Community aid to the Third World: the Lomé Convention

European File

Some 3 000 million human beings have an annual income lower than the monthly earnings in industrialized countries.[1] In a number of Third World countries, the annual income is less than our weekly earnings. Underdevelopment is the divide which radically separates the two halves of the world. The characteristics are well known: malnutrition, illiteracy, unemployment, sickness, epidemics. This is well illustrated by the following sets of figures: one American alone consumes as much energy as 1 100 citizens of Rwanda; Europe has one doctor for every 580 persons, Kenya has one for every 25 600; each year industrialized countries consume 497 kilos of cereal per person. Third World countries consume 194.

The principal causes of underdevelopment are:

☐ population growth: whilst a high birth-rate is often considered as a measure of prosperity in industrialized countries, in poor countries it often causes undernourishment. Farming cannot keep up with this scale of population growth;

☐ shortage of natural resources: with few exceptions, Third World countries do not possess the resources needed either to meet their own needs or to export a surplus to earn the foreign currency needed to buy the goods they lack. This situation is aggravated by climatic hazards (droughts, floods, etc.) which can ruin many years of effort in a few days. The natural environment in many Third World countries has

[1] This File updates and replaces No 17/79.

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deteriorated as a consequence of these climatic factors but also due to ill-suited farming techniques. In the Sahel countries, for example, the desert is still spreading;

- ☐ the world economic system: the majority of Third World countries have achieved political independence, but they are still subject to the economic order created by and for Western countries. Whilst, for example, between 1961 and 1964 Tanzania needed 7.5 kilos of coffee to buy a Swiss watch, ten years later it required twice as much. These fluctuations in terms of trade tend to cause an imbalance between imports and exports, a drop in purchasing power and a deterioration in developing countries' financial situations.

The objectives of Third World countries have turned towards:

- ☐ raw materials: maintaining and even increasing their purchasing power by indexing rates, stabilizing their export earnings and processing products on the spot rather than in developed countries;

- ☐ industrial development: the redeployment of international industrial activities to give Third World countries a greater share; encouragement of Western industrialists to invest in poor countries, preferential access for Third World manufactured products to the markets of rich countries, the transfer of technology from industrialized to developing countries;

- ☐ agriculture: expansion and diversification of the agricultural output of poor countries to help meet their needs;

- ☐ aid from rich countries: increasing the total amount of aid; cancelling the enormous debt incurred by poor countries; ensuring protection against the effects of inflation.

Why does the Community help developing countries ?

How could the European Community not help poor countries ? How could it contemplate doing nothing whilst 3 000 million human beings continue to starve to death ? Apart from these fundamental moral imperatives there are a number of other justifications for Community aid to Third World countries:

- ☐ if nothing is done to narrow the gap between rich and poor countries, the consequence could be violent conflict. Europe would be highly exposed in such a conflict;

- ☐ the Community has a direct interest in helping Third World countries on which it depends more than other major industrial powers.

  - Energy dependence: Europe imports more than half of its energy needs. Oil also represents more than half of the value of Community purchases from the Third World. Member countries' efforts to reduce consumption and develop other energy sources may reduce but will not eliminate this dependence.

- Dependence on raw materials: though they are often less irreplaceable than oil, these raw materials constitute the basis of the economic activity and everyday life of Europeans. Coffee to cotton, manganese to copper: Community dependence on developing countries stands at around 90%.

- The economic crisis has hit all industrial countries and has obliged them to find new export markets. The Third World is the Community's first client: in 1979 it accounted for 36% of Europe's exports whilst the USA only took 13% and Eastern Europe 8%. The Third World market is all the more interesting for Europe since it wants mostly capital goods. Two-thirds of our exports to developing countries are composed of products from the electrical and mechanical industries. The more the Third World countries develop, the more they will need our capital goods and our know-how.

Alongside its Member States, the European Community has an important role to play in development and cooperation. The common customs tariff unites the countries of the European Community in relation with the rest of the world and the Community is seen to act as a unified body on the international scene. Only at the Community level can decisions be taken on customs duty reductions to help Third World countries.

The Community's own effort is not a duplication of the work of member countries. By contrast, the Community tries to coordinate and complement the work of individual countries. For this reason member countries speak with one unified voice in the major international negotiations on development and in the Euro-Arab and North-South Dialogues – the Community often speaks in their name – and are increasingly trying to coordinate their national aid policies for the Third World.

