

COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION COMMUNICATION TO THE COUNCIL
pursuant to Article 29 of the Internal
Agreement on the financing and
administration of Community aid

REPORT

on the operation during 1977 of the system
set up by the Lomé Convention for stabilizing
export earnings

COM(79) 277 final.

INTRODUCTION

1. Under Article 29 of the Internal Agreement on the financing and administration of Community aid, the Commission "shall prepare an annual comprehensive report on the operation of the system (for stabilizing export earnings), indicating in particular its effect on the economic development of the recipient countries and on the development of external trade".

2. This comprehensive report is concerned with the application of the system during 1977 to the ACP States signatory to the Lomé Convention and supplements the previous report, which was for 1976. It also gives information about operations relating to former OCTs that have acceded to the Lomé Convention but which, as far as the system for the stabilization of export earnings is concerned, are still covered by the OCT allocation.

3. The cooperation machinery described in the first comprehensive reports has been functioning satisfactorily on the whole and hence does not call for any detailed remarks.

4. In this report the Commission will examine in turn:

the activities of the ACP-EEC institutions and the development of the system;

the third year of application of the texts and the results;

the effect of the transfers on the economic development of the recipient countries and on the trend of foreign trade.

PART ONE: ACTIVITIES OF THE ACP-EEC INSTITUTIONS AND DEVELOPMENT OF THE SYSTEM

Chapter One: Activities of the Institutions

§ 1 The ACP-EEC Subcommittee on the Stabilization of Export Earnings

5. The ACP-EEC Subcommittee that deals with the Stabex system met 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 applications for transfers from certain ACP States submitted in 1977 for 1975, which the Commission had not been able to entertain.

Discussions also took place on the ACP-EEC Council of Ministers Resolution of 14 April 1977 on the attainment of common objectives regarding commodity exports and on a draft Commission questionnaire on the utilization of the transferred resources, intended not for monitoring the funds transferred but for harmonizing the presentation of the ACP States' reports; as desired by the Subcommittee, a standard form was finalized and adopted by the experts of the ACP States and the Commission.

§ 2 The ACP-EEC Committee of Ambassadors

6. At its meeting of 28 February 1978, the Committee of Ambassadors 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 applications for transfers submitted for 1975 by Gabon, Kenya and Mali. They also expressed the desire to have sesame seed, tobacco, sisal products, cashew nuts and shea kernels added to the list of products covered by the system.

Emphasis was placed on the importance of close cooperation between the Community and the ACP States at the various international meetings on copper, phosphates and rubber, pursuant to the Resolution of the ACP-EEC Council of Ministers on the attainment of common objectives regarding commodity exports.

§ 3 The ACP-EEC Council of Ministers

7. The Council, which met on 13 and 14 March 1978, examined the problem of belated applications for transfers for 1975. On a proposal from the ACP States it agreed to initiate, via the two Council Chairmen, the goods offices procedure provided for in Article 81(2) of the Convention.

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 applications 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 applications 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 applications could not, insofar as making funds available was concerned, enjoy a privileged position compared with other applications submitted within the prescribed time limit.

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

8. The Council asked the Committee of Ambassadors to continue its examination of the ACP States' request concerning the addition of the products referred to at the last Committee of Ambassadors meeting. Sesame was in fact the only product which could be examined by the Committee of Ambassadors, and the Council decided, during its meeting of 22 March 1979, to put sesame on the list of products covered by the system, from 1st January 1979.

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.

§ 4 The ACP-EEC Consultative Assembly

9. At the end of the session held from 27 to 29 September 1978, the ACP-EEC Consultative Assembly adopted a resolution containing the following points on the system for the stabilization of export earnings :

"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 priced, according to the Stabex method, or by other appropriate means."

§ 5. The European Parliament

10. The European Parliament's Committee on Development and Cooperation asked Mr Aigner in 1977 to prepare a report on the initial experiences of the functioning of the Stabex system. On the basis of this report, the European Parliament adopted a Resolution on 17 February 1978, which was attached to the preceding comprehensive report.

§ 6 The Court of Auditors

11. In its report, the Court of Auditors examined the administration of the system during 1975 and 1976 and pointed out a number of gaps concerning the cif/fob factor in particular.

The remarks of the Court of Auditors and the replies given by the Commission can be found in Annex 4 of this document.

Chapter II: Development of the system

Accession of new States to the Convention

12. The scope of the system has widened with the accession of new States to the Lomé Convention in 1978. The accession of the Solomon Islands, Tuvalu and Dominica did not constitute true enlargement since those States were already covered by the system set up for the OCTs and continue to come under the OCT allocation.

The accession of Cape Verde, Papua New Guinea and Sao Tome and Principe, however, led the Community's Council of Ministers to increase the amounts allocated to the system by 5 million EUA for the three years remaining before the Lomé Convention expires. This decision was taken pursuant to Articles 89 and 90 of the Lomé Convention, whereby the accession of new States may not adversely affect the advantages accruing to the ACP signatory States from the provisions on the stabilization of export earnings; moreover, the acceding ACP States enjoy immediately upon accession the same rights and are subject to the same obligations as the other ACP States.

Accordingly, 5 million EUA was added to the funds already allocated to the system. It was assumed that the system would apply to those States for the three years of application 1977, 1978 and 1979, and so for each of those years the annual instalment is increased to 76,666,667 EUA.

13. In this context, Cape Verde was able to receive a transfer for bananas for 1977.

PART TWO : THIRD YEAR OF APPLICATION OF THE SYSTEM AND THE RESULTS

Chapter One : Application of the system

§ 1 Closure of the 1975 financial year

14. Following the settlement, in application of Article 81 of the Convention, by the ACP-EEC Council of Ministers of the dispute concerning the application of the Convention with regard to the applications presented in 1977 for the year 1975 by Gabon, Kenya and Mali, the Commission initiated the examination of these application.

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

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 EUA 6,703,311 has been effected.

For Mali, the application 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 EUA 496,501.

The processing of these late requests submitted for 1975 leads therefore to transfers totalling EUA 7,199,812 for the two countries concerned, which brings the total amount of transfers executed for 1975 to EUA 75,985,877.

15. Concerning the attribution of the funds, the ACP-EEC Council of Ministers has taken 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 attribution of funds has been made as follows :

- EUA 2,213,935 from the 1975 allocation (total of the available funds on this allocation);
- EUA 4,985,877 from the 1976 allocation, this sum being considerably below the limit of 20 % of this allocation. The remaining balance from 1976 is thus reduced from EUA 37,864,064 to EUA 32,878,187 which is carried over as of right, by virtue of Article 18 (3) of the Lomé Convention, to the 1977 operation.

§ 2 Closure of the 1976 financial year

16. In June 1977 the Republic of Mali submitted an application for a transfer under the system for the stabilization of its export earnings from gum arabic for 1976. This request followed the decision of the ACP-EEC Council of Ministers meeting (13 to 14 April 1977) to include gum arabic in the list of products covered by the system.

