despite any amount of checking and investigation.

The Commission's view is that only a pragmatic approach can enable the system to operate effectively.

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[1] See Table I.30.

[2] A good example is the end-of-year shipment. The cargo of a ship sailing from an ACP port on 31 December of year T will be recorded as part of that year's exports, but will obviously be included among EEC imports for year T + 1.

332. The problems

1. The statistics used:

(a) Working out Stabex transfers requires both import statistics from the Member States and export statistics from the ACP States (see Article 17(1) of the first Lomé Convention).

(b) As regards EEC statistics, two Customs Union Service regulations[1] have introduced adequate monthly import surveillance for Stabex products based on Nimexe headings.

EEC statistics give cif values. In order to use them, a cif/fob coefficient must be applied to arrive at the fob values stipulated in the Convention. A lot of work went into determining the coefficient and the results are satisfactory on the whole. They may not solve the whole problem, but they enable it to be tackled on a fairly firm basis.

(c) There are also problems involved in using ACP statistical sources. For administrative reasons some countries have difficulty in supplying regular statistics as often as desirable.

Another problem is deciding whether the statistics used should be those taken at the time of exportation or when the country receives the earnings from the exports. In the case of landlocked states there is the additional difficulty of deciding on the place of exportation.

In the case of Burundi, for example, should the figures used be those recorded upon departure at Bujumbura, at the first transhipment (Kigoma), or at Dar-es-Salaam, or when the Central Bank receives the proceeds of sale. Each of these will give different values at different times.

(d) On the assumption that there is always someone at any given time who knows and can supply the specific information needed for Stabex, the Commission has endeavoured, in conjunction with each ACP State, to identify that source. This has led to a rather heterogeneous network of correspondents, but one which takes account of each country's constraints and possibilities.

(e) There are three main possible sources of statistics:

(i) Bodies such as marketing boards, where they exist, providing they have a commercial function such as purchase from producers and involvement in the sales process.

(ii) Foreign trade statistics, usually based on those of the customs.

(iii) Central banks, which can record exports at various stages (issue of licences, payment of deposit by exporters, receipt of proceeds of sale).

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[1] Regulations Nos 158/76 of 20 January 1976 and 2478/77 of 7 November 1977 (OJ No 41.813 of 27 January 1976 and OJ No L 287 of 11 November 1977).

In addition to these "institutional" sources there are others such as private industry (e.g. tanneries, oil mills), public concerns (iron mines) or the various ministries (finance, economic affairs, trade, agriculture, etc.).

In each case the Commission has sought the help of the national authorities to identify correspondents able to supply the most realistic, reliable data as quickly as possible.

2. Collecting the data

(a) Surveillance of the Member States' imports from the ACP States and OCT, pursuant to the customs regulations mentioned in § 332-1b, provides the national authorities with monthly returns based on importers' declarations, and these are then passed on to the Commission.

(b) In the case of the ACP States and OCT, the various correspondents are required to make regular, usually monthly, returns to the Commission. For internal reasons some ACP States choose different intervals. With a few exceptions this system generally works well, and provides the Commission with the punctual and reasonable reliable data it needs to examine transfer requests and monitor the conditions for the reconstitution of resources.

(c) In order to test the reliability of the figures where this may be in doubt, and also for the purpose of carrying out random checks, the Commission compares the figures supplied to it with statistics from other sources such as the IMF, marketing boards, product organizations, specialist journals, information from its Delegates - in short, with all the information available at the time.

(d) In complex cases checks may be extremely detailed, with export declarations, origin certificates or shipping movements being examined.

3. The problems of cross-checking and the methods used

(a) Within the meaning of the Convention cross-checking is pointless in the case of transfers to ACP States covered by the Article 17(4) derogation entitling them to cover for their earnings from exports to all destinations. But before using the statistics supplied by those countries to work out the transfer, the Commission nevertheless carries out the checks mentioned in § 332-2c.

(b) Here we come to one of the substantive problems of Stabex: the Convention states that the scheme is intended to stabilize the ACP States' export earnings, but defines the exports in question (at the end of Article 17(1)) in terms of Community imports. If both the ACP States and the Commission decided to take a stand on their position under the Convention, the system would grind to a halt, with each party perfectly within its rights. Luckily, cross-checking offers a way of resolving this impasse in practice.

(c) Cross-checking - comparing one set of statistics with another - can virtually turn into negotiations where the divergences are considerable. To conclude such negotiations successfully, a certain amount of flexibility is needed. A happy medium must be found to balance time- and cost-saving considerations and the respective positions of the Commission and the ACP States.

(d) Two sets of statistics can be combined in any of the five following ways:

(i) "Pure" ACP: ACP figures for quantities (Q) and unit values (UV) fob.
(ii) "Pure" EEC: EEC figures for Q and UV, cif values converted into fob.
(iii) EEC Q and ACP UV (fob); this is undoubtedly the most objective method.
(iv) ACP Q and EEC UV (fob).
(v) A composite formula between the two pure sets (e.g. averaging the two sets, "correcting" figures by transferring to the last year of the reference period entries shown under the year of application).

(e) Cross-checking, which is preceded by a thorough study of trade in the product under consideration, leads to agreement between the Commission and the ACP States to initial the cross-checking bases selected for the reference period and year of application[1], which are recorded in a "memorandum" of cross-checking.

(f) Except in cases where sets of pure statistics (EEC or ACP) are used, cross-checking produces a set of ad hoc figures to be used for operating the system, with the aim of getting as close as possible to the real economic situation by means necessarily differing from the traditional approach to foreign trade statistics. This means that these figures cannot be used for purposes other than the operation of Stabex.

(g) The statistics adopted at the time of cross-checking and for working out the transfer are deemed to be definitive. There is no place in the Stabex system for "provisional figures" subject to correction, for two reasons: one is to do with the nature of Stabex, which is an insurance scheme required to pay compensation for loss as quickly as possible, as accurately as possible, and once and for all. The other reason concerns the financial rules of the system, which stipulate that the balance remaining at the end of one year is automatically carried over to the next. This rules out subsequent corrections in the light of statistical adjustments.

(h) When a transfer is going to a country in respect of a product for which cross-checking has already been carried out, the Commission uses the same basis for the later operation. What this means is that the new figures are cross-checked in accordance with the Convention, in the manner already described in § 332.3, but the previously agreed formula is applied. The Commission considers that the continuity this provides conforms to the Stabex principle which calls for transfers to be made rapidly with maximum automaticity.

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[1]Cross-checked figures are expressed in ACP currencies. For a description of how the basis of the transfer is worked out from these figures, see the Appendix, Note 1 (Method of calculating the reference level) and Note 2 (Effect of exchange rates).

But there have been three exceptions to this rule to take account of changes so great as to be regarded as "new circumstances".

333. <u>The results</u>

1. <u>The different cross-checking formulas</u>

(a) Out of the 99 transfers which have gone to 31 Group II ACP States since 1975, 24 went to states covered by the Article 17(4) derogation. Out of the 75 transfers cross-checked, 26 (35%) used ACP statistics as the basis for cross-checking, 21 (28%) used Community statistics, and the remainder one or other combination.

Table 16: Summary of cross-checking formulas used

Transfers to countries covered by Article 17(4)	Cross-checking formula: ACP statistics	Cross-checking formula: EEC statistics (fob)	Cross-checking formulas Combinations		
24			Quant. EEC UV ACP	Quant. ACP UV EEC (fob)	Other
	26	21	11	3	14
Percentage	34.67	28	14.67	4	18.67

(b) In 14 cases the cross-checking formulas were modified and thus fall outside the standard methods:

- in three cases cross-checking was effected by taking a straight average of the EEC and ACP sets of statistics;
- in a further three cases only a few figures were changed from the standard formula (Mali, cotton 1975; Senegal, groundnut oil 1978; Madagascar, vanilla 1979);
- in the remaining eight cases different statistics were used for one or two years out of the period.

(c) New circumstances, whether in export structures or the statistical sources used, can lead to alteration of the cross-checking formula. Here, even if there is a series of transfers to a particular country in respect of a single product, it is impossible to retain the original formula.

2. The rule of continuity for repeated transfers

(a) Out of the 77 transfers where cross-checking was used, 26 were to states which had already received one or more transfers for the same product.

Table 17: Summary of cross-checking formulas for repeated transfers

Same formula	New circumstances: change in formula	
23 cases 88.46%	3 cases 11.54%	Upper Volta: groundnuts 1977 Uganda : cotton 1977 Sudan : groundnuts 1978

In 23 cases no new circumstances prevented use of the same cross-checking formula.

(b) But in three cases new circumstances made it necessary to change the statistics used:

- Uganda, 1977: the break-up of the East African Community led to the closure of its statistical office. Subsequently, in 1978, the 1977 formula was used again.
- For a similar reason (change of statistical source) the transfer to Sudan in respect of its 1978 groundnut exports was calculated by the Commission using a new cross-checking formula, retained for the 1979 transfer as well.
- In 1977 a complete change in Upper Volta's groundnut marketing system made it necessary to use different sets of statistics, which were used again for the 1979 transfer.

34. Rejected applications and reductions

341. Grounds

When the Commission receives an application for a transfer, it must ascertain whether it is admissible under the Convention.

A request can be rejected on the following grounds:

(i) The statistics indicate that there has been no loss of earnings (Art. 19(2)).

(ii) The application fails to show that one of the thresholds has been passed (Art. 17(2) and Art. 19(2))[1].

(iii) The loss of earnings is the result of a trade policy measure of the applicant country adversely affecting exports to the Community in particular (Art. 19(4)(a))[2].

(iv) Indirect application of Article 17(4).

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[1]See § 32 for trigger rates and thresholds.

[2]When Stabex first came into operation this rule aroused some confusion in certain quarters since it was thought that only the nationalization of the marketing and export of a commodity would give grounds for the application of Article 19(4). This is not so, as Stabex is neutral in respect of the ACP States' qualitative economic policy decisions. In this context the Commission, out of respect for the ACP States' sovereignty, thought it best not to apply Article 19(4). Since no other situations requiring its use have ever arisen, this clause has remained a dead letter. But as § 343 shows, Article 19(4)(b) is precise and flexible enough to cover all cases where it is necessary to reduce the basis of the transfer.

342. Indirect application of Article 17(4)

Where export earnings to all destinations during the year of application exceed the average of export earnings to all destinations during the four years preceding the year of application, consultations must be held as specified under Article 19(4)(b).

However, in such cases, the reduction is 100% for the reasons set out in § 20 of the Commission report on transfers for 1976, which summarizes well the sense in which the phrase "indirect application of Article 17(4)" is used:

"The Commission maintained here the strict application of a rule which it considers fundamental, namely that of limiting compensation under the Stabex system to the country's losses on its exports to all destinations.

The contracting parties intended that the States covered by the guarantee for exports to all destinations should receive the most favourable treatment, for the following very good reasons: exports traditionally oriented towards customers other than the Community; landlocked situation; inclusion in the group of the least developed ACP countries. On the contrary, obviously no ACP States not benefiting from the derogation under Article 17(4) may receive more compensation than it would receive if it did benefit from the derogation.

In addition to this argument based on law and equity there is another stemming from the fact that a State which has directed its exports towards destinations other than the Community, and has done so under normal economic conditions, may have suffered no overall loss, even if earnings from the Community have dropped.

The result is that the Commission abides by the principle of limiting compensation to the loss suffered in respect of all destinations and it will recommend that such limitation be written into the future Convention."[1]

343. Application of Article 19(4)(b)

The Lomé Convention, in setting up Stabex, has sought to create an instrument that is neutral as regards the structure of trade flows.

For this reason, and also for reasons of equity between ACP States, Stabex cannot and should not compensate for any loss of earnings resulting from a deliberate economic act by the ACP authorities or by economic operators in the ACP States that affects prices or the pattern or volume of trade flows.

Hence, under Article 19(4)(b) it may be decided, following consultation, to reduce the basis of the transfer.

1. Analysis of the problem

Stabex comes into operation when one of the following situations arises:

(i) fall in unit value,

(ii) decline in exports in relation to imports,

(iii) a combination of these two factors.

[1] Art. 38(2) of the new Convention.

Article 19(4)(b) accordingly requires the Commission to examine the causes of a fall in unit values or the volume of exports.

The ACP States may only be held responsible for a fall in unit values in the event of cut-price selling or dumping, but there have been no instances of such practices. Clearly, if such a situation had occurred, it would necessarily have resulted in a reduction adjusted to the circumstances of the case.

However, a fall in the volume of exports is more likely to be occasioned by an intentional or unintentional act on the part of the exporting state. There are a number of possible causes:

(i) fall in crop size[1],

(ii) fall in marketed output[1,2],

(iii) decline in exports to all destinations,

(iv) decline in exports to the Community.

In the context of Stabex, the determining factor is the movement in the structure of trade flows for the year of application in relation to the reference years. However, the fact that a movement is recorded will not automatically result in a reduction, since Stabex was introduced specifically to compensate for particular types of change; moreover, each reduction can only be calculated by taking account of all the factors involved, in particular any information obtained during the consultations stipulated under the Convention.

2. List of situations

Practical experience to date and the Commission's own findings show that significant changes in an ACP State's total exports (and production) can result from the various occurrences and situations listed below. The list is not exhaustive and several of the eventualities may occur simultaneously.

(a) Events or decisions liable to affect earnings through a change in unit values

2-01 Quality changes
2-02 Dumping

(b) Events or decisions liable to affect the volume of marketed products

2-03 Natural disasters and similar events (floods, drought, hurricanes, earthquakes, tidal waves, plant or livestock diseases, insect and animal predators, etc.)
2-04 Deliberate cutback or exhaustion of production
2-05 Production stoppage
2-06 Exhaustion of production (ores, wood)
2-07 Import restrictions by an ACP State on inputs required for the production or export of Stabex products
2-08 Nature protection measures
2-09 Frontier movements of goods between ACP States

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[1] Normally fully offset by Stabex.
[2] The term 'marketed output' is used to mean the quantities supplied by a producer to the agency responsible for marketing the product in question or the quantities declared to the customs authorities.

(c) Events or decisions liable to affect the volume of exports

2-10 Increased domestic consumption
2-11 Increased domestic processing
2-12 Effect of barter agreements
2-13 Implementation of voluntary export restraint agreements
2-14 Implementation of the safeguard clause
2-15 Export ban under an international commodity agreement (or quota restriction)
2-16 Export aids (differential exchange rate, subsidies, etc.)
2-17 Imposition of an export tax or other fiscal measures having a prohibitive effect on exports
2-18 International boycott of an exporting ACP State
2-19 Boycott of a transit country affecting an ACP State's exports
2-20 Linked-sales arrangement (establishment of a legal connection between the export of a commodity and the export of processed products, or between the export of a commodity and local processing of that commodity, or between exports of two commodities)
2-21 General export ban on a Stabex product (or quota restriction)
2-22 Speculative stock-building
2-23 Measures designed to delay the normal disposal of production

(d) Events or decisions liable to affect the volume of exports to the Community

2-24 Reduction in Community demand for cyclical reasons
2-25 Imposition of non-tariff barriers on EEC imports
2-26 Restriction or ban on EEC imports for non-tariff reasons (e.g. health regulations)
2-27 Community boycott of an exporting state
2-28 Strikes in Community ports
2-29 Change in relative quantities supplied to recipient countries
2-30 Ban on exports to the Community as a whole

(e) Events or decisions liable to affect trade flows at different levels

2-31 General ban on exports of a non-Stabex product but affecting the export of Stabex products (e.g. ban on meat exports, resulting in a halt to slaughtering and a reduction of leather, hide and skins exports)
2-32 Civil war
2-33 War between ACP States
2-34 Economic effects of extra-economic events (other than wars)
2-35 Strikes in an ACP State
2-36 Measures to restructure a production sector or marketing procedures
2-37 Transportation problems in the producing state or in countries of transit
2-38 Transport regulations having an effect on exports

(f) Events and decisions liable to affect the assessment and lead indirectly to a reduction of earnings

2-39 Devaluation of an ACP currency
2-40 Revaluation of an ACP currency
2-41 Total or partial compensation following a standard insurance claim (e.g. fire insurance)
2-42 Time-lag between the registration of exports and imports

3. Implementation of Article 19(4)(b)

(a) The above list, which is not exhaustive, features inter alia measures which would be liable to trigger the Stabex guarantee system in the absence of a provision such as Article 19(4)(b). On the basis of experience and our findings, it can be said that such measures are never adopted with the express intention of misusing the system. The measures are invariably autonomous, though there will sometimes unavoidably be an indirect risk of such misuse.

(b) The examination of requests automatically reveals any changes in the pattern of exports and production through comparison of the various items of information in the Commission's possession (marketed production, total export earnings from the product, unit values, etc.). Moreover, the Commission keeps abreast of changes in legislation and exchange rates and of all other useful information.

(c) The Commission, in assessing changes in the quantitative indicators mentioned above, adopts a flexible approach and generally takes as a "significant change" divergences of approximately 10% or over compared with the situation during the reference period.

(d) Where such divergences are recorded, the Commission

(i) carries out its own checks using all the means and contacts at its disposal,

(ii) holds consultations with the requesting ACP State.

In the course of such consultations, each party puts forward its case. It seems that a change may often have several causes which occur simultaneously, whether cumulatively or otherwise.

Following such consultations, it may be found that there is no reason for a reduction. However, if a reduction is negotiated, it can, depending on the case, be as much as 100% of the basis of the transfer.

The many possible reasons for a change[1] and the large number of factors to be taken into account make it impossible to identify a single, rigid line of action but, on the contrary, necessitate a case-by-case assessment according to the details of each case.

[1] Many of the items listed comprise one or more variants or sub-items.

(e) Response to the different situations

(i) Situation 2-30 (ban on exports to the Community as a whole or to one or more Member States, or quota restriction on imports by the latter) is covered by Article 19(4)(a) with the result that any transfer request submitted on this basis would be inadmissible.

(ii) The following situations cannot justify a reduction because they do not result from deliberate decisions by the requesting ACP State:

2-03
2-13, 2-14, 2-15, 2-19
2-24 to 2-28 inclusive
2-31 to 2-34 inclusive.

(iii) The following situations are generally the result of acts or actions by the ACP States and therefore justify a reduction:

2-02
2-09, 2-12
2-21 to 2-23 inclusive.

(iv) As regards the other situations listed below, there is no automatic response. A decision as to whether or not a reduction should be made, and if so, how the reduction is evaluated, depend on the consultations held:

2-01
2-04 to 2-08 inclusive, 2-10, 2-11
2-16 to 2-18 inclusive, 2-20
2-29
2-35 to 2-38 inclusive
2-39 to 2-42 inclusive.

(f) It follows from the foregoing that it would be extremely difficult to try and freeze things which are by their nature fluid, and that any attempt at formalization would leave the administration of the system without the flexibility that is vital to its operation.

(g) With regard to specific cases arising in individual years of application, the relevant comments will be found in the annual reports on the administration of the system.

344. Various methods of calculating reductions under Article 17(4) and 19(4)(b) of the first Convention

1. Hitherto, the Commission has used three different methods of reducing the transfer basis. Clearly the methods of reduction will vary depending on the reason for the reduction. Since the events or situations prompting such action are extremely numerous, the Commission feels bound to point out that the three methods developed so far and described hereafter will not be able to cover all possible situations. It is almost certain that in the years ahead other situations will arise which will have to be resolved by other methods.

2. As regards the three methods applied to date, there is a certain order of precedence, the first method ranking before the other two. It is more by way of being a condition of admissibility or limiting clause than a method of reducing the basis of the transfer in the case of a substantiated request.

The fact is, as has been stated several times, that a transfer may not exceed the amount of export earnings lost by the requesting state, for the product in question, in respect of exports to all destinations[1]. For each transfer request, these two values - overall loss and loss on exports to the EEC - are calculated according to the normal formula specified under Article 19(1) and (2) of the Lomé Convention and on the basis of the ACP statistics. Such calculations may produce different situations:

(a) The loss is confined to exports to the EEC while there is a surplus on exports to all destinations. This being so, the request is not admissible[2]. In its annual reports the Commission has always referred to such cases under the heading of requests rejected.

(b) A loss is recorded on exports to all destinations, but is less than the loss on exports to the Community. In this case, the transfer is limited to the overall loss suffered by the ACP State.

Technically, the Commission first calculates the magnitude of the loss on exports to the EEC. Then, a reduction is worked out on this amount, which ensures that the final transfer only compensates for the overall loss, as it emerges from the export statistics of the ACP State in question.

(c) The overall loss exceeds the loss on exports to the EEC. This is the case with a normal and duly warranted request, which does not seek reductions based on such considerations. Therefore, the methods of calculation adopted for category (b) above should not be applied to situations or events which are more fit for discussion in the consultations provided for under Article 19(4)(b) of the Lomé Convention.

3. Each transfer request which fulfils the threshold conditions and the conditon stipulating comparison of a loss on exports to the EEC with a loss on exports to all destinations is subsequently examined under Article 19(4) of the Lomé Convention. This examination is based on the whole spectrum of qualitative and quantitative information available; in processing the quantitative data the Commission departments, in accordance with Article 19(4)(b), start by calculating the share of exports to the EEC in total exports of the product in question.

These key statistics indicate whether the ACP State has itself, through its own actions[3], caused all or part of the losses on exports to the EEC. If so, the Commission departments calculate the actual liability of the requesting state as follows, assuming a transfer basis of 100. The calculation might show that the EEC share of total exports of the product had fallen from 50% to 40%. Accordingly, the reduction would be $100 \times (0.50 - 0.40) = 10$ and the transfer $100 - 10 = 90$.

In the event that the reduction of the transfer basis has to be calculated using a combination of two different indicators, (this has in fact only occurred once so far), the method adopted is as follows: the first step is to calculate the reduction required following, for example, a 10% to 25% increase in domestic consumption of the product:

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[1] See § 342 above.
[2] See list in Annex I, 22.
[3] See for example the following situations: 2-05, 2-22, 2-29, 2-10, 2-11, 2-35, 2-20.

First reduction = $100 \times (0.25 - 0.1) = 15$;
Transfer basis = $100 - 15 = 85$.

Let us assume now that the EEC's share of total exports has fallen during the same period from 75% to 55%. In order that an increase in domestic consumption should not be doubly penalized, this second reduction of 20% is only applied to the amount deriving from the first operation. Hence:

Second reduction = $85 \times (0.75 - 0.55) = 17$;
Transfer = $85 - 17 = 68$.

However, an ACP State may put forward arguments during consultations to show that the reasons for "significant changes" are partially or even entirely outside its sphere of responsibility. If the ACP State is able to show that its argument is sound or to convince the Commission of its plausibility, the Commission will adjust the initial reduction in the transfer basis (see Annex I, 33).

Technically, the reduction is made in two stages in such cases: initially, the transfer basis is reduced according to the formula described above; the second stage is to lessen the reduction. Since the second element is often grounded in qualitative considerations, it is sometimes difficult to quantify[1]. Consequently, there is no single method. However, the Commission considers that the two-stage method is preferable to an overall approach in which no attention would be paid to the numerous features of each case, which are often of a qualitative nature.

