

**Memorandum of the Commission
to the Council on the future
relations between the
Community, the present AASM
States and the countries
in Africa, the Caribbean, the
Indian and Pacific Oceans
referred to in protocol No 22
to the act of accession**

(presented by the Commission to the Council
on 9 April 1973)

COM(73) 500
4 April 1973

Cover title: Renewal and enlargement of the association
with the AASM and certain Commonwealth
developing countries

Blank pages not reproduced: 2.

summary

I. Introduction	5
II. Contents of the future association	8
1. Trade	8
Evaluation of the Yaoundé Convention and Arusha Agreement	8
Trade liberalization and promotion	9
Trade results	10
The instability of export receipts	11
Future guidelines	12
<i>The tariff and quota system</i>	13
Maintenance of the free trade system	13
Tariff system	14
Non-tariff obstacles	17
<i>Stabilization of export receipts</i>	17
The need for Community action	18
The possibilities and conditions of Community action within the Association	19
2. Financial and technical cooperation	21
The development and characteristics of financial and technical cooperation	21
Future developments in financial and technical cooperation	23
<i>Cooperation - sectors and implementation</i>	24
Sectoral development of cooperation	24
Adjustments in the implementation of financial and technical cooperation	26
<i>Widening of financial and technical cooperation</i>	28

Increased support for regional cooperation	28
Reinforcement of cooperation with the least advanced Associated States	29
Priority to labour problems	29
Greater aid to small firms and small development projects	30
<i>Participation of Associated States</i>	31
Strengthening the participation of Associated States in the general guidance of aid	31
Strengthening the participation of Associated States in implementing projects	31
Generalisation of the price preference accorded to Associated State suppliers	31
Strengthening the role of the Associated States in the preparation and implementation of investments	31
<i>Financial aspects of cooperation</i>	32
Volume of Community aid	32
Financial conditions to suit the needs of the Associates	33
EDF budgeting and its financing from the Community's own resources	33
3. Cooperation in other fields	34
Rules concerning the establishment and the provision of services	34
Rules concerning external payments and capital movements	34
Adjustment of the structures for receiving private investments	35
4. The institutions	36
Assessment of the Yaoundé Convention and Arusha Agreement	36
Institutional adjustments and improvements	36
Adjustments to be made to the institutions and their operation	36
Improvement of the institutions in practice	37
5. Duration of the new association convention	38

I. Introduction

1. The Yaoundé Association created by the Treaty of Rome, adapted and reshaped after negotiations between the EEC and 17 African States and Madagascar, has been organizing relations in the fields of trade and cooperation between these states and the Community for more than twelve years. In 1972 Mauritius joined the AASM. This Association has constituted — and still so far constitutes — the only framework in which a real development cooperation policy, using a coherent variety of instruments, has been organised. It was completed in 1969 by the Arusha Agreement, which created a different association — without financial and technical assistance — with Kenya, Tanzania and Uganda. These two agreements constitute a form of regional cooperation which is based both on traditional links and a high degree of interdependence in trade between the partners, as well as on similarities in the economic situation and development problems of the participating African countries.

Though the Summit Conference of October 1972 called upon the Community and its Member States progressively to implement a comprehensive policy of world-wide development cooperation, the Heads of State and Government did not wish to abandon the policy of association and replace it by a world-wide policy as yet to be formulated. The Summit Conference stressed that the Community must, without detracting from the advantages enjoyed by countries with which it has special relations, respond even more than in the past to the expectations of all the developing countries. But it expressly underlined the vital importance which the Community must attach to the maintenance and development of the Association Policy, as reaffirmed in the Treaty of Accession. The Community's policy, of development cooperation will therefore be characterized by a combination of a high degree of cooperation at regional level

with a necessarily less intense degree of cooperation on a world scale, the content of which is under study in the Community.

This regional policy now has to change as a result of the provisions of Protocol 22 annexed to the Act of Accession. By this Protocol the enlarged Community offers 20 independent Commonwealth countries (in Africa, the Caribbean, the Indian Ocean and the Pacific Ocean) the opportunity of negotiating with the Community as to how they should organize their future relations by association or trade agreements. As regards the development of trade relations, it is worth recalling the Joint Declaration of Intent concerning several Asian developing countries, which is also annexed to the Treaty of Accession.

In its association policy, the Community is therefore approaching precise and important deadlines which may mark a turning-point in Community policy on development cooperation: it will have to achieve a synthesis between the various advantages granted and guaranteed to the present partners of the Association on the one hand and, on the other, a genuine renovation of the Association, the enlargement of which will require very important changes and additions.

In this Memorandum the Commission sets out ideas for the renewal and enlargement of the Association which, it considers would enable the Association to emerge from the forthcoming negotiations not only enlarged but also enriched and strengthened.

2. The Yaoundé Convention, concluded in 1969 between the Community and the African and Malagasy Associated States, and the Arusha Agreement, also concluded the same year between the Community and the three East African States, both expire on January 31st, 1975. That is also the expiry date of the transitional arrangements which maintain the status quo, particularly in respect of their exports to the United Kingdom, for the countries referred to in Protocol 22 to the Act of Accession.

In response to the requests of the participating African States, both the Yaoundé Convention

and the Arusha Agreement stipulate that eighteen months before these Conventions lapse — that is, as from 1 August, 1973 — the 'Contracting Parties shall consider what arrangements could be envisaged for a further period'.

In Protocol 22, the enlarged Community offers to twenty independent Commonwealth countries various ways to regulate their relations with it; in particular the Community invites these countries referred to in Protocol 22, which would like to join with the Community in organizing a system of cooperation with a wide range of instruments for cooperation and development, to participate side by side with the AASM in negotiations as from 1 August 1973 on the Convention to replace that of Yaoundé.

3. In the Commission's view the Community must now prepare itself without delay to negotiate a renewed and enlarged Association with all the abovementioned countries which want to participate. The Community should also bear in mind that other African countries not referred to in Protocol 22 but 'with comparable products and structure' may also wish to take part in such a negotiation.

The Commission believes that the 1975 deadline affords a unique opportunity for the Community and a great number of developing countries to make a real joint effort to organize their cooperation within a common framework adapted to the new situation. This could also assist cooperation amongst the Associated States themselves and in particular between the African States themselves.

The Carribean countries and the islands in the Pacific Ocean, in view of their location and their particular economic characteristics, may possibly prefer to form regional groups distinct from the African group in the context of these negotiations with the Community. Of course the possible creation of such groups would not result in any less favourable treatment of their members than that which will be offered to the African group.

Three countries referred to in Protocol 22, Botswana, Lesotho and Swaziland, whose

levels and problems of development fully justify the Community's cooperation offer, already have a customs union with South Africa. This should not prevent the Association including these three countries also.

The Commission believes that the Community must remain open-minded and consider any adjustments which may prove useful to meet with any specific situations or problems of these countries.