Examination of this matter first of all led to the application being refused, since gum arabic did not represent 2.5 % of Mali's total export earnings.

Following revision of the export statistics, the Malian Government submitted a further application pointing out that the dependence threshold laid down in the Lomé Convention had been reached.

The Commission departments then proceeded to check customs documents, as a result of which it was found that the request was eligible.

The cross-checking of Malian and Community statistics was thus able to take place. It resulted in the signature on 17 July 1978 of a transfer agreement for the sum of EUA 848,489.

17. This transfer brings the total amount paid out in 1976 to EUA 37,135,936 and the balance carried forward automatically to 1977, pursuant to Article 18(3) of the Lomé Convention, to EUA 40,077,999.

§ 3 Replenishment of the resources made available to the system

18. Regarding the replenishment of the resources, the Commission, in accordance with Article 21 (3) of the Lomé Convention and with the practical arrangements laid down in the letters exchanged when each transfer is made, has made the necessary calculations in respect of the five transfers effected for 1975 and the five transfers effected for 1976 to countries that are required to contribute to the replenishment of the system's resources. These calculations revealed that in seven cases the conditions set by the Convention for triggering off the process of replenishing resources had not been met on the basis of the 1977 results. The ACP States concerned have been notified of this in writing.

19. However, in the case of two countries (involving three transfers), the conditions relating to replenishment were met for the first time on the basis of the 1977 results. Thus Cameroon was invited to pay back 100% of the transfer of 463 558 EUA for cocoa paste in respect of 1976, and fulfilled this obligation.

In the case of Fiji, the conditions were met for replenishing the two transfers for coconut oil, one of them received in respect of 1975, the other in respect of 1976. For the first of these transfers, replenishment was 100%, i.e. 615 140 EUA, for the second 83.57% of the amount transferred (1 499 834 EUA), i.e. 1 253 399 EUA.

The replenishment of the resources made available to the system totalled 2 332 097 EUA in 1978. The corresponding amounts were paid in the Member State currencies used for the transfers, i.e. for Fiji in Deutsche Mark (1975 transfer) and in Pounds Sterling (1976 transfer) and in French francs for Cameroon¹.

20. The case of Fiji gives food for thought insofar as the conditions governing replenishment were met in 1977 for the whole of the 1975 transfer and for 84% of the 1976 transfer, obliging Fiji to pay back 1 868 539 EUA to the system. Now this may be perfectly logical insofar as implementation of the rules is concerned but it is questionable whether it is completely in accordance with the spirit of the system, since the latter is based on the desire to enable the ACP States to programme their financing of projects to be funded from export earnings: this is possible since they are in a position to know their reference level. To be consistent, however, they should also be able to programme their contributions to the replenishment but this is possible only when the figures relating to the last exports in December are known, a condition which it is obviously impossible to meet in practice.

To this can be added the fact that, one year, a country may be obliged to replenish all or part of a number of previous transfers. It follows that the present system may in certain extreme cases have a destabilizing effect that is bad for the State concerned and contrary to the very objectives of the system.

¹For that country a small balance (13 761 EUA) still remains to be paid, owing to misinterpretation by the financial agent of the Republic of Cameroon regarding the transfer order given by the Cameroonian authorities for the equivalent in French francs of 463 558 EUA; this matter is currently being regularized.

§ 4 Six-monthly advances (financial year 1978)

21. For the first time in 1978 the Commission received applications for advances under Article 19(6) of the Convention, the aim of which is to maximize the system's stabilizing effect by making payments as near as possible to the time when the drop in earnings is felt.

22. When examining the seven applications for advances received in 1978, the Commission estimated the loss in earnings for that year with two objectives in mind: to make rapid payment of sufficient amounts to keep up the financial flows in the sectors in question and to avoid unwarranted or excessive payments which could lead to overpayments having to be recovered once the final results of the year were known.

It is the latter concern which led the Commission to accept only one of the three applications submitted by the Gambia, since a drop in earnings from groundnut oil and oilcake sufficient to trigger off the fluctuation threshold seemed rather questionable. As from 17 July 1978, the following advances were paid:

COUNTRY	PRODUCT	AMOUNT IN ECU
The Gambia	Groundnuts	1 510 000
Mauritania	Iron ore	7 000 000
Senegal	Groundnut oil	16 000 000
	Groundnut oilcake	3 000 000
Tonga	Bananas	160 000
		<u>27 670 000</u>

23. These advances, to be set against the annual transfers to be made for 1978, have had an impact on the economies of the countries concerned with which the Commission has every reason to be satisfied. In the case of Senegal in particular, the advances have helped to mitigate the consequences which would have resulted for the economic stability of the country from the collapse of groundnut production following the drought; this is a good example of the usefulness of the system.

§ 5 Applications refused (financial year 1977)

24. (a) One application, that of Niger for groundnut oilcake, was refused because the dependence threshold had not been reached.

(b) Five applications were refused because the fluctuation threshold had not been reached. These were applications from Gabon for wood in the rough, from Guinea-Bissau for groundnuts and palm nuts and kernels, from Mali for groundnuts and from Tuvalu for copra.

(c) Two applications (1), one from Papua New Guinea for copra and one from Uganda for tea, were refused because the earnings from exports to all destinations had been higher than the reference level calculated on the basis of export to all destinations.

25. The Commission wishes to reaffirm its attachment to the principle of confining compensation under the Stabex system to a country's losses on its exports to all destinations. The arguments of law and equity on which this principle is based were developed in the preceding annual report : they can be summarized by saying that the compensation received by an ACP State may not be higher than that received by States covered by the derogation referred to in Article 17 (4), for which the contracting parties wished to reserve the most favourable treatment.

It is in keeping with the spirit of the system and the logic behind it that the Commission will not pay compensation if no loss is sustained. If earnings from exports of a product towards all destinations have been, for the year of application, higher than their average level during the period of reference, even if there is a loss of earnings on exports to the Community following a change in the breakdown of exports between traditional countries of destination, the ACP States in question have not in that case suffered any loss which would warrant paying compensation.

The Commission has recommended that this principle of limiting compensation to the loss suffered in respect of exports to all destinations be written into the future Convention.

§ 6 Application of Article 17 (1)

26. In its first report on the functioning of the system, the Commission described the method used for cross-checking the Community's and the ACP States' statistics. It pointed out that since the same method had been used for the five years (reference period and year of application) it followed that, in each case, the same method should continue to be used.

27. For the 1976 transfers, this rule of simple logic was applied in all cases where an application was examined concerning a product for which the statistical cross-checking had already been done in the preceding year. The same applied to requests for 1977, but with one exception, the one of Upper-Volta, which has received a transfer for groundnuts in 1975, and submitted an application concerning the same product for 1977. Since the Commission had noted fundamental changes in Upper Volta's system for marketing this product, it was agreed in the light of this new factor to change the bases for cross-checking used from 1975 (Voltaic quantities and values) by adopting EEC values and quantities.

§ 7 Application of Article 17 (4)

28. Four of the countries covered by the system for their exports irrespective of destination received a total of 12.6 % of the transfers made for 1977 : Cape Verde for bananas, Guinea-Bissau for sawn wood, Samoa for bananas and Swaziland for iron ore.