In response to relevant arguments advanced by the representatives of the ACP States concerned, certain individual cases have been handled in this way, for example: Uganda (tea) and Tanzania (sisal), both for year of application 1978. In both cases, insufficient demand or other factors on the EEC side forced the requesting state to quickly find other buyers elsewhere, and the reduction was adjusted on the basis of the loss suffered by the ACP States concerned as a result of these developments, which did not stem from deliberate decisions taken by them.

4. In the case of iron ore, a third method of transfer reduction was applied to transfer requests resulting from mine closures. One of the features of this product is that it is produced and marketed under conditions which are such that a fall in export earnings does not necessarily equate to the loss suffered by the ACP State concerned. To accurately assess that loss, the Commission, during consultations held in accordance with Article 19(4)(b) of the Lomé Convention, deducts from the transfer basis all current expenditure on mining covered by foreign currency. The reasoning behind this approach is that, where a loss on export earnings is due to the fact that mining has been temporarily or permanently halted, the ACP State concerned "saves" expenditure which previously depleted its foreign currency reserves. Once this principle is accepted, it follows that it only applies in the case of an ACP State whose national currency is not linked, directly or indirectly, to a convertible currency, since if it is convertible the concept of "foreign currency savings" would make little sense.

[1]See situation 2-24.

This reduction formula was applied in the case of transfers to Sierra Leone (1976) and Swaziland (1978 and 1979), the above conditions having been fulfilled. In all other cases involving a transfer to ACP exporters of the product, it was not possible to make a reduction on the same basis, viz:

Swaziland (1977): the mine was still in operation;

Mauritania (1978): the ouguiya is de facto in the franc zone;

Liberia (1978): national currency freely convertible into US dollars[1].

5. To conclude, the following observations can be made:

(i) on account of the variety and complexity of the reasons for reducing the basis of the transfer, a single method of reduction is not just undesirable, but impossible. Situations are bound to arise in which the methods devloped so far will prove inadequate;

(ii) the method of reduction adopted must reflect the cause; it is not possible to apply a given method systematically to a cause for which it is not appropriate;

(iii) apart from obvious situations within the ambit of Article 19(4)(a), subparagraph (b) of that Article is perfectly adequate for covering all possible cases;

(iv) a certain order should be worked out for the various factors causing a reduction: Article 17(4) of the Convention logically takes precedence over Article 19(4)(b). As it offers ACP States qualifying for such treatment the best possible deal under Stabex, it is clearly not possible for any ACP State not in that category to claim even more favourable treatment.

345. Statistical results

During the five years of application, Group II ACP States have presented to the Commission a total of 138 transfer requests.

Thirty-nine requests (approximately 28%) were rejected, either because they did not demonstrate a loss of earnings, or because the dependence or fluctuation thresholds were not reached (Articles 17(2) and 19(2)), or else because there was no loss of earnings on exports to all destinations.

Seventy requests out of the 99 which received a positive response resulted in the transfer of an amount equal to the basis of the transfer in accordance with Article 19(3); however, in the case of 27 requests, the basis of the transfer was lowered by a reduction, either under Article 17(4) or else so as to take account of distortions due to variations in export flow patterns (Article 19(4)(b)). As for the remaining two requests the states in question only made partial use of their right to a transfer.

With regard to Group IV, of the 25 requests submitted, only one was rejected for not having crossed the fluctuation threshold; in the case of the other 24 requests, no reduction was made.

1. General position and breakdown of reductions and rejected requests from Group II states

(a) Among rejected requests, no account should be taken of those which, from the outset, did not fulfil the conditions of the system. In this category, a distinction can be made between requests from countries which did not suffer a loss of earnings (8 cases) and requests where the trigger thresholds had not been reached (18 cases) (see Annex I, 31).

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[1] But reduction made on the basis of the arguments set out in § 344.2.b.

There were only twelve noteworthy requests which were rejected because the loss of earnings was only on exports to the Community, whereas there were surpluses on exports to all destinations. Among these 12 requests was one from Tonga for its copper exports in 1979, which was rejected under Article 19(4)(b). These rejected requests can be treated as ones where the basis of the transfer would have been reduced by 100%.

The significance of the rejected requests is only evident in terms of their number. Since the basis of the transfer was not calculated in the majority of cases, a more detailed analysis of the sums in question is impossible, particularly because the figures are generally small and are expressed in national currency.

However, certain observations can be made on the basis of an examination of the amounts of the reductions concerned. The total sum of all reductions was 85 million EUA, which represents approximately 112% of the Stabex annual allocation and 22% in terms of the 377 million EUA transferred.

Table 18: Percentage reductions

Amount of transfers (EUA)	Amount of reductions (EUA)	Reductions in relation to transfers (%)	Reductions in relation to transfer bases (%)
377 495 708	85 023 137	22.52	37.56

In addition to these figures, which relate to all transfers, is the fact that the sum total of reductions, as a proportion of the transfer bases to be reduced, rose from an average of 26% during the first three years to an average of 42% during the last two years.

(b) The events and situations giving rise to reductions can be classified in three categories. The first category concerns requests in respect of which the loss of earnings on exports to all destinations is less than the loss on exports to the Community. The second category concerns reductions resulting from the application of Article 19(4)(b). Lastly, it is necessary to consider separately transfer requests in respect of exports of iron ore.

It can be seen from Table 3 that most reductions resulted from changes in export flows.

Table 19: Breakdown of reductions

1	2	3
Article 17(4)	Article 19(4)(b)	Iron ore
6	18	3

In the first six cases, the final transfer only offsets the overall loss, this being less than the loss on exports to the Community.

In the 18 cases where changes in export flows were partially responsible for a fall in earnings on exports to the Community, a number of factors could have contributed, including domestic consumption, a reorientation of external trade, and voluntary stock-building.

Factors considered in calculating the amount of the reduction included the weakness of the Community market, differences between prices obtained on exports to the Community and to non-Community countries, poor harvests and, in one case, the devaluation of a national currency.

The manner in which Article 19(4)(b) is applied to iron ore in the three cases listed in § 344.4 is described in that paragraph. In the case of Liberia, the reduction made in 1978 can be grouped together with the reductions in the first category.

2. Overall position by product and by state

(a) Are some products more subject than others to changes in export structures liable to necessitate reductions? To study this question, an evaluation criterion had first to be determined. An average percentage reduction as a proportion of the transfer bases was therefore calculated for each product. The 12 requests rejected under Article 17(4) were considered to entail a 100% reduction (like the request rejected under Article 19(4)(b)).

This criterion was used for drawing up the table at Annex I, 34 and enables three categories of products to be defined. The first category comprises products in respect of which the average reduction is between 20% and 54% and concerns copra, Ugandan tea, cocoa, wood in the rough, coffee, cotton, sisal and iron ore. The second category (where the average percentage varies between 0% and 13%) comprises groundnut products and oleaginous products. The third and final category comprises all other products in respect of which losses on export earnings resulted in transfers without a reduction.

(b) The same method was used for drawing up the table at Annex I, 35, which shows the ACP States broken down into five categories. The fifth category comprises 15 states whose transfer bases were not reduced. The other four categories are made up of 19 states whose transfer bases had to be reduced or whose requests were rejected.

The first category comprises five states: Papua New Guinea and Kenya, whose requests were not successful, Fiji, Togo and Chad. The second category comprises eight states: Sudan, Central African Republic, Cameroon, Tanzania, Madagascar, Tonga, Uganda and Upper Volta. Another category, somewhat on its own, comprises those ACP States which export iron ore.

35. <u>Implementation periods for Stabex transfers and advances</u>[1]

351. <u>Transfers</u>

The aim of the Stabex system is to regulate export earnings, which in turn requires that transfers be made rapidly as stipulated by Article 19(6) of the Convention.

[1] Illustrated by tables at Annex I, 36 to 38.

1. To gauge the quality of the system in this sphere, certain evaluation criteria must initially be determined. In the first place, the "Stabex year" is considered to commence on 1 April of each year, the day following the deadline for the presentation of transfer requests. No other date would seem to comply with the rules for administering the system nor would it be suitable in the circumstances.

Certain countries are able to maintain a steady flow of exports throughout the year; this is the case, for example, with those countries which export leather, hides and skins, ores, wood, bananas and, to a large extent, vegetable oils. Other products, however, are subject to seasonal cycles; such is the case, for example, with groundnuts, which are mainly exported between October and December, cotton and other agricultural products. In a large number of cases, problems of transport (hold space, port congestion) or difficulties specific to island or landlocked states can cause delays of as much as several months. Hence, choosing any date other than 1 April would appear to be arbitrary and not based on practical realities.

2. Over the four-year period, the interval between 1 April and the dates of signature of agreements making over transfers to Group II states was five months on average.

However, to achieve a more realistic average, it is necessary to discount the two very special cases[1] of late transfers resulting from the good offices procedure; equally, to gain a truer picture of the rapidity of the procedures, it is necessary in the case of long transfers to take account of the date of any ACP request made after 31 March[2]. The average period then works out at less than four months.

It will be observed, moreover, that 77 transfers (i.e. 77%) were signed within four months of the request being made and represent approximately 80% of the total for all transfers. More than a third of the 377 million EUA was transferred within two months.

Fourteen transfers (14%) were signed before the end of the year following the financial year in respect of which they were made. Almost all transfers concerning iron ore are in this category. Statistical problems necessitating additional information account for the remaining cases. It will be observed that almost all transfers (93%) for the year in question were made by 31 December.

Lastly, 8 transfers (representing less than 9% of the sum total) took more than 9 months for the following reasons:

(i) problem with choice of reference period,
(ii) problem with evaluation of dependency threshold,
(iii) mine closure, necessitating a new transfer evaluation method,
(iv) a "statistical gap" occurring following the closure of a statistical office,
(v) additional information sought and received belatedly (two cases),
(vi) a further two cases settled as a result of the good offices procedure.

3. The yearly breakdown is as follows: (see Annex I, 36):

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[1] Gabon: wood in the rough (1975); Mali: cotton (1975). (See above, § 125).

[2] This was the case for years of application 1975 and 1976, when the 31 March deadline did not yet apply, and for three subsequent requests.

(a) Financial year 1975

24 transfers within 3 months covering 99.51% of the annual amount
 1 transfer within 5 months
(plus two exceptional transfers to be charged to financial year 1978 following the good offices decision taken on 22 March 1978).

(b) Financial year 1976

14 transfers within 4 months covering 82.62% of the annual amount
 5 transfers within 9 months (14.19%)
 1 long transfer representing 2.58% of the annual amount.

(c) Financial year 1977

7 transfers within 4 months covering 47% of the annual amount
4 transfers within 9 months (45%)
3 long transfers representing 7.72% of the annual amount.

(d) Financial year 1978

16 transfers within 3 months totalling 75.67% of the total amount of 1979 payments, broken down as follows:

13 transfers for financial year 1978 within two months (69.02%)
 2 transfers for financial year 1975 within two months (4.56%)
 1 transfer for financial year 1978 within three months (2.09%)
 7 transfers within nine months (15.68%)
 2 long transfers representing 8.62% of the annual amount.

(e) Financial year 1979

14 transfers within four months totalling 96% of the annual amount
 1 transfer[1] within five months representing 4% of the annual amount.

In conclusion, it will be seen that 80% of the total transfer amount was allocated within a period of four months and that only 7% of allocated sums were transferred belatedly.

352. Advances (Annex I, 38)

Over the same period, seven requests for an advance[2], all within 1978 and 1979, were met. It took between 15 days and four months to process them, depending on the availability of statistical data and the facilities for cross-checking the ACP States' and the Community's respective statistics.

Five requests were met in 1978. In two of these cases, agreements for advances were signed within less than 15 days. As regards the other three requests for an advance, agreements were signed respectively within two, three and four months, which meant that the money could be paid over at the beginning of December, i.e. half a year earlier than the average for normal transfers.

With regard to the two rather late requests in 1979, the period was two and a half months, enabling a transfer to be made in February 1980.

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[1] Sudan's request concerning sesame seeds was the subject of a transfer agreement signed in September 1980, i.e. five months after the Nairobi decision to include sesame seeds in the list of Stabex products.

[2] In the case of Group IV, a request for an advance was lodged in September 1979 and the agreement signed six weeks later.

36. Utilization reports

361. 1. Under Article 20 of the Lomé Convention, recipient ACP States must inform the Commission annually of the use to which the transferred resources have been put.

Under Article 29 of the Internal Agreement, the Commission must transmit to the Member States the reports which it receives.

With the aim of specifying the conditions governing the implementation of Article 20 of the Lomé Convention, the text of the transfer agreement contains an article stipulating that information on the utilization of the funds must be received not later than one year following the date of signing of the transfer agreement.

In practice, many problems were encountered when Article 20 was first implemented. The reasons were as follows:

(i) Since the vast majority of the transfer agreements were signed during the first two weeks of July 1976, the utilization reports ought to have reached the Commission during the first two weeks of July 1977. However, with very few exceptions, the Commission received no information during the specified period. Numerous reminders and high-level promptings were necessary before the first report could be prepared for the Member States in September 1977.

(ii) The information transmitted to the Commission was extremely diverse in both presentation and content.

2. The reports relating to financial year 1976 for the most part reached the Commission within the specified period.

There was a considerable improvement in the quality of the reports received compared with those for the preceding financial year, owing to use of the standard-format report prepared by ACP State and Commission experts[1].

With the exception of two countries which drew up their reports particularly early, general use was made of the standard report with the result that there was greater uniformity in the information received and also more precise descriptions of the operations undertaken and the anticipated effects.

3. The fact that one ACP State defaulted and that the last transfer relating to year of application 1977 was not paid until the beginning of 1979 have meant that it has not yet been possible to make use of the reports received in respect of financial year 1977[2].

4. With regard to year of application 1978, the last reports will be due, on the basis of the timetable for signature of the transfer agreements, as from January 1981[2,3].

5. The utilization reports for 1979 will be due as from September 1981[2].

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[1] See Annex II.E.

[2] Wherever possible, the Commission will take pains to fulfil its obligation to transmit to the Member States the information received.

[3] For year of application 1978, Senegal transmitted to the Commission on 1 February 1980 a utilization report on the advances paid in July 1979 (even though it was not contractually bound to do so).

362. To return to the substantive question, namely the actual utilization of the transfers, it should be remembered that under Article 20 of the Convention, recipient states are free to decide how the resources are to be used. The Commission considers, however, that this provision should be interpreted in conjunction with Article 16 of the Convention which sets out the aims of the Stabex system, notably to remedy the harmful effects of the instability of export earnings and thereby enable the ACP States to achieve stability, profitability and sustained growth in their economies. This does not mean that transfers must systematically be directed towards the product for which they were made, since diversification measures can obviously also accord with the spirit of Article 16.

However, it must be said that some transfers have been put to surprising uses which can scarcely be squared with the abovementioned objectives. This gives serious cause for concern and there have been cases where public opinion has been roused. This has happened at various levels, and particularly within the European Parliament, whose members are otherwise strongly in favour of this particular means of supporting the economies and encouraging the stability of the ACP States.

It is important, however, not to ignore the difficulties encountered by the ACP States in fulfilling their obligation to account for the use of the transfers made under the first Lomé Convention. Except where transfers are credited to a special account from which funds can be drawn only for a very specific purpose, as has been the case in a number of instances, the transfer is paid into an account used to make a whole range of different payments. This being so, it is virtually impossible to monitor the use made of the transfer, which ceases to exist as a Stabex transfer and disappears among the other assets in the account. Hence, any sum corresponding to the amount of the transfer drawn from the assets in the account may be considered to represent the utilization of the transfer, although this can neither be proved nor disproved.

363. With regard to the future, the relevant provisions in the new Convention, while reaffirming the principle of free utilization, have reinforced the link between the utilization and the objectives of transfers.

There is no doubt that the implementation of these new provisions could be greatly helped by the action the Commission proposes to take in early 1981 in response to a request by Parliament's Committee on Development and Cooperation for an objective assessment of the question.

The conclusions which will result from this objective assessment should be studied jointly by the ACP States and the Community.

37. <u>Reconstitution of resources made available for the system</u>

371. <u>Conditions and amount of reconstitution</u>

The conditions under which the ACP States are required to contribute towards the reconstitution of the resources of the system are laid down in Article 21 of the Convention. Under this Article, those ACP States not listed in Article 48 of the Lomé Convention which have received transfers must contribute towards reconstitution of the resources if the Commission finds, for a given year and product, that:

(i) the unit value of the exports is higher than the reference unit value;

(ii) the quantity actually exported to the Community is at least equal to the reference quantity.

Under such circumstances the recipient state replenishes the system, within the limit of the transfers it has received, by an amount equal to the reference quantity multiplied by the difference between the reference unit value and the actual unit value. This amount is expressed in EUA and paid back into the system in the currency or currencies drawn for the purpose of the transfer payment (Art. 21(1) and (3)).

372. Practical arrangements

These are as follows. An exchange of letters takes place between the Commission and each of the ACP States concerned. Under the terms of the exchange of letters, the Commission determines at the end of February of the year following the year of payment of the transfer whether the conditions specified in Article 21(3) of the Lomé Convention have been fulfilled for the year of application concerned and for the product which gave rise to the transfer.

If so, the Commission determines the amount of the contribution to be made towards reconstitution and informs the authorities of the recipient state within 15 days. The recipient state then has a period of two months, following receipt of the letter of notification, to pay back into the system the sum determined.

However, if the conditions for reconstitution are not met, the Commission must inform the recipient state of this fact, pointing out that an examination will be carried out at the beginning of the following year to see whether the conditions are fulfilled for the current year[1].

The sequence of events can be illustrated as follows:

(a) a state suffers a loss of earnings for year of application 1975;
(b) a transfer to cover this loss is paid over in 1976;
(c) the Commission, at the end of February 1977, determines whether the conditions for reconstitution were fulfilled in 1976;
(d) if so, the amount determined must be paid back into the system by 15 May 1977 at the latest;
(e) if the amount determined is less than the transfer, a fresh examination will be carried out at the end of February 1978 on the basis of the results for the year 1977, and this process is repeated until the recipient state's liability is cleared.

373. Measures to be taken in the event of non-reconstitution

If, on expiry of the five-year period following the allocation of a transfer subject to reconstitution, the resources have not been fully reconstituted, because the two conditions in question either did not materialize or did not permit full reconstitution of the transfer, 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, or that rights to repayment are to be waived (Art. 21(4)).

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[1] Annex II.F1 and II.F2 contains two examples of forms sent to states required to contribute to the reconstitution of the system's resources.

This measure will be applied as from 1981, when repayable transfers for year of application 1975 will be scrutinized. Likewise, in 1982, the Council of Ministers will have to decide, in accordance with Article 21(4), on the transfers repayable, but not reconstituted in full, for year of application 1976, etc. A final decision in this context may need to be taken in 1985 on the repayable transfer made in 1979.

4. STABEX AND THE RECIPIENT COUNTRIES' ECONOMIES, NORTH-SOUTH RELATIONS AND PUBLIC OPINION

41. Stabex and the economies of the recipient countries[1]

411. At this point it is in order to recall the aims of Stabex:

1. The Preamble to the Lomé Convention states the following: (the Heads of State of the Member States and the Council of the European Communities of the one part, and the Heads of State of the ACP States of the other part are) "DESIROUS of safeguarding the interests of the ACP States whose economies depend to a considerable extent on the exportation of commodities".

2. Article 16 of the Lomé Convention provides that "with the aim of remedying the harmful effects of the instability of export earnings and of thereby enabling the ACP States to achieve the stability, profitability and sustained growth of their economies, the Community shall implement a system for guaranteeing the stabilization of earnings from exports by the ACP States to the Community of certain products on which their economies are dependent and which are affected by fluctuations in price and/or quantity".

3. The first paragraph of Article 29 of the Internal Agreement on the financing and administration of Community aid requires the Commission to prepare "an annual comprehensive report on the operation of the system, indicating in particular its effect on the economic development of the recipient countries and on the development of external trade".

412. As noted in the introduction, a fall in export earnings has harmful consequences in three fields, which may be outlined as follows:

1. Balance of payments. In this connection a fall in export earnings affects a country's international creditworthiness and hence its capacity to import, or to borrow on normal terms the foreign capital needed to bolster its own development efforts.

2. Government revenue in both foreign and national currency (the latter in the form of taxes levied on exports). A fall in the country's foreign currency revenue exacerbates the balance of payments problem and also means that the government cannot import the goods needed to carry out its own development projects or programmes, or approve further import-based projects or programmes. In addition, it can affect the government's capacity to control the money supply.

This last effect, plus the related loss of revenue from direct or indirect national-currency taxes on exports in the broad sense (i.e. on products, producers and the various parties or activities involved in the whole process of exporting), affects the money supply available to the government as an instrument of its economic policy.

3. Producer incomes. Here, assuming the loss of earnings is due to a fall in production, a variety of consequences ensue:

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[1] See also Annex II A: "The Commission's comments on the special report adopted by the Court of Auditors", Part III and Annex.

(i) a decline in producers' purchasing power and hence in their participation in the economy;

(ii) by extension, a decline in the level of economic activity in the country;

(iii) a reduction in producers' ability to buy the necessary production inputs;

(iv) a general disincentive effect on producers, who will lower output or turn to other types of activity, thus cutting the following year's production still further.

413. It is therefore obvious that any scheme aimed, in the words of Article 16 of the Convention, at "remedying the harmful effects of the instability of export earnings" will help the ACP States "to achieve the stability, profitability and sustained growth of their economies". Stabex falls in that category[1]: as transfers are made in foreign currency they automatically support the balance of payments and the reserves; in other words, they can be used as backing for the issue of local currency without having an inflationary effect.

But Stabex has no automatic effect on producer incomes; only where a government, with its sovereign freedom to decide how transfers are used, decides to allocate all or part of the money to producers will the ill-effects listed in § 412.3 be prevented.

This is where ACP States' decisions about using the transfers have sometimes lacked the clarity which would have reflected the full economic logic of the system: it can reasonably be accepted that whenever transfers have been channelled through a marketing board or appropriate product organization, that logic has applied. In other cases, there is room for doubt. The commentary mentioned at the end of § 36 should provide an objective view of the situation and perhaps make it possible to arrive at a better definition of the intermediary role which governments could more systematically assign to such boards or organizations.

In sum, the end-use of the transfers is the real heart of the matter: the new Convention makes it clear that, while retaining what went before, the contracting parties were also concerned to link the aims of the system and the use to which transfers are put.

414. But it would be mistaken to try and ascribe a distinct economic effect to Stabex: it simply aims at injecting into the ACP country a certain amount of cash which would normally have come from the market had this not been prevented by a production shortfall or cyclical factors, or both.

A comparison with ordinary insurance cover is helpful: the compensation paid out by an insurance company has no intrinsic consequences. Its good or ill effects depend on what is done with the sum, whether it is used broadly speaking to replace the destroyed or lost property or for some other purpose entirely. Exactly the same applies to Stabex transfers.

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[1] See Annex I, Table 39, which gives examples of the size of transfers in relation to a country's total export earnings and those from exports of the relevant Stabex product alone.