Extensive cooperation

For historic reasons the European Community has given special assistance to a certain number of African, Caribbean and Pacific countries but it has not concentrated all its aid in this area.

☐ The Community has progressively developed a development-aid policy of interest to all Third World countries. The main elements of the policy are as follows:

- generalized preferences which encourage industrialization in Third World countries and offer them preferential access to the markets of the industrialized countries. The Community was the first to apply (in July 1971) the recommendation of the United Nations Conference on Trade and Development (UNCTAD) requiring all industrialized countries to introduce special customs for the exports of manufactured and semi-manufactured goods from Third World countries. The Community's regime covers some 300 processed agricultural products and all industrial goods coming from a good 100 developing countries. For processed agricultural produce, the Community has reduced its customs duties: it has abolished duty for industrial products completely whilst setting quantitative restrictions in some cases;

- food aid: the Community sends food to countries who request it to help them counter undernourishment. The 1981 programme envisages the distribution of 928 000 tonnes of cereals, 150 000 tonnes of milk powder and 45 000 tonnes of butter oil at a total cost of 600 million ECU.[1]

- financial and technical cooperation: the Community supplies financial and technical aid to those Third World countries which are not associated to it by any special agreements. Although limited, this aid is increased regularly: it has risen from 20 million ECU in 1976 to 138.5 million in 1980. These funds finance, in particular, agricultural projects in Asia and Latin America and support the development efforts of the countries in southern Africa.

- emergency aid: in 1980, the Community granted 43 million ECU to non-associate countries afflicted by catastrophes, natural disasters or other exceptional circumstances.

- aid to non-governmental organizations working to combat underdevelopment: funds allocated to these organizations have risen from 2.5 million ECU in 1976 to 15 million in 1980.

□ The Community has woven a very tight network of trade agreements with numerous Third World countries. These cover three large geographical zones:

- the southern Mediterranean: eight countries (Algeria, Morocco, Tunisia, Egypt, Israel, Jordan, Lebanon and Syria) signed commercial, industrial, technical and financial cooperation agreements with the Community in 1976 and 1977. The main provisions of these agreements are: unrestricted access to Community markets for industrial goods, customs preferences for certain agricultural goods, financial aid up to a total of 670 million ECU over five years.

- Latin America: non-preferential agreements have been made with Brazil, Mexico and Uruguay; a number of agreements made with other countries deal with trade in textile and craft goods; the Community is also preparing the way for developing cooperation with Andean Pact countries.

- Asian countries: non-preferential agreements have been made with the countries of the Indian sub-continent (Bangladesh, India, Pakistan and Sri Lanka), China as well as the countries belonging to ASEAN (Indonesia, Malaysia, Philippines, Singapore and Thailand). In addition, numerous sectoral agreements deal with trade in textile and craft products, and the export of sugar from India has been subject to a special agreement.

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[1] 1 ECU (European currency unit) = about £0.52, Ir. £0.70 or US dollar 1.18 (at exchange rates current on 13 February 1981).

The ACP-EEC Convention

More than 60 African, Caribbean and Pacific countries (the ACP countries) have concluded a new Convention with the Community covering a five-year period (1980-1985) and which followed on from the first Lomé Convention signed in February 1975. The new Convention was signed in Lomé on 31 October 1979 and came into force on 1 January 1981.

These Conventions originate from the early days of the Community. When the first six countries signed the Treaty of Rome in 1957, some of them were still colonial powers. The fourth part of the Treaty consequently dealt with Community aid to countries which were still dependent. After independence, 18 African countries still wished to stay associated with the Community. In July 1963 the Yaoundé Convention was signed setting up a free trade zone between the 18 and the Community. It also covered financial aid and institutional matters.

After the entry of the United Kingdom, Denmark and Ireland into the Community in 1973, several British Commonwealth countries in Africa, the Caribbean and the Pacific decided to join the countries already associated to negotiate a cooperation agreement with the Community.

