

# COMMISSION OF THE EUROPEAN COMMUNITIES

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## THE SYSTEM FOR THE STABILIZATION OF EXPORT EARNINGS APPLICATION YEARS 1980 AND 1981

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(Communication from the Commission to the Council)

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The system for the stabilization of export earnings  
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1. It was necessary in 1981, in respect of the 1980 application year, for the first time since the inception of the system for the stabilization of export earnings, to cut back the transfers requested by the ACP States because of lack of available funds.

In spite of this problem, thanks to close collaboration between the ACP States and the Community, the system operated in accordance with the Convention.

2. Contrary to what was originally expected regarding the 1981 application year, a situation has again arisen which will make a reduction of transfers inevitable, because of the difficulties some ACP States are having with production of the products covered by the system and with their situation on the world market.

3. Faced with this situation, the Commission has re-examined the whole problem of inadequate funds, notably in the light of the ideas put forward for releasing additional amounts by the ACP Chairman at the meeting on 19 June 1981 of the ACP/EEC Committee of Ambassadors, which had the task of deciding on the cut-backs to transfers. The ideas were as follows :

- a) to have recourse to the overall allocations for financial and technical cooperation under the Lomé Convention ;
- b) to have recourse to emergency aid (Article 137 of the Convention) ;
- c) voluntary contributions from the Member States ;
- d) the possibilities offered by Article 35 of the Lomé Convention, which governs the procedure to follow for the use of any balance remaining in 1985.

The Commission came to the following conclusions.

4. Under the terms of Article 95 (1) of the Lomé Convention, the amount of the Community's financial assistance under the European Development Fund, excluding EIB loans from its own capital resources (685 million ECU) (Article 95 (2) (1), is 4,542 million ECU (1), which breaks down as follows :
- 2,457 million ECU (1)(2), earmarked for the national programmes (Article 95 (1)(a),
  - 600 million ECU (1), earmarked for regional programmes (Article 95 (1)(a) and Article 133 (2),
  - 200 million ECU (1), earmarked for emergency aid (Article 137),
  - 175 million ECU (1), earmarked for interest rate subsidies on loans provided by the EIB from its own resources (Internal Agreement, Article 4),
  - 280 million ECU (1), earmarked as risk capital (Article 95 (1)(a),
  - 550 million ECU (1), earmarked for Stabex (Article 95 (1)(b),
  - 280 million ECU (1), earmarked for Sysmin (Article 95 (1)(c).
5. The 2,457 million ECU intended for the national programmes was fully allocated among the ACP States when the indicative programmes were drawn up.
6. The 600 million ECU which Article 133 (2) earmarks for regional and inter-regional projects, in accordance with the objectives set out in Article 133 (1), has been formally allocated ; in addition, this amount was allocated on the basis of a broad regional breakdown when indicative programming was carried out.
7. The figure of 200 million ECU represents the ceiling fixed by Article 137 for emergency aid ; these funds must remain fully available until the end of the Convention period.

Furthermore, Article 137 (6) stipulates that "emergency aid shall not be used for dealing with the harmful effects of the instability of export earnings, which are the subject of Title II".

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(1) Amount to be adjusted after the ratification of Act of Accession of Zimbabwe to the Lomé Convention.

(2) Including 504 million ECU earmarked for special loans.

Even if operations on the basis of Article 137 and Stabex transfers sometimes take place at the same time, the object of these operations has always been distinct : in the former case, the object is to help to resolve "serious economic and social difficulties of an exceptional nature resulting from natural disasters..." and in the latter case the object is to compensate for a loss of export earnings.

8. The 175 million ECU, the maximum amount which Article 4 of the Internal Agreement lays down for the financing of interest rate subsidies on EIB loans, pursuant to Article 104 of the Second Lomé Convention, must be kept for that purpose until the end of the Convention period.
9. The 280 million ECU is at the complete disposal of the EIB until the end of the Convention period.
10. The Stabex and Sysmin appropriations are also earmarked for specific objectives until the end of the Convention period.
11. It is therefore apparent that all the appropriations of the Lomé Convention have been allocated.