(1) A further application, from Uganda for cotton for 1977, is also being examined.

29. Cape Verde, like Guinea-Bissau, the case of which is described in last year's report, is covered by both Article 17 (4) and the declaration made at the ACP-EEC Council meeting in April 1977 on the reference period.

If it were not for Article 17 (4), this State, which, like Guinea-Bissau, exports almost exclusively to Portugal, could never qualify for the system. Also, while the present Convention has been in force, a long period of drought has meant that any meaningful basis for reference quantities was non-existent between 1971 and 1975 or even 1976. This is why, basing its action on the declaration adopted in Fiji on the reference period, the Commission felt that it was equitable and in accordance with the spirit of the system to extrapolate the reference quantities from the quantities exported by Cape Verde, in the past. Hence the reference levels include the quantities for the years 1967-70 and the unit values for the normal reference period of 1973-76. The "quantity" element in the reference level will embody the actual figures year by year and the period taken into consideration will become normal in four years.

§ 8 Article 19 (4) (a) and (b)

30. (a) In its examination of the transfer applications presented, the Commission has not found that any "fall in earnings ... is the result of a trade policy measure of the ACP State concerned adversely affecting exports to the Community in particular ...". It has not been necessary, therefore, to apply Article 19 (4) (a).

31. (b) The Commission, having found in its examination of the total exports of a number of applicant States that there were significant changes, held consultations with four of them, which led to a reduction in the transfer for the following reasons :

- considerable increase in own consumption (Benin : palm oil and cotton);
- reduction in the share of the total exports of the product in question traditionally supplied to the Community (Benin : cotton, Tanzania : sisal);
- total loss less than the loss to Community destinations (Sudan : ground-nuts).

32. However, in two cases, the effect on the amount of the transfers was reduced despite the significance of the changes pointed out above to take the following into account :

- as regards cotton from Benin, the low rainfall, which resulted in a fall in production leading to the relative increase in own consumption;
- as regards sisal from Tanzania, a drop in the Community demand for this product.

Chapter II : The results

§ 1 Overall results

33. During the third year of application of the Stabex system there were 13 operations for 10 ACP States covering 9 products; the transfers remained within the annual instalment limit of 75 million EUA, plus funds carried over from the first year of application. To these should be added four transfers to ACP States that had acceded to the Lomé Convention on the basis of Article 89.

34. The overall results are as follows :

TRANSFERS FOR 1977

RESULTS OF THE 1978 OPERATION BY ACP STATE

<u>RECIPIENT ACP STATE</u>	<u>PRODUCT</u>	<u>AMOUNT OF TRANSFER IN EUA</u>
BENIN	Cotton	2 083 137
	Palm oil	1 467 364
	Palm nut and kernel oil	1 211 826
CAPE VERDE	Bananas	347 712
GUINEA BISSAU	Sawn wood	146 839
MAURITANIA	Iron ore	3 605 602
NIGER	Groundnuts	2 412 379
	Groundnut oil	7 383 280
SAMOA	Bananas	99 313
SUDAN	Groundnuts	968 825
SWAZILAND	Iron ore	3 368 878
TANZANIA	Sisal	8 176 614
UPPER VOLTA	Groundnuts	1 169 977
		32 441 746 =====

RESULTS OF THE 1978 OPERATION FOR THE ACP STATES

ACCEDING TO THE LOME CONVENTION UNDER ARTICLE 89

<u>RECIPIENT ACP STATE</u>	<u>PRODUCT</u>	<u>AMOUNT OF TRANSFER IN EUA</u>
COMOROS	Coprah	367 784
	Cloves	552 547
	Ylang-ylang	170 596
DJIBOUTI	Raw hides, skins and leather	169 629
		1 260 556 =====

§ 2 Results by country

35. All the transfers for 1977 were paid to least developed countries, which are not required to contribute towards the reconstitution of the resources made available for the system.

The situation has therefore changed considerably compared with the two previous years of application of the system, when in spite of the preponderance of grants, loans accounted for 44% for 1975 and 37% for 1976.

For the three years together, grants account for 71% of payments.

§ 3 Results by product

36. For the individual products the results are as follows:

<u>1. PRODUCTS</u>	<u>AMOUNTS IN EUA</u>	<u>%</u>
Groundnuts	4 551 181	14.03
Bananas	447 025	1.38
Sawn wood	146 839	0.45
Cotton	2 083 137	6.42
Groundnut oil	7 383 280	22.76
Palm oil	1 467 364	4.52
Palm nut and kernel oil	1 211 826	3.74
Iron ore	6 974 480	21.50
Sisal	8 176 614	25.20
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	32 441 746	100.00

2. Of which, products affected by:

the economic situation	11 782 216	36.22
local contingencies	20 659 530	63.68

37. Of particular note is the relative drop in relation to 1976 (from 79% to 64%) in transfers occasioned by local circumstances and an increase (from 21% to 36%) in transfers occasioned by the economic situation, which, however, fall far short of the 1975 record (68%).

(a) Only two products were affected by the economic situation in 1977: sisal and iron ore. For the latter product, the recession in the European iron and steel industry affected only one of the two countries receiving transfers, namely Mauritania (Swaziland, covered by the derogation of Article 17(4), exports exclusively to non-member countries).

- (b) Among local circumstances, particular mention should be made of:
- climatic conditions (prolonged drought in Cape Verde, cyclone in Samoa, disease and bad weather in Niger, Upper Volta and Benin);
 - effect on production of non-economic factors (Benin);
 - transport problems (insufficient rolling stock for transporting iron ore by rail from Swaziland to the port of embarkation).

38. The individual and aggregate results for the first three years of application are given in an annex to this report. These show that the system is performing its dual task efficiently, giving protection from the vagaries of the economic situation - where necessary - and from falls in earnings resulting from a drop in production due to local circumstances.

39. § 4 Financial results

By way of financial results, account should be taken of the following:

- the data on the Community currencies drawn, given in Annex 1;
- the data on the utilization of the first three annual instalments (part IV of Annex 2); and

the following information on the funds to be carried over to the 1978 year of application.

In accordance with Article 18(3) of the Lomé Convention, the unused balance for 1977, namely:

	75 000 000 EUA	(first 1977 annual instalment)
+	1 666 666 EUA	(1977 annual instalment for new members)
+	32 878 187 EUA	(balance from 1976)
+	2 332 097 EUA	(replenishments)
-	32 441 746 EUA	(transfers for 1977)
	<hr/>	
	79 435 204 EUA	

will be carried forward automatically to 1978, subject to the amounts which could be paid as a result of an application for 1977 already submitted but which has not yet been examined.

PART THREE: EFFECT OF THE TRANSFERS ON THE ECONOMIC DEVELOPMENT OF THE
RECIPIENT COUNTRIES AND ON THE TREND OF FOREIGN TRADE

Chapter 1: Effect on the economic development of the recipient countries

§ 1. Economic impact of the transfers

40. In relation to the export earnings of the recipient countries, the relative size of the contribution made by transfers effected under the system varies according to the extent of the losses sustained, the importance of the product or products concerned in terms of the country's overall exports and the structure of the exports (Community share of total exports).