By adopting Protocol 22 the Community set out to stress the constructive and open frame of mind in which it intends to hold discussions with all the countries concerned. On the one hand it will take into account the experience already gained with many of them, who are legitimately attached to a number of acquired advantages; on the other hand it will also set out on initiating a real dialogue with new partners. This entails taking full account of the attitudes and proposals which they want to put to the Community. In the field of trade the Community ought, in the Commission's view, to state its determination clearly to seek solutions in accordance with GATT which reconcile any differences in attitude to the problem of so-called 'reverse preferences'.

4. In order to enable all the countries concerned to prepare their position with the best possible knowledge of the facts, the Commission considers that it is the Community's responsibility to set out what might in its view be the main characteristics of a 'model' for association, capable of meeting the preoccupations of the countries involved as a whole. In outlining this 'model', there can be no question of limiting the scope of the negotiations by setting up any prior conditions; what the Commission is seeking to do is to provide a concrete point of departure to enable negotiations to get under way.

In the view of the Commission the basis principles which could serve as guide lines to all the partners, may be set out as follows:

The conclusions with the Community of an agreement on cooperation entails for the

Community's partners no limitation on their sovereignty, either internal or external, nor on their freedom of choice of objectives or means for their development policy. To become an associate does NOT mean joining the Community; it means organizing on an equal footing with the Community a shared framework of economic and development cooperation.

The 'model' for association which will result from the negotiations must therefore fulfil the main objective of cooperation: the economic and social development of the Associated States. In order to contribute to this aim in the most efficient way, one should keep the comprehensive and coherent character of the Association as regards the instruments to be jointly deployed, a character given concrete form by specific trade cooperation, financial and technical cooperation, and joint institutional machinery for the guidance and management of the Association on a basis of equality.

Moreover, the renewal and the enlargement of the Association should not weaken Community relations with the AASM; at present these countries benefit from a series of advantages which the Community has agreed to maintain. But maintaining what has been achieved does not mean immobility, or lack of innovation.

On the contrary, the enlargement of the Association, in order to be compatible with what has already been achieved, requires the adaptation and enrichment of the content of the cooperation.

5. The Commission has therefore tried to take into account the lessons drawn from past experience, the concerns of its partners in so far as it is aware of them, and the new guidelines laid down in Protocol 22. The Commission proposes that in respect of trade matters the Association should be based on the principle of the free trade area. The acceptance by the associated states of the mutual free trade area principle does not entail any obligation for them to grant preferences to the Community. They retain complete tariff autonomy in their relations with third countries, and complete freedom to negotiate on such matters.

In addition the Commission proposes new additional mechanisms capable of providing effective solutions within a regional framework to the crucial problem of instability of export earnings from primary products, particularly for countries heavily dependent on a single commodity.

As regards financial and technical cooperation, the enlargement of the Association will necessarily mean that the Community will have to increase its financial aid substantially. Anything else would have the result of penalizing the countries at present associated, or giving differential treatment to future partners; neither is a tenable hypothesis. It will also be necessary to intensify cooperation in this field, and to ensure that Community measures make a greater contribution to the solution of such important and varied problems as regional cooperation; the struggle against under-employment; industrial development, and that they take special account of the particular needs of the least developed countries.

The institutional machinery, too, will have to be adapted to the needs of the administration and guidance of a new and enlarged Association.

6. The Commission wishes to emphasise that the proposals contained in the present Memorandum are simply its first contribution to the forthcoming negotiations.

It hopes that the Council and the Parliament will begin considering them without delay, in order to arrive at a negotiating position in time for August 1, 1973. It goes without saying that this position, which will then have to be compared with the views of the partner countries involved, in no way prejudices the outcome of the negotiation. The negotiation will be with a large number of countries, and will involve many different problems and situations. It is simply in order to facilitate the negotiations that the Commission believes it should take at its starting point comprehensive and coherent 'model' put forward here.

All the countries interested in this general concept of association should take part in the negotiation to begin on 1st August 1973, in accordance with the provisions of Protocol 22 SS I and II.¹ The Commission stresses that it is clearly in the light of the course of the negotiation that each country, which initially chooses to participate, will make its final decision.

All participating countries retain the right to request the Community to negotiate and conclude an agreement on a different basis. If necessary, and at the appropriate moment, other forms of relations, also provided for in Protocol 22, could be negotiated. It is clear that these forms of relations would involve different methods and a different balance, characterized in general by undertakings of a more limited nature.

¹ In addition, it is the Commission's view that the Community should take a positive attitude if certain countries that have not expressed an interest in the matter before 1 August, should wish to join the negotiation later. The Commission believes that it would then be up to the parties to the negotiation to decide on such requests, taking into account the stage reached in the negotiation by that time.

II. Contents of the future association

In the main sectors (trade, financial and technical cooperation and so forth) the provisions of the future associations will obviously have to take into account the particular problems and needs of those Commonwealth countries which can take advantage of the Community offer embodied in Protocol No 22 of the Treaty of Accession. But they will also have to take into consideration the experience gained, the results, and the shortcomings revealed by the working of the existing Associations (Yaoundé and Arusha). It would appear appropriate therefore to begin with a brief assessment of the last five year period in each of these sectors.

1. Trade

The results achieved in the trade sector, while they have not been negative, have nevertheless failed to come up to initial expectations. An analysis of these results is summarized below and serves as the basis for the Commission's recommended guidelines set out thereafter. At the risk of unduly weakening the 'trade' aspect of the Association and upsetting its general balance, these guidelines should form the basis of future provisions on trade.

Evaluation of the Yaoundé Convention and Arusha Agreement

This assessment concerns essentially the Yaoundé Convention which covers a sufficiently long period to judge its results. Most of what is said is also valid in respect of the Arusha Agreement. It should nonetheless be pointed out that the latter agreement, though it has the same objective of free trade among the partners, contains provisions different from

those of the Yaoundé Convention with regard to the customs tariff of the three East-African countries (it lays down reverse preferences). The results of the Arusha Agreement (it came into force on January 1, 1971) could be summarized as follows:

- (i) satisfactory development of trade, particularly of the main products enjoying preferential treatment in the Community (raw coffee and pine apple preserves),
- (ii) improvement of preferences for certain agricultural products of interest to the three East-African countries (maize).

Trade liberalization and promotion

General system

Essentially, trade liberalization between the Community and the Associated African States and Madagascar (AASM) was completed on 1 July 1968 with the creation of the customs union. Thus the second Yaoundé Convention has done no more than to endorse the system of free trade which has governed commercial relations between the Community on the one hand and each of the Associated States on the other.¹

The mutual preferential advantage resulting from this system has nevertheless continued to diminish in view of the way in which the Association partners have used their tariff autonomy vis-à-vis other countries. As far as the Community is concerned, these developments have in the main resulted in a fairly substantial reduction of preferences for the AASM's exports on the Community market. The reduction is due, in the first instance, to a new lowering of the Common Customs Tariff (CCT) in the case of a certain number of tropical products with the coming into force of the second Yaoundé Convention of 1 January 1971² Secondly, it is due to the introduction by the Community, as from 1 July 1971, of the system of generalized preferences designed to benefit all developing countries.

In the case of the AASM a number of Associated States have in fact granted tariff reduc-

tions, some of them substantial, to third countries. Notable examples are the countries of the Central African Customs and Economic Union, the Ivory Coast and Upper Volta.