Should there be any residual amounts available, under the heading of emergency aid, interest rate subsidies, risk capital, Stabex or Sysmin, it will not be possible to reallocate them to other purposes until after 1 March 1985.

12. With particular reference to Stabex, the reduction of transfers is a measure expressly provided for in Article 34 of the Convention. The negotiators knew what they were doing when they adopted this measure, given the nature of the problems which the Stabex system is designed to cope with, namely the consequences of a drop in export earnings resulting from a fall in prices, a reduction in quantities or a combination of both these factors. In this context, it will be recalled that the system automatically takes account of all falls in earnings derived from the products included in the list ; the system is as neutral as regards the beneficiary state as as regards the product.

The estimation of the resources necessary for five years of application was carried out in accordance with a method that was as precise as possible, which though admittedly involving a margin of error, had proved itself under Lomé I (1).

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(1) A similar situation as regards the scale of requests did in fact arise under Lomé I, but the resources available included amounts left over from previous years which enabled the transfers to be paid in their entirety.

Nevertheless, we are dealing here with a forecast in an essentially uncertain area, where aberrant phenomena, such as the conjunction of reference years combining record quantities and very high prices, can arise.

However, under the rules of operation of Stabex the bad years are reflected in the reference level, which reduces this level proportionally and thereby reduces the transfers to be paid in successive years of application. This, combined with the generally fairly strong probability of a recovery in prices after a period of decline, enables us to take as a probable working hypothesis that as from the year of application 1982 a period of smaller transfers probably amounting to less than the annual instalments available will follow a period of high transfers.

13. This latter factor is one of the reasons behind the existence of Article 35 of the Convention which stipulates that before the expiry of the Convention period, the ACP/EEC Council will decide "on the use of any balance remaining from the overall amount" earmarked for the Stabex system.

Under this provision it would be possible to allocate any balance available at the end of the Convention to the ACP States whose transfers have had to be reduced. This allocation, which would take account of the reductions, should take the form of a lump-sum allocation based on a special decision of the ACP/EEC Council of Ministers.

14. If we work on the basis of the principle that the overall Stabex allocation in the Second Lomé Convention is in line with the overall requirements during the five years of the Convention period, it is clear that the difficulties encountered are the result of an excessively strict division of the allocation into annual instalments, as laid down Article 32 (1).

15. The Commission has therefore examined the possibilities of introducing greater flexibility into Article 32 (1), which lays down that the overall amount of 550 million ECU for five years is to be divided into five equal annual instalments.

It would appear that such increased flexibility could only be obtained via an amendment to the Convention, an amendment that would have to be approved by way of parliamentary ratification, given that the provisions in force do not authorize the ACP/EEC Council to take a decision of this kind.

The same argument applies to Article 34 § 1 which sets a limit of 20 % on the anticipatory drawing which can be made on the following year's instalment.

This procedure would thus involve the renegotiation of the Convention during its period of application. Such a step would create a precedent which the Community has always refused to countenance.

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16. The lessons that can be drawn from the operation of the system might encourage the Commission to propose, for the future, that the possibility of anticipatory drawing on the Stabex instalments for the following year be raised to a higher figure than the 20 % laid down in Article 34 (1) of the present Convention. The financial provisions of Sysmin, for example, which are largely based on those governing Stabex, permit drawings of up to 50 % on the instalment for the following year.

Another possibility would be to provide for a different phasing of the annual instalments, on a degressive basis, with larger instalments at the beginning of the period.

Measures such as the ones now being suggested could within a future Convention provide the means to achieve the indispensable reconciliation between the necessarily rigid financial rules and the needs arising from economic conditions.

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17. With regard to the year of application 1980, the first year in which unexpected difficulties occurred, it would appear that no additional resources can be released to help Stabex from the other funds which the Lomé Convention has allocated for financial and technical cooperation with the ACP.

At the same time, it would seem risky to set about amending the Second Lomé Convention to enable additional drawings to be made on the future annual instalments.

In those circumstances, and since the reduction in the transfers for the year of application 1980 has been accepted, the Commission considers that it would be inappropriate to go back on that measure, which constitutes a correct application of the provisions of the Convention.