415. To get matters quite straight, it may be useful to describe Stabex in terms of what it is not[1]:

1. Stabex is not a price stabilization system. It works on the level of earnings without regard to fluctuations in their component factors, i.e. prices and quantities. This being the case, it neither works against nor competes with international commodity agreements or the UNCTAD Common Fund. Quite the reverse - the two systems are complementary, in that commodity agreements which reduce price fluctuations cut down applications to Stabex for loss of earnings on that account. Stabex, on the other hand, provides the exporting country with protection against production risks, lost output being something which even the best market organization system can do nothing about.

A corollary of this is that Stabex is totally neutral in its effects on the market: it comes into action after the results of the marketing year are known and automatically registers them, which excludes any possibility of "rigging" the year's results so as to trigger operation of the system artificially.

2. Stabex is not a balance of payments support system[2] which, by definition, can only be brought into play when there is a deficit. Stabex assistance follows a fall in earnings from exports of certain products (or under Lomé II, certain groups of products if the applicant country so wishes) to the EEC. So, unlike under balance of payments support systems, Stabex transfers can be received even when a country's balance is in equilibrium or surplus, provided the earnings derived from exports to the EEC of one of the products on the list have dropped under the circumstances described in the Convention.

Any attempt to treat Stabex as a balance of payments support system falls down over the fact that such systems embody a number of items (goods and services, transfers, capital, etc.) whereas Stabex applies only to exports to the EEC of the products it covers. These export earnings are only a part - varying in size from country to country - of the "goods and services" item, which is itself just one of the components of the balance of payments. Even in the few cases where export cover is virtually total and all destinations are covered as well[3], Stabex guarantees only certain components of the balance of payments.

The only balance of payments assistance comes from the compensatory finance facility (CFF) set up by the International Monetary Fund (IMF)[4], which uses a macroeconomic approach in that it aims to compensate for fluctuations in foreign exchange earnings by providing short-term (three to five year) credits, in the event of a temporary fall in the total export earnings of all IMF members dependent on commodity exports.

Stabex, on the other hand[5], is a form of development aid conceived in microeconomic and sectoral terms (the product-by-product approach), the

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[1]See also Annex II A, pp. 10-15.

[2]See Annex II A, p. 12.

[3]Burundi, Comoros, Tonga, Western Samoa, Tuvalu, Kiribati.

[4]The rules of the Arab Monetary Fund make provision for similar operations.

[5]See Annex III, which sets out the differences between the CFF and Stabex.

main objective of which should be to stabilize the cash flow to the affected commodity sector, in order to restore its economic viability menaced by natural or economic mishaps.

Obviously this is not to say that Stabex transfers have no effect on the balance of payments or foreign exchange reserves; since payment is made in one or more Community currencies, these foreign currency inflows go to help the balance of payments position or swell the surplus. But from the point of view of Stabex itself this is more or less a side-effect, the main consequence being to enable the recipient government to do something for the affected sector.

Despite this difference in approach, there has nevertheless been a certain amount of confusion - whether deliberate or otherwise - between the two types of scheme. But this possibility of confusion, although altogether unfounded given the differences in spirit, aims and methods between the two mechanisms, has been eliminated in Lomé II. Although the CFF differs greatly from Stabex, attempts had been made to present them as rival or competing systems, and to look for ways of removing the possibility of double compensation[1]. But while it is fair enough to prevent double compensation where injury and remedy are of the same nature, it is wholly out of place to raise the issue where this problem does not even occur. Because of the fundamental distinction between the two systems, it did not occur even under Lomé I, and now, with the new definition of the aims of Stabex and the linking of these aims to the use made of transfers, its specific nature should be so clear as to rule out any temptation to equate or superimpose the two systems.

3. Stabex is not aid for restructuring or diversification[2].

The structural alteration and diversification of an economy are processes which demand forward planning, large sums of money and a great deal of time. By definition, Stabex transfers cannot be predicted. With a very few exceptions transfers have not represented the "critical mass" of money required to support such change. And again with few exceptions, transfers have not - and by their nature cannot - provide the continuous cash flow that is needed for structural adjustment.

Let us repeat: transfers are designed simply to replace revenue which could normally be expected to come from the operation of the market and channelled to the export production sector affected. The national authorities or the relevant product organization usually take a cut from this revenue before it reaches the producer, to fund improvements to existing production structures - in the broadest sense of the term - for the product in question. Transfers can contribute to the development of the ACP States in this way, but not via other types of operation to which Stabex is completely unsuited.

4. Stabex cannot be equated to what is normally understood by financial and technical cooperation.

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[1]A Joint Declaration annexed to Lomé II provides for consultations to be held between the Community and the ACP States in the event of a world system comparable to Stabex being set up, specifically with the aim of preventing double compensation.

[2]See Annex II A, pp. 12 and 13.

As was shown under 3 above, Stabex is in no way designed to support structural change or diversification, these being the domain of project and programme aid and technical assistance.

Recipient states may of course have planned to allocate all or part of their export earnings to such ends, and from that point of view it is perfectly logical that they should so allocate all or part of the transfers which replace expected export earnings not provided by the market. But in these circumstances the money transferred is put to such uses because this has previously been decided by the authorities - at one remove as it were: what determines the end-use is not the transfer but the authorities' decision.

This apparently is the meaning to be attributed to the reference in Article 23(2) of the new Convention to the use of transfers for promoting diversification; if a country's export earnings turn out to have fallen below its expectations and the difference is subsequently made up from Stabex funds, it is highly unlikely that the shortfall plus the eventual compensation will suddenly produce a desire to **diversify**, an idea which in any event takes time and effort to materialize either in men's minds or on the ground.

So while it is possible that the recipient country may decree that Stabex transfers be used for purposes usually associated with financial and technical cooperation, this can only be because a decision to that effect has been taken previously. In general transfers are meant to be channelled back to the affected sector and used to cover its running costs or that of related activities, for example to acquire imported or domestic inputs, improve plant, carry out maintenance, transfer internal resources to producers, provide training or carry out the sector's development programme as scheduled[1].

Obviously, setting aside projects related to the affected sector in the broad sense, any use of transfers for financial and technical cooperation schemes would normally only be for second-string projects: funding projects left on the shelf by other sources of finance or the national authorities would not seem an ideal way of using Stabex transfers.

Also, it would seem rather odd to make a country's development depend on the ups and downs of production or the sale of its products at a loss. It is therefore important to dispel any misapprehension about the function of transfers as additional development financing and to look at their utilization simply in terms of the specific aims of the system as redefined in the new Convention.

5. Stabex is not emergency aid.

Article 59 of the first Lomé Convention provided for exceptional aid (now known as emergency aid under Article 137 of Lomé II) to counter serious difficulties resulting from natural disasters or extraordinary circumstances having comparable effects.

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[1] For the criticism that Stabex tends to paralyse production structures, see § 43.4.

In both Lomé I and Lomé II the parties were careful to distinguish this type of aid from Stabex by stating explicitly that it was not to be used for dealing with the harmful effects of the instability of export earnings.

A natural disaster, for example a hurricane which wrecks banana plantations, has a two-pronged economic effect: it destroys export production, leading to a loss of export earnings, but it also destroys productive capacity, ruining the country's prospects of an early return to having products to export. Stabex can provide compensation for the loss of export earnings; emergency aid is an immediate measure designed to mitigate the effects of a catastrophe for people and their belongings. While emergency aid may be used to help rebuild productive capacity, it is proper in such a case that the Stabex transfer should be used as a matter of priority largely for this purpose.

Thus the functions of the two forms of assistance are quite separate, and their apparent complementarity should not arouse confusion on this score: any disaster, natural or otherwise, affecting a product covered by Stabex, whether or not it also occasions the grant of exceptional aid, potentially justifies a Stabex transfer if the necessary conditions are fulfilled, particularly as regards the movement of the reference level; but luckily not all losses of export earnings are the result of disasters.

The foregoing considerations bring us to a related problem, the accusation which has sometimes been made that Stabex has a "guillotine effect"[1] in cases where production capacity is virtually wiped out. That deduction is somewhat excessive, as the following makes clear. Given a reference level of (100+100+100+100): 4 = 100 and exports reduced by some catastrophe to 6.5 for a Lomé II year (6.5 is the minimum needed to pass the dependence threshold and hence qualify for Stabex). The transfer will be 100-6.5 = 93.5. The level for the next reference period will be (100+100+100+6.5): 4 = 76.6. If exports fail to recover and remain at 6.5, the transfer will be 76.6-6.5=70.1. Continuing the hypothesis with the same figures, we arrive in the fourth year of application at a transfer of 30-6.5= 23.5. Not until the fifth year will the transfer reach zero (6.5-6.5).

Over four years Stabex will have paid out total transfers of 93.5+76.6+46.75+23.5 = 240.4, i.e. almost two and a half years' "normal" export earnings. It is to say the least an exaggeration to talk in terms of a "guillotine effect" in the situation described, which is not simply a theoretical example contrived for the purposes of the argument. The effect is only felt where the dependence threshold is no longer reached.

Such a situation has only come about once as a result of a disaster, and that was not due to the complete destruction of production capacity but to the halt in exports of the product concerned.

If the failure of production to recover is due to a prolonged disaster situation, it is obviously no longer a case for Stabex nor for exceptional aid, but calls for some ether remedy. If that is not the case, it must be that the country in question has decided to abandon production of the commodity concerned and hence it is only right that transfers should cease.

Another point is whether the reference level is "representative" in the event of a continuing abnormal situation. This would mean replacing

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[1]A neat way of describing the sudden cut-off of transfers through operation of the automatic Stabex machinery.

automatic operation by subjective measurement, with the concomitant danger of reducing Stabex to a discretionary handout based on arbitrary assessments rather than a set of rules. The "Fiji Declaration"[1] applied according to the criteria it contains, looks to be about as far as one can go in this direction without in the long run destroying the system.

42. Stabex and North-South relations

421. Stabex as a model for North-South relations

1. Stabex has been called a model for relations between industrialized and developing countries, an example to be followed in the attempts to establish a fairer world economic order. Although the primary objective of world commodity agreements and IMF compensatory finance - namely to improve the position of raw material exporting developing countries - is the same as the ultimate Stabex aim, it must indeed be admitted that Stabex is the first - and so far the only - insurance scheme to compensate producing and exporting countries for reduced output of specific products or the demand for them in the EEC. This, plus the fact that Stabex has been devised and implemented against a completely new international economic background, has prompted attempts by various countries and organizations to work out machinery to provide the same sort of cover on a world scale that Stabex gives in the context of ACP-EEC relations.

(a) The first such attempt was actually made by the Commission in communications dated 21 May and 11 June 1975[2]. The scope and methods of "international action" suggested to help the poorest developing countries were to a great extent based on those of Stabex.

(b) On 12 September 1975 the US representative at the IMF proposed improving the CFF and backing it up by a trust fund to be used to pay least-developed countries non-repayable compensation on a number of products.

(c) The work done by UNCTAD is also relevant here, particularly a report by the Secretariat dated 16 October 1975[3] (the McIntyre Report), which was submitted to the UNCTAD V plenary meeting in Manila in May 1978.

(d) Then there was a Swedish proposal presented to the UN General Assembly on 5 September 1975, submitted to the OECD on 25 September 1975 and taken up at the Conference on International Economic Cooperation on 27 October 1976[4]. The proposal applied to all products (except oil) exported by developing countries irrespective of destination, with machinery similar to that of Stabex, but was actually aimed at providing balance of payment support, since the compensation would only cover a deficit on the total of the exports under consideration (the "basket" system). This machinery would be operated within the UN system. The Swedish proposal has since been filled out and slightly amended in a Foreign Ministry paper dated 31 March 1977.

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[1] See § 111.3.c;
[2] See COM(75)226 and 294.
[3] TD/B/C.1/195.
[4] UN doc. A/AC 176/4 of 5 September 1975; OECD doc CE/CG(75)18 and CG/DG(75)13 of 25 September 1975; CIEC ref. EEC Council doc. 1/391/76 (DIAL 222).

(e) On 17 March 1977 the German Government made proposals in connection with the CIEC for an export earnings stabilization system aimed at all developing countries and covering 25 products, using a formula based on the basket principle and incorporating technical features from both the CFF and Stabex. Subsequently this German scheme was taken up by the IBRD/IMF Development Committee and the IMF proper.

(f) At the last CIEC session the Commission put forward a working paper[1] containing details of a product-by-product stabilization system estimated to cost $2 800 million for five years and a "basket" system to cost $2 100 million.

2. All these initiatives and proposals come within the framework of the North-South Dialogue launched in 1974/75. While Stabex was conceived as a Community offer in the ACP-EEC context without regard to the broader political picture, before the events of late 1974 forced a new view of international economic relations, all the other schemes were put forward in response to a new situation.

It can be seen that they came in two "waves": at the end of 1975 (opening of the North-South Dialogue and preparation for UNCTAD IV) and in the first half of 1977 (end of the CIEC).

3. None of the proposals has so far been successful. At the CIEC stabilization of export earnings was one of the points on which it proved impossible to reach agreement. But it was agreed that a study would be carried out under the auspices of the IBRD/IMF Development Committee, with the participation of the UNCTAD Secretariat and the Commission. The study culminated in a report dated 19 May 1978, on the basis of which the IMF on 2 August 1979 considerably liberalized the CFF: and that, so far, is the net result of the ferment of ideas started in 1975.

4. The stabilization of export earnings on a world scale is still on the agenda and the Commission remains in favour of it. But there are many problems involved. Apart from the technical difficulties (beneficiary countries, product cover, loss-measuring formula, thresholds, differentiation in accordance with level of development, etc.), there are two fundamental problems:

(a) The scheme will cost a great deal of money. In 1977 the cost was estimated at $2 800 million for five years for a product-by-product system and $2 100 million for a basket system[2]. Production and price trends since then suggest that these estimates would have to be revised upwards by between a quarter and a third, giving cost projections of $3 500-3 700 million for the first type and $2 600-2 800 million for the second.

(b) Administration of the system. In this connection the Commission noted in its Communication of 11 June 1975: "it could be, given that stabilization

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[1] See SEC(77)1839 of 24 May 1977.

[2] There are two reasons why the cost of a basket system is only 25% lower than that of a product-by-product system: many developing countries have few commodities to put in their basket, and export earnings from the main commodities tend to vary in parallel, which diminishes the possibility of balancing one against another.

of export earnings is such a specific matter, quite separate both from development financing and from the management of the international monetary economy, and at the same time one with such notable political implications, that it would be well to have the system run by a specific new agency".

This is still true today. If the system is to combine the rapid payment of compensation with accurate loss evaluation and efficient management of limited resources, it must be made as automatic and objective as possible, and isolated from the influence of day-to-day pressures. Otherwise it would be unable to fulfil its role.

422. Working relationships with other organizations

Although the CFF and Stabex are fundamentally different it was thought advisable to establish working relations between the IMF and the Commission so that information of use to the administrators of both systems could be exchanged. This informal arrangement works to the entire satisfaction of both parties[1]. The same remarks apply, mutatis mutandis, to the Arab Monetary Fund.

423. Other international developments

1. The members of the Association of South-East Asian Nations (ASEAN) have displayed great interest in Stabex. Their request for a similar scheme to cover their exports to the Community was turned down.

However, talks are going on between ASEAN and Japan on the establishment of a system to stabilize the ASEAN countries' earnings from exports to that country. To familiarize the ASEAN negotiating team with the implications of what is involved, the Commission provided expertise for two seminars organized by ASEAN in 1978 and 1979.

2. There is also great interest in the South Pacific for a scheme to stabilize earnings on exports from local developing countries to the industrialized countries and on trade between the developing countries themselves. Here again the Commission has begun to provide technical assistance on the basis of its own experience.

43. Stabex and public opinion

1. Like any other innovation, particularly those which come to be regarded as "models", Stabex has not been universally applauded, but has aroused what has sometimes been heated controversy - and this is fortunate for the evolution of ideas.

2. Having said that, the first assessment of the system and its operation should come from those mainly concerned, the contracting parties:

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[1] At the request of the European Parliament, the Commission annexes to its yearly Stabex reports a list of IMF payments under the CFF for the year covered by the report.

(a) On the ACP side the general view is favourable. Admittedly, there have been criticisms, and sometimes protracted talks with an applicant country, but on the whole the spirit of cooperation has made it possible to surmount the difficulties inevitably inherent in a new system.

(b) As for the Community and its Member States, they undoubtedly derive political credit from having pioneered a major innovation in international economic relations.

(c) Devising the system and negotiating it is one thing; putting it into operation is another. Each of the ACP States involved has worked hard at this, and thanks to the commitment and cooperation of all parties and officials concerned the new scheme, whose practicality had been doubted before it was set up, paid out the first transfers in accordance with the rules just three months after the Convention's entry into force.

3. The attitudes to Stabex to be found among politicians, officials, businessmen and commentators in the ACP States, the Community and elsewhere can be broken down into six categories:

(a) Those who were for it from the start.

(b) The antis, dogmatically opposed to Stabex on the grounds that it is inspired either by arrant liberalism or by extreme dirigisme. The first group fear that the system will directly or indirectly affect the free play of market forces and trade patterns or lead to behaviour likely to distort them, while the latter argue that such half measures in response to very genuine concerns simply impede progress to the only real solution - the detailed regulation of all aspects of production and marketing.

(c) The disappointed, who feel that the system does not go far enough, either in product cover, destinations covered or scale of compensation.

(d) The nervous, who fear that Stabex will arrest productive structures and prevent industrial development or feel that it does not have enough built-in safeguards to ensure the proper use of transfers.

(e) Those who are resigned, feeling that it would have been better to do nothing but that if something had to be done, Stabex was the least bad solution.

(f) The converts, initially opposed or sceptical but now often more enthusiastic than the original supporters.

4. Criticism centres on the following points:

(a) Product cover is inadequate. The observations set out in § 31 suggest that, given the particular standpoint of the system and its aims, this criticism is unfounded.

(b) The rule that only exports to the EEC are covered is on the one hand designed to give the Community security of supply and on the other constitutes an incentive to expand exports to the Community (to the detriment of other destinations). There are several reasons for thinking these fears unjustified, in particular:

(i) Nothing in the Stabex provisions obliges the ACP States to give priority to supplying the Community nor encourages them to do so.

(ii) The EEC's capacity to absorb some of the products is physically limited.

(iii) Increasing exports to the Community admittedly gives an ACP State a higher reference level, but paradoxically it also makes it more difficult to trigger the compensation machinery[1].

(iv) If sales increase as a result of dumping, the provisions call for consultations under Article 19(4)(b) of the Convention.

(v) Five years' experience in operating Stabex have shown that the ACP States invariably select their markets in accordance with their commercial or other interests and the importing country's absorption capacity and appear to have been quite uninfluenced by any prospect of possible transfers.

(c) A parallel criticism, to some extent, is that Stabex fixes the ACP States in the role of commodity producers and prevents their industrialization. In answer to this charge it can be said that:

(i) Many of the commodities on the list are not suited for processing[2].

(ii) In some cases Stabex covers not only the basic commodity but also all[3] or nearly all[4] the processed products which can reasonably be made in the ACP States.

(iii) For other products[5] an increase in local processing results in a rise in value added so that the problem with earnings from exports of the products in question is transformed from one of stabilization to one of market access and penetration.

(iv) In practice, whenever a specific problem has arisen the Commission has always tried, through consultations under Article 19(4)(b), to meet ACP interests by reclassifying the processed product as the basic Stabex product.

(d) Stabex arrests production structures. First of all, it is not the function of Stabex to promote structural change, which can only come about through decisions by the authorities of the ACP States. Moreover, this criticism is based on the assumption that the ACP States are solely concerned with "milking" Stabex on a regular basis. This quite clearly verges on deliberate bad faith; anyway, the figures for each year are so variable that it is difficult, not to say impossible, to control and manipulate them. Even if this could be done, the system incorporates various built-in checks which would quickly reveal this sort of behaviour and result in appropriate action being taken.

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[1] Appendix, Note 5.
[2] Bananas, tea, vanilla, cloves, gum arabic, pyrethrum, essential oils, and all the products added to the list in the new Convention.
[3] All oilseeds, coffee products.
[4] Cocoa products, leather, hides and skins.
[5] Cotton products, timber products, rubber (Lomé II), iron ore.

(e) The system subsidizes inefficiency and unprofitable lines of production.

(i) At a technical level this charge must be assessed in the light of the fact that the reference level is a moving average; each new year's results form the parameters for application of the system, it is not the system which determines the parameters.

(ii) At the political level, it is well known that the administrative problems of some of the ACP States are a symptom of their underdevelopment. Stabex provides substitute cash inflows but cannot by itself do anything to remedy this state of affairs.

(iii) It is necessary to think twice before branding an activity as "unprofitable". What constitutes profitability may change, and besides, financial or economic viability may not be the only criterion in deciding whether to abandon an activity; other considerations, notably employment, are often equally important.

(f) Stabex has insufficient funds. Here it need only be pointed out that after five years the unexpended balance of the ACP and OCT allocations totalling 400 million EUA is of the order of 16.1 million EUA, including contributions towards reconstitution.

(g) The system is designed to induce the ACP States to use transfers to pay for purchases from the Community. This criticism reveals at the very least a notable ignorance of the terms of the Convention, if not sheer bad faith: it can be wholly refuted by pointing out that the Convention allows complete freedom in the use of transfers.

(h) Stabex overlaps with the IMF's CFF. This point has been dealt with already in § 415.2.

(i) Stabex operates on the basis of dubious statistics. Here reference should be made first of all to the arguments set out in § 32, which show that the ACP States and the Commission try in every case to give the truest possible picture of real trade patterns.

And to make such a criticism is to condemn all action on commodities in advance; commodity agreements, to take but one example, are inoperable if one is not prepared to credit the exporting countries' statistics as they are. Under Stabex these statistics are cross-checked with EEC import figures. This means that the figures on which the system is based are that much more reliable, should any misgivings be felt.

(j) Stabex is administered by the Commission alone: this point was answered in § 13.

(k) The automaticity of Stabex is a blind: the Commission's opinion on this point is set out in its comments on the special report by the Court of Auditors[1].

(l) Stabex fails to protect ACP States against loss of purchasing power in their export earnings. Here it should be pointed out that the fact that all Stabex operations are denominated in EUA means that there is a fixed relationship between the ACP State's currency and the EUA.

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[1]Annex II A, pp 14 and 15.

Admittedly, it is true that transfers are not indexed. But it is also true that indexation is an extremely difficult problem to tackle from the political, financial and technical standpoint, and can in any case only be properly tackled at world level; any indexing policy confined to a single zone, in this case the ACP-EEC zone, would rapidly produce unbearable distortions in trade between the zone and countries outside it.