In a number of cases, this contribution reaches remarkable proportions. Thus transfers, expressed as a percentage of total export earnings (all products - all destinations - 1977) were as follows: 23% for Cape Verde, 19% for Benin, 14% for the Comoros, 8% for Djibouti, etc.

41. The impact of the transfers obviously appears far more clearly when one looks at the transfers made for a specific product and the export earnings (all destinations) corresponding to that same product (1977). The following percentages illustrate this:

Upper Volta (groundnuts)	85%	Benin (cotton)	31%
Comoros (copra)	77%	Belize (sawn wood)	24%
Benin (palm oil)	72%	Benin (palm nut and kernel oil)	21%
Comoros (cloves)	53%	Comoros (ylang-ylang)	8%
Tanzania (sisal)	37%	Mauritania (iron ore)	3%
Swaziland (iron ore)	37%		

These data reveal that extent of the compensatory flows provided by the system for the sectors in question and consequently of the guarantee in respect of the ACP States' export earnings, particularly for the least developed countries.

42. Over the years experience of applying this system increasingly confirms the view that the guarantee comes into play mainly as a result of a drop in the quantities exported; falling prices are not, contrary to what might be supposed, a determining factor in the decline in export earnings noted for the products covered.

This phenomenon is borne out firstly in the size of the share of transfers effected following falls in production caused by local circumstances: 49% on average for the three years of application, but

80% for 1976 and 64% for 1977 (1). Furthermore, analysis of the statistics reveals the decisive role of the drop in quantities exported even in the case of transfers paid because of the depressed economic situation : for example, with wood in the rough (47% of funds transferred for 1975), there was a slump in quantities exported compared with the reference period, whereas unit values remained higher in 1975 than average unit values for the same reference period 1971-74; exactly the same applies in the case of iron ore.

Generally speaking, this leads once again to the conclusion that the Stabex system set up under the Lomé Convention is clearly distinct from, although complementary to, the stabilization of prices attempted at world level.

§ 2 Utilization of the transfers (financial year 1976)

43. Article 20 of the Lomé Convention stipulates that the States receiving transfers are obliged to inform the Commission annually of the use to which they have put the resources transferred (2).

44. In order to make it clear how Article 20 of the Lomé Convention is to be implemented, the text of the transfer agreement contains an article stating that the information on the utilization of the resources is to be provided not later than twelve months after the signature of the agreement.

On the whole the reports for 1976 reached the Commission within the prescribed time limit. It should however be pointed out that three countries, namely Benin, Mali and Uganda, have still not let the Commission have any information regarding the utilization of the funds transferred for 1976.

45. The quality of the reports received has improved considerably compared with last year's reports because of the use of the model report drawn up by the ACP States' experts and the Commission.

Except for two countries which drew up their report particularly early, the model report has been widely used and has resulted not only in more information of the same kind being received but also in greater precision both as regards operations carried out and the anticipated effects.

46. The reports received cover the sum of 29 128 780 EUA, that is 78 % of the amounts transferred for 1976.

(1) See Annex 1, Part II, 1 and 2.

(2) In accordance with Article 29 of the Internal Agreement, the Commission will forward to the Member States the reports it has received.

Of this total, only 67% of the funds had been used, for three countries - Guinea-Bissau, Madagascar and Sierra Leone - earmarked 88%, 100% and 71% respectively of the transfers received for future projects to be carried out in the sectors in respect of which the transfer was made. In the case of Sierra Leone, the funds are intended for diversifying the mining sector, the part already utilized having gone towards buying back assets of the former iron ore mining company. Utilization of the unexpended balances will be the subject of an additional report.

47. A little more than half (51%) of the funds utilized went towards developing the products in respect of which the transfers were made, as against 20% the previous year; this is a significant difference and it is noteworthy that each of the countries concerned, with one exception, had directly earmarked at least a share, varying between 13% and 100%, of the transfers, to maintaining and strengthening the sector in question.

Of the total funds, 19.5% was allocated to agriculture: in Niger, to the Caisse de Stabilisation and to companies marketing agricultural products; in the Central African Empire, for the training and provision of extension services to farmers (100% of the transfer); in Guinea-Bissau, to safeguarding the fishing sector.

Capital expenditure representing 27.4% of the total funds has been made by three countries: Tanzania (construction of a cement works and mineral prospecting: 87.4% of the transfer); Samoa (public works: 16% of the transfer); Niger (equipment for large-scale works: 7.8% of the transfer).

Lastly, the remaining 2.1% of the amounts transferred and utilized was spent on education and health, by Samoa.

48. Generally speaking, the Commission has noted that the use made of the funds transferred for the second financial year is in accordance with the objectives of the system. In particular, the fact that all the money has been allocated to development or improving agriculture or specific operations and not to boost cash resources¹ is particularly satisfying.

49. As to the effect of the transfers on economic development, the reports highlight first of all the stabilizing effect on the economy of maintaining and strengthening the sectors in which export earnings have fallen. The increase in income, particularly for the peasant farmers, with its consequences on the market and on budgetary resources was stressed. Moreover, the renewal and modernization of agricultural infrastructure that have taken place are referred to as factors which will help promote development.

¹ Around 20% of the transfers for 1975 were used to boost cash resources.

Most countries have also sought to diversify their economies by schemes aimed at either maintaining agricultural production which is not necessarily covered by the system, or at industrialization, the most striking example being that of Tanzania (see § 46 above), whose report states : "the development of Tanzania depends on the development of the building industry" and "our dependence on agriculture for our exports has proved unreliable". This channelling of transfers towards diversification and industrialization is of particular interest and goes some way towards dispelling the idea that the effect of the system would be to freeze existing economic structures.

Chapter II : Effect on the development of foreign trade

50. The reports on the utilization of funds transferred in 1976 frequently refer to the favourable effect of transfers on the balance of trade and, consequently, on the balance of payments. The injection of foreign exchange, by improving the exchange reserves of the countries concerned, prevents the balance of payments from deteriorating further and permits a higher level of imports.

Also, the allocation of transfers to exporting sectors increases the export potential and may well boost foreign trade.

51. Nevertheless, it is fitting to note that, in the majority of cases, the amounts paid over are not high enough to reach a critical mass which would make it possible to have permanently a significant influence on the economic policy of the recipient countries, especially as the transfers are normally used to benefit a number of sectors, thereby minimizing their sectoral impact.

While transfers therefore certainly do have a favourable influence, notably on foreign trade, their influence cannot be quantified nor can it be described as spectacular.

CONCLUSION

52. Stabex operations for 1977 were relatively limited but the system fulfilled perfectly well its role of providing "sickness benefit" and "unemployment benefit" in the case of a drop in earnings caused respectively by natural catastrophes or by a downturn in the economic situation. Moreover, it functioned very well in these two roles which are being performed for the first time, and this is true both for the Commission and for the ACP State : the speedy disbursement of advances showed the Commission's concern to make the system as effective as possible, and the replenishments made proved the ACP States' attachment to the principles on which the system is based.