Accordingly, the only solution offered by the Convention is that embodied in Article 35, namely the allocation of the balance of the Stabex system at the end of the Convention period.

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18. On the other hand, the occurrence in two successive years of liquidity difficulties in the system could threaten to underline its credibility and therefore constitutes an exceptional situation which makes it desirable to find an original solution for the year of application 1981.

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19. In the light of the foregoing, it is clear that such a solution can only be based on a contribution from the Member States to the system's funds.

The effort required of the Member States could be made easier by drawing firstly on the amounts available from the repayment of special loans and secondly on the EDF's cash resources.

It could also be limited by using the provisions of Article 21 (4) of the

Convention (1) and also by fixing a proportion that will not be covered.

20. On this assumption, the machinery could be as follows for the year of application 1981 :

(a) As for the preceding year, the method for the reduction of transfers would be left to the initiative of the ACP States.

(b) An initial compensation for the reductions would be provided for those ACP States which have debts owing to the Stabex system which will be the subject of a decision to be made by the ACP/EEC Council of Ministers in 1982 : the Council will be asked to consolidate the debts of the ACP States requesting transfers for 1981 by charging them to their transfer requests.

The balance of those debts for 1980 and 1981 would be extended for one year by the ACP/EEC Council.

Since the replenishment of the resources available to the system via the repayment of repayable transfers is a basic principle of Stabex, this decision could be put forward as participation by the ACP in the effort to compensate for the reductions.

(c) The reductions which had not been compensated for in this initial stage would then be compensated for, to the tune of 50 % (40 % being the proportion not covered), by a special contribution from the Member States.

21. The contribution from the Member States would be mobilized as follows :

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(1) Article 21 (4) of the First Lomé Convention reads as follows :

"If, on expiry of the five-year period referred to in paragraph 2, the resources have not been fully reconstituted, the Council of Ministers, taking into consideration in particular the situation of and prospects for the balance of payments, exchange reserves and foreign indebtedness of the ACP States concerned, may decide that :

- the sums outstanding are to be reconstituted wholly or in part, in one or more instalments;
- rights to repayment are to be waived".



(a) Article 9 (1) of the Internal Agreement stipulates that repayments of special loans as well as the proceeds and income from risk capital operations are credited to the Member States in proportion to their contributions to the Fund from which the sums are derived, "unless the Council decides unanimously, on a proposal from the Commission, to place them in reserve or allocate them to other operations".

The sums available on this basis could be allocated to compensate for reductions in transfers subject to the conditions set out below.

At the present time, the amounts available in the EIB's books total 20.7 million ECU, almost all of which represents amounts owed to the six original Member States, since the sums in question constitute interest payments and capital repayments on operations carried out under the Yaoundé Conventions.

Consequently, it is suggested that the Commission propose to the Member States to allocate these 20.7 million ECU to compensate the reductions of the transfer.

(b) The balance of the sums required to guarantee the payment of the residue on the transfers could be advanced to the Member States from the EDF funds, on account of the repayments of special loans and risk capital which will occur as from now. The Member States, having unanimously decided to allocate these resources, within a limit yet to be determined, to the Stabex operations for the year of application 1981, will reimburse the EDF fund using the monies repaid to the EIB by way of special loans and risk capital.

It appears that the cash advance in question could be cleared by the end of 1987. If, at that time, the total amount has not been reimbursed, the Member States will examine the conditions for clearing the EDF fund.

22. At the end of the Convention period, the balance of the Stabex system would be allocated as follows :

(a) to clear any outstanding balance on the advance from the EDF,

(b) to offset the reductions not yet compensated for - both for the year of application 1980 and for the proportion not covered for the year of application 1981.

23. In conclusion, the Commission proposes that the Council :

- should adopt no provision to compensate for the reductions in transfers for the year of application 1980, the possibility of providing such compensation at the end of the Convention, using any balance of the Stabex allocations, remaining open ;
- should decide to compensate for any reductions in transfers for the year of application 1981 in accordance with the arrangements set out above.
- should take note that the rules and the operation of the system should not lead to the recurrence of exceptional circumstances between now and the end of the Convention and decide that for the three remaining financial years no exceptional measure shall under any circumstances be taken.