(m) The spread of recipients is uneven. This criticism is occasioned by the large transfers to Senegal and Mauritania, plus that to Sudan in 1979 (groundnuts), but it stems from a failure to understand the nature of Stabex, which is an insurance scheme making payment consequent on injury. The greater the misfortune suffered, the larger will be the transfer. Besides, it is missing the point to look only at the size of the transfers in absolute terms, without relating them to the economy of the recipient country; all things being equal, in fact, some of the transfers to Pacific island states are fully proportionate to those cited above. It should also be remembered that Stabex contains many special concessions for the least developed ACP States, which have been the foremost recipients of transfers.

(n) Stabex does not compensate the ACP State's real losses. Under Stabex rules, transfers are based on the loss, i.e. the difference between the reference level and the earnings for the year considered, minus any amount which may have been agreed in the course of consultations held under Article 19(4)(b). But going by Stabex rules the loss calculated may well differ from the loss actually "felt" by the applicant state, which assesses it on the basis of the available information, viz the figure obtained by converting the foreign exchange earned by export sales into national currency. Even at this point, however, other factors can widen or narrow the gap between the felt loss and the basis of the transfer: the conversion into EUA of the national currency figures, for example, or cross-checks, consultations, and the currency selected for the transfer. This leads to two conclusions: firstly, there is no doubt that the transfer base is a correct measure of the loss incurred. Secondly, it is impossible to compare transfer and "felt loss". This is another similarity between Stabex and insurance; insurance assessment rules often produce a sum differing from the accident victim's own assessment of damage, whether greater or lesser.

(o) Stabex does not of itself ensure that transfers are used in a manner compatible with its aims. This is true, although the statement must be qualified by looking at the situation in the recipient countries one by one. But to the extent that it is accurate it does reflect an unsatisfactory situation. The new Convention helps by supplying a fuller definition of the aims of Stabex than appeared in Article 16 of Lomé I, and linking those aims to the use made of transfers. The commentary referred to in § 36 should make it easier to implement the new rules in accordance with the wishes of the contracting parties.

CONCLUSION

The foregoing examination of the various aspects of the export earnings stabilization system shows what it has been possible to achieve in five years on the basis of provisions which are concise but not very explicit in places, as was to be expected in any area where new ground was being broken. This occasionally proved to be an obstacle which could be overcome only through the determination and, frequently, the imagination of the institutions set up under the Convention, but also by each of the ACP States concerned and the Commission.

Thanks to this effort, gradually through application of the system the exact meaning and scope of certain provisions has been established, certain ambiguous expressions have been interpreted and appropriate provisions have been added to the existing texts. Thus a body of rules and practical arrangements has been arrived at which have made it possible to achieve the aim of the system: to offset under satisfactory conditions - for the first time in the history of economic relations between industrialized and developing countries - the losses sustained by a number of the latter in their exports to the former.

The experience gained has made it possible to consolidate the system and to draw up a more elaborate blueprint for the one which is to take over from it when the new Convention enters into force: while the rules may have become more complex, they are also more precise. To some extent the system's automatic character has been strengthened by this. That, and the fact that the ACP States and the Community have now learned to live with Stabex, should alleviate and speed up the procedures involved.

Admittedly, everything has not been perfect and we would not presume to say that things will be perfect in the future.

Our experience has therefore also taught us modesty. Some people have regretted that Stabex is not an exact science: this is true, but it is not necessarily a disadvantage, for each request for a transfer has its own special characteristics and requires treatment on its merits. This is necessary precisely in order to achieve identical treatment, paradoxical though this may sound: the number of accompanying factors and phenomena which determine the nature and extent of the drop in export earnings is too great to enable the system's objective - offsetting losses - to be attained by an identical procedure in every case.

When taken out of its political context and looked at from a purely technical point of view, Stabex is simply an insurance scheme which the contracting parties wanted to apply to two fields: sickness, in the event of export earnings falling because of local circumstances, and unemployment, where a drop in export earnings is due to a downturn in the EEC's economy. As the system has been implemented it has taken on a third form in two cases: that of life assurance, in the event of termination of production activities.

This parallel with insurance cannot be emphasized too strongly:

(i) the rules governing Stabex are the policy;

(ii) the Community, by providing the finance for the system, and certain ACP States, by contributing towards reconstitution of its resources, pay the premium;

(iii) like anyone who is insured, the potential beneficiaries of the system do not want the insurance to come into play: when people put in a claim it means that they have suffered a loss and anyone who is insured knows from experience that even the best insurance can never replace what has been damaged or destroyed;

(iv) most of the time, insurance does not compensate for the whole of the loss, part of it being borne by the insured as the "excess": with Stabex, it is the thresholds which play the part of the excess;

(v) within the terms of the policy the policyholder can negotiate with his insurer while the latter may invoke any total or partial expiry clauses;

(vi) the policyholder is free to use payments he receives either to make good the articles damaged or destroyed or for other purposes.

This way of present Stabex is of great help in explaining its technical nature. In addition, it is of course necessary to consider its political implications as a partial solution to the problems experienced by raw material-exporting developing countries. Stabex is probably not the only solution, nor a comprehensive one, but it is a first step. As the saying goes, Rome wasn't built in a day!

APPENDIX

In framing and implementing the export earnings stabilization system it has been necessary to consider a number of related fields, and it was felt these should be covered in a series of notes appended to this report.

Note 1: Method of calculating the average (reference level).

Note 2: The effect of exchange rates.

Note 3: Evaluating the resources needed for the system.

Note 4: Improved market information following application of the system.

Note 5: Brief remarks on the triggering of the system.

Note 6: Some major options with regard to the stabilization of export earnings.

Note 1: Method of calculating the average (reference level)

1. Prima facie the reference level could be calculated in two different ways. The first method would involve multiplying the average of the quantities exported during the four years by the average of the corresponding unit values of the exports. The second method involves calculating the average export earnings over the reference period.

2. A practical illustration of the two calculations is given below:

Let us suppose that cross-checking has given the following values:

	Quantities	Unit Values	Earnings
Year 1	2 800	0.7	1 960
Year 2	4 800	1.8	8 640
Year 3	8 000	2.0	16 000
Year 4	6 000	1.8	10 800
Total	21 600	6.3	37 400
Average	5 400	1.575	9 350

2.1 With the first method it is necessary to calculate the average of the quantities exported:

$$\frac{2\,800 + 4\,800 + 8\,000 + 6\,000}{4} = \frac{21\,600}{4} = 5\,400$$

and then calculate the average unit value:

$$\frac{0.7 + 1.8 + 2.0 + 1.8}{4} = 1.575$$

The reference level is obtained by multiplying these two averages together:

RL = 5 400 x 1.575 = 8 505.

2.2 The second method gives a reference level of 9 350.

3. The Commission decided that only the second solution was admissible. There were three reasons for this choice:

3.1 Article 19(1) of the Convention stipulates that the reference level shall correspond to "the average export earnings during the four years preceding each year of application". It is clear that only the second method is in line with Article 19(1).

3.2 Secondly, economic and mathematical criteria also argue in favour of the second method. For a given exporter and a given year, there exists a relationship between unit value and quantity exported which the first method totally ignores.

3.3 Lastly, each year of application goes to determine the reference level, and this is an additional reason for working out these data on the basis of years.

4. In any event, the Commission has found in the light of the experience gained from approximately 100 transfer operations that the two methods give very similar results (the difference not exceeding 4% to 5%)[1]; furthermore, it cannot be said that either of the methods produces higher reference levels than the other.

[1] In the above example, the difference is greater because the fluctuations were made excessively wide to illustrate the difference between the two methods.

Note 2: The effect of exchange rates

The starting point for the calculation of the basis of the transfer and the reference level is "the statistics ... obtained by cross-checking the statistics of the ACP States and of the Community ..." (Article 17(1) of the Lomé Convention).

Given that this cross-checking must be done in the local currency of the ACP State[1] and that, secondly, the Convention recognizes only the European unit of account (EUA)[2,3] for all transactions in connection with its implementation, a problem arises with regard to the conversion into EUA of the cross-checked statistics, which are expressed in the national currency of the applicant ACP State. There are three different ways of resolving this difficulty.

1. The three methods available

1.1 The Commission had to choose between three possible methods of calculation:

(i) The first method involves calculating the basis of the transfer in the national currency on the basis of the cross-checked data, and then expressing this amount in EUA using the exchange rate obtaining at the time the calculation is carried out.

(ii) The second method involves calculating the reference level in the national currency, and then converting it into EUA at an average exchange rate for the four years; it is also necessary to convert into EUA the earnings for the year of application at the exchange rate for that year and then calculate the basis of the transfer in EUA.

(iii) The third method involves converting, for each of the five years, the cross-checked amounts in the ACP national currency into EUA and then calculating the basis of the transfer.

1.2 The first method, which at first sight might seem satisfactory, was not adopted by the Commission for two reasons: firstly, to use a single exchange rate for the conversion into EUA of amounts recorded over a five-year period is tantamount to saying that exchange rates remained fixed throughout that period, which is manifestly untrue; secondly, it must be borne in mind that the export earnings figures presented by the applicant state have already been converted. In order to be in a position to aggregate amounts expressed in different currencies and to work out its total export earnings, the state presenting a request has been obliged to convert the values in those currencies using annual exchange rates. That being the case, reconverting earnings into EUA year by year makes it possible to return to the initial format of the statistics.

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[1] The statistics for fob exports are always in the national currency of the exporting state.

[2] See Article 42 and Annex XVII of the Convention for the general principles and Article 18 for Stabex.

[3] For the definition of the EUA, see Council Decision 75/250/EEC of 21 April 1975, published in OJ No L 104 of 24 April 1975; the calculation method was set out in OJ No C 21 of 30 January 1976.

1.3 This second reason also prompted the abandonment of the second method. In any event, a simple calculation shows that the second and the third methods give similar results. If in one of the four reference years the ACP currency depreciated by 10% compared with the average value, the third method increases the reference level by between 0% and 1.07% depending on whether earnings in national currency declined or increased by 10% in that same year. With greater fluctuations of the order of 20%, the difference varies between 0% and 3% (see Part 3 of this Note).

1.4 The Commission therefore decided that only the third method represented a rational solution to the problem. This solution makes it possible to take account of the real situation on the currency market and to keep in line with the international monetary system, as at present structured with its freely floating rates. The Commission decision is further supported by Article 19(1), which indicates that initially earnings must be considered individually on a year-by-year basis (which is perfectly in keeping with the method of calculating the reference level described in Note 1).

2. <u>Description of the method used</u>

2.1 The calculations.

(a) Calculating the reference level.

Let us assume that cross-checking has given the following figures:

Year 1	Year 2	Year 3	Year 4	Average	
100 000	120 000	130 000	150 000	125 000	(Cross-checked fob values, ACP currency)

The next step is to find a set of conversion rates to express these amounts in the accounting currency of the Convention, namely the EUA. In other words, a series of annual exchange rates must be found linking the currency of the ACP State to the EUA.

However, there is no direct link between the ACP currency and the EUA. It is therefore necessary first of all to look for a currency which is immediately convertible into all the currencies of the ACP States and the EUA. The only currency that can act as a common denominator here is the United States dollar, which is used moreover as the invoicing currency for a large number of transactions and as the currency used for quoting prices for a large number of products.

It follows that the conversion rate between the ACP State's currency and the EUA is arrived at in two stages:

	Year 1	Year 2	Year 3	Year 4
Conversion rate \$1 = ACP currency ....[1]	277.03	252.21	222.70	240.50

[1] <u>Source</u>: International financial statistics, International Monetary Fund. The figures used are those published in line rf or rh for each state: "The r lines, Par Rate/Market Rate, provide conversion factors for trade and other flow or average statistics".

	Year 1	Year 2	Year 3	Year 4
Conversion rate 1 EUA = $ .....[1]	1.04753	1.12157	1.22868	1.19104

The desired rates are arrived at by multiplying the two figures for each year.

Conversion rate 1 EUA = ACP currency	290.20	282.87	273.63	286.45

In order to find the reference level in EUA, it is therefore necessary to divide each cross-checked figure by the exchange rate for the corresponding year and then calculate the average of the amounts (reference level) in EUA:

$$= 1/4 \left[\frac{100\ 000}{290.20} + \frac{120\ 000}{282.87} + \frac{130\ 000}{273.63} + \frac{150\ 000}{286.45}\right]$$

$$= 1/4 \quad (344.59 + 424.22 + 475.09 + 523.65)$$

$$= 441.89$$

(b) Calculating definitive earnings.

Let us suppose that for the year of application (year 5) cross-checking has given a value of 100 000 units of the ACP currency. The actual earnings must be converted into EUA on the basis of the annual rates for year 5:

Conversion rate $1 = ACP currency	214.32	
Conversion rate 1 EUA = $	1.24074	and consequently
Conversion rate 1 EUA = ACP currency	265.92	

These figures make it possible to calculate the actual earnings in EUA, i.e. 100 000 ÷ 265.92 = 376.05 EUA.

All the necessary information is now available for

(c) calculating the basis of the transfer.

In the above example, the basis of the transfer would be:

$$441.89 - 376.05 = 65.84 \text{ EUA.}$$

Provided that Article 19(4)(b) is not applied, this amount of 65.84 EUA will be entered in the Commission's books as a debit item against the resources available, which are also expressed in EUA.

[1]The rates are calculated by the appropriate Commission department, which calculates the exchange rates for the EUA for the years in question from the daily rates. The annual rate is a straight average of the daily rates.

As regards the conversion of this amount in EUA into the Member State currency or currencies chosen by the ACP State when the transfer is paid, the transfer agreement stipulates that "The transfer is to be made at the rate of exchange between the EUA and the currency or currencies of payment in force on the day prior to the day on which the operation is carried out by the financial body acting for the Commission".

Let us suppose that the ACP State chose to receive 50% of the transfer in DM and 50% in FF and that the operation took place on 30 January 1976. The following amounts would have been calculated and transferred:

65.84 x 0.5 = 32.92 x 3.00620 = DM 98.96

65.84 x 0.5 = 32.92 x 5.19103 = FF 170.89.

2.2 The formula for calculating the basis of the transfer in EUA is therefore as follows:

$$\frac{1}{4}\sum \frac{\text{annual cross-checked values in the ACP currency for the 4 years covered by the reference period}}{\text{annual EUA/ACP currency conversion rates for the same 4 years}}$$

minus

$$\frac{\text{cross-checked annual value in the ACP currency for the year of application}}{\text{annual EUA/ACP currency conversion rate for the same year}}$$

It is clear that the method followed has a double advantage:

(i) it compensates for the loss of export earnings on the market for the product in question;

(ii) it compensates for the loss in export earnings attributable to the currency market.

This second compensatory element is positive where the currency of the ACP State has lost value in relation to the EUA over the period in question.

It is right that this should be so, since a loss in the purchasing power of the ACP currency expressed in EUA must be compensated for. However, it is only fair and logical that the reverse situation, where the ACP currency appreciates in relation to the EUA, should have a corresponding result.

This is indeed the case in the example used above: on the basis of the cross-checked figures, the loss in export earnings amounts to 25 000 units of the ACP currency. Since at the time of payment the EUA was worth 258.67 units of the ACP currency, the transfer would be worth approximately 17 030 units in the ACP currency.

A large part of this difference - which can be positive or negative depending on the circumstances - is apparent only in respect of amounts expressed in national currency. If the amounts of earnings were left in the currencies of the contracts, there would be no notable difference. In other words, the fact that an ACP currency is strong (or conversely weak) in a given year may result in a reduction (or conversely an increase) in the earnings expressed in the national currency for the year in question. The following example, with a strong rate in one year, shows how conversion into the national currency can "falsify" the amount of earnings for a given year and how the method used can eliminate this difficulty.

	Year 1	Year 2	Year 3	Year 4	Average
Value of earnings in currency of contract (e.g. in $)	116	120	116	128	120

It can be seen that in the second year the export earnings are equal to the average:

	Year 1	Year 2	Year 3	Year 4	Average
$1 = ACP currency	0.86	0.75	0.86	0.86	
Value of earnings in ACP currency	100	90	100	110	100

Earnings dropped in the second year because the ACP currency appreciated. It is these figures that the Commission receives in support of transfer requests. Conversion into EUA therefore make it possible to get back to the initial data[1].

	Year 1	Year 2	Year 3	Year 4	Average
1 EUA = $	1.2	1.2	1.2	1.2	
1 EUA = ACP currency	1.03	0.9	1.03	1.03	
Earnings in EUA	97	100	97	106	100

In this example the drop in earnings expressed in national currency for the second year is due solely to the movement of exchange rates, and the calculation makes it possible to erase this "artificial" drop. The phenomenon does not occur if the fluctuations in exchange rates and production do not occur in the same year.

2.3 In conclusion, we will give a further example of the calculation of the transfer where the ACP currency has depreciated against the EUA.

(a) Calculating the reference level.

	Year 1	Year 2	Year 3	Year 4
Cross-checked values, ACP currency	100 000	120 000	130 000	150 000
Conversion rate $1 = ACP currency	7.1429	7.1429	7.0214	7.1439
Conversion rate 1 EUA = $	1.04753	1.12157	1.22868	1.19104
Conversion rate 1 EUA = ACP currency	7.4824	8.0113	8.6271	8.5087

[1]Most contracts are expressed in the various European currencies and the reconversion into EUA (a basket of those currencies) makes it possible to get back to the initial format of the statistics with the minimum distortion.

Reference level:

$$\frac{1}{4}\left[\frac{100\ 000}{7.4824}+\frac{120\ 000}{8.0113}+\frac{130\ 000}{8.6271}+\frac{150\ 000}{8.5087}\right]=$$

$$\frac{1}{4}\ (13\ 163.70+14\ 978.84+15\ 068.79+17\ 629.02)=$$

15 260.34

(b) Calculating actual earnings.

	Year of application
Cross-checked value, ACP currency	100 000
Conversion rate \$ 1 = ACP currency ...	7.4121
Conversion rate 1 EUA = \$ ...	1.24074
Conversion rate 1 EUA = ACP currency ...	9.1965

Actual earnings = 100 000 ÷ 9.1965 = 10 873.70 EUA

(c) Calculating the basis of the transfer.

15 260.34 − 10 873.70 = 4 386.64 EUA

At the time of payment, the rate between the EUA and the national currency was 8.59. Expressed in that currency at that rate the transfer comes to 37 677 units, as against the amount of 25 000 units which can be calculated from the cross-checked figures in the national currency.

3. Comparison of the results arrived at using the different methods of calculation.

3.1 Even where there are fluctuations in earnings or in exchange rates, the difference between the results of the second and the third methods remains very small. With large fluctuations of 30% either side of the average, the greatest differences are around 5%, as is shown by the study of the following nine cases:

Exchange rate: 1 EUA = ACP currency ...

	1st case	2nd case	3rd case
1st year	1.3	0.9	0.9
2nd year	0.9	1.3	0.9
3rd year	0.9	0.9	0.9
4th year	0.9	0.9	1.3

Earnings in ACP currency

Year	1	2	3	4				
1st case	90	100	100	110	3.42 %	2.56 %	1.71 %	(Variations in % compared with the result of the second method)
2nd case	80	100	100	120	4.27 %	2.56 %	0.85 %	
3rd case	70	100	100	130	5.13 %	2.56 %	0 %	

In the latter case, where the earnings and the exchange rate in the fourth year vary by the same percentage figure of 30% against the average, the difference is zero (see 2.2).

3.2 Occasionally (particularly where an ACP currency is dropping steadily and sharply) the amount of the basis of the transfer differs appreciably from the amount that appears in the request presented by the applicant state[1].

This difference is in fact the same as between the result of the first method and the result of the third method. In addition, the comparison of the bases of the transfer (of smaller amounts than the reference levels) increases the difference in relative terms. The following example, which remains exceptional[2], demonstrates this phenomenon.

A state has presented a request for a transfer with the following figures:

	Year 1	Year 2	Year 3	Year 4	Year of application
Earnings in ACP currency	1 845.6	1 203.1	2 352.4	5 846.6	2 370.3
1 EUA = ACP currency ...	0.72345	0.78251	0.89486	0.89809	0.93828

	Reference level	Basis of the transfer
First method	2 812	442
Second method (reconverted into ACP currency at the rate for year 5)	3 199	829
Third method (reconverted into ACP currency at the rate for year 5)	3 103	733
Difference in % between the first and the second methods	14	88
Difference in % between the first and the third methods	10	66
Difference in % between the second and the third methods	3	13

This state therefore received a transfer 66% greater than the calculation of the request (= first method) led us to expect. Two factors were involved here: steady depreciation of the ACP currency (30% between year 1 and year 5) and, in year 4, considerable fluctuation in earnings (over 100% up on the average). In this case, the currency depreciation

[1] Obviously, a direct comparison is possible only where the ACP figures are accepted following cross-checking. Where other cross-checking formulas are used, the basis of the transfer calculated from the ACP figures is no longer a satisfactory indicator for the purposes of comparison.

[2] This has been the case with two out of 123 transfers.

had resulted in an abnormal devaluation of the earnings below the reference level expressed in the ACP currency, which was eliminated by the calculation method. It will also be noted that the difference between the second and the third methods remains small even for the basis of the transfer (13% in an exceptional situation).

Note 3: Evaluating the resources needed for the system

Since the resources available to the system are not unlimited, but are subject to a ceiling within the total resources allocated by the EEC to cooperation with the ACP States, it has been necessary before signing each Convention to evaluate as precisely as possible the resources required to enable the system to finance transfers during the life of the Convention, namely five years.

1. The solution envisaged

When the problem was faced for the first time in 1973-74 the initial approach was to attempt to use projections of variations in prices and quantities. However, since these projections are generally based on the - well founded - assumption of long-term growth, particularly of production, and secondly often consider products on the world scale and not by producer country, this method was rapidly abandoned in going for the more limited and more specific objective that was being pursued.

2. The solution applied

2.1 Since the system was designed to compensate for losses against a reference level calculated on the basis of the recent past, a number of calculations were made on real past data with the aim of establishing a "law" derived from the transfers that would have been paid if the system had existed. The ambition of finding such a "law" was itself soon abandoned.

Nevertheless, it became apparent that the standard deviation, referred to hereinafter as "s", offered a basis of assessment that was satisfactory in certain respects: since the purpose of the system is to provide compensation on the basis of losses in relation to an average figure, it is not unreasonable, as an initial approximation, to take $\frac{s}{2}$ and to multiply this quotient by the number of years of application of the system, namely 5.

2.2 From the theoretical viewpoint, coupling the application of the formula

$$T = \frac{s}{2} \times 5 \qquad [1] \; ^{*}$$

with an examination of the trend of the curve representing the variations in export earnings - in fact, the slope of this curve - is clearly desirable, as is shown in the section on developments in this Note.

2.3 This approach calls for the following observations:

1. It is exceptional that, on a case-by-case basis or individually, the formula

$$T = \frac{s}{2} \times N_A \qquad [2] \; ^{*}$$

where $N_A = 5$ - i.e. formula [1] applied to a reference period - should produce the exact amount of the transfer(s) for the period of application. It leads, on an individual basis, to underestimates or overestimates.

---

*T = sum of the transfers; s = standard deviation; N_A = number of years of application.

Since a fairly large number of countries and products are involved, it can be argued that underestimates and overestimates will cancel one another out; this generally proves to be the case in practice, indeed the larger the number of cases, the more it applies.