53. The success of the system in performing the task for which it was designed, its extension to new products and new countries, augur well for the future role which will be assigned to it in the current negotiations for the future Convention, which will draw on past experiences both to remedy the deficiencies which have appeared and to broaden its scope.

BREAKDOWN OF STABEX TRANSFERS FOR 1975, 1976 AND 1977
ACCORDING TO CURRENCY REQUESTED BY ACP STATES

CURRENCY	AMOUNTS IN EUA							
	1975	%	1976	%	1977	%	Total	%
French francs	43 125 304	59.25	17 024 472	45.84	19 945 749	63.37	80 095 525	56.65
Deutsche Mark	26 954 587	37.03	11 972 565	32.24	3 618 358	11.50	42 545 510	30.09
Pound Sterling	1 220 519	1.68	6 150 894	16.56	7 908 814	25.13	15 280 227	10.81
Belgian francs	1 485 655	2.04	848 489	2.28	-	-	2 334 144	1.65
Dutch guilder	-	-	1 139 516	3.07	-	-	1 139 516	0.81
TOTAL	72 786 065	100.00	37 135 936	100.00	31 472 921	100.00	141 394 922	100.00

CUMULATIVE TRANSFERS FOR 1975, 1976 AND 1977
(Amounts in EUA)

I. CUMULATIVE RESULTS BY ACP STATE

ACP STATE	PRODUCT	Amount 1975	Amount 1976	Amount 1977	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	9 133 040
	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	1 211 826
Total		7 129 848	3 515 923	4 762 327	15 408 098
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					4 064 981
CENTRAL AFRICAN EMPIRE ¹⁾	Coffee	353 108			353 108
	Sawn wood		549 807		549 807
Total					902 915

1) ACP States referred to in Article 48 of the Lomé Convention.

ACP STATE	PRODUCT	Amount 1975	Amount 1976	Amount 1977	Total
CONGO	Wood in the rough	7 361 677			7 361 677
IVORY COAST	Wood in the rough	15 000 000			15 000 000
ETHIOPIA ¹⁾	Coffee	9 339 683			9 339 683
	Raw hides and skins	5 080 364			5 080 364
Total		14 420 047			14 420 047
FIJI	Coconut oil	615 140	1 499 834		2 114 974
GABON	Wood in the rough	6 703 311			6 703 311
GHANA	Wood in the rough	5 176 408			5 176 408
UPPER VOLTA ¹⁾	Groundnuts	685 239		1 169 977	1 855 216
	Cotton	175 936			175 936
Total		861 175			2 031 152
MALI ¹⁾	Cotton	1 145 004			1 145 004
	Gum arabic		848 489		848 489
Total					1 993 493
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

1) ACP States referred to in Article 48 of the Lomé Convention.

ACP STATE	PRODUCT	Amount 1975	Amount 1976	Amount 1977	Total
SOMALIA ¹⁾	Bananas Raw hides and skins	1 296 907			1 296 907
		635 238			635 238
Total		1 932 145			1 932 145
SUDAN ¹⁾	Groundnuts Raw hides and skins	1 658 579		968 825	968 825
					1 658 579
Total					2 627 404
TANZANIA ¹⁾	Cotton Sisal	1 887 082			1 887 082
			5 165 208	8 176 614	13 341 822
Total					15 228 904
TOGO ¹⁾	Coffee	2 680 324			2 680 324
UGANDA ¹⁾	Cotton Tea	1 748 932	2 249 791		3 998 723
			1 399 953		1 399 953
Total			3 649 744		5 398 676
SAMOA ¹⁾	Cocoa Copra Wood in the rough Bananas	276 978			276 978
			1 331 544		1 331 544
			348 993		348 993
				99 313	99 313
Total		1 680 537			2 056 828

1) ACP States referred to in Article 48 of the Lomé Convention.

ACP STATE	PRODUCT	Amount 1975	Amount 1976	Amount 1977	Total
MADAGASCAR	Sisal Cloves		1 762 943 1 139 516		1 762 943 1 139 516
Total			2 902 459		2 902 459
SIERRA LEONE	Iron ore		3 977 274		3 977 274
GUINEA-BISSAU ¹⁾	Groundnuts Palm nuts and kernels Sawn wood		4 442 437 626 966	146 839	4 442 437 626 966 146 839
Total			5 069 403		5 216 242
TONGA ¹⁾	Copra Bananas		831 721 72 719		831 721 72 719
Total			904 440		904 440
CAPE VERDE ¹⁾	Bananas			347 712	347 712
MAURITANIA ¹⁾	Iron ore			3 605 602	3 605 602
SWAZILAND ¹⁾	Iron ore			3 368 878	3 368 878
GRAND TOTAL		79 985 877	37 135 936	32 441 746	149 563 559

1) ACP States referred to in Article 48 of the Lomé Convention.

II. CUMULATIVE RESULTS BY PRODUCT

1. Product	1975		1976		1977		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Groundnuts	6 590 863	8.24	4 442 437	11.96	4 551 181	14.03	15 584 481	10.42
Groundnut oil			6 755 991	18.19	7 383 280	22.76	14 139 271	9.45
Oilcake	1 191 079	1.49	153 269	0.41			1 344 348	0.90
Cocoa	276 978	0.35					276 978	0.18
Cocoa paste			463 558	1.25			463 558	0.31
Coffee	13 547 998	16.94					13 547 998	9.06
Cotton	10 222 112	12.78	5 000 138	13.46	2 083 137	6.42	17 305 387	11.57
Copra			2 163 265	5.82			2 163 265	1.45
Coconut oil	615 140	0.77	1 499 834	4.04			2 114 974	1.41
Palm oil			765 576	2.06	1 467 364	4.52	2 232 940	1.49
Palm nut and kernels			626 966	1.69	1 211 826	3.74	1 838 792	1.23
Raw hides and skins	8 401 981	10.50					8 401 981	5.62
Wood in the rough	37 842 819	47.31	348 993	0.94			38 191 812	25.54
Sawn wood			549 807	1.48	146 839	0.45	696 646	0.47
Bananas	1 296 907	1.62	72 719	0.20	447 025	1.38	1 816 651	1.21
Tea			1 399 953	3.77			1 399 953	0.94
Sisal			6 928 151	18.66	8 176 614	25.70	15 104 765	10.10
Iron ore			3 977 274	10.71	6 974 480	21.50	10 951 754	7.32
Cloves			1 139 516	3.07			1 139 516	0.76
Gum arabic			848 489	2.28			848 489	0.57
Total	79 985 877	100.00	37 135 936	100.00	32 441 746	100.00	149 563 559	100.00