Such the EEC-AASM-Association has been affected by the great wave of international trade liberalization (especially trade liberalization between the developing and the industrialized countries) which will probably continue even more markedly in the years to come.

Special systems for certain categories of agricultural products and processed agricultural products similar to, and competitive with, Community products

The free trade system implies that products originating in Associated States are admitted into the Community free of customs duties, as is now the case. However, most raw and processed agricultural products similar to, and competing with, Community products are excluded from this general system. In the case of these products, special treatment, more favourable than the system covering the products of other countries, is applied where for economic reasons the Associated States have an interest in promoting the export of these products. The special treatment to be applied is determined by an autonomous decision of the Community after consultations with the Associated States.

The preferential benefits granted up to now under the Common Agricultural Policy affect only a limited number of products from the AASM. The products concerned are as follows: vegetable oils, beef and veal, cereals, certain fruits and vegetables, processed products (based on fruit and vegetables, cereals, rice, cocoa and manioc), tobacco, rice and

¹ With the exception, for different reasons, of Togo and Zaire and to a lesser extent Rwanda.

² The percentage levels of customs duties applicable in 1958 and 1973 respectively to the main primary products were as follows: bananas 20,20, coffee 16,7, palm oil 9,6 ground nut oil 10,10, cocoa 9,4 wood in the rough 5,0, sawed timber 10,0, allumina 11,8,8, aluminium 10,7.

fishery products. Apart from vegetable oils, these products represent only a tiny percentage of the total exports of the AASM, although it should be pointed out that in the case of certain Associated States, e.g., the Malagasy Republic or Kenya, the percentage is much more significant.

Up to now preferences granted in this area have consisted of exemption from customs duties in the case of products subject to such duties or, alternatively, the lowering of the levy. In certain cases these exemptions or reductions were governed by safeguard clauses or quantitative limitations. Compared with the earlier system, the preferences have been improved both in level and product coverage. However, they are still considered insufficient by the present associated countries.

Lastly, reference must be made to the case of sugar, a product for which the Community is at present examining special treatment in favour of the AASM.

Marketing

The existing Yaoundé Convention marks a considerable step forward inasmuch as the Associated States are entitled to draw on the resources of the European Development Fund to promote sales on the Community market. Thanks to these marketing measures, the Associated States should gain the maximum benefit from the existence of the free trade areas increasing the automatic effects of free trade by active export promotion. Owing to the fact that this involves an entire new area of skills which the Associated States can assimilate only gradually and which at times presupposes the existence of local structures manned by suitably skilled personnel, progress to date is still only relatively modest. Nevertheless, the moves in this direction should be regarded as a long-term process capable of bringing about a gradual change of attitude on the part of the AASM to the problems of exporting. In other words, it is a policy which should certainly be pursued in the future.

Trade results

As far as EEC-AASM trade is concerned, the overall picture contains favourable elements. However, it is difficult to say how far this success can be attributed to the free trade system, when one considers that only one-third of AASM exports are eligible for preferential treatment on the Community market, the other two-thirds being products on which no duties are levied whatever in the country of origin.¹ Nor should it be forgotten that full-scale liberalization of trade is a relatively recent event.

Nevertheless, one may still state that AASM exports to the Community (whether in terms of volume or geographical destination) would clearly not have achieved their present success, had they been subject to the rules governing exports from third countries.

Expressed in figures, the results obtained during the period 1958-1971 can be summed up as follows:

AASM exports to the EEC

During the period in question AASM exports rose from 896 million to 1 638 million dollars, after reaching a ceiling of 1 863 million dollars in 1970. For the period under consideration this trend represents a growth trend of 6.2 % a year, i.e., lower than that of the exports by all developing countries to the EEC (7.7 %) during the same period. However, if oil exports are excluded, the average annual rate of expansion of AASM exports to the EEC (6.2 %) is seen to be higher than that of the exports by all developing countries to the EEC (5.5 %).

These figures bear out that trade liberalization has had a positive, albeit modest, effect.

On the other hand, as far as geographic diversification is concerned, the results are more encour-

¹ The Common Customs Tariff stipulates a zero duty for the following primary products: calcium phosphate, gum arabic, ores, crude oil, rubber, raw hides and skins, wood, cotton, sisal, copper, tin, cobalt, tea, seeds and oleaginous fruits.

raging: Member States who in the past had no special relations with the Associated states have increased their imports from those countries at a very much higher rate than the other Member States, as the annual growth rate figures demonstrate: 10.7 % for the Netherlands, 11.2 % for Germany and 12.6 % for Italy as compared with 3.1 % for France and 6.8 % for the Belgio-Luxembourg Economic Union.¹

EEC exports to the AASM

EEC exports rose from 668 million dollars in 1958 to 1 265 million dollars in 1970 and 1 401 million dollars in 1971 at an annual rate of 6.5 %, i.e., at a slightly higher rate than for Community exports to all developing countries (5.7 %).

Exactly the same phenomenon of geographic diversification can be observed here as has been mentioned in the case of imports. Exports from Member States having special relations with the AASM only increased at a low annual rate (5.1 % in the case of France and 4.6 % for the BLEU) whereas the other Member States increased their exports at a much higher rate (11.2 % for the Netherlands, 11.9 % for Germany, and 14.7 % for Italy).²

The instability of export receipts

Neither the routine effects of trade liberalization nor the affects of other more spontaneous measures to promote sales on the Community market are in themselves capable of solving the basic problem facing the Associated States in the field of trade, i.e., the problem of improving the stability and increasing the rate of growth of their export earnings.

There is no provision in the second Yaoundé Convention under which a contribution could be made to solving this problem in its general and longterm aspects. Under the Yaoundé Convention the Community is bound by only two provisions (and even these are restricted in scope):

- (i) Under Article 20 grants-in-aid may be made in exceptional circumstances, notably where a drop in world market prices would otherwise result in 'difficulties of a specialized and exceptional nature'. This notion of exceptional circumstances obviously cannot be extended to cover a situation of chronic instability of export earning, with which a number of Associated States have been familiar over the past few years.
- (ii) Under Article 21 advances may be made to the stabilization funds of the Associated States. For their part, the Associated States have seldom availed themselves of this instrument and the two contracts for the advance of funds concluded under the terms of the second Yaoundé Convention have given rise to difficulties. The explanation of this lack of interest on the part of the Associated States, and to a large degree of the difficulties themselves, lies in the fact that the conditions of repayment have not been, and no doubt cannot be, devised in such a way as to overcome structural problems.

Past experience of the practical working of these two articles shows that they are incapable of providing a general and lasting solution to the problem of the instability of export earnings.

This instability is due not only to price instability. It has often been observed that the quantities exported fluctuate even more than the prices. This may be the result of fluctuating demand on the part of the industrialized countries, changes in the supply situation due to the vagaries of the weather, or reactions by the producers in the face of price fluctuations which they cannot control. Thus between 1965 and 1969 the average volume of groundnut oil

¹ Member State imports for 1958 and 1971 in millions of dollars: France: 563-705; BLEU: 175-338; Netherlands: 38-120; Germany: 75-272; Italy: 45-203.