2. Nevertheless, experience has shown that, generally speaking, formula [1] tends towards systematic overestimation. This calls for corrective measures, and one way is to observe the trend of the curve plotting the variations in export earnings over a long period, into which existing projections for the future may be incorporated with care - where they exist. This was done for Stabex, and as a result of combining formula [1] with this corrective measure the amount earmarked for transfers for the period 1975 to 1979 was estimated at 400 million EUA, reduced to 375 million EUA in the negotiations, and subsequently increased to 380 million EUA to allow for extra costs resulting from the accession of further states to the Convention. This estimate has proved to have been quite remarkably accurate since transfers for the five years in question have totalled approximately 377.5 million EUA.

3. It is necessary, however, to recognize the limits inherent in this method: although it has enabled a number of risks to be evaluated in a satisfactory way, there are a number of questions which it does not answer, and which probably cannot be answered by any method:

(i) it enables a risk to be assessed but gives no indication as to whether the risk will materialize or not;

(ii) it proves no information on the number of years in the period of application for which a transfer will have to be paid;

(iii) it does not indicate the year(s) in the period for which compensation will have to be paid;

(iv) in no case does it make it possible to establish in advance a "right" to receive a certain amount during the period of application.

Furthermore, it has a subjective side, namely the choices that have to be made, in which risks of error are inevitably inherent:

(a) the choice of the period of application serving as a basis for formula [1]. In the case in point, the period of application is five years. It could, however, also be postulated that the period of application is not the statutory five years, but the number of years in which transfers are anticipated, which could, in this case, be between 0 and 5;

(b) choice of the past period serving as a basis for observation of the trend of export earnings;

(c) interpretation of this trend and evaluation of the correction to be made in the result given by formula [2].

3. Developments

Without presuming to fill in the gaps in this method or eliminate the subjective elements - impossibilities in an exercise which by its very nature is uncertain - one can nevertheless try to improve it on one point at least, namely the basically fairly crude estimate resulting from formula [2]. The experience acquired through implementing Stabex has made it possible to begin a process of reflection that may lead to the adoption of a more complex method providing more precise results, though more thorough research will be needed here.

Note 4: Improved market information following application of the system

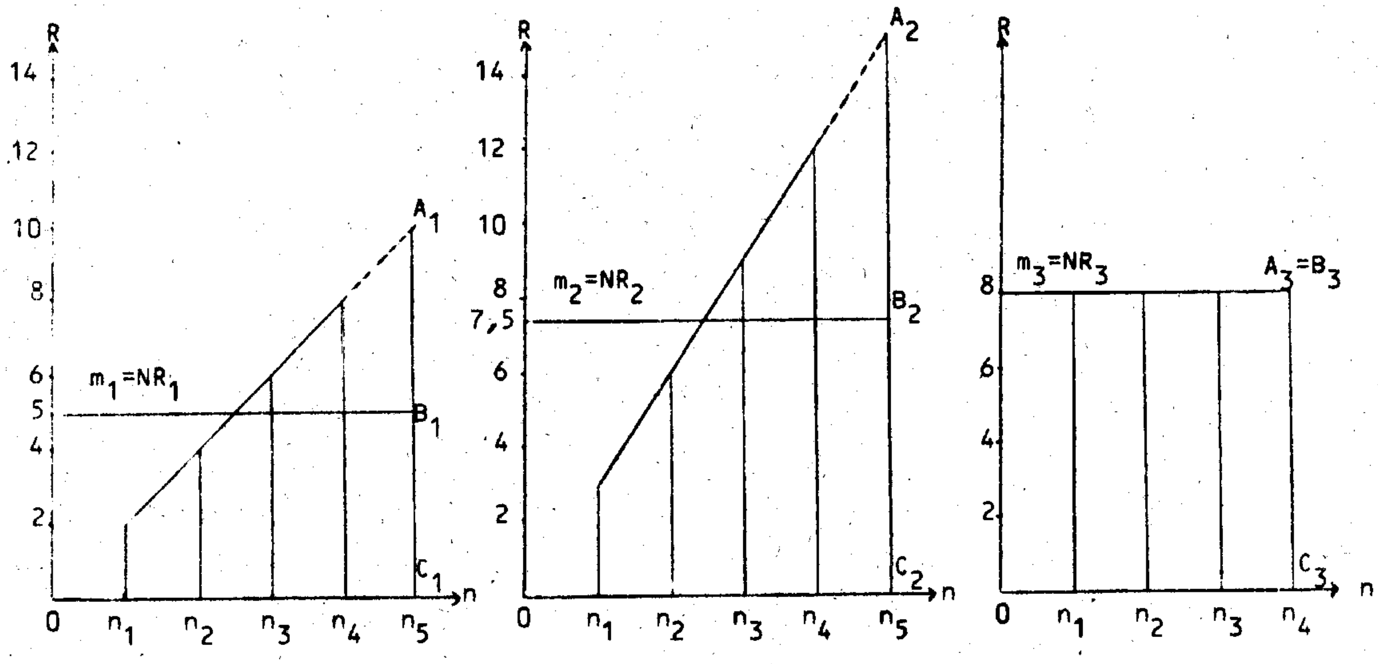
An interesting side-effect of the implementation of the system is the improved information acquired by the ACP States regarding the channels through which their exports are marketed.

The statistical cooperation required for the functioning of the system, and in particular the cross-checking operations, has revealed that an export declared on leaving the country as being intended for the Community does not necessarily turn up in the Community's imports. In other words, the system has enabled certain ACP countries to obtain a better understanding of the export channels which their products actually pass through. This should encourage them to keep a more careful eye on where their exports really go to, or indeed to seek to play a more active part in export operations instead of relying completely on intermediaries.

Likewise, questions raised by the Commission in consultations held pursuant to Article 19(4)(b) of the Convention have enabled the ACP States concerned, in certain cases, to obtain a clearer idea of the marketing problems in respect of the products in question. In one case, the Commission's action in explaining a number of marketing problems to an ACP State caused the country in question to completely change its policy in this field.

Note 5: Brief remarks on the triggering of the system

Consider the following three graphs, the abscissae of which cover the years n_1 to n_5 and the ordinates the value of export earnings.



1 2 3

From this it can be seen that:

(i) if the upward trend continues uniformly, to trigger the mechanism it will be necessary for the drop in earnings in year n_5 to be at least equal to the reference level: by definition,

$$A_1B_1 = \frac{A_1C_1}{2}, \text{ and } A_2B_2 = \frac{A_2C_2}{2};$$

(ii) the steeper the slope, the greater the difference between the value of earnings in n_5 and the reference level: a_2 a_1, hence A_2B_2 A_1B_1. A continuous upward trend very rapidly reduces - after one or two years - the prospect of seeing earnings fall below the reference level, which, it should be remembered, is a moving average; in the event of a continuous downward trend, this accelerates the fall in the reference level, progressively reducing transfers to zero;

(iii) the shallower the slope, the greater the uncertainty, and as a result the greater the risk that transfers will be necessary;

(iv) where the slope is horizontal, i.e. nil (fig 3: $a_3 = 0$), the uncertainty is total. Paradoxically, then, it would appear that the risks of instability are greatest when the situation is stable.

Note 6: **Some major options with regard to the stabilization of export earnings**

(1) Scale of operation of the system:

- a single world system?
- a series of regional systems?
- a world system co-existing with one or more regional systems?

(The last two formulas imply a solution being found to the problem of double compensation.)

(2) Beneficiary countries:

- all developing countries, without distinction?
- all developing countries, with thresholds graduated on the basis of their level of development?
- only those developing countries below a certain level of development?

(3) Products:

(a) First approach:

- all commodities?
- all agricultural commodities?
- all tropical agricultural commodities?
- all tropical agricultural commodities, excluding those that come from both tropical and temperate regions?

Each of these alternatives splits into two:

- commodities only?
- commodities and products of first-stage processing?

(b) A second approach involves devising criteria enabling the eligible products to be selected, which does not, however, dispense with the need to choose between a number of the above alternatives.

(4) Thresholds: is it necessary

- to have dependence and fluctuation thresholds or not?
- to set them at a high or low level?
- to have single or differentiated thresholds?

(5) Reference level: is it necessary to have

- "historical" references?
- "projected" references?
- a combination of the two?
- references coupled with corrective coefficients?

(6) Financial aspects: should the system operate

- using grants or loans (with or without interest and, if with, with or without interest-rate subsidies)?
- if loans are used, with fixed repayment schedules or schedules linked to recovery of earnings?
- using the product-by-product approach or with compensation between products?

(7) Other matters (for information):

- transfers paid to whom?
- ultimate beneficiaries of the transfers (earmarked for specific purposes or not)
- statistical bases (exports, imports, other formula)
- management of the system.

ANNEX I

TABLES

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SUMMARY BY YEAR OF APPLICATION OF MAIN DATA ON TRANSFERS TO ACP STATES AND OCT

The transfer proposals have been numbered and placed in order by the administrative department.
The different amounts are in EUA.
Where there was no reduction, the "basis of the transfer" column is empty. The amount is the same as in the "transfer" column.
Where the date of submission of the request is not mentioned, it was submitted before 31 March.

Group II

1975

No	State	Product	Reference level	Basis of the transfer	Reduction and percentage	Transfer	Date of submission of request	Date of signing	Dependence rate	Fluctuation rate	Cross-checking
1	Benin	Groundnuts	1.172.698	-	-	464.330	-	8. 7.76	6,73	43,33	Q ACP UV EEC
2	Benin	Coffee	1.174.883	-	-	1.174.883	-	"	2,53	100	ACP
3	Benin	Cotton	7.107.018	-	-	4.299.556	-	"	58,23	62,94	EEC
4	Benin	Oilcake	1.672.156	-	-	1.191.079	-	"	6,94	73,01	EEC
5	Burundi	Cotton	1.534.586	-	-	965.602	-	"	5,62	62,92	A.D
6	Burundi	Raw hides and skins	1.132.568	-	-	520.053	-	"	5,86	45,92	A.D
7	Cameroon	Wood in the rough	18.370.236	3.790.972	189.548 5 %	3.601.423	-	"	9,94	25,50	ACP
8	C.A.R	Coffee	8.523.660	-	-	353.108	-	21. 8.76	21,77	10,02	EEC
9	Congo	Wood in the rough	10.799.199	-	-	7.361.677	-	8. 7.76	8,54	70,12	ACP
10	Ivory Coast	Wood	108.857.231	21.024.784	6.024.784 28,66 %	15.000.000	-	"	17,67	19,31	ACP
11	Ethiopia	Coffee	68.118.521	-	-	9.339.683	-	"	27,84	13,08	A.D
12	Ethiopia	Raw hides and skins	18.386.776	-	-	5.080.364	-	"	8,60	27,10	A.D

(A.D. = all destinations)

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Group III

1975

No	State	Product	Reference level	Basis of the transfer	Reduction and percentage	Transfer	Date of submission of request	Date of signing	Dependence rate	Fluctuation rate	Cross-checking
13	Fiji	Copra	5.468.581	2.513.406	1.898.266 75,83 %	615.140	-	8. 7.76	11,25	46	ACP
14	Ghana	Wood	25.480.749	-	-	5.176.408	-	"	7,70	14,66	combined straight average
15	Upper Volta	Groundnuts	2.673.976	-	-	685.239	-	"	14,47	30,18	ACP
16	Upper Volta	Cotton	6.390.986	-	-	175.936	-	"	37,57	8,71	ACP
17	Niger	Groundnuts	7.466.870	7.043.771	1.602.477 22,75 %	5.441.294	-	"	30,98	94,33	Q EEC UV ACP
18	Niger	Raw hides and skins	971.679	-	-	507.947	-	"	5,57	55,21	EEC
19	Somalia	Bananas	4.063.352	-	-	1.296.907	-	"	20,44	30,28	EEC
20	Somalia	Raw hides and skins	1.243.832	-	-	635.238	-	"	3,60	49,89	combined Q EEC UV ACP
21	Sudan	Raw hides and skins	2.650.311	-	-	1.658.579	-	"	2,93	59,52	combined straight average
22	Tanzania	Cotton	3.482.582	-	-	1.807.082	-	"	18,62	48,34	combined ACP
23	Togo	Coffee	7.999.218	-	-	2.680.324	-	"	4,36	37,58	EEC
24	Uganda	Cotton	11.282.699	-	-	1.748.932	-	"	12,08	4,73	ACP
25	Samoa	Cocoa	623.743	-	-	276.978	-	"	26	44,4	Q EEC UV ACP
28	Gabon	Wood in the rough	44.401.622	-	-	6.703.311	31. 3.77	11. 5.79	11,64	15,09	ACP
29	Mali	Cotton	6.088.313	-	-	1.145.004	3. 5.79	11. 5.79	35	18,81	combined Q ACP UV ACP

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Group IV

1975

No	State	Product	Reference level	Basis of the transfer	Reduction and percentage	Transfer	Date of submission of request	Date of signing	Dependence rate	Fluctu-ation rate	Cross-checking
27	Comoros	Copra	383.062	-	-	298.304	24. 7.76	7. 2.77	23,38	79,23	
I	Belize	Sawn wood	183.195	-	-	139.650	9. 9.76	16. 2.77	3,33	71,79	
II	New Hebrides	Copra	5.126.933	-	-	1.103.499	15.10.76	16. 2.77	63,98	26,70	
III	Djibouti	Raw hides and skins	478.140	-	-	256.894	8.12.76	16. 2.77	90,00	53,48	
IV	Kiribati	Copra	2.186.246	-	-	1.200.321	2.10.77	23. 7.79	3,91	54,90	
V	Solomon Islands	Wood in the rough	3.997.294	-	-	761.245	15. 7.77	11. 5.79	24,12	19,04	
VI	Solomon Islands	Copra	5.060.738	-	-	138.502	7. 2.77	11. 5.79	50,95	2,73	
VII	Tuvalu	Copra	80.248	-	-	61.541	2.10.77	11. 5.79	99,9	76,69	

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Group II

1976

No	State	Product	Reference level	Basis of the transfer	Reduction and percentage	Transfer	Date of submission of request	Date of signing	Dependence rate	Fluctuation rate	Cross-checking
1	Benin	Cotton	6.228.679	3.235.703	485.355 15 %	2.750.347	-	16. 5.77	33,35	53,95	EEC
2	Benin	Palm oil	3.199.436	-	-	765.576	-	"	23,47	26,62	ACP
3	C.A.R	Sawn wood	1.680.254	-	-	549.807	-	"	4,99	35,53	ACP
4	Fiji	Copra	5.436.958	2.819.766	1.319.932 46,81 %	1.499.833	-	"	4,36	49,80	ACP
5	Madagascar	Sisal	6.162.463	-	-	1.762.943	-	"	3	31,27	EEC
6	Niger	Groundnut oil	10.664.744	9.007.989	2.251.997 25 %	6.755.991	-	"	19	85,01	EEC
7	Niger	Oilcake	1.806.337	-	-	153.269	-	"	5,44	10,51	EEC
8	Sierra Leone	Iron ore	5.808.523	5.808.523	1.831.249 31,53 %	3.977.274	-	"	12,32	100	EEC
9a	Samoa	Copra	3.448.053	-	-	1.331.544	-	28. 7.77	58,16	26,38	A.D
10	Tanzania	Sisal	17.162.496	5.635.182	469.974 8,34 %	5.165.207	-	16. 5.77	10,68	26,85	ACP
11a	Tonga	Copra	2.856.768	-	-	831.720	-	28. 7.77	25,37	28,37	A.D
12	Cameroon	Cocoa	4.846.181	-	-	463.558	-	22. 9.77	31,63	12	ACP
13	Guinea-Bissau	Groundnuts	7.401.137	-	-	4.442.437	-	28. 7.77		56,37	A.D
14	Guinea-Bissau	Palm nuts and kernels	1.168.710	-	-	626.966	-	"	41,22	49,31	A.D
15	Tonga	Bananas	406.373	-	-	72.719		"	5,44	18,94	A.D
16	Madagascar	Cloves	2.580.430	-	-	1.139.516	12.10.77	22.12.77	27,50	45,74	EEC 74 mixed ACP

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Group II

1976

No	State	Product	Reference level	Basis of the transfer	Reduction and percentage	Transfer	Date of submission of request	Date of signing	Dependence rate	Fluctuation rate	Cross-checking
17	Uganda	Cotton	11.275.843	-	-	2.249.791	22. 6.77	22.12.77	10,66	12,69	ACP
18	Uganda	Tea	6.902.334	1.769.697	369.744 20,89 %	1.399.953	"	"	6,10	18,43	EEC
19	Samoa	Wood in the rough	421.182	-	-	348.993	2. 9.77	23.12.77	3,34	79,48	A.D
20	Mali	Gum arabic	1.574.459	-	-	848.489	12.12.77	17. 7.78	2,73	56,45	combined straight average

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Group IV

1976

No	State	Product	Reference level	Basis of the transfer	Reduction and percentage	Transfer	Date of submission of request	Date of signing	Dependence rate	Fluctuation rate	Cross-checking
I	Comoros	Copra	783.107	-	-	286.508	-	19.9.77	4,54	39,65	
II	Kiribati	Copra	2.131.076	-	-	1.083.098	-	28.7.77	3,36	47,32	
III	New Hebrides	Copra	5.265.618	-	-	327.364	16. 6.77	28. 7.77	42,75	10,59	
IVa	Solomon Islands	Copra	5.256.035	-	-	1.273.640	20. 7.77	21.12.77	41,17	20,61	
V	Djibouti	Raw hides and skins	491.521	-	-	265.328	17. 6.77	28. 7.77	91,17	57,08	
VI	Tuvalu	Copra	69.283	-	-	64.417	30. 5.77	28. 7.77	100	92,35	

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Group II

1977

No	State	Product	Reference level	Basis of the transfer	Reduction and percentage	Transfer	Date of submission of request	Date of signing	Dependence rate	Fluctu-ation rate	Cross-checking
1	Benin	Cotton	4.824.020	3.137.255	1.054.118 33,60 %	2.083.137	-	17. 7.78	29,06	64,43	EEC
2	Benin	Palm oil	3.515.775	1.746.863	279.499 16 %	1.467.364	-	"	10,95	48,71	ACP
3	Benin	Palm nut and kernel oil	5.991.775	-	-	1.211.826	-	"	35,80	18,44	Q ACP UV EEC
4	Guinea-Bissau	Wood	276.353	-	-	146.839	-	"	7,10	35,98	A.D
5	Upper Volta	Groundnuts	2.846.765	-	-	1.169.977	-	"	5,41	40,21	EEC
6	Niger	Groundnuts	2.412.379	-	-	2.412.379	-	"	3,23	100	Q EEC UV ACP
7	Niger	Groundnut oil	8.814.288	-	-	7.382.280	-	"	3,85	83,46	EEC
8a	Uganda	Cotton	10.190.651	-	-	1.281.985	-	11. 7.79	6,22	7,43	EEC combined ACP
9	Mauritania	Iron ore	87.229.146	-	-	3.605.602	-	1.12.78	83,47	5,35	ACP
10	Samoa	Bananas	157.213	-	-	99.313	-	30.12.78	3,33	58,31	A.D
11	Swaziland	Iron ore	12.494.495	-	-	3.368.878	-	30.11.78	7,65	18,01	A.D
12	Tanzania	Sisal	17.263.516	9.936.340	1.759.726 17,71 %	8.176.614	-	1.12.78	5,88	54,67	ACP
13	Cape Verde	Bananas	616.307	-	-	347.711	-	9. 3.79	110,80	48,07	A.D
14	Sudan	Groundnuts	44.403.371	2.715.253	1.746.428 64,33 %	968.825	-	14. 5.79	21,77	7,24	Q EEC UV ACP

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Group IV

No	State	Product	Reference level	Basis of the transfer	Reduction and percentage	Transfer	Date of submission of request	Date of signing	Dependance rate	Fluctu-ation rate	Cross-checking
I	Belize	Sawn wood	214.690	-	-	202.714	-	17.7.78	4,86	94,01	
II	Comoros	Cloves	1.601.752	-	-	552.547	-	"	36,51	31,91	
III	Comoros	Copra	843.091	-	-	367.784	-	"	5,50	43,33	
IV	Comoros	Ylang-ylang	2.265.032	-	-	170.596	-	"	27,79	5,56	
7	Djibouti	Raw hides and skins	445.955	-	-	169.629	-	"	31,47	41,77	

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Group II

No	State	Product	Reference level	Basis of the transfer	Reduction and percentage	Transfer	Date of submission of request	Date of signing	Dependence rate	Fluctuation rate	Cross-checking
1	Tanzania	Sisal	15.331.020	5.613.545	140.900 2,51 %	5.472.645	-	23. 5.79	5,03	30,69	ACP
2	Mauritania	Iron ore	93.901.515	-	-	33.394.848	-	"	68,17	27,60	ACP
3	Samoa	Cocoa	3.306.920	-	-	780.625	-	"	50,59	15,70	A.D
4	Tonga	Bananas	408.076	-	-	244.919	-	"	6,08	48,38	A.D
5	Rwanda	Pyrethrum	1.657.941	-	-	608.802	-	"	2,94	30,89	A.D
6	Gambia	Groundnuts	7.216.473	-	-	2.488.664	-	"	44,91	22,34	Q EEC UV ACP
7	Togo	Coffee	13.177.565	2.673.600	1.727.310 64,61 %	946.290	-	"	17,21	17,09	EEC
8	Upper Volta	Cotton	11.134.785	-	-	2.340.590	-	"	46,96	17,61	ACP
9	Upper Volta	Groundnuts	2.890.160	-	-	2.890.160	-	"	2,84	100	EEC
10	Mali	Groundnuts	4.670.411	-	-	3.893.256	-	"	7,94	82,59	Q EEC UV ACP
11	Senegal	Groundnut oil	121.992.933	66.509.727	16.627.432 25 %	49.868.295	-	"	32,89	52,40	Q EEC combined UV ACP
12	Senegal	Oilcake	35.281.413	18.224.094	3.000.000 16,46 %	15.224.094	-	"	10,02	49,52	Q EEC UV ACP
13	Cape Verde	Bananas	617.476	-	-	429.500	-	"	17,72	59	A.D
14	C.A.R	Cotton	8.378.901	-	-	3.079.660	-	30.12.79	16,38	34	Q EEC UV ACP
15	Guinea-Bissau	Groundnuts	7.388.323	-	-	3.591.506	-	26. 7.79	61,04	32,62	A.D
16	Uganda	Cotton	9.384.743	-	-	3.125.543	3.7.79	10.10.79	3,12	28,25	combined cf. 77