2.	Product	1975	%	1976	%	1977	%	Total	%
	- affected by the economic situation (1) (2) (3)	56 466 912	70.60	7 477 958	20.14	11 782 216	36.32	75 727 086	50.63
	- affected by local contingencies	23 518 965	29.40	29 657 978	79.86	20 659 530	63.68	73 836 473	49.37
		79 985 877	100.00	37 135 936	100.00	32 441 746	100.00	149 563 559	100.00

(1) Wood in the rough, raw hides, skins and leather, cotton in 1975

(2) Sisal, sawn wood in 1976

(3) Sisal, iron ore in 1977

III. NATURE OF TRANSFERS

	1975	%	1976	%	1977	%	Total	%
Grants	41 527 918	51.92	28 292 811	76.19	32 441 746	100.00	102 262 475	68.37
Loans	38 457 959	48.08	8 843 125	23.81	-	0	47 301 084	31.63
	79 985 877	100.00	37 135 936	100.00	32 441 746	100.00	149 563 559	100.00

IV UTILIZATION OF ANNUAL INSTALMENTS

	1975	%	1976	%	1977	%	Total	%
Expenditure	79 985 877	106.65	37 135 936	49.51	32 441 746	42.32	149 563 559	65.98
Balance	- 4 985 577	- 6.65	32 878 187	43.84	44 224 920	57.68	77 103 107 (1)	34.02
Annual instalment	75 000 000	100.00	75 000 000	100.00	76 666 666	100.00	226 666 666	100.00

(1) To this balance should be added replenishments in 1978.

REPLENISHMENTS

1978

ACP State	Product	Year in respect of which the transfer was made	Amount of replenishments (in EUA)
CAMEROON	Cocoa paste	1976	463 558
FIJI	Coconut oil	1975	615 140
	Coconut oil	1976	1 253 399

ANNEX 3

List of drawings under the International Monetary Fund's compensatory payments system in 1978 ⁽¹⁾

<u>COUNTRY</u>	<u>Million SDRs</u>
Gambia	4.50
Samoa	1.25
Senegal	21.00
	<hr/>
	26.75

(1) List requested by the European Parliament's Committee on Development and Cooperation.

C — STABILIZATION OF EXPORT REVENUE (STABEX)

Introduction

66. Title II of the Lomé Convention, relating to the revenue arising from the export of primary products, represents the biggest innovation in comparison with the Yaoundé Conventions of 1963 (second EDF) and 1969 (third EDF). It is designed to bring about the stabilization of revenue arising in respect of exports from the ACP countries to the Community ⁽¹⁾ on which their economies depend to a considerable extent, and which are influenced by marked fluctuations in price and/or quantity.

67. The Stabex system is governed by three limiting conditions:

(i) Regional limitation: the ACP signatory States of the Lomé Convention and the OCT are the sole beneficiaries.

(ii) It applied to twelve main products at the time of the signature of the Convention; seven more were added at the EEC/ACP Council meeting in April 1977.

(iii) Maximum intervention by way of Stabex is limited for the duration of the Convention (1975-1980) to 395 million EUA including 20 million for the OCT. This sum is divided into yearly tranches of 75 million EUA for the ACP and 4 million for the OCT. Any balances are automatically carried forward to the following year.

68. As at 31 December 1977, 29 ACP and OCT States had benefited for the years 1975 and 1976 ⁽²⁾, from transfers totalling 114 172 214 EUA ⁽³⁾ in respect of 19 products. The utilization of the annual tranches for the ACP countries is 97.05 % for the implementation year 1975, and 48.38 % for 1976. For the OCT these percentages amount respectively to

44.96 % and 82.51 %. The transfers were made up of grants of 70 920 830 EUA and loans for 43 251 384 EUA. At the end of 1977, a single reimbursement was received from an OCT State amounting to 61 133 EUA.

69. An analysis of the management of the Stabex system reveals a certain number of deficiencies.

ACP/EEC defects

70. The calculation of Stabex transfers is partly based on the import statistics of the Member States of the Community and partly on the export statistics of the ACP States. The sometimes incomplete and inaccurate nature of the figures obliges the administration to use estimates, which are difficult to assess, especially since these figures are not subject to on-the-spot checks.

Reply of the Commission

The Commission has replied to the comments made by the Court in paragraph 70 as follows:

These estimates reflect the sum total of experience acquired on the subject and are often cross-checked with information from commercial agents, international bodies responsible for trade in the product concerned and the Member States' Statistical Offices.

In addition, on several occasions when the Commission has asked for further particulars concerning specific import figures, corrections have been made by the Member States' Statistical Offices.

Difference in nomenclature in the statistical systems

71. The EEC statistics are classified by products according to the EEC harmonized nomenclature for external trade statistics (Nimexe) system, while ACP statistics partly follow the classification of statistics and tariffs (CST) system. For some products from the list of goods pertaining to the Lomé Convention this presentation prevents the reader from picking out the correct data for want of suitable subheadings. Such is the case, for example, of the various classifications of oil, raw sisal, mohair, pyrethrum and Ylang-Ylang oil. In addition, the subdivisions of the Nimexe and

⁽¹⁾ Some States benefit from the Stabex system relating to exports irrespective of destination.

⁽²⁾ See Annex I, Diagrams Nos 12 and 13.

⁽³⁾ Including a sum of 1 273 640 EUA for the Solomon Isles for which the signing procedure was in process.

CST nomenclatures do not always correspond. These imprecisions increase the difficulty of implementing the Stabex system. Measures should be taken in this connection during the preparation of any new Convention.

Reply of the Commission

The Commission has replied to the comments made by the Court in paragraph 71 as follows:

The products on the list in Article 17 (1) have been transposed in terms of the Nimex system by tariff experts within the Commission. The EEC cannot influence either the choice or the breakdown of the tariff systems adopted by the ACP States; furthermore, the differences are in fact minimal, and experience of specific cases shows that the ACP figures are 'pure'. An ACP State which only produces groundnuts will not export any soya-bean oil, theoretically included in the same subheading in the tariff code which it has adopted.

The c.i.f. (cost, insurance and freight) and f.o.b. (free on board) factor

72. The determination of the c.i.f./f.o.b. factor, required to convert EEC import statistics, expressed in c.i.f. values, consists, in fact, of an 'estimate' based on fictitious values in respect of the years 1971 to 1974 but projected to the years 1975 to 1977. This factor is determined in a happy-go-lucky manner, although it is of great significance for the operation of the system.

Reply of the Commission

The Commission has replied to the comments made by the Court in paragraph 72 as follows:

The determination of the c.i.f./f.o.b. factor is not based on 'fictitious values' nor is it done 'in a happy-go-lucky manner'. Year by year, it is done on the basis of a comparison of the real unit values of exports and imports, including the year of implementation. This method was proposed by Statistical Office experts who had opposed a

different approach based on the information needed to establish payment balances.