² Member State exports for 1958 and 1971 in millions of dollars: France: 437-941; BLEU: 128-158; Netherlands: 30-87; Germany: 48-182; Italy: 25-133.

exports has fallen off by about 28 % under conditions where price instability at no time exceeded 10 %. Similarly, in the case of cotton the corresponding figures for the period under consideration are 15 % and 3 %.

The lesson to be drawn from these findings is that the problem of the instability of export earnings cannot be resolved simply by stabilizing prices, on the one hand, or simply by concentrating on quantities, on the other.

Of the African countries, moreover, about ten are among those whose total export earnings have been the most unstable over the last decade. As might be feared, the countries hardest hit are those which are the least advanced, the poorest and whose economies are the least diversified.

The disruptive effects of fluctuating export earnings, which are particularly serious for countries dependent on only one or two export crops, are felt at several levels; they jeopardize investment planning, the equilibrium of public finance and the balance of payments and aggravate deteriorating terms of trade. In countries where the economy is frequently rigid, these imbalances, bringing in their wake foreign debts and a reduction in the real income of producers, may set off a chain reaction with the ultimate threat of political and social instability.

Notwithstanding the past achievements of the Association, it is quite clear that it has failed so far to provide a solution to the problems of the AASM. This is all the more regrettable and disturbing as parallel developments on an international scale have been equally disappointing.

Future guidelines

During the forthcoming negotiations beginning in August 1973, the Associated States and other States eligible for entry into the Association, will inevitably be preoccupied with the question of the trading system between themselves and the Community and how it will operate.

There are a number of reasons why this should be so and it would be useful at this point to draw attention to these reasons.

(a) The developing countries in general and the Associated States and States eligible for entry into the Association in particular have been made clearly aware over the last 10 years that full control over their economic development is heavily dependent on a greater degree of stability and an increase in their export revenue. They feel, with good reason, that financial assistance from foreign public funds, while essential and indeed absolutely vital for certain countries, is nevertheless incapable on its own of adequately coping with the needs of their short-term economic growth. This is explained in the first place by the fact their investments are predominantly such that the economic spin-off effects take time to make themselves felt, and secondly by the fact that these aids hardly ever offset the unfavourable economic consequences resulting from unstable export earnings. It should also be added that in real terms these public flows from abroad remain stationary and their prospects for growth are not bright.

(b) Hopes of swiftly concluding satisfactory agreements for a significant range of primary products are still very small. It will also be noted that the existing agreements are continuously running into operating difficulties. Against an economic background as unfavourable as this, it is understandable that the existing Associated States and countries which might apply for association have called on the Community to introduce interim or supplementary formulae in the form of agreements of a geographically more restricted nature. The provisions of Protocol No 22 of the Treaty of Accession can only serve to encourage these countries in the hope that the Community will agree to initiate, within the framework of the Association, new, hitherto untried methods which may serve as an example for relations between developed and developing countries.

(c) As has been seen, the commercial advantages enjoyed by the Associated States in the

form of tariff preferences on the Community market have been subjected to a continuous process of erosion over the last few years. Furthermore, this trend is bound to become even more pronounced due to the combined effects of a number of factors :

- (i) The Community gave an undertaking to improve its system of generalized preferences at the Summit Conference of Heads of State and Government held in Paris in October 1972.
- (ii) The multilateral trade negotiations due to begin in 1973 are aimed at bringing about tariff reductions. Hence they could lead to a shrinking of the preferences enjoyed by the Associated States.
- (iii) In any case the extension of this preferential system to a larger number of Associated States will not be offset by the enlargement of the Community. Thus some of the countries concerned the benefits gained from preferences will diminish.

For all these reasons the Community will have to take steps to revitalize and improve the commercial content of the Association, unless it wishes to see a large part of its commercial importance whittled away with the additional risk that within 15 years the Association will have ceased to be a framework for an effective overall policy of cooperation in the development field.

Such an outcome cannot be envisaged, especially in view of the endorsement by the recent Summit Conference of Heads of State and Government of the importance of the Association for the Community, and the Conference decision to call on the Community to implement an overall policy with regards to all developing countries designed to cover the areas both of commerce and financial cooperation.

The instruments for promoting trade are quite familiar, even if up to now full use has not been made of them. Their field of application ranges from trading systems to the stabilization of earnings and lastly trade promotion through

financial and technical cooperation. To use them in isolation is pointless; only by applying them all simultaneously can any significant results be achieved.

The tariff and quota system

Maintenance of the free trade system

The establishment of the free trade system, achieved gradually over successive periods of association, appears to have proved itself. Its continuation, as the basis for commercial relations between the Association partners, is justified for a number of reasons :

(a) The first reason is political, i.e., to *safeguard the contractual nature of the Association*. Any solution other than the maintenance of the free trade system would accentuate the one-sided and precarious nature of such a system. This would run counter to the aim of increasing cooperation in this area, the need for which has constantly been made apparent, since the Community and the Associated States have always regarded it as essential that, despite economic inequalities between the partners, the Convention of Association should seize on every available means to emphasize their mutual equality and solidarity. It is precisely principles such as these, which distinguish the policy of association from the general policy adopted by the Community vis-à-vis the developing countries, since the latter policy is determined largely on the basis of autonomous decisions taken by the Community itself. Such was the case, for example, when the Community put forward its offer of generalized preferences.

(b) *The Community was and is the main customer and the main supplier of the AAMS and those countries likely to apply for membership of the Association*. In 1970, 78 % of all ASSM export to the industrialized countries went to the Six. In its enlarged state the Community buys about two thirds of the exports to the same industrialized

countries of the Associated States and those countries likely to apply for association. As far as imports are concerned, the percentages are 69 % and 64 % respectively.

These figures demonstrate the prime importance for the countries concerned of their commercial links with the Community. Despite very real efforts to diversify and seek new markets (a process which should be encouraged), all the signs are that, in the medium term, there will be no major changes in the pattern of foreign trade as far as these countries are concerned. In the immediate interests of the Community and its partners, therefore, it follows automatically that maximum effort should be applied to eliminate mutual trade barriers by upholding the principle of liberalization as the basic tenet of the Association's commercial policy.

(c) Taking a longer term view of the situation, i.e., with special reference to the *industrial development of the Associated States*, a third reason can be advanced in support of the maintenance of the free trade system. At present the AASM can be described as exporters of finished and semi-finished goods on only a very minor scale. Although the process of industrialization in their countries, geared largely to meet the needs of the domestic market, has scarcely got off the ground, there is every reason to believe that in the years to come it is bound to switch to the markets of the developed countries. Against this background it is important that companies in the Associated States can rest assured that the system governing their export to the Community will remain as liberal as possible. The free trade system offers a much broader solution in this respect than a system of generalized preferences, which for many years to come will essentially benefit the most highly developed of the developing countries and which does not cover all the products of interest to the associated and associate countries.