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Group II

1978

No	State	Product	Reference level	Basis of the transfer	Reduction and percentage	Transfer	Date of submission of request	Date of signing	Dependence rate	Fluctuation rate	Cross-checking
17	Uganda	Tea	5.851.486	5.170.730	1.287.806 24,91 %	3.882.924	3.7.79	10.10.79	4,47	87,33	EEC
18	Liberia	Iron ore	192.638.838	37.705.944	30.119.001 79,88 %	7.586.943	-	16.11.79	64,04	12,25	ACP
19	Benin	Cotton	3.269.523	-	-	880.982	-	19.12.79	24,62	24,18	EEC
20	Benin	Palm nut and kernel oil	6.238.719	4.161.153	432.759 10,40 %	3.728.394	-	19.12.79	21,59	65,23	Q ACP UV EEC
21	Chad	Cotton	23.230.038	7.646.980	2.975.372 38,91 %	4.671.608		21. 3.80	69,99	29,87	ACP
22	Swaziland	Iron ore	12.451.692	6.849.929	1.359.470 19,85 %	5.490.459	-	8. 2.80	6,10	45,20	A.D
23	Sudan	Groundnuts	46.276.864	15.279.336	5.953.425 38,96 %	9.325.911	-	7. 2.80	12,51	17,46	Q EEC UV ACP combined

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Group IV

1978

No	State	Product	Reference level	Basis of the transfer	Reduction and percentage	Transfer	Date of submission of request	Date of signing	Dependence rate	Fluctuation rate	Cross-checking
I	Comoros	Copra	752.706	-	-	39.523	-	23.5.79	6,04	2,83	
II	Comoros	Cloves	1.784.085	-	-	180.299	-	23.5.79	13,35	4,66	
III	Tuvalu	Copra	80.504	-	-	48.771	-	23.5.79	100	49,58	

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Group II

1979

No	State	Product	Reference level	Basis of the transfer	Reduction and percentage	Transfer	Date of submission of request	Date of signing	Dependence rate	Fluctuation rate	Cross-checking
1	Tonga	Vanilla	90.797	-	-	58.632	-	24.7.80	3,18	57,56	A.D
2	Chad	Cotton	21.235.801	-	-	2.664.588	-	"	68,71	6,94	ACP
3	Benin	Cotton	2.468.919	-	-	349.246	-	"	19,56	8,64	EEC
4	Swaziland	Iron ore	10.059.913	5.495.767	1.130.235 20,57 %	4.365.532	-	"	3,67	46,3	A.D
5	Mali	Groundnuts	3.894.154	-	-	3.894.154	-	"	3,32	100	Q UV EEC ACP
6	C.A.R	Cotton	7.290.661	4.391.028	544.048 12,39 %	3.846.980	-	"	16,93	57,67	Q UV EEC ACP
7	Sudan	Groundnuts	50.679.113	46.494.742	19.304.617 41,52 %	27.190.125	-	"	10,24	88,25	Q UV EEC ACP combined
8	Guinea-Bissau	Groundnuts	6.916.278	-	-	2.480.509	-	"	40,04	15,25	A.D
9	Gambia	Groundnut oil	10.383.522	-	-	3.999.947	-	"	36,77	36,49	ACP
10	Gambia	Groundnut oilcake	3.105.681	-	-	1.026.143	-	"	11,71	31,28	ACP
11	Cape Verde	Bananas	576.049	-	-	429.352	-	"	7,66	63,7	A.D
12	Uganda	Tea	3.685.749	3.683.121	589.668 16,01	3.093.453	-	"	2,75	99,92	EEC
13	Uganda	Cotton	8.430.329	-	-	3.806.872	-	"	5,29	40,36	combined EEC
14	Madagascar	Vanilla	8.402.122	-	-	2.845.088	-	"	9,49	30,65	combined ACP
15	Sudan	Sesame	3.856.168	3.833.133	1.200.210 31,31 %	2.632.923	-		9,48	99,15	Q UV EEC ACP

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Group IV

1979

No	State	Product	Reference level	Basis of the transfer	Reduction and percentage	Transfer	Date of submission of request	Date of signing	Dependence rate	Fluctu-ation rate	Cross-checking
I	Comoros	Cloves	1.973.842	-	-	431.155	-	24.7.80	21,88	16,45	-
II	Dominica	Bananas	6.065.053	-	-	2.892.944	-	"	58,37	36,79	

Table I, 2 - Transfer disbursements over the five-year period - Groups II and IV (in EUA)

		1975	1976	1977	1978	1979	Total
Group II	1. Group I	79.985.880	37.135.935	33.382.019	163.531.118	62.254.192	376.289.144
	2. ACP States Art. 90	-	-	347.712	429.500	429.352	1.206.564
	3. Group II (1 + 2)	79.985.880	37.135.935	33.729.731	163.960.618	62.683.544	377.495.708
Group IV	4. Former OCT (1)	-	-	1.260.556	268.323	3.324.099	4.852.978
	5. Former OCT (2)	2.716.807	2.972.991	-	-	-	5.689.798
	6. Group V	1.243.149	327.364	202.714	-	-	1.773.227
	7. Group IV (4 + 5 + 6)	3.959.956	3.300.355	1.463.270	268.323	3.324.099	12.316.003
	TOTAL (3 + 7)	83.945.836	40.436.290	35.193.001	164.228.941	66.007.643	389.811.711
	Group III (3 + 4 + 5)	82.702.687	40.108.926	34.990.287	164.228.941	66.007.643	388.038.484
	Group V (6)	1.243.149	327.364	202.714	-	-	1.773.227

(1) Independent states when the transfer agreement was signed.
(2) Group III states which were OCT when the transfer agreement was signed.

Table I, 3 - Aggregate transfers for the Lomé I period (1975 to 1979 inclusive) (in EUA)

Group II

ACP State	Product	1975	1976	1977	1978	1979	Total
BENIN (1)	Groundnuts	464.330		-			464.330
	Coffee	1.174.883					1.174.883
	Cotton	4.299.556	2.750.347	2.083.137	880.982	349.246	10.363.268
	Oilcake	1.191.079					1.191.079
	Palm oil		765.576	1.467.364			2.232.940
	Palm nut and kernel oil			1.211.826	3.728.394		4.940.220
Total		7.129.848	3.515.923	4.762.327	4.609.376	349.246	20.366.720
BURUNDI (1)	Cotton	965.602					965.602
	Raw hides and skins	520.053					520.053
Total		1.485.655					1.485.655
CAMEROON	Wood in the rough	3.601.423					3.601.423
	Cocoa paste		463.558				463.558
Total		3.601.423	463.558				4.064.981
CAPE VERDE (1)	Bananas			347.712	429.500	429.352	1.206.564
C.A.R. (1)	Cotton				3.079.660	3.846.980	6.926.640
	Coffee	353.108					353.108
	Sawn wood		549.807				549.807
Total		353.108	549.807		3.079.660	3.846.980	7.829.555
CONGO	Wood in the rough	7.361.677					7.361.677
IVORY COAST	Wood in the rough	15.000.000					15.000.000

ACP State	Product	1975	1976	1977	1978	1979	Total
ETHIOPIA (1)	Coffee	9.339.684					9.339.684
	Raw hides and skins	5.080.365					5.080.365
Total		14.420.049					14.420.049
FIJI	Coconut oil	615.140	1.499.834				2.114.974
GABON	Wood in the rough	6.703.311					6.703.311
GAMBIA (1)	Groundnuts				2.488.664		2.488.664
	Groundnut oil					3.999.947	3.999.947
	Groundnut oilcake					1.026.143	1.026.143
Total					2.488.664	5.026.090	7.514.754
GHANA	Wood in the rough	5.176.408					5.176.408
GUINEA-BISSAU (1)	Groundnuts		4.442.437		3.591.506	2.480.509	10.514.452
	Palm nuts and kernels		626.966				626.966
	Sawn wood			146.839			146.839
Total			5.069.403	146.839	3.591.506	2.480.509	11.288.257
UPPER VOLTA (1)	Groundnuts	685.239		1.169.977	2.890.160		4.745.376
	Cotton	175.936			2.340.590		2.516.526
Total		861.175		1.169.977	5.230.750		7.261.902
LIBERIA	Iron ore				7.586.943		7.586.943
MADAGASCAR	Sisal		1.762.943				1.762.943
	Cloves		1.139.516				1.139.516
	Vanilla					2.845.088	2.845.088
Total			2.902.459			2.845.088	5.747.547

ACP State	Product	1975	1976	1977	1978	1979	Total
MALI (1)	Cotton	1.145.004					1.145.004
	Gum arabic		848.489				848.489
	Groundnuts				3.893.256	3.894.154	7.787.410
Total		1.145.004	848.489		3.893.256	3.894.154	9.780.903
MAURITANIA (1)	Iron ore			3.605.602	33.394.848		37.000.450
NIGER (1)	Groundnuts	5.441.294		2.412.379			7.853.673
	Raw hides and skins	507.747					507.747
	Groundnut oil		6.755.991	7.383.280			14.139.271
	Oilcake		153.269				153.269
Total		5.949.041	6.909.260	9.795.659			22.653.960
UGANDA (1)	Cotton	1.748.932	2.249.791	1.287.985	3.125.543	3.806.872	12.219.123
	Tea		1.399.953		3.882.924	3.093.453	8.376.330
Total		1.748.932	3.649.744	1.287.985	7.008.467	6.900.325	20.595.453
RWANDA (1)	Pyrethrum				608.802		608.802
SAMOA (1)	Cocoa	276.978			780.625		1.057.603
	Copra		1.331.544				1.331.544
	Wood in the rough		348.993				348.993
	Bananas			99.313			99.313
Total		276.978	1.680.537	99.313	780.625		2.837.453
SENEGAL	Groundnut oil				49.882.295		49.882.295
	Oilcake				15.224.094		15.224.094
Total					65.106.389		65.106.389
SIERRA LEONE	Iron ore		3.977.274				3.977.274

ACP State	Product	1975	1976	1977	1978	1979	Total
SOMALIA (1)	Bananas	1.296.907					1.296.907
	Raw hides and skins	635.238					635.238
Total		1.932.145					1.932.145
SUDAN (1)	Groundnuts			968.825	9.325.911	27.190.125	37.484.861
	Raw hides and skins	1.658.580					1.658.580
	Sesame seed					2.632.923	2.632.923
Total		1.658.580		968.825	9.325.911	29.823.048	41.776.364
SWAZILAND (1)	Iron ore			3.368.878	5.490.459	4.365.532	13.224.869
TANZANIA (1)	Cotton	1.887.082					1.887.082
	Sisal		5.165.208	8.176.614	5.472.645		18.814.467
Total		1.887.082	5.165.208	8.176.614	5.472.645		20.701.569
CHAD (1)	Cotton				4.671.308	2.664.388	7.336.795
TOGO	Coffee	2.680.324			946.290		3.626.614
TONGA (1)	Copra		831.720				831.720
	Bananas		72.719		244.919		317.638
	Vanilla					58.632	58.632
Total			904.439		244.919	58.632	1.207.990
GRAND TOTAL		79.985.880	37.135.935	33.729.731	163.960.618	62.683.544	377.495.708

(1) ACP State referred to in Art. 48 of the Lomé Convention.

Table I, 4 - Transfer disbursements over the five-year period (in EUA)

Group IV

ACP State	Product	1975	1976	1977	1978	1979	Total
BELIZE	Sawn wood	139.650	-	202.714	-	-	342.364
COMOROS (1)(2)	Copra Cloves Ylang-ylang	298.304	286.508	367.784 552.547 170.596	39.253 180.299	431.155	991.849 1.164.001 170.596
Total		298.304	286.508	1.090.927	219.552	431.155	2.326.446
DJIBOUTI (1)(2)	Raw hides and skins	256.894	265.328	169.629	-	-	691.851
DOMINICA (1)(2)	Bananas					2.892.944	2.892.944
KIRIBATI (2)	Copra	1.200.321	1.083.098	-	-	-	2.283.419
NEW HEBRIDES	Copra	1.103.499	327.364	-	-	-	1.430.863
SOLOMON ISLANDS (1)(2)	Copra Wood in the rough	138.502 761.245	1.273.640 -	- -	- -	- -	1.412.142 761.245
Total		899.747	1.273.640	-	-	-	2.173.387
TUVALU (1)(2)	Copra	61.541	64.417	-	48.771	-	174.729
TOTAL		3.959.956	3.300.355	1.463.270	268.323	3.324.099	12.316.003

(1) Overseas countries and territories referred to in Art. 23(3) of the Decision.
(2) Overseas countries and territories which became independent during the period of validity of the Decision but continue to benefit from the export earnings stabilization fund for overseas countries and territories provided for in Article 1(3)(c) of the Internal Agreement on the financing and administration of Community aid.

Nature of transfers (Tables I, 5, 6 and 7)

Table I, 5 - Group II

	1975	%	1976	%	1977	%	1978	%	1979	%	Total	%
Grants	41.527.921	51,92	28.292.810	76,19	33.729.731	100,00	91.267.286	55,66	59.838.456	95,46	254.656.204	67,46
Loans	38.457.959	48,08	8.843.125	23,81	-	0	72.693.332	44,34	2.845.088	4,54	122.839.504	32,54
Total	79.985.880	100,00	37.135.935	100,00	33.729.731	100,00	163.960.618	100,00	62.683.544	100,00	377.495.708	100,00

Table I, 6 - Group IV

	1975	%	1976	%	1977	%	1978	%	1979	%	Total	%
Grants	1.516.486	38,30	1.889,893	57,26	1.260.556	86,15	268.323	100,00	3.324,099	100,00	8.259.357	67,06
Loans	2.443.470	61,76	1.410.462	42,74	202.714	13,85	-	0	-	0	4.056,646	32.94
Total	3.959.956	100,00	3.300.355	100,00	1.463.276	100,00	268.323	100,00	3 324.099	100,00	12.316.003	100,00

Table I, 7 - Groups II and IV

	ACP Art. 48	OCT-ACP Art. 23(3) Decision	ACP other than Art. 48	OCT + Kiribati
Number of transfers	84	18	15	6
%	68	15	12	5
Amount of transfers	254.656.204	8.259.357	122.839.504	4.056.646
%	65	2	32	1
	Grants: 262.915.561 67,45 %		Loans : 126.896.150 32,55 %	

Table I, 8 - Product aggregate - Group II

Product	1975		1976		1977		1978		1979		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Groundnuts	6.590.863	8,24	4.442.437	11,96	4.551.181	13,49	22.189.497	13,53	33.564.788	53,55	71.338.766	18,90
Groundnut oil			6.755.991	18,19	7.383.280	21,89	49.882.295	30,42	3.999.947	6,38	68.021.513	18,02
Oilcake	1.191.079	1,49	153.269	0,41			15.224.094	9,29	1.026.143	1,64	17.594.585	4,66
Cocoa	276.978	0,35					780.625	0,48			1.057.603	0,28
Cocoa paste			463.558	1,25							463.558	0,12
Coffee	13.547.999	16,94					946.290	0,58			14.494.289	3,84
Cotton	10.222.112	12,78	5.000.138	13,46	3.371.122	9,99	14.098.383	8,60	10.667.686	17,02	43.359.441	11,49
Copra			2.163.264	5,82							2.163.264	0,57
Coconut oil	615.140	0,77	1.499.834	4,04							2.114.974	0,56
Palm oil			765.576	2,06	1.467.364	4,35					2.232.940	0,59
Palm nut and kernel oil			626.966	1,69	1.211.826	3,59	3.728.394	2,27			5.567.186	1,47
Raw hides and skins	8.401.983	10,50									8.401.983	2,23
Wood in the rough	37.842.819	47,31	348.993	0,94							38.191.812	10,12
Sawn wood			549.807	1,48	146.839	0,44					696.646	0,18
Bananas	1.296.907	1,62	72.719	0,20	447.025	1,33	674.419	0,41	429.352	0,68	2.920.422	0,77
Tea			1.399.953	3,77			3.882.924	2,37	3.093.453	4,94	8.376.330	2,22
Sisal			6.928.151	18,66	8.176.614	24,24	5.472.645	3,34			20.577.410	5,45
Iron ore			3.977.274	10,71	6.974.480	20,68	46.472.250	28,34	4.365.532	6,96	61.789.536	16,37
Cloves			1.139.516	3,07							1.139.516	0,30
Gum arabic			848.489	2,28							848.489	0,22
Pyrethrum							608.802	0,37			608.802	0,16
Vanilla									2.903.720	4,63	2.903.720	0,77
Sesame seed									2.632.923	4,20	2.632.923	0,70
Total	79.985.880	100,00	37.135.935	100,00	33.729.731	100,00	163.960.618	100,00	62.683.544	100,00	377.495.708	100,00

Table I, 9 – Product aggregate – Group IV

Product	1975		1976		1977		1978		1979		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Bananas	-	-	-	-	-	-	-	-	2.892.944	87,0	2.892.944	23,4
Cloves	-	-	-	-	552.547	37,8	180.299	67,2	431.155	13,0	1.164.001	9,5
Copra	2.802.167	70,76	3.035.027	92,0	367.784	25,1	88.024	32,8	-	-	6.293.002	51,1
Raw hides and skin	256.894	6,49	265.328	8,0	169.629	11,6	-	-	-	-	691.851	5,6
Sawn wood	139.650	3,53	-	-	202.714	13,8	-	-	-	-	342.364	2,8
Wood in the rough	761.245	19,22	-	-	-	-	-	-	-	-	761.245	6,2
Ylang-ylang	-	-	-	-	170.596	11,7	-	-	-	-	170.596	1,4
Total	3.959.956	100,00	3.300.355	100,00	1.463.270	100,00	268.323	100,00	3.324.099	100,00	12.316.003	100,00

Table I, 10 – Disbursements by product – Summary (Groups II and IV)

Product	Amount in EUA	%	
Groundnuts	71.338.766	18,30	
Groundnut oil	68.021.513	17,45	
Groundnut oilcake	16.403.506	4,21	
Groundnut products	155.763.785	39,96	
Iron ore	61.789.536	15,85	-260.912.762 (66,93 %)
Cotton	43.359.441	11,12	
Wood in the rough	38.953.057	9,99	
Sisal	20.577.410	5,28	
Coffee	14.494.289	3,72	
Raw hides and skins	9.093.834	2,33	
Copra	8.456.266	2,17	
Tea	8.376.330	2,15	
Bananas	5.813.366	1,49	
Palm nut and kernel oil	5.567.186	1,43	
Vanilla	2.903.720	0,74	
Sesame	2.632.923	0,68	-128.898.949 (33,07 %)
Cloves	2.303.517	0,59	
Palm oil	2.232.940	0,57	
Coconut oil	2.114.974	0,54	
Palm nut and kernel oilcake	1.191.079	0,31	
Cocoa	1.057.603	0,27	
Sawn wood	1.039.010	0,27	
Gum arabic	848.489	0,22	
Pyrethrum	608.802	0,16	
Cocoa paste	463.558	0,12	
Ylang-ylang	170.596	0,04	

Breakdown of transfers according to reason for fall in export earnings (Tables I, 11, 12 and 13)

Table I, 11 - Group II

Product	1975	%	1976	%	1977	%	1978	%	1979	%	Total	%
- affected by the economic situation (1)(2)(3)(4)	56.466.914	70,60	7.477.958	20,14	11.782.216	34,93	40.981.791	24,99	-	0	116.708.879	30,92
- affected by local contingencies	23.518.966	29,40	29.657.977	79,86	21.947.515	65,07	122.978.827	75,01	62.683.544	100,00	260.786.829	69,08
Total	79.985.880	100,00	37.135.935	100,00	33.729.731	100,00	163.960.618	100,00	62.683.544	100,00	377.495.708	100,00

(1) Wood in the rough, raw hides and skins, cotton in 1975.
(2) Sisal, sawn wood in 1976.
(3) Sisal, iron ore in 1977.
(4) Iron ore in 1978 (except Swaziland).

Table I, 12 - Group IV

Product	1975	%	1976	%	1977	%	1978	%	1979	%	Total	%
- affected by the economic situation	1.316.443	33,24	551.836	16,72	202.714	13,85	48.771	18,17	431.155	12,97	2.550.919	20,71
- affected by local contingencies	2.643.513	66,76	2.748.519	83,28	1.260.556	86,15	219.552	81,83	2.892.944	87,03	9.765.084	79,29
Total	3.959.956	100,00	3.300.355	100,00	1.463.270	100,00	268.323	100,00	3.324.099	100,00	12.316.003	100,00

Table I, 13 – Breakdown of amounts of transfers according to reason for fall in export earnings

Group II and IV

	Group II	Group IV	Total
Local circumstances	246.953.564	9.765.084	270.551.913
Mine closures	13.833.265		
Total	260.786.829		69,41 %
Economic situation in the EEC	116.708.879	2.550.919	119.259.798 30,59 %
Total	377.495.708	12.316.003	389.811.711

Table I, 14 – Products for which export earnings fell for economic reasons in the EEC

	Group II	Group IV
1975	Wood in the rough Raw hides, skins and leather Cotton	Wood in the rough Raw hides, skins and leather Copra
1976	Sisal – sawn wood	Raw hides, skins and leather – copra
1977	Sisal – iron ore	Sawn wood
1978	Iron ore	Copra
1979		Cloves

Table I, 15 - Advances on transfers
Groups II and IV

Year of application	State and number of advance agreements	Amount of advance		% of final transfer	% of annual amount of transfers
1978	Senegal [2]	19.000.000	69%	29 %	-
	Gambia [1]	1.510.000	5,5%	61 %	
	Tonga [1]	160.000	0,5%	65 %	
	Mauritania [1]	7.000.000	25%	21 %	
	Total [5]	27.670.000	100%	Average 27 %	17 %
1979	Gambia [2]	3.692.000	60%	73 %	-
	Dominica [1]	2.480.000	40%	86 %	
	Total [3]	6.172.000	100%	Average 78 %	9 %
Overall Total		33.842.000		-	9 %

Table I, 16 – Reconstitution of resources made available for the system (Group II)
(Situation following 1979 examination)

	1975	1976	1977	1978	1979	Total
1. Original transfer						
– Cameroon, cocoa paste		463.558				463.558
– Fiji, coconut oil	615.140	1.499.834				2.114.974
– Madagascar, cloves		1.139.516				1.139.516
Total	615.140	3.102.908				3.718.048
2. Amounts reconstituted						
– Cameroon			463.558			463.558
– Fiji, 1975 transfer			615.140			
– Fiji, 1976 transfer			1.253.399			1.868.539
– Madagascar					1.139.516	1.139.516
Total			2.332.097		1.139.516	3.471.613

Table I, 17 – Reconstitution of resources made available for the system – Group IV
(Situation following 1979 examination)

	1975	1976	1977	1978	1979	Total
1. Original transfer						
Belize (sawn wood)	139.650	-	202.714	-	-	342.364
Kiribati (copra)	1.200.321	1.083.098	-	-	-	2.283.419
New Hebrides (copra)	1.103.499	327.364	-	-	-	1.430.863
Total	2.443.470	1.410.462	202.714	-	-	4.056.646
2. Amounts reconstituted						
Belize – 1975 transfer	-	61.133	-	-	-	61.133
– 1977 transfer	-	-	-	-	-	-
Kiribati – 1975 transfer	-	-	245.021	283.219	-	528.240
– 1976 transfer	-	-	174.972	209.816	-	384.788
New Hebrides – 1975 transfer	-	-	1.103.499	-	-	1.103.499
– 1976 transfer	-	-	327.364	-	-	327.364
Total	-	61.133	1.850.856	493.035	-	2.405.024

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Table I, 18 – Transfers in the form of loans for which the resource reconstitution indicators are still negative

State – product	Number	Year	Amount	%
Wood in the rough	5	1975	37.842.819	32
Iron ore (Sierra Leone – Liberia)	2	1976 1978	11.564.217	10
Groundnut oil and oilcake (Senegal)	2	1978	65.106.389	55
Sisal – vanilla (Madagascar)	2	1975 1979	4.608.031	4
Total	11		119.121.456	100

Table I, 19 - Financial results 1975-79 - Group II

	1975	1976	1977	1978	1979
Annual instalment	75.000.000	75.000.000	76.666.666 (1)	76.666.667 (1)	76.666.667 (1)
% Advance drawn during preceding year	-	4.985.880 (2)	0	0	15.333.333 (3)
Instalment available	75.000.000	70.014.120	76.666.666	76.666.667	61.333.334
+ Carryover from preceding year	-	0	32.878.185	78.147.217	6.186.599
+ Reconstitution	-	0	2.332.097	0	1.139.516
+ Advance on following instalment	4.985.880 (2)	0	0	15.333.333 (3)	0
Total	79.985.880	70.014.120	111.876.948	170.147.217	68.659.449
% Transfers	79.985.880	37.135.935	33.729.731	163.960.618	62.683.544
Carryover to following year	0	32.878.185	78.147.217	6.186.599	5.975.905 (4)

(1) Increased by 5 million EUA for the three years 1977-79, in accordance with Article 2(3b)(a) of the Agreement amending the Internal Agreement on the financing and administration of Community aid (see OJ No L 287 of 13.10.77, p. 27).
(2) See entry in the minutes of the ACP-EEC Council of 22 April 1979 authorizing the Commission to draw the necessary sums from the 1976 instalment within the limits of 20% of this instalment (see Doc. ACP-EEC 2162/80, p. 18).
(3) See Decision No 9 of the ACP-EEC Council of 31 October 1979 authorizing the advance use of part of the 1979 instalment for transfers to be made under the 1978 financial year.
(4) In accordance with Decision No 7 of the ACP-EEC Council of 9 May 1980, this balance will be assigned to the first annual instalment of the funds earmarked for the Stabex system under the second ACP-EEC Convention.