Examination of the method of calculating the c.i.f./f.o.b. factors

73. An examination intended to determine the c.i.f./f.o.b. factors used by the Commission, following the comments drawn up in the previous year by the Audit Board, aimed mainly at obtaining confirmation of the method of calculating the factors by the Commission, reveals significant differences in relation to the factors applied although the study is based on the same f.o.b. and c.i.f. figures. This examination has revealed previously established anomalies, such as negative factors, i.e. lower than unity, which practically amounts to saying that goods delivered c.i.f. at Hamburg would be worth less than at f.o.b. shipment from the ACP State. In fact, the real freight and insurance costs had not been calculated as they should have been, but the c.i.f. values were simply divided by the f.o.b. values.

The study in question, financed by the fourth Fund, was entrusted by the Commission to private consultancy firms at a cost of 145 157 EUA. The question arises why the Statistical Office of the European Communities was not asked to carry out at least the first part of this study.

Reply of the Commission

The Commission has replied to the comments made by the Court in paragraph 73 as follows:

From the outset, the administering department was in a difficult position over this c.i.f./f.o.b. factor. Apart from certain clear cases, prudent administration was called for here. The Commission has endeavoured to discharge its responsibilities to the best of its ability. The Commission arranged for the study mentioned by the Court — with the ACP Group's agreement — in order to improve its knowledge on the matter. At the Commission's request, the consultancy firms used two methods in this study: (i) the method usually followed, i.e. a comparison of the unit values of exports and imports, expressed in a single currency (the dollar), and (ii) the method of interviewing

shipowners and insurers whenever the first method did not produce satisfactory results (1).

However, in view of the complexity of the market and the discretion observed by the shipowners, it is not an easy task to determine the real cost of freight and insurance. Nevertheless, in the main the studies have produced satisfactory results and in future the coefficients will be used on a better-founded basis.

This study was entrusted to private consultancy firms in order to take account of the need for the agreement of the ACP countries; it was therefore appropriate to have it carried out by private firms rather than by an EEC department.

The Office has received copies of these studies and all the figures used.

Cross-checking of EEC/ACP statistics

74. Article 17 of the Lomé Convention lays down that the statistics used for the implementation of the system are to be those resulting from the cross-checking of the EEC and ACP statistics, taking account of the f.o.b. values. The Court of Auditors has the following comments on this cross-checking:

- (i) The Commission always sets a single c.i.f./f.o.b. factor for the whole of the EEC, irrespective of the rates of freight and insurance, according to the ports of destination and the goods transported, however much they vary.
- (ii) Neither is any cross-checking carried out by comparing values of exports from the ACP country into one of the nine Member States of the EEC with the import values included in the statistics of the Member State, which would show up any disparities more distinctly. Instead, the Commission operates on the basis of the

(1) Moreover, a coefficient lower than unity does not mean that goods delivered c.i.f. at Hamburg would be worth less than at f.o.b. shipment from the ACP State. Arithmetically, this result could be obtained, correctly, in a case in which — in a period of substantial price fluctuations — the unit statistical values do not refer to the same deliveries because of a temporary discrepancy in the notification of unit values of imports, where definitive importation from a warehouse is effected, for example, eighteen months after the arrival of the goods in the port.

value of global exports from the ACP States towards the EEC in comparison with the global EEC imports, the whole being recalculated into f.o.b. values, incorporating all the abovementioned errors. It is clearly necessary to take into account the fact that all the goods do not remain in the country of the port of destination.

Reply of the Commission

The Commission has replied to the comments made by the Court in paragraph 74 (i) and (ii) as follows:

The Commission fails to see the need for cross-checking Member State by Member State in cases where, for the Community as a whole, the total import figures match the ACP export figures. There are many such cases (2). In all other cases where there are unacceptable discrepancies between import figures and export figures, cross-checking consists of a comparison of the figures Member State by Member State to pinpoint the sources of the discrepancy. In most cases the discrepancies are due to re-exportation to third countries.

As cross-checking on the basis of Community figures is perfectly adequate in most cases, there would be no justification for applying c.i.f./f.o.b. coefficients Member State by Member State. Moreover, it should be emphasized that the distance factor, plays an almost negligible role among the components of the freight rates, i.e. the specific value of the goods, the weight-volume ratio, the nature of the goods etc.

- (iii) The Commission does not check the accuracy of these figures by carrying out on-the-spot analyses of, for example, production or the market.

(2) Of course, this is no obstacle to the monitoring of intra-Community trade in a particular product. There are cases where ACP exports to a Member State exceed the latter's imports whereas the converse is true for the other Member States. This state of affairs is attributable to agents in the first Member State reexporting part of their imports to other Member States from warehouses. In these circumstances, the goods retain the origin of the ACP State on final importation.

Reply of the Commission

The Commission has replied to the comments made by the Court in paragraph 74 (iii) as follows:

As has already been said, where the reliability of the ACP figures may be in doubt, the Commission cross-checks these figures not only with the import figures but also with publications in the specialist press, the statistical bulletins of the market organizations, and information from delegates, in other words all the information available at a particular time. Since 1975 nearly all the ACP States have been visited by Commission officials. In 1977 a mission was sent to Mali to examine certificates of origin in a case of doubt.

- (iv) There has been no explanation for the diversity in methods of cross-checking used. In one case the ACP data was used to calculate the transferred sums; in another the EEC statistics were used and in a third case it was the mean average of these two statistical values. Moreover, there has been no systematic check by the Commission of the requests for transfer as laid down in Article 19 (4) of the Lomé Convention. There should have been an investigation into the extent to which the Commission delegations could be more active in this respect in the ACP countries.

Reply of the Commission

The Commission has replied to the comments made by the Court in paragraph 74 (iv) as follows:

Cross-checking, after careful examination of the ACP figures by the department, takes the form of negotiations where considerable discrepancies are found. A measure of flexibility is essential in order to secure an acceptable outcome from such negotiations. In such cases an optimum solution has to be found which, in the light of considerations of time-saving and financial resources, is satisfactory both for the Commission and for the ACP State.

Furthermore, the Commission is willing to draw up cross-checking reports for all cases in which,

for the implementation years 1978 and 1979, there are grounds for cross-checking, i.e. when the transfer requests in question concern situations for which the Commission does not yet have cross-checked figures and for cases in which the bases for cross-checking are not Community import statistics.

The Commission emphasizes that requests are examined in the light of Article 19 (4) in all cases. The fact that, in most cases, the provisions of this paragraph have not been applied does not mean that no examination has taken place but rather that there was no justification for applying them. Where a reduction has been made in the basis for a transfer, the delegations have made valid contributions in accordance with their capacities.

Comment of the Court of Auditors

While welcoming the Commission's intention of drawing up cross-checking reports for all cases in which, for the implementation years 1978 and 1979, there are grounds for so doing, the Court feels impelled to mention that this willingness seems to be the first practical outcome of a Council recommendation, dated 30 October 1978, at the time of giving discharge in respect of the operations of the fourth EDF for the financial year 1976.

In this recommendation the Council considered that any possible disparities between the EEC and ACP States' statistics must be duly justified in a note which explains the choice of quantities and values adopted for cross-checking and not merely by referring to overall negotiations.

The Court can but support this procedure which has been recommended by the external audit body since the initial operation of the Stabex system.