(d) *Lastly, it should be stressed that there is a legal reason arising out of the contractual obligations taken on by the future Association*

partners in their capacity as contracting parties of GATT. In practice there are only two possible ways of derogating from Article I of GATT which lays down the general principle, to be observed and applied by all contracting parties, of the most favoured nation clause. One possibility is offered by Article XXIV which permits an exception to be made in the case of customs unions and free trade areas. The other possibility is Article XXV which provides for exceptional waiver arrangements to be introduced subject to strict controls by the contracting parties.

Quite clearly, Article XXIV offers obvious advantages over Article XXV. These advantages are due essentially to the fact that under Article XXIV barriers to trade are eliminated permanently and there are built-in safeguards guaranteeing the complete freedom of the parties who have decided to base their commercial relations on a system of free trade areas. Article XXV, on the other hand, would involve a periodical re-examination of the waiver with the possibility that the latter could be called into question at any time. Under Article XXIV instead, it is possible to guarantee the free trade system for the entire duration of the Association Convention.

Tariff system

Implications for the Community

The tariff system in favour of the associated countries' exports to the Community can, of course, not be less advantageous than the present system which assures the AASM duty-free entry for the essential part of their trade. In addition, the Association must serve as the framework for improving the system governing agricultural products, and processed agricultural products similar to and competitive with Community products, and thereby ensure that the margin of preference enjoyed by these products is fully maintained.

Nevertheless, there are two reasons why continuity in itself need not mean, purely and

simply, the renewal of the systems currently in force. The first reason is due to the very fact of the Association's enlargement, since this will result in a larger volume of trade and an increase in the number of products involved. The second reason arises out of the need for improvements in the system and its rules of application. For, while it may be considerably clearer than the first Yaoundé Convention, this system is still beset by numerous difficulties of interpretation. This applies in particular to the list of products eligible for inclusion in the system (notion of the economic interest), the extent of the advantages enjoyed in comparison with the general system covering third countries, and lastly the true implications of a procedure which stipulates that there shall be prior consultations with Associated States before any final, autonomous decision is taken by the Community regarding the rules of application.

As regards *the notion of favourable treatment on economic grounds*, it should be noted in particular that this need not be confined exclusively to present production, but may, in a more dynamic sense, be extended to include agricultural products. Holding out good prospects for export development in the near future. Accordingly, the moment the decision was taken to develop a given product, the Associated States could rest assured that special arrangements would be introduced for their benefit in good time.

As demonstrated recently by the difficulties arising out of the introduction of special arrangements for certain fruits and vegetables originating in the Associated States, it would also be advisable to give a precise ruling on the interpretation of the provision which appears in Protocol No 1, Article 2 of the Yaoundé Convention and which provides for a duty-free system for products otherwise subject to the imposition of customs duties, where no provision concerning their trade with third countries is laid down under the CAP.

Lastly, a clearer definition is required as to the *exact implications of the consultation proce-*

dure involving the Associated States prior to the establishment of special arrangement schemes. Without suggesting that the Community should give up its autonomy in this matter, it is nevertheless quite clear that the Community could not merely take formal note of the observations of possible objections of the Associated States, and then disregard them. The spirit of dialogue on which the Association is founded requires that the Community undertake to examine the views of the Associated States at Council of Ministers level.

Implications for the Associated States

By virtue of the setting-up of free trade areas between the Community and the various Associated States, each of the latter will be required to maintain or introduce, at an appropriate rhythm, tariff and quota exemptions in respect of imports from the Community,¹ while at the same time retaining full autonomy on matters of trade policy vis-à-vis these countries.

All associated countries will moreover be required to regard the Community as an entity and to take such steps as to ensure on the one hand that most favoured nation treatment is applied to the Community, except with regard to other developing countries, and on the other hand that no commercial discrimination is practised among its Member States. This has been one of the basic principles of the Association's policy since its foundation and it is quite clear that it should remain so.

The free trade system, which has formed the commercial basis of the Association since its inception, satisfies a certain number of requirements already mentioned. It must, among other things, be instrumental in promoting an expansion in the trade of the Associated States and consequently in furthering the balanced development of their economies. It is for this reason that, given the hypothetical situation where the

¹ The problem which might arise in respect of budget receipts obviously could be solved by appropriate measures as in the present Association.

liberalization of trade were to run counter to the development needs of these countries, provision would need to exist for the drawing up of all the appropriate derogations. This, moreover, is what is already expressly provided for in the Yaoundé Convention, on which the provisions of Article 3, Para 2 and of Protocol No 2 concerning the implementation of this article ought to be based.

The problem of the so-called 'reverse preferences'

As is well known, certain differences of opinion exist over the question of preferences which may result from the establishment of free trade areas, especially where Community exports to the Associated States are concerned. Accordingly, the Commission considers it necessary and desirable to state unequivocally its position on this matter.

To begin by stating a known fact: the commercial policies and various structures and regulations governing foreign trade in the Associated States and in those countries eligible for membership of the Association are extremely diverse, since they encompass all the subtleties of opinion which might be expected to stem from the various differences in economic attitudes. It is not surprising that the same diversity of opinion should exist over such matters as tariff, quota and fiscal policies and the technical aspects associated with the implementation of these policies.

In the face of such a diversity of attitudes, situations and traditions, the Community ought to make known its determination to do nothing which might upset the policies and working methods of the Associated States. Furthermore, the Community should demonstrate how anxious it is to find a formula for flexible adjustment which not only respects the principle of free trade but also offers a means of reconciling the differences in thinking which seem to divide those countries eligible for membership of the Association, particularly where the so-called 'reverse preferences' are concerned.

Expressed in concrete terms, the Community position centres round four points.

. For reason which are due primarily or the mutual compatibility of the system and the GATT regulations and also to the permanent nature of the commercial benefits accruing to the Associated States, the Community proposes to maintain a free trade system organized on the basis of free trade areas.

. The Community is not asking its partners to accord it some form of preferential treatment. It merely wants them to apply true tariff-free arrangements that normally derive from the establishment of a free trade area. Such a system, moreover, could incorporate a number of wide-ranging derogations of the kind provided for under Protocol No 2 of the second Yaoundé Convention, to allow for the development requirements of the Associated States.

. The fact that the contracting parties exercise full autonomy in trade policy matters, as provided for under the free trade system, means that an Associated State can, if it so desires, extend to third countries the duty-free entry arrangements enjoyed by the Community.¹ It may do this either unilaterally or by negotiation. Should this happen, the Community would no longer enjoy preferential treatment within the framework of the free trade area. Obviously, those Associated States not wishing to follow such a course are perfectly free to refrain from doing so. This is evidently a decision which clearly must depend on the choice freely taken by each associated country.

. As in the past, technical and financial cooperation will not be made conditional on the creation of preferential arrangements in favour of the Community.

The position outlined above is the only means whereby it would be possible, within a single Association to contemplate a free trade system grouping together a great number of States,

¹ The problems which might arise in respect of budget receipts could be solved by appropriate measures as in the present Association.

which may have divergent views on the problem of the so-called 'reverse preferences'.

Taking such a position of principle as a point of departure, it must then be ascertained how each Associated State can indicate in its customs tariff that it enjoys free trade with the Community or that it is approaching such an arrangement. This is mainly a technical problem which should be studied by mutual agreement with the associated countries concerned.