The originality of the cooperation between the Community and the ACP countries is based on four principal elements:

- ☐ the durability of cooperative relations, based on a legal system and a freely negotiated contract between equal partners: the Community for one and the ACP countries for the other;

- ☐ the creation between the two regional groups of a unique contract which excludes all manipulation or economic or ideological discrimination;

- ☐ the existence of common institutions permitting a constant and constantly improving dialogue. A consultative assembly brings together members from the European Parliament and representatives from the ACP countries. The ACP-EEC Council of Ministers — the higher body — meets once per year and is assisted in its duties by a committee of ambassadors;

- ☐ the wide and coherent range of areas covered by the cooperation: for the first time, a group of industrialized countries has developed an integrated policy towards a group of Third World countries. Financial aid, industrial cooperation, stabilization of export earnings, preferential trade agreements — all problem areas of underdevelopment have been considered. For example, financing the construction of a processing plant for agricultural produce can only be effective if agricultural production is improved and if the produce can be traded in the countries concerned and in European markets.

Sector by sector the new Convention covers the following aspects:

☐ *trade cooperation:* virtually all products from ACP countries can enter the Community without incurring customs duties. The Community demands no reciprocal action by its partners. The list of products that benefit from free entry to the Common Market has been enlarged in relation to the preceding Convention since it now covers more than 99.5% of ACP exports. For certain products which compete directly with European agriculture, the Community, while not according them completely free access, has nevertheless agreed to give them preferential treatment. A special protocol drawn up for ACP countries guarantees them a sugar export price equivalent to that offered to European producers. These different trade advantages are particularly useful to ACP countries since half of their exports go to the Community. The level is often above 60% and in some cases is as high as 90%;

☐ *stabilization of export earnings:* the 'Stabex' mechanism is the most original aspect of the EEC-ACP Conventions compared to classic development aid thinking. It is not enough to give money and to allow Third World goods into the markets of industrialized countries; exports must also be assured of reasonable earnings. 'Stabex' works like an insurance against bad years. The Community guarantees a minimum income to ACP countries for their earnings from exporting a certain number of basic products to the Common Market. Forty-four products – compared to 34 in the preceding Convention – are now covered by this system. The principal products are cocoa, coffee, peanuts, tea, sisal. In principle, 'Stabex' applies only to goods exported to the Community and only when the export earnings from the product amount to more than 6.5% of the total export earnings of the country concerned (2% for the poorest countries). When export earnings drop compared to the previous year's average, the Community compensates the lost earnings. In general, Community aid should be reimbursed when export earnings return to a satisfactory level but this obligation is not applied to the 35 least-developed countries. The new Convention has introduced a system along similar lines covering certain minerals: the Community assures manufacturing countries the minimum protection needed to keep their export production potential;

☐ *financial and technical cooperation:* the European Development Fund (EDF) contributes to financing the development of ACP countries on the basis of programmes drawn up by each of them. Four major sectors share most of the Community aid: rural development, industrialization, economic infrastructure and social development. Regional cooperation work, specific projects benefiting small and medium-sized companies and 'micro-projects' of local interest, all receive aid from the Fund in addition to the loans on favourable terms from the European Investment Bank (EIB);

☐ *industrial and agricultural cooperation:* the new Convention considerably reinforces this cooperation by explicitly placing it in the context of growing interdependence between Europe and the ACP countries. Cooperation will be stepped up in areas such as energy prospecting, new energy sources, maritime transport and fishing. Private European investment will be encouraged by a general clause which opens the way for Community investment protection agreements which guarantee – through bilateral accords – the equality of treatment between Member States. The resources of the

Community financial aid to ACP countries

(million ECU)

	Lomé I	Lomé II New Convention
EDF	*3 076*	*4 612*
Grants	2 145	2 984
Special loans	445	518
Risk capital formation aid	97	280
Stabex	380	550
Minerals	—	280
EIB	*390*	*685*
Outside of the Convention	—	*395* [1]
Total million ECU	3 457	5 692

[1] Covering in particular EIB aid for mining and energy projects. In addition, some 300 million ECU should be available as food aid during the period of the Convention as well as 200 million as emergency aid.

common Industrial Development Centre which is responsible for promoting contacts between economic operators have been increased. In the area of agriculture and rural development – which accounts for about 40% of the EDF funds – a technical cooperation centre is also being set up.

△

On top of the arrangements, progress and innovation introduced by this new Convention, the essential point is that it confirms the choice of policy and the nature of inter-regional relations between a group of industrialized countries and a group of developing countries. In the general context of relations between the North and South of the globe, Community countries and ACP countries are attempting an original form of cooperation. Its ambitions, its demands and its potential, accord the different partners a particular responsibility in a much larger play of forces: the development of the Third World and the continuance of peace ■

The contents of this publication do not necessarily reflect the official views of the Institutions of the Community.

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