Table I, 20 – Financial results 1975-79 – Group IV

	1975	1976	1977	1978	1979
Annual instalment	4.000.000	4.000.000	4.000.000	4.000.000	4.000.000
% Advance drawn during preceding year	0	0	0	0	0
Instalment available	4.000.000	4.000.000	4.000.000	4.000.000	4.000.000
+ Carryover from preceding year	-	40.044	800.822	5.188.408	9.413.120
+ Reconstitution	-	61.133	1.850.856	493.035	-
+ Advance on following instalment	0	0	0	0	0
Total	4.000.000	4.101.177	6.651.678	9.681.443	13.413.120
% Transfers	3.959.956	3.300.355	1.463.270	268.323	3.324.099
Carryover to following year	40.044	800.822	5.188.408	9.413.120	10.089.021

Table I, 21 - Stabex and financial aid under the fourth EDF (Situation at 31 December 1978)

	Fourth EDF 1975-78 Group II			4 Stabex aggregate amount (Group II)	Stabex/fourth EDF as percentage	
	1 Commitments	2 Disbursements	3 = 2/1 as percentage		5 Commitments = 4/1	6 Disbursements = 4/2
Art. 48 states %	899.659 55,74	313.593 56,17	34,86	109.119 64,68	12,13	34,80
Other states %	714.426 44,26	244.726 43,83	34,25	59.598 35,32	8,34	24,35
Total	1.614.084 100	558.319 100	34,59	168.717 100	10,45	30,22

Table I, 22 - Stabex and financial aid under the fourth EDF (Situation at 31 July 1980)

	Fourth EDF 1975 - 07/1980 Group II			4 Stabex aggregate amount (1)	Stabex/fourth EDF as percentage	
	1 Commitments	2 Disbursements	3 = 2/1 as percentage		5 Commitments = 4/1	6 Disbursements (2)
Art. 48 states %	1.343.676 60,58	652.982 62,92	48,60	249.362 67,00	18,59	29,12
Other states %	874.471 39,42	384.765 37,08	44,00	122.838 33,00	14,05	31,93
Total + Regional aid	2.431.171	1.114.846	45,86	372.200	15,34	27,82

(1) At 31 July 1980, two transfers had not been committed.
(2) At 31 July 1980, Stabex amounts had not yet been debited; the figures in column 6 comprise Stabex aggregate amounts for 1975-78 over fourth EDF disbursements (Column 2).

COMPARISON BY GROUP III STATE OF INDICATIVE PROGRAMMES AND DISBURSEMENTS UNDER STABEX

- States for which Stabex disbursements (where made) represent less than 10% of their I.P.

State	Stabex aggregate amount	I.P.	%.
Bahamas	-	1.800	-
Barbados	-	2.600	-
Botswana (1)	-	19.000	-
Burundi (1)	1.486	58.100	3
Cameroon	4.065	55.300	7
Grenada	-	2.000	-
Guinea (1)	-	64.000	-
Equatorial Guinea	-	7.000	-
Guyana	-	12.800	-
Jamaica	-	20.000	-
Kenya	-	72.000	-
Lesotho (1)	-	22.000	-
Madagascar	5.748	69.200	8
Malawi (1)	-	67.200	-
Mauritius	-	15.300	-
Nigeria	-	900	-
Papua New Guinea	-	10.000	-
Rwanda (1)	609	58.700	1
Saint Lucia (1)	-	3.215	-
Saint Vincent (1)	-	-	-
Sao Tome and Principe (1)	-	1.800	-
Seychelles (1)	-	2.410	-
Somalia (1)	1.932	63.600	3
Suriname	-	18.000	-
Trinidad and Tobago	-	10.300	-
Zaire	-	96.500	-
Zambia	-	45.100	-
TOTAL: 27 states	13.840 3,57%	801.825 41,56%	1,73

(1) States eligible for special measures under Article 48.

- States which have received Stabex transfers totalling between 10% and 60% of their I.P.

State	Stabex aggregate amount	I.P.	%
Benin (1)	20.367	44.300	46
Cape Verde (1)	1.207	4.000	20
Central African Rep. (1)	7.830	37.300	21
Comoros (1)	2.326	6.320	37
Congo	7.362	25.000	29
Ivory Coast	15.000	40.000	38
Djibouti (1)	692	3.900	18
Ethiopia (1)	14.420	117.800	12
Fiji	2.115	9.900	21
Ghana	5.176	48.000	11
Guinea-Bissau (1)	11.288	20.000	56
Upper Volta (1)	7.262	68.000	11
Kiribati	2.283	3.520	65
Liberia	7.587	25.000	30
Mali (1)	9.781	73.000	13
Niger (1)	22.654	68.500	33
Uganda (1)	20.595	73.600	28
Solomon Islands (1)	2.173	10.745	20
Samoa (1)	2.837	4.600	62
Sierra Leone	3.977	31.100	13
Sudan (1)	41.776	90.600	46
Tanzania (1)	20.702	103.400	20
Chad (1)	7.336	51.900	14
Togo (1)	3.627	35.700	10
Tonga (1)	1.208	3.200	38
Tuvalu (1)	175	605	29
TOTAL: 26 states	241.756 62,30%	1.000.190 51,84%	24,17

- States which have received Stabex transfers exceeding 2/3 of their I.P. :

State	Stabex aggregate amount	I.P.	%
Dominica (1)	2.893	2.500	116
Gabon	6.703	9.000	74
Gambia (1)	7.515	11.300	66
Mauritania (1)	37.000	33.600	110
Senegal	65.106	59.000	110
Swaziland (1)	13.225	12.000	110
TOTAL : 6 states	132.442 34,13%	127.400 6,60%	103,95
GRAND TOTAL : 59 states	388.038 100%	1.929.415 100%	20,11

- List of Group III states which have received Stabex transfers representing over 30% of their I.P.

State	Stabex aggregate amount	I.P.	%
Dominica (1)	2.893	2.500	116
Senegal	65.106	59.000	110
Swaziland (1)	13.225	12.000	110
Mauritania (1)	37.000	33.600	110
Gabon	6.703	9.000	74
Gambia (1)	7.515	11.300	66
Kiribati	2.283	3.520	65
Samoa (1)	2.837	4.600	62
Guinea-Bissau (1)	11.288	20.000	56
Benin (1)	20.367	44.300	46
Sudan (1)	41.643	90.600	46
Tonga (1)	1.208	3.200	38
Ivory Coast	15.000	40.000	38
Comoros (1)	2.326	6.320	37
Niger (1)	22.654	68.500	33
Liberia	7.587	25.000	30
Cape Verde (1)	1.207	4.000	30
TOTAL	260.842	437.440	59,63
Percentage of total amount of transfers	67,24		
Percentage of amount of I.P.		22,67	

(1) States eligible for special measures under Article 48.

Table I, 25 - Imports of Stabex products from the ACP States (in million EUA)

(Source - NIMEXE)

N°	Product	1977	%	1978	%
1	Groundnuts	97,4	1,76	69,9	1,48
2	Groundnut oil	197,8	3,57	128,3	2,70
39/I	Groundnut oilcake	87,6	1,58	46,6	0,98
3	Cocoa beans	1.024,2	18,51	1.287,0	27,12
4	Cocoa paste	103,8	1,88	122,0	2,57
5	Cocoa butter	138,8	2,51	110,3	2,32
6	Coffee	2.005,2	36,23	1.363,5	28,73
7	Coffee extracts	-	-	-	-
8	Cotton	204,3	3,69	149,1	3,14
9	Cotton linters	0,4	0,01	0,5	0,01
10	Coconuts	3,1	0,06	2,8	0,06
11	Copra	12,6	0,23	9,1	0,19
12	Coconut oil	21,1	0,38	19,7	0,42
39/II	Coconut oilcake	3,8	0,07	3,7	0,08
13	Palm oil	59,4	1,07	48,5	1,02
14	Palm nut and kernel oil	28,9	0,52	42,9	0,90
39/III	Palm nut and kernel oilcake	11,6	0,21	11,0	0,23
15	Palm nuts and kernels	70,7	1,28	32,9	0,69
16to 19	Raw hides and skins	58,0	1,05	62,1	1,31
20to 22	Wood in the rough, etc.	478,0	8,64	436,3	9,19
23	Bananas	110,1	1,99	110,2	2,32
24	Tea	205,1	3,71	156,8	3,30
25	Raw sisal	16,6	0,30	17,2	0,36
44	Iron ore	376,2	6,80	309,6	6,52
	Lomé I, initial list	5.314,7	96,03	4.540,0	95,68
26	Vanilla (products added during life of Lomé I)	11,9	0,22	14,4	0,30
27	Cloves	6,0	0,11	7,0	0,15
28	Sheep's or lambs' wool, not carded or combed	2,2	0,04	1,3	0,03
29	Mohair	0,3	0,01	0,1	0,00
30	Gum arabic	18,0	0,33	18,4	0,39
31	Pyrethrum	4,5	0,08	2,8	0,06
32	Essential oils	8,4	0,15	9,0	0,19
33	Sesame seed	8,6	0,16	4,1	0,09
	Lomé I, 1979 list	5.374,6	97,11	4.597,1	96,88
34	Cashew nuts and kernels	4,9	0,09	4,1	0,09
35	Pepper	5,7	0,10	2,3	0,05
36	Shrimps and prawns	22,0	0,40	30,9	0,65
37	Squid	2,3	0,04	3,1	0,07
38	Cotton seeds	-	-	0,1	0,00
39	Other oilcake (1), e.g.				
	IV of sesame	6,9	0,12	3,5	0,07
	V of cotton	26,7	0,48	17,0	0,36
40	Rubber	63,1	1,14	62,2	1,31
41	Peas	1,7	0,03	2,1	0,04
42	Beans	24,8	0,45	22,3	0,47
43	Lentils	2,0	0,04	0,5	0,01
	Lomé II	5.534,7	100,00	4.745,2	100,00

(1) Heading 39 overall: 1977: 136,6 million EUA (2,47%)
1978: 81,8 million EUA (1,72%).

I, 26 - Total imports of Stabex products (million EUA)

List	1977	Growth in relation to preceding list	1978	Growth in relation to preceding list
Lomé I, initial list	5.314,7		4.540,0	
Lomé I, 1979 list	5.374,6	+ 1,1 %	4.597,1	+ 1,3 %
Lomé II	5.534,7	+ 3,0 %	4.745,2	+ 3,2 %

I, 27 - Share of Stabex products in total EEC imports from the ACP States, excluding oil and petroleum products (1)

List	1977	1978
Lomé I, initial list	59,3	53,9
Lomé I, 1979 list	60,0	54,6
Lomé II	61,8	56,3

I, 28 - "Insurance premium (free)" % (2)

List	1977	1978
Lomé I, 76 million EUA/yr	1,41	1,65
Lomé II, 110 million EUA/yr	1,99	2,32

I, 29 - Actual transfers as a percentage of "insured values" (Table 2), on the basis of the 1979 list

1977	1978
0,63	3,57

(1) 1977: total 12.460,8 million EUA, of which oil and petroleum products 3.499,3 million EUA.
1978: total 11.869,7 million EUA, of which oil and petroleum products 3.446,0 million EUA.

(2) Annual resources as % of total "insured" import values, 1979 list and Lomé II (see Table 2).

Table I, 30 – Breakdown of cross-checking formulas used.

<table>
<tr><th rowspan="3"></th><th rowspan="3">All destinations</th><th colspan="6">Cross-checking formulas</th></tr>
<tr><th colspan="2">Single series</th><th colspan="3">Uniform series</th><th rowspan="2">Other</th></tr>
<tr><th>ACP</th><th>EEC</th><th>Q: EEC
UV: ACP</th><th>Q: ACP
UV: EEC(fob)</th><th>Straight average</th></tr>
<tr><td>1975</td><td>4</td><td>9</td><td>6</td><td>2</td><td>1</td><td>2</td><td>3</td></tr>
<tr><td>1976</td><td>6</td><td>6</td><td>6</td><td>0</td><td>0</td><td>1</td><td>1</td></tr>
<tr><td>1977</td><td>4</td><td>3</td><td>3</td><td>2</td><td>1</td><td>0</td><td>1</td></tr>
<tr><td>1978</td><td>6</td><td>5</td><td>4</td><td>4</td><td>1</td><td>0</td><td>3</td></tr>
<tr><td>1979</td><td>4</td><td>3</td><td>2</td><td>3</td><td>0</td><td>0</td><td>3</td></tr>
<tr><td>Total</td><td>24</td><td>26</td><td>21</td><td>11</td><td>3</td><td>3</td><td>11</td></tr>
<tr><td colspan="2" rowspan="3">Percentages</td><td rowspan="3">34,67</td><td rowspan="3">28,00</td><td rowspan="2">14,67</td><td rowspan="2">4</td><td>4</td><td>14,67</td></tr>
<tr><td colspan="2">18,67</td></tr>
<tr><td colspan="4">37,33</td></tr>
</table>

Table I, 30B - Cross-checking formulas broken down by state and by product

ACP State	Product	1975	1976	1977	1978	1979	
Benin	Groundnuts	Q.ACP-UV.EEC					
	Coffee	ACP					
	Cotton	EEC	EEC	EEC	EEC	EEC	Continuity EEC
	Oilcake	EEC					
	Palm oil		ACP	ACP			Continuity ACP
	Palm nut and kernel oil			Q.ACP-UV.EEC	Q.ACP-UV.EEC		Continuity (Q.ACP (UV.EEC
Burundi	Cotton	A.D.					
	Raw hides and skins	A.D.					
Cameroon	Wood in the rough	ACP					
	Cocoa paste		ACP				
Cape Verde	Bananas			A.D.	A.D.	A.D.	
Central African Republic	Cotton				Q.EEC-UV.ACP	Q.EEC-UV.ACP	Continuity (Q.EEC (UV.ACP
	Coffee	EEC					
	Sawn wood		ACP				
Congo	Wood in the rough	ACP					
Ivory Coast	Wood in the rough	ACP					
Ethiopia	Coffee	A.D.					
	Raw hides and skins	A.D.					
Fiji	Copra	ACP	ACP				Continuity ACP
Gabon	Wood in the rough	ACP					
Gambia	Groundnuts				Q.EEC-UV.ACP		
	Groundnut oil					ACP	
	Groundnut oilcake					ACP	

ACP State	Product	1975	1976	1977	1978	1979	
Gh na	Wood in the rough	combined: straight average					
Guinea-Bissau	Groundnuts		A.D.		A.D.	A.D.	
	Palm nuts		A.D.				
	Sawn wood			A.D.			
Upper Volta	Groundnuts	ACP		EEC	EEC		New circumstance
	Cotton	ACP			ACP		Continuity ACP
Liberia	Iron ore				ACP		
Madagascar	Sisal		EEC				
	Cloves		combined: ACP/1974 EEC				
	Vanilla					combined: ACP modified	
Mali	Cotton	combined: ACP modified					
	Gum arabic		combined: straight average				
	Groundnuts				Q.EEC-UV.ACP	Q.EEC-UV.ACP	Continuity (Q.EEC (UV.ACP
Mauritania	Iron ore			ACP	ACP		Continuity ACP
Niger	Groundnuts	Q.EEC-UV.ACP		Q.EEC-UV.ACP			Continuity (Q.EEC (UV.ACP
	Raw hides and skins	EEC		EEC			Continuity EEC
	Groundnut oil		EEC				
	Oilcakes		EEC				
Uganda	Cotton	ACP	ACP	combined:Ref. ACP/77 EEC	combined: Ref. 77/Earn. EEC EEC	combined: Ref. 78/Earn. EEC EEC	New circumstance
	Tea		EEC				Continuity EEC
Rwanda	Pyrethrum				A.D.		

ACP State	Product	1975	1976	1977	1978	1979	
Samoa	Cocoa	Q.EEC–UV.ACP			A.D.		
	Copra		A.D.				
	Wood in the rough		A.D.				
	Bananas			A.D.			
Senegal	Groundnut oil				combined: Q.EEC modified/ UV.ACP		
	Oilcakes				Q.EEC–UV.ACP		
Sierra Leone	Iron ore		EEC				
Somalia	Bananas	EEC					
	Raw hides and skins	combined: Ref. Q.EEC/UV.ACP; Earn. EEC					
Sudan	Groundnuts			Q.EEC–UV.ACP	combined: Ref. ACP/78:Q.EEC–UV.ACP	combined: Ref. 78/Earn.Q.EEC/ UV.ACP	New circumstance
	Raw hides and skins	combined: straight average					
	Sesame					Q.EEC–UV.ACP	
Swaziland	Iron ore			A.D.	A.D.	A.D.	
Tanzania	Cotton	combined: Ref. ACP/Earn. EEC					
	Sisal		ACP	ACP	ACP		Continuity ACP
Chad	Cotton				ACP	ACP	Continuity ACP
Togo	Coffee	EEC			EEC		Continuity EEC
Tonga	Copra		A.D.				
	Bananas		A.D.		A.D.		
	Vanilla					A.D.	

Q : Quantity
UV: Unit Value

Ref. : Reference year
Earn.: Earnings for the year of application

A.D. : All Destinations; no cross-checking

Table I, 31 - Breakdown of requests rejected (Group II)

	Number of requests rejected	No loss of earnings or thresholds not reached			- No loss on exports to all destinations and - Article 19(4)(b)
		No loss	Dependence threshold	Fluctuation threshold	
1975	6	1	1	1	3 [Chad - cotton; Cameroon - cocoa butter; Kenya - sisal
1976	6	1	2	-	3 [C.A.R - wood in the rough; Tanzania - cotton; Togo - cocoa
1977	7	-	1	4	2 [P.N.G - copra; Uganda - tea
1978	9	2	4	-	3 [Madagascar - coffee; C.A.R - wood in the rough; Sudan - sesame
1979	11	4	4	1	2 [Upper Volta - cotton; Tonga - copra (Art. 19(4)(b))
Total	39	8	12	6	12 - Art. 19(4)(b): 1

Table I, 32 - Amounts of reductions and transfers (Group II)

		1975	1976	1977	1978	1979	Total
Transfers	(1)	27	20	14	23	15	99
	(2)	79.985.877	37.135.936	33.729.731	163.960.618	62.683.544	377.495.708
Reductions	(1)	3	6	4	9	5	27
	(2)	3.690.292	6.728.253	4.839.771	46.996.043	22.768.778	85.023.137
(3)		13.348.149	28.276.860	17.535.711	103.325.311	63.897.791	226.383.822
(4)		4,61	18,12	14,35	28,66	36,32	22,52
(5)		27,65	23,79	27,60	45,48	35,63	37,56

(1) Number of transfers or reductions.
(2) Amounts in EUA.
(3) Amounts in EUA of reduced transfer bases.
(4) Percentage of reductions in relation to transfers.
(5) Percentage of reductions in relation to transfer bases (third line).

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Table I, 33 - Breakdown of reductions (Group II)

Changes in structure of export flows		Iron ore
1st case (Art. 17(4))	2nd case (Art. 19(4)(b))	
6 reductions	18 reductions	3 reductions
75 Fiji (copra)	75 Cameroon (wood in the rough)(1)	76 Sierra Leone
76 Fiji (copra)	75 Niger (groundnuts) (1)	78 Swaziland
77 Sudan (groundnuts)	76 Benin (cotton) (1)	79 Swaziland
78 Togo (coffee)	76 Niger (groundnut oil) (1)	
78 Chad (cotton)	76 Uganda (tea)	
78 Liberia (iron ore)	76 Tanzania (sisal)	
	77 Benin (cotton) (1)	
	77 Benin (palm oil)	
	77 Tanzania (sisal) (1)	
	78 Tanzania (sisal) (1)	
	78 Uganda (tea) (1)	
	78 Benin (palm nut and kernel oil) (1)	
	78 Senegal (oilcake)	
	78 Sudan (groundnuts) (1)	
	79 Central African Republic (cotton) (1)	
	79 Uganda (tea) (1)	
	79 Sudan (groundnuts)	
	79 Sudan (sesame)	

(1) Case where the validity of the arguments put forward by the ACP States enabled the Commission to adjust the reductions.

Table I, 34 - Average percentage reductions (Group II)
Classification by product

		Number of transfers without reduction	Number of reduced transfers and average percentage reduction	Number of requests rejected	Average percentage reduction
1st category	Copra 6 requests	2	2 61,32	2	53,77
	Tea 4 requests	-	3 20,60	1	40,45
	Cocoa 3 requests	2	-	1	33,33
	Coffee 6 requests	4	1 64,01	1	27,44
	Cotton 22 requests	15	4 24,98	3	26,66
	Sisal 5 requests	1	3 9,52	1	25,71
	Wood in the rough 8 requests	5	1 5,00	2	25,63
	Iron ore 7 requests	3	4 37,96	-	21,69
2nd category	Groundnuts 15 requests	11	4 41,89	-	11,17
	Palm oil 2 requests	1	1 16,00	-	8,00
	Groundnut oil 4 requests	3	1 25,00	-	6,25
	Groundnut oilcake 3 requests	2	1 16,46	-	5,49
	Palm nut and kernel oil 2 requests	1	1 10,40	-	5,20
Not included in either category(1)	Cocoa butter 1 request	-	-	1	100,00
	Sesame 1 request	-	1 -	1	

(1) In these cases, the percentage is irrelevant for a single request.