Non-tariff obstacles

The smooth functioning of the free-trade system between the Community and its partners requires that special attention be paid both to quantitative restrictions and to other non-tariff measures likely to hamper the development of trade.

In the case of the Community

The system of almost total liberalization stipulated in the present Yaoundé Convention should merely be renewed.

Progress should however be made with three categories of problems: taking the interest of the associated countries into account in the preparation of measures other than tariff measures of the common agricultural policy; removal of excise duties on tropical products; protection of the description of origin of food products. In its 'memorandum on a Community policy on development cooperation-programme for initial action'¹ the Commission has moreover already stated clearly the motives and aims of an improvement in the situation concerning these last two points.

The negotiations for renewal and enlargement of the Association should provide the Community and Member States with an opportunity to

undertake a series of concrete commitments the nature and scope of which will be the subject of subsequent proposals by the Commission.

In the case of the Associated States

The general economics of the system stipulated in the Yaoundé Convention, with the possibilities of exception which it includes, appear satisfactory and should accordingly be renewed. However, since experience has shown that certain ambiguities still exist, it is necessary for the Community, asserting the principle of non-discrimination between Member States, to explain very clearly what measures in its view constitute quantitative restrictions or are likely to have an effect equivalent thereto. It will also have to point out that it is always ready to adopt a very understanding attitude as regards measures of this type taken by the Associated States in accordance with the requirements of their development or their balance of payments.

Stabilization of export receipts

Financial aid alone is not sufficient to create a satisfactory growth rate in the Third World. The reasons for this are now well known. One reason is that aid is efficacious only when applied to economies which enjoy a minimum of stability. Moreover, it affects economic growth in the medium and long term only. Economic growth could, on the other hand, be greatly stimulated in the short term by increased and more regular export receipts.

The instability of export receipts is due, as was shown above, not only to price fluctuations but still more to quantity fluctuations. In order to meet the pressing demands of the developing countries, which urgently request an improvement in their commercial relations with the industrialized countries, it is generally

¹ Supplement 2/72 — Bull. EC.

recognized that the international community should implement a policy which would ensure;

- (i) in the long term, the maintenance of the trend towards a rapid increase in exports of manufactured products from developing countries which enjoy a comparative advantage over industrialized countries;
- (ii) in the short term, the stabilization and better utilization of export receipts from trade in primary commodities.

The problem of stabilizing export receipts of primary commodity-producing countries appears to call for solution on a world scale. To date, however, the experience of world agreements on products of interest to the developing countries (coffee, tin, sugar) has not been very satisfactory.

In the first place, few products have been the subject of world agreements, chiefly because this formula is not unanimously accepted by the consumer countries. In addition, there are difficulties in operating the agreements, and their objective is essentially limited to stabilizing prices.

In this context, it would be unrealistic to pin one's faith on the conclusion of world agreements alone. The prevailing approach in this field, like the limited character of existing agreements, renders unlikely that agreements capable of providing a general solution to the problem of stabilizing export receipts of the developing countries will be established in a relatively short time.

The need for Community action

Anxious to find a solution in as open a context as possible, the Community has hitherto systematically accorded preference to the conclusion of world agreements. On this point, its position of principle remains unchanged. However, drawing the conclusion from the inadequate results obtained in this way and the requirements of its commitment within the Association, the Commission, in its 'Memorandum on

a Community policy on development cooperation',¹ made provision for the conclusion of regional product-by-product agreements. This was to apply if it proved impossible to conclude world agreements or if the conclusion of such agreements should suffer delays prejudicial to the developing countries.

The Community has already made progress in this direction, as is shown by the text of Protocol No 22 and the Joint Declaration of Intent annexed to the Documents concerning the accession to the European Communities of the applicant countries. Protocol No 22 states that 'the Community will have as its firm purpose the safeguarding of the interests of all the countries (AASM and the Commonwealth countries situated in Africa, the Indian Ocean, the Pacific Ocean and the Caribbean) whose economies depend to a considerable extent on the export of primary products, and particularly of sugar. The case of sugar will be dealt with in this context, account being taken as regards exports of this product, of its importance for the economy of several of those countries, in particular those of the Commonwealth'.

On this basis, the Community can in this way now undertake action in the field of commodities of interest to the countries referred to in Protocol No 22. On the basis of a standard product, namely sugar, which is subject to deadlines of its own, the Community wishes to define a policy for a number of products of vital importance to the developing countries, which are associated or are likely to become so associated. There is, indeed, no doubt that the Community's responsibility for safeguarding the interests of the developing countries whose economy depends to a considerable extent on commodity exports concerns in the first instance the enlarged Association.

It is urgently necessary that the Community defines its position on the system proposed by the Commission: indeed, on the one hand, the

¹ Supplement 5/71 — Addendum to Bull. EC 9-10/71.

enlargement will inevitably entail a dilution of the preferences hitherto enjoyed by the AASM States in respect of products — in particular the major tropical commodities — which they export in competition with the countries eligible for association; on the other hand, the negotiations referred to here will coincide with the multilateral trade negotiations under GATT. In view of these two rounds of negotiations the Community would at the same time have to decide its position concerning the tariff arrangements for the major tropical commodities. This obligation arises from the guidelines laid down at the Summit Conference, which committed the Community to meeting the concern of all the developing countries while maintaining the existing achievements of the Association policy.

The Community must thus reconcile these two requirements by means of an approach which balances consideration of the interests of all the developing countries against consideration of the interests of the countries associated or likely to become so associated. As regards the latter countries, which for the most part are among the least advanced of the developing countries this can only render all the more necessary the institution of a system of stabilizing their export receipts which would most effectively meet a basic need in their economies which they have long expressed. The trade provisions of the Association would in this way remain substantial.

The possibilities and conditions of Community action within the Association

The mechanisms of the Association for stabilizing export receipts must

- (i) not interfere with the free play of market forces;
- (ii) not create obstacles to international trade;
- (iii) be compatible with world agreements where these exist for the same products and not handicap the conclusion of new world agreements.

Under these conditions, the system proposed in favour of the Associated Countries could have the following characteristics:

Within a contractual framework agreed upon with its partners, the Community would offer them a certain guarantee of stabilizing their receipts from exports to the Community derived from certain primary products. The detailed rules offering this guarantee would have to be graduated in order to take into account the degree of dependence of these countries on different products.

By way of achieving this objective, the main provisions would be:

- (i) to fix a reference price by product for specified quantities per country;
- (ii) to guarantee to beneficiary countries a transfer of financial resources equal to the difference between the actual value of exports to the Community (world price x quantities exported) and their reference value (reference price x controlled maximum quantities);¹
- (iii) to transfer resources in principle by means of the automatic opening of a line of credit to the beneficiary country as soon as receipts from exports to the EEC fall during a given period below the level of their reference value. This credit would be repayable as soon as the receipts exceeded the reference value, but only insofar as the rise in receipts is due to an increase in world prices and in proportion to this rise, the beneficiary state being responsible for mobilizing or ensuring mobilization of these surplus receipts. Under certain conditions pertaining to the products and the countries, the transfer could be effected in a non-repayable form (case of the most handicapped countries);

¹ Appropriate provisions will be introduced into the system in order to eliminate the risk of the Community guarantee being jeopardized in the case of appreciable changes in the destinations of the beneficiary countries' exports or should there be an abnormally sharp fall in world prices due to an excessive expansion of exports.