Furthermore, the Court draws the Commission's attention to the difficulties arising from the provisions of Article 17 (1) of the Lomé Convention, which require the assessment of the f.o.b. values for which the ACP statistics are the only source; the same paragraph stipulates cross-checking with the EEC import values, for

which there is also only one source, namely the EEC statistics.

The calculation of the c.i.f./f.o.b. factor continues to pose major problems, above all since it is of great financial significance for the functioning of the system. In addition, detailed implementing provisions appear to be indispensable.

Average unit costs

75. One can calculate the average cost per tonne of exports of an ACP country to each member country from the declared quantities and values of exports.

When comparing the resulting unit costs between member countries, extreme disparities are apparent, as are abnormal results such as, in some cases, unit costs of large quantities being far greater than those of small quantities.

Reply of the Commission

The Commission has replied to the comments made by the Court in paragraph 75 as follows:

This point concerns the export policy of the ACP States and the import policy of the agents in the Member States. The Commission does not feel entitled to intervene in trade which is carried out, as a matter of principle, on a free market.

Utilization of the funds

76. As Stabex is operated at present, account is never taken of structural changes in the market, for example a drop in demand for cotton owing to an increased use of man-made fibres. But this aspect should not be overlooked by the ACP countries when they utilize the amounts allocated. In this connection it should be noted that Article 20 of the Lomé Convention provides that the recipient ACP countries should forward an annual report on the utilization of funds. The recipient ACP countries could obviously use the Community grants more effectively if the Commission provided technical assistance in the form of an analysis of the markets and products concerned.

Reply of the Commission

The Commission has replied to the comments made by the Court in paragraph 76 as follows:

This point touches on an important problem which, in the present state of affairs, concerns trade promotion. In a broader framework, it underpins the Commission's proposal concerning a mandatory procedure for periodic consultations between the EEC and the ACP States with the participation of the economic and social circles concerned. This idea does not seem to have been favourably received by the ACP States.

Liaison

77. The liaison officers of the various ACP countries play an especially important role in drawing up and forwarding the statistics of the ACP countries, in particular in establishing the origin of exported goods. The Court of Auditors, having only just received the list of these officers, is not yet in a position to make an assessment of the system.

Reply of the Commission

The Commission has replied to the comments made by the Court in paragraph 77 as follows:

The Commission considers that the appointment of a liaison officer for the system is the responsibility of the ACP State concerned. Furthermore, relations between the liaison officers operating at present and the Commission are entirely satisfactory.

Specific comments

78. In the calculation of transfers to Niger and to Togo in 1975 the Commission used an exchange rate US dollar/national currency, which afterwards the International Monetary Fund declared as inaccurate and consequently corrected. Despite the Commission having been informed of this by the Audit Board, the calculation of transfers has still to be rectified.

79. During the calculation of transfers to the Republic of Jibuti in 1976, it became apparent that the 1975 calculations had failed to take into

consideration the direct parity between the Jibuti franc and the US dollar. The 1975 accounts have still not been rectified.

80. For the operation of the Stabex system the Commission worked out each year the average of the monthly mean values at a rate of 1 EUA/1 US dollar. These mean values were subsequently proved to be inaccurate and have been corrected by the Commission. The application of new values should not merely be confined to calculations of transfers for 1977; correction of the 1975 and 1976 transfers may also be required.

Reply of the Commission

The Commission has replied to the comments made by the Court in paragraphs 78 to 80 as follows:

The figures used were the only valid figures known at the time. Clearly, the principle of using the most recent figures at the time of the proposal, as regards rates of exchange etc., is the only practical method. It should be added that the department makes use of these official figures, e.g. those of the IMF, without any change, since they have been established by specialist authorities more skilled at this task than the department responsible for administering the Stabex system.

The Court of Auditors wants retrospective corrections to be made in all cases where exchange rates (or other values) have been corrected after the transfer decision has been taken and the funds transferred. In the Commission's opinion, this attitude is neither realistic nor practicable and, in most cases, would amount to an infringement of the Lomé Convention.

It may happen that the authorities concerned correct the rates several times or after a period of a few years. This would entail a series of different amounts for the same transfer or the changing of an amount of a transfer decided some years before. It goes without saying that the making of additional payments and/or reimbursements, continually delayed by a few years, would not only have administrative and accounting disadvantages and diminish the Commission's credibility, but also cause the ACP

States difficulties where the 'final' amount is less than the amount transferred.

These disadvantages would appear to be out of all proportion to any advantages that there might be in implementing the Court's proposals on this matter.

If the Commission questioned amounts already decided on and paid over, this would open the door to 'amended' requests by the ACP States. The department has had difficulty in refusing such approaches in the past.

From the point of view of legal and budgetary security it is essential that a financial year should be closed at some specific time. This idea is expressed in Article 18 (3) which stipulates that 'Whatever balance remains at the end of each year of the first four years of the application of this Convention shall be carried forward automatically to the following year'. In practice this means for example that the instalment intended to cover losses of export earnings for the year 1976 lapses on 1 January 1978.

The outcome of using the most recent data is that, in all the cases mentioned in the first paragraph of the Court's report, the exchange rates have been corrected in the transfers relating to the years 1976 and 1977. The same applies to transfers to the Republic of Jibuti.

The soundness of financial management

81. The Court of Auditors recognizes the difficulties that the operation of the Stabex system involves for the Commission and for the ACP countries. It is fully aware of the fact that the implementation of this system requires special efforts, above all in the initial stages. Given that a new convention is being prepared, the Court considers it advisable to analyse the weak points shown by the present system. In particular strict implementing provisions governing the operation of the system are needed. The Court of Auditors considers it preferable to await the closure of the 1977 transfer operations before considering the question of any repercussions on the economics of the various recipient ACP and OCT States involved in the implementation of the Stabex system. This point will be dealt with in its next report.

Reply of the Commission

The Commission has replied to the comments made by the Court in paragraph 81 as follows:

This statistics-based system, the product of difficult negotiations, presents certain problems in day-to-day management. The Court's observations refer to these problems and their consequences.

The Commission emphasizes the principles of administration which it has followed from the outset and which it regards as essential for the smooth functioning of the system:

- (a) Even with a much bigger staff complement, it would be impossible to examine the absolute accuracy of each statistical item. In the search for statistical truth there comes a time when one has to take a statistic, in its current degree of accuracy, as an unquestionable magnitude.*
- (b) It would be a pure coincidence if the exports of a particular product from country A to country B equalled the imports of that same product into country B from country A. This could only happen in the theoretical case of perfectly planned countries where the statistical figures have more to do with plans than with reality. In all other cases, which can be very varied in nature, import and export figures are encountered which are different or even contradictory, despite considerable effort and investigation.*

The Commission is convinced that, as things stand at the moment, only a pragmatic approach can guarantee the smooth functioning of this system, regarded by all concerned as an exemplary effort in the field of relations between the industrialized and the developing countries.

The Commission is also convinced that a simple accounting exercise could show that the expenditure needed to make the statistics as accurate as they could be would have no economic justification. The law of diminishing returns applies here too.