Table I, 35 - Average percentage reduction (Group II)
Classification by state

		Number of transfer without reduction	Number of reduced transfers and average percentage reduction	Number of requests rejected under Articles 17(4) and 19(4)(b)	Average percentage reduction
1st category	Kenya (sisal)	-	-	1	100,00
	P.N.G (copra)	-	-	1	100,00
	Fiji	-	2 61,32	-	61,32
	Togo	1	1 64,61	1	54,87
	Chad	1	1 38,96	1	46,32
2nd category	Sudan	1	4 44,02	-	35,21
	C.A.R	3	1 12,39	2	35,40
	Cameroon	1	1 5,00	1	35,00
	Tanzania	1	3 9,52	1	25,71
	Madagascar	3	-	1	25,00
	Tonga	4	-	1	20,00
	Uganda	5	3 20,60	1	17,18
	Upper Volta	5	-	1	16,67
3rd category	Senegal	1	1 16,23	-	8,11
	Niger	4	2 23,58	-	7,96
	Benin	8	4 18,75	-	6,25
4th category	Liberia	-	1 79,88	-	79,88
	Sierra Leone	-	1 31,34	-	31,34
	Swaziland	1	2 20,21	-	13,47

Table I, 36

Time taken to sign Stabex transfer agreements (Group II)

	Agreements signed within 4 months		Agreements signed in 4 to 9 months						Agreements signed after 9 months		
	2 31 May	3 30 June	4 31 July	5 31 August	6 30 Sept.	7 31 Okt.	8 30 Nov.	9 31 Dec.	10 31 Jan.	11 28 Feb.	15 15 months
1975											
(1)		24 96%		25 100%							
(2)	-	71.784.454	-	72.137.562	-	-	-	-	-	-	-
(3)		99,51%		100%							
1976											
(1)	9 45%		14 70%		15 75%			19 95%			20 100%
(2)	23.380.249	-	30.685.636	-	31.149.194	-	-	36.287.447	-	-	37.135.939
(3)	62,96%		82,63%		83,88%			97,42%			100%
1977											
(1)			7 50%				10 71%	11 79%		12 86%	14 100%
(2)	-	-	15.874.802	-	-	-	31.025.896	31.125.209	-	31.472.921	33.729.731
(3)			47,06%				91,98%	92,28%		93,31%	100%
1978											
(1)	13 57%		14 61%			16 70%	17 74%	21 91%	23 100%		
(2)	118.596.688	-	122.188.194	-	-	129.196.661	136.783.604	149.144.248	163.960.618	-	-
(3)	72,33%		74,52%			78,80%	83,42%	90,96%	100%		
1979											
(1)		14 93%				15 100%					
(2)	-	60.050.621	-	-	-	62.683.544	-	-	-	-	-
(3)		95,80%				100%					
TOTAL											
(1)	22 23%	60 62%	73 75%	74 76%	75 77%	78 80%	82 85%	91 94%	93 96%	94 97%	97 100%
(2)	141.976.937	273.812.012	300.583.707	300.936.815	301.400.373	311.041.763	333.779.800	351.378.010	366.194.380	366.542.092	369.647.391
(3)	38,41%	74,07%	81,32%	81,41%	81,54%	84,15%	90,30%	95,06%	99,07%	99,16%	100%

(1) Number of agreements and percentages.
(2) Total aggregate amounts thus transferred (in EUA).
(3) Aggregate percentages of the amounts transferred.

NB. The two transfers following upon the good offices procedure were not taken into account owing to their exceptional nature.
As a guide, they represent about 2% of the total amount committed for Group II.

Table I, 37 – Breakdown of reasons for extending Stabex transfer periods (Group II)

Year		Agreements signed in 4 to 9 months (4)			Lengthy procedures			
		Required further information	Consultations proved difficult	Total	Required further information	Consultations proved difficult	Special cases	Total
1975	(1)	-	1	1	-	-	2	2
	(2)	-	-	0,5 %	-	-	-	-
1976	(1)	2	1	3	-	1	-	1
	(2)	-	-	11 %	-	-	-	2 %
1977	(1)	2	2	4	1	1	1	3
	(2)	-	-	45 %	-	-	-	8 %
1978	(1)	4	1	5	1	1	-	2
	(2)	-	-	12 %	-	-	-	9 %
1979	(1)	1	-	1	-	-	-	-
	(2)	-	-	4 %	-	-	-	-
Total	(1)	9	5	14	2	3	3	8
	(2)	-	-	14% - 13%	-	-	-	8 % - 7 %

(1) Number of agreements.
(2) Percentage of amounts thus transferred in relation to annual amount.
(3) Percentage of agreements and amounts transferred, account being taken of the two transfers resulting from the good offices procedure.
(4) In this table, unlike the preceding one, four procedures concluded following delayed submission of requests are not considered lengthy procedures:
(i) there were two cases for the 1976 financial year and (ii)
there were two other cases for the 1978 financial year, presented by an ACP State affected by a change of regime. Sudan's request (sesame) is considered as having become admissible on 9 May 1980, the date on which sesame seeds were included in the list of Stabex products at the ACP-EEC Council of Ministers meeting in Nairobi.

Table I, 38 – Advances on transfers (Group II)

Year	State – Number of requests	Date of submission of requests	Date of signing	Implementation period	Amount of advances (EUA)	Percentage of amount of annual advances	Percentage in relation to 1979 final transfer	Percentage in relation to amount of transfers
1978	Sénégal (2)	01.07.78	17.07.78	15 jours	19.000.000	69,0	29	-
	Gambie (1)	24.07.78	10.11.78	3 mois	1.510.000	5,5	61	-
	Tonga (1)	06.07.78	16.11.78	4 mois	160.000	0,5	65	-
	Mauritanie (1)	25.09.78	01.12.78	2 mois	7.000.000	25,0	21	-
	Total (5)	-	-	-	27.670.000	100,00	moyenne : 27,33	17
1979	Gambie (2)	06.12.79	14.02.80	2 mois 1/2	3.692.000	100,00	73	6

(Groupe IV)

1979	Dominique (1)	14.09.79	22.10.79	1 mois 1/4	2.480.000	-	85,7	-

Table I, 39 – 1979 STABEX TRANSFERS AND 1979 EXPORT EARNINGS (EUA basis)

Country and product	Share of earnings from exports of product in country's total export earnings (1979)	Share of transfer in actual earnings from exports of product to all destinations (1979)	Share of transfer in total export earnings (1979)
BENIN			
Cotton	15,71 % *	8,74 % *	1,37 % *
			Total 1,37 %
CAPE VERDE			
Bananas	5,98 % *	292,87 %	17,52 % *
			Total 17,52 %
C.A.R			
Cotton	12,13 % *	55,00 %	6,67 % *
			Total 6,67 %
GAMBIA			
Groundnut oil	25,49 % *	62,66 %	15,97 % *
Groundnut oilcake	8,30 % *	49,35 %	4,10 % *
			Total 20,07 %
GUINEA-BISSAU			
Groundnuts	43,17 %	55,92 %	24,14 %
			Total 24,14 %
MADAGASCAR			
Vanilla	3,39 % *	27,63 %	0,94 % *
			Total 0,94 %
MALI			
Groundnuts	0,02 % *	24,19 % (1)	5,27 % *
			Total 5,27 %

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Country and product	Share of earnings from exports of product in country's total export earnings (1979)	Share of transfer in actual earnings from exports of product to all destinations (1979)	Share of transfer in total export earnings (1979)
UGANDA			
Cotton	1,76 %	69,58 %	1,22 %
Tea	0,35 %	287,86 %	1,00 %
			Total 2,22 %
SUDAN			
Groundnuts	4,12 % *	187,15 % *	7,7 %
			Total 7,7 %
SWAZILAND			
Iron ore	3,00 % *	95,65 %	2,87 % *
			Total 2,87 %
CHAD			
Cotton	73,96 % *	5,48 %	4,05 % *
			Total 4,05 %
TONGA			
Vanilla	0,85 %	182,56 %	1,56 %
			Total 1,56 %
COMOROS			
Cloves	21,05 % *	27,95 %	5,88 % *
			Total 5,88 %
DOMINICA			
Bananas	25,89 % *	90,66 %	23,47 % *
			Total 23,47 %

*1979 figure not available; the figure given is for 1978.

(1) There has been a complete halt in groundnut exports to the EEC from Mali. Owing to the poor harvests, the Mali Government decided in 1979 to channel production to the oil mills, and this reduced groundnut exports to almost nil.

A N N E X   I I

D O C U M E N T S

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ANNEX III

Major innovations and changes in the new ACP-EEC Convention compared with the Lomé Convention

Main differences between the CFF and Stabex.

System of Stabilization of Export Earnings (Stabex)

Innovations and major changes in the new Convention ACP/EEC compared with the Convention of Lomé

Subject	Provisions in the new Convention	Legal basis	N.B. : provisions Lomé I
1. Innovations and major changes with respect to the political options of the system			
1.1 Aims	The aims have been clarified. Stabex shall support the development efforts of the ACP-States and enable them in this way to ensure economic and social progress for their peoples.	art. 23 § 1	art. 16
1.2 Use	The recipient ACP State shall decide how the resources will be used, subject to compliance with the objectives.	art. 41 § 1	The recipient ACP State decides how the resources will be used; no link to aims (art. 20)
	In order to attain these objectives, transfers must be devoted to maintaining financial flows in the sector in question or, for the purpose of promoting diversification, directed towards other appropriate sectors and used for economic and social development.	art. 23 § 2	Nothing
	During appraisal of the dossier, and in any case before the transfer agreement is signed, the requesting ACP State shall give the Commission some indication of the probable use to which the transfer will be put.	art. 41 § 2	Nothing
	However, the implementation of the transfer shall not be made conditional on the indication of probable use.	ACP/EEC common Declaration	Nothing

Subject	Provisions in the new Convention	Legal basis	N.B. : provisions Lomé I
1.3 Products covered	The following products have been added to the list of products under Lomé I (1) : essential oils of cloves, of niaouli and of ylang-ylang (2); cashew nuts and kernels; pepper; shrimps and prawns; squid; cotton seeds; oil-cake (3); rubber; peas; beans; lentils.	art. 25 § 1	Groundnuts, groundnut oil, groundnut oilcake, cocoa beans, cocoa paste, cocoa butter, raw or roasted coffee, extracts, essences or concentrates of coffee, cotton, cotton linters, coconuts, copra, coconut oil, coconut oil-cake, palm oil, palm nut and kernel oil, palm nut and kernel oil-cake, palm nuts and kernels, raw hides and skins, bovine cattle leather, sheep and lamb skin leather, goat and kid skin leather, wood in the rough, wood roughly squared, wood sawn lengthwise, fresh bananas, tea, raw sisal, iron ore (4), vanilla, cloves, pyrethrum, ylang-ylang, arabic gum, wool, mohair, sesame seeds (1) (art. 17 § 1)

(1) In this context, it might be recalled that the inclusion of sesame seed has been decided by the Council of Ministers ACP/EEC at Freeport, March 1979.

(2) This new and larger product package replaces the product "ylang-ylang", the inclusion of which was decided by the Council of Ministers ACP/EEC in Fiji, April 1977.

(3) This global position includes and replaces the oilcakes already included in Lomé I : groundnut oilcake; coconut oilcake; palm nut and kernel oilcake.

(4) As far as iron ore is concerned, exports of iron ores from sites being worked when this Convention is signed shall continue to be covered by Stabex for a period limited to the first five financial years of this system. All other exports of iron ore will fall under the application of the provisions regarding project and programme aids for mineral products. Upon expiry of that period, iron ore shall be wholly covered by the latter system.

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Subject	Provisions in the new Convention	Legal basis	N.B. : provisions Lomé I
	With regard to tobacco, citrus fruits and sisal products, the inclusion of these products will be examined in the course of implementation of the new Convention.	Declarations of the Community	
1.4 Products groups	Upon presentation of each transfer request, the ACP State may choose between a strictly "product by product" approach and an approach which allows for product groups, by taking the raw material and the processed product together (e.g. groundnuts and groundnut oil, or wood in the rough and wood roughly squared and wood sawn lengthwise, etc.).	art. 25 § 3	Approach by groups not provided; ambiguity in art. 17 § 2
	The chosen form remains valid for all operations which apply to the particular case; e.g. for passing the thresholds, the calculation of the amount to be replenished, etc.	art. 25 § 3	
1.5 Covered exports	If so requested by an ACP State, the Council of Ministers ACP/EEC may decide upon the application of the system to exports of a product covered by the list from the requesting ACP State to other ACP States.	art. 27	Nothing
1.6 Thresholds	Dependence threshold : - 6,5 % in the normal case (1)	art. 29	7,5 % (art. 17 § 2)
	- 2 % for least developed countries	art. 46 § 1	2,5 % (art. 17 § 2)
	- 2 % for land-locked and insular countries	art. 47 § 1	2,5 % (art. 17 § 2)
	Threshold of fluctuation : - 6,5 % in the normal case	art. 37	7,5 % (art. 19 § 2)
	- 2 % for least developed countries	art. 46 § 1	2,5 % (art. 19 § 2)
	- 2 % for land-locked and insular countries	art. 47 § 1	2,5 % (art. 19 § 2)

(1) The threshold of 5 % for raw sisal has been maintained.

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Subject	Provisions in the new Convention	Legal basis	N.B. : provisions Lomé I
1.7 Relation to other compensating systems	The contracting parties agree to concert action in order to avoid any double compensation in the event of a world system for the stabilization of export earnings being established.	ACP/EEC common Declaration	Nothing
2. Major changes referring to the financial provisions of the system			
2.1 Funding	550 million EUA for the duration of the new Convention.	art. 31	375 MEUA (art. 18 § 1) + 5 MEUA for 3 ACP States having adhered to the Convention
2.2 Replenishment of the resources			
2.2.1 Third condition	A third condition to trigger off the replenishment has been added to the two already existing in the Convention of Lomé : the earnings for the year and the product in question have to amount to at least 106,5 % of the average of earnings during the reference period (1) (threshold of fluctuation reversed); the three conditions must be fulfilled simultaneously.	art. 43 § 2 a, b art. 43 § 2 c	Two conditions : - the unit value of the exports is higher than the reference unit value; - the quantity actually exported to the Community is at least equal to the reference quantity. (art. 21 § 3).
2.2.2 New formula	The amount to be made available to the system is equal to the difference between the actual earnings and the average of earnings during the four years prior to the year under consideration.	art. 43 § 1 art. 43 § 3	The amount is equal to the reference quantity multiplied by the difference between the reference unit value and the actual unit value. (art. 21 § 3).

(1) Art. 43 § 2 and 3 make clear that the reference period of replenishment is too a moving average of 4 years.

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Subject	Provisions in the new Convention	Legal basis	N.B. : provisions Lomé I
2.2.3 Consultations	Should the examination of the trend of export to all destinations and of production of the product in question as well as of demand reveal significant changes, consultations shall be held between the Commission and the ACP State concerned in order to establish whether these changes are such as to justify a contribution to the replenishment and if so, to what extent.	art. 43 § 5	Nothing
2.2.4 Period of observation	At the beginning of each year during the period of seven years following the year in which the transfer was paid, the Commission examines if the conditions for replenishment are fulfilled.	art. 42 ; art. 43 § 2	Period of five years following the allocation of the transfer, without clarification (art. 21 § 2).
2.2.5 Period of replenishment	The amount shall be made available to the system at the rate of one fifth per year after a period of deferment of two years beginning in the year during which the obligation of replenishment was established.	art. 43 § 4	Period of five years following the allocation of the transfer, without deferment (art. 21 § 2).
2.2.6 Replenishment in currency of the ACP State	If the ACP State requires, the Commission will examine with it the possibility of replenishment in local currency of all or part of the amounts owing to the system.	ACP/EEC common Declaration	Nothing
3. Innovations and major changes with respect to implementation and administration of the system			
3.1 Inclusion of a new product in the list	If the inclusion of a new product into the list is requested, the Council of Ministers shall decide on this request not later than 6 months after the presentation of the request.	art. 26	Nothing
3.2 Crosschecking	When submitting the transfer request for each product, the ACP State shall choose if the statistics used to implement its request shall be those crosschecked in accordance with the procedure of the Lomé Convention or those obtained by multiplying the unit values of the exports of the ACP State by the quantities imported by the Community.	art. 30 § 2 & 3	Crosschecking of statistics of the ACP State and of the Community, account being taken of the fob values (art. 17 § 1).

Subject	Provisions in the new Convention	Legal basis	N.B. : provisions Lomé I
3.3 Statistical errors and omissions	In order to take account of statistical errors and omissions, the basis of transfer will be increased by 1 % of this figure.	art. 39 § 2	Nothing
3.4 "Short" period of reference	Where an ACP State starts processing a product traditionally exported in the raw state or begins exporting a product which it did not traditionally produce, the system may be based on a reference period of three years.	art. 36 § 3	Nothing
3.5 Inadmissible requests	Apart from the reason for an inadmissible request provided by the Lomé Convention, two other reasons rendering a request inadmissible have been made explicit : if the request is presented after 31 March of the year following the year of application and if it emerges from the dossier, after consultations, that the requesting ACP State has recorded an excess in export earnings of the product in question to all destinations.	art. 38 § 1 b art. 38 § 1 a art. 38 § 2	The request shall not be admissible if examination of the request, to be undertaken by the Commission in conjunction with the ACP State concerned, shows that the fall in earnings from exports to the Community of the products in question is the result of a trade policy measure of the ACP State concerned adversely affecting exports to the Community in particular (art. 19 § 4 a). The 1st of the two other reasons (deadline) results from a decision of the ACP/EEC Committee of Ambassadors, the other one from the logic of art. 17 § 4.

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Subject	Provisions in the new Convention	Legal basis	N.B. : provisions Lomé I
3.6 Interpretation of inadmissible requests	The provisions on inadmissible requests shall be applied in the most favourable way possible in order to take account of particular situations which could occur.	ACP/EEC common Declaration	Nothing
3.7 Consultations	It has been made clear that the significant changes requiring consultations on the amount to be transferred do not refer solely to the trend of the requesting ACP State's exports to all destinations, but also to the production of the product in question and its level of demand in the Community.	art. 39 § 3	Consultations are triggered by significant changes in the trend of total exports of the ACP State (art. 19 § 4 b).
3.8 Definition of available financial resources	In order to contribute to the clarity of the system, the resources available for each year of application have been defined. They are made up of the sum of the following elements : - the annual instalment, possibly reduced by an advance drawing of a maximum of 20 % in the preceding year, - any amount not used in the preceding years and carried forward to the next year's instalment, - the amounts contributed to the replenishment of the system, - any amount drawn in advance of the next year's instalment.	art. 33	Nothing

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Subject	New Convention	Convention of Lomé
4. N.B. : provisions sligthly modified or unchanged		
4.1 Limitation of the system to ACP States and their exports to the EEC	art. 23 § 1	art. 16
4.2 Extent and listing of least developed, landlocked and insular ACP States	art. 155 § 3 a art. 155 § 3 b and c	art. 24 art. 48 § 2
4.3 Preference for some least developed ACP States with regard to the application of the system to exports of a product to all destinations	art. 46 § 3	art. 17 § 4
Listing of these ACP States	ACP/EEC common Declar.	ACP/EEC common Declar.
4.4 Financial provisions		
- Division of the total funding into five equal annual instalments	art. 32 § 1	art. 18 § 2
- Automatic carry forward of remaining balances at the end of each year	art. 32 § 2	art. 18 § 3
- In case of insufficiency of funds		
. authorization to use in advance a maximum of 20 % of the following years's instalment	art. 34	art. 18 § 2
. reduction of the transfers to be made on the basis of a decision on the Council of Ministers ACP/EEC	art. 34	art. 18 § 4
4.5 Principle of the replenishment of the resources made available for the system	art. 42	art. 21 § 1
4.6 Decision of the Council of Ministers ACP/EEC concerning		
- the allocation of any balance remaining of the funding after the expiry of the Convention	art. 35	art. 18 § 5
- the amounts not yet fully replenished after the observation period of seven years	art. 44	art. 21 § 4
4.7 Upon decision of the Council of Ministers ACP/EEC : possibility to include new products into the list and the criteria to be applied in this case	art. 26	art. 17 § 3

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Subject	New Convention	Convention of Lomé
4.8 Management by the Commission	art. 31	art. 18 § 1
4.9 Statistical and customs co-operation, practical measures in this field	art. 45	art. 23
4.10 Certificate of origin	art. 28	art. 17 § 5
4.11 Definition of definitive import into the EEC	art. 30 § 1	art. 17 § 1
4.12 Transfer request examined by the Commission in conjunction with the ACP State concerned	art. 39 § 1	art. 19 § 4 a
4.13 Calculation of the transfer		
- formula for the dependence threshold	art. 29	art. 17 § 2
- formula for the fluctuation threshold	art. 37	art. 19 § 2
- formula for the reference level	art. 36 § 2	art. 19 § 1
4.14 Transfer decision drawn up by the Commission ; transfer agreement	art. 40 § 1 and 2	art. 19 § 5 and art. 22
4.15 Rapid transfers ; payment of advances	art. 40 § 3	art. 19 § 6
4.16 Transfers shall bear no interest	art. 40 § 4	art. 21 § 1
4.17 Report on use within twelve months following signature of the transfer agreement	art. 41 § 3	art. 20

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Main differences between C.F.F. and Stabex

	C.F.F.	STABEX
1. Coverage	- Total merchandise exports to all destinations; possibility to include earnings from tourism and worker's remittances.	- Limited list of specific commodities and some of their processed products, taken individually, exported to EEC.
	- All members, in particular primary product exporting countries and developing countries.	- ACP States.
2. Estimation of the shortfall	- Five year moving geometric average centered on the shortfall year minus earnings in the shortfall year.	- Four year moving arithmetic average of the years preceding the year of application minus earnings in the shortfall year.
	- "year" may be any 12 months'period.	- "year" is calendar year.
3. Limitations	- One quota limitation.	- ------
	- ------	- Fixed annual instalments.
4. Conditions	- The shortfall must be of a short-term character.	- ------
	- The shortfall must be largely beyond the control of the member.	- Clause referring to changes in the structure of total export earnings.
	- The member must have a need to draw.	- ------
	- The member must cooperate with the Fund.	- ------
	- ------	- Two thresholds must be fulfilled.
5. Repayment	- Drawings have to be repaid within a period not exceeding three to five years.	- For least developed countries, transfers take the form of grants; in the other cases, repayment is linked to economic recovery of the product which suffered from a shortfall.
6. Charges	- Drawings bear interest.	- Transfers given to other then least developed ACP States bear no interest.