- (iv) to fix conditions for allocating and utilizing resources transferred to beneficiary countries, according to detailed rules governing contracts involved.

Products to be covered by the system because of their importance to the economies of the potential beneficiary countries and the unstable volume of their markets could be the following: sugar, groundnuts, groundnut oil, cotton, cocoa, coffee, bananas, copper.¹

For each product, the reference price to be taken into consideration each year, expressed in units of account, would be calculated from the variable average of world rates during, for instance, the five years preceding the year in question (agricultural or calendar year). If a world agreement exists which includes price ranges, the reference price would correspond at least to the average price of the range.¹ It could be accompanied by coefficients of increase to take into account the diversity of the situations of the beneficiary countries: their development level, geographical handicaps, repercussions on employment.

Account must be taken of the possible lowering of tariffs in the framework of the multilateral negotiations in GATT. If the Community were to decide on such tariff reductions the reference prices envisaged here would have to be correspondingly increased. In the view of the Commission this would be in conformity with the undertaking to take account of acquired advantages.

The *reference quantities* would be permanently fixed for the duration of the agreement, for instance on the basis of the average exports of the beneficiary country to the Community during the five years preceding its entry into force. This amount could, if necessary, be reduced by a partial exemption.

The product agreements should *normally expire* at the same time as the Convention of Association. However, it will be necessary for the agreements to be accompanied by arrangements to ensure that they can remain in force in case of discontinuity between two Conventions of Associations.

The detailed rules for utilization of transfers would be covered by an agreement with each beneficiary country. This agreement would lay down the obligatory priority allocations, the conditions of utilization of the residual amounts and the development policy measures which each country intended to implement in order to make the best use of the guarantee accorded to it, for example to ensure stability of employment, the diversification of the economy, etc. The form of this commitment could be based, *mutatis mutandis*, on the declarations of intent made *vis-à-vis* the International Monetary Fund by the countries which are beneficiaries of a stand-by credit.¹

Furthermore, special supplementary arrangements, including the quantitative aspects of the problem, should be made for sugar, particularly in order to take into account the existence of the Commonwealth Sugar Agreement and also the development of the common agricultural policy and the requirements of the International Sugar Agreement.³

The Commission is currently studying the latter aspects and will make appropriate proposals as soon as possible.

It is difficult to assess the *cost of the system* in advance, since the variations in world prices and in the quantities exported by the benefi-

¹ For sugar the reference price should at least be equal to the present Commonwealth Sugar Agreement (CSA) price.

² Depending on the stipulations of the commitment, the resources transferred could be divided as follows:
(i) one amount would permit the public authorities to guarantee commodity producers a minimum unit purchasing price for the quantities they delivered, in order to avoid loss to them if the purchasing price fell;

(ii) another amount would be earmarked for the public authorities, with the particular aim of improving the productivity and competitiveness of the product in question and diversifying the economy.

The first two amounts could usefully be managed by the Stabilization Fund or any similar body.

Any balance of credit left over could go to the government to finance projects of general interest which would suffer through a fall in export receipts.

³ In respect of this product the case of India, referred to in the declaration of intent annexed to the Treaty of Accession, should also be taken into account.

ciary countries are not known. Nevertheless, since the proposed system is based on the principle of the opening of repayable credits, the *net* cost should be reasonable. It should be financed from the Community's own resources; it should in any case be distinguished in the budget from the other resources allocated to cooperation.

2. Financial and technical cooperation

The development and characteristics of financial and technical cooperation

Although the Community aid granted to the AASM only constitutes a relatively small proportion—about 7 %—of the total public aid granted by the six Member States which are at present contributing, it is of great importance to the Associated States. During the past few years, Community contributions have actually constituted on average one fifth of the public aid from which they have benefited. For some countries, especially some of the least developed, these Community contributions have reached and even exceeded 30 % of the total public aid received. Thus, any change in their amount or their composition is liable to have considerable repercussions on the development policies of the Associated States, most of which are largely dependent on foreign public

Financial and technical cooperation, as provided for in the current Second Yaoundé Convention, is the end-product of ten years of association between the Community and the AASM. On the whole it appears to be geared to the aspirations and needs of these countries, which, since the Association is based on parity, have contributed very directly towards the design and organization, and later the adaptation of this cooperation. Since the forms and methods of cooperation are fixed by the Convention, the Association Council then has the task, *inter alia*, of determining the general guidelines for its application according to the need.

Moreover, this aid is implemented in fact on the basis of a real and close cooperation between the relevant authorities of the associated countries and of the Community Commission and the European Investment Bank (EIB). The initiative for all these projects comes from the Associated States concerned. The evaluation with a view to finance is conducted by the Community in dialogue with these States. The latter, or the beneficiaries of aid approved by them, are totally responsible for implementing the projects concerned, in which their own efforts are supplemented by Community aid. It is, therefore, the associated countries which direct their own development on the basis of their own decisions, with the Community's financial and technical support.

Community aid is untied at the level of the Member States and of all the associated countries: it is therefore provided in good economic conditions, and at the same time makes the maximum contribution to the development of AASM production capacities.

Finally, cooperation is continued after the projects have been carried out: the Associated States are responsible for the satisfactory running and maintenance of equipment and structures introduced, but the Community periodically joins them in an examination of their condition and use, so as to be able to help them, if need be, to take the requisite steps to ensure that the objectives in view can be fully attained.

Community financial assistance has thus been directed towards an ever closer participation in the efforts made by AASM. Joint research on improved measures of adapting financial and technical cooperation to the developmental requirements of the associated countries has gone hand in hand with an increase in Community financing.¹ The adaptations

¹ The first EDF reached about 581 million units of account. 730 million units of accounts were earmarked for the AASM by the First Yaoundé Convention (EDF: 666 million; EIB: 64 million) and 918 by the Second Convention (EDF: 828 million; EIB: 90 million).

effected are visible in several essential areas, such as the application of Community financing by sectors of activity, the methods and forms of intervention, the range of financial instruments available, or work programmes.

(a) In the first place, the sectors of application of Community aid have, in the course of time, been both widened and more clearly defined. When the first EDF was in operation, the main emphasis was placed on the reinforcement of the basic economic and social infrastructures, to which nearly two thirds of the aid during that period were devoted. Under the First Yaoundé Convention (2nd EDF) aid in directly productive sectors — mainly agriculture — was appreciably increased. The Second Convention (3rd EDF), confirms this tendency, and at the same time, emphasizes the need to promote the industrialization and trade promotion and also the development of tourism. Thus, financial and technical cooperation now covers all sectors of social and economic development: the consolidation and development of infrastructures (transport and communication, education, health, water supply and urban facilities), modernization and diversification of productive activities (rural production, energy, industry, tourism, trade), training of manpower...

(b) Parallel to the widening of the fields open to Community financing, the detailed rules for financing have been widely diversified. While aid under the first European Development Fund could be allocated only to investments, the two Yaoundé Conventions made it possible to finance measures of technical assistance: general studies on the development of the associated countries, in order to help them 'evolve' projects; technical assistance connected with projects; general technical assistance covering mainly training programmes.

In order better to cope with the problems of a particularly complex sector the possible forms of aid to trade promotion have also been multiplied. For example, the Community can partially defray the costs of participation in a trade fair or even a sales promotion campaign.

In addition, in order to alleviate the serious difficulties which could face certain Associated States in the event of natural disasters, the possibility of granting special aid was introduced in the First Yaoundé Convention, and somewhat extended, as it was mentioned earlier in the Second.

(c) In connection with the preceding developments, the financial instruments have been progressively refined with a view to a better response to the wide variety of situations. Whilst preserving its basic characteristic — that is, the absolute predominance of non-repayable financing — Community aid has been diversified.

While the first European Development Fund provided financing only in the form of subsidies, the First Yaoundé Convention (2nd EDF) additionally introduced soft loans. Furthermore, for productive activities of normal financial profitability, the European Investment Bank is authorized to intervene up to a given amount in the form of normal loans, the terms of which may possibly be eased by interest rebates out of EDF money.

The current Association Convention has wrought no perceptible change in the structure of Community aid; however, it further extends the range of instruments available by authorizing contributions to the formation of risk capital of companies, by permitting loans to be extended through development banks and finally by making the system of rebates on interest more flexible, in order to facilitate requests for loans from the European Investment Bank.

Generally, speaking, whilst maintaining a liberal approach to the cooperation policy — with eight tenths of the financing granted in the form of subsidies, this policy adheres in fact to the resolutions and recommendations of UNCTAD, The OECD Development Aid Committee, DAC and the recent Summit Conference at Paris — the Association has succeeded in devising original instruments capable of adapting the financial terms of its operations to the context and level of development of each

associated country and also to the individual characteristics of each project.

(d) The importance of Community aid for the Associated States as well as the increasing number and complexity of the projects, which are being implemented within the framework of financial and technical cooperation, have shown the need for certain improvements in the application of aid. It has thus been deemed expedient to draw up at the beginning of the period — for each associated country and in order of priority — a list indicating the projects for which Community financing was desired.

With the current Association Convention, the activities to be financed by the EDF during the five-year period of the application of the Association Convention have thus been the subject of planning by the competent bodies of the Associated States and the Community. This planning — which respects the sovereign competence of the associated countries to propose schemes — is incorporated in the development policy of each State, which thus has a sufficiently firm knowledge of Community intentions for a number of years. The States can therefore make better plans for the use of the various external aids, and in particular benefit from a closer coordination between Community aid and other outside assistance, particularly bilateral aid from Member States. Conversely, the planning helps the Community to focus its operations on the sectors and regions of prior importance for the Associated States, to coordinate them more closely with other aid — bilateral and multilateral — which these countries also enjoy and finally to improve its own methods for making preliminary examination of schemes and for cooperating with the responsible authorities of the AASM.

Future developments in financial and technical cooperation

The Association has already had long experience which, thanks to the parity principle and

the spirit of close cooperation on which it is founded, have permitted financial and technical cooperation on which it is founded, have permitted financial and technical cooperation to be regularly adapted to the ever-changing requirements resulting from the development of the associated countries. In the first place, therefore, the new convention must sanction past achievements, and consolidate the range of modes of operation and financial instruments available. Secondly, it should bring desirable clarification and innovation both at sectoral level and the level of practical cooperation. Particular attention will hereafter be paid to defining these matters before seeing where, over and above these improvements, cooperation will have to be intensified and certain new measures included.

In suggesting the improvements and innovations put forward below the Commission has endeavoured to take into account in particular the profound effect of the enlargement of the Association on financial and technical cooperation? These proposals will of course have to be re-examined in due course in the light of the requests brought forward by the other parties in the negotiations.

The Commission's various proposals may be grouped under three heads:

1. *Maintenance of the general priorities by sector as confirmed by experience.* This means that the emphasis should still be placed on the strengthening of economic and social infrastructures, rural development, and training. It also means that direct measures to encourage industrialization, marketing and sales promotion, furthered under the present Convention, must be continued and stepped up. As in the past, the relative emphasis to be given to these major priority sectors must be determined primarily at the discretion and on the responsibility of the beneficiary States.

2. *Practical improvements to make cooperation more immediately effective.* Here the concern of the Commission is similar to that often expressed by the States already asso-

ciated; the purpose of the proposals is first to make technical assistance more appropriate to needs, secondly to speed up the prior examination and the implementation of schemes, and thirdly to enable the beneficiary States to gain the utmost advantage from Community-financed investments.

3. *More far-reaching and broader financial and technical cooperation.* In order to meet the general wish of the Associated States, and those likely to join the Association, for a great mutual cooperation, the new Convention should include a number of new provisions which would enable the Community to increase its support for regional cooperation measures, to offer greater assistance to the less advanced Associated States, to take particular account of employment problems and to give broader and more useful support to operations of limited scope but of potentially major importance for balanced development within each country.

Finally, the Commission proposes a number of measures designed both to give the Associated States a greater say in the general aims of aid and in the preparation and implementation of projects, and to enable undertakings in the Associated States to take a further part in certain contracts for public works connected with the operations of the European Development Fund.

Cooperation - sectors and implementation

Sectoral development of cooperation

Infrastructure

Although progress in the associated countries has involved a diversification in the sectoral distribution of aid, the economic infrastructure, mainly in the field of communications (ports, airports, roads, railways) is still a sector in which there are considerable weaknesses and where the requests for aid are the most urgent and costly.

It is therefore necessary in this field to pursue the activities which have been undertaken since the Fund began to operate, and the results of which the Associated States have always indicated to be fully up to their expectations. As will be made clear below, in the future development of these activities, priority will have to be given to the regional and international channels of communication. It is in this sector, too that the measures advocated below with a view to improving the maintenance and durability of projects financed by the Community will doubtless find their principal field of application.

Rural development

Whether basic investments, supply of equipment, information campaigns, or the training of technicians and managerial staff, etc. are concerned, the measures implemented since the first EDF to help increase productivity and diversify production in the agricultural and stock-farming sectors still retain all their validity. As in the past, the various means of intervention will have to be integrated even more closely into projects covering human, technical, economic and ecological aspects of rural development, so as to ensure a real improvement in the living conditions of the whole of the population affected by these projects and so forestall impediments to development which independently conceived measures might encounter.

Moreover, financial measures in this field have effects which are felt beyond the rural community. Now that the volume of the exodus to the towns has become a source of various imbalances connected with the lack of urban employment, while the new industries require an enlargement of the domestic market, a rapid development of the whole of the rural sector seems to be a fundamental requirement for a satisfactory answer to these problems.

The success of the integrated measures and the promotion of rural development at which they are aimed, presuppose that the population will take an active share therein. It further

requires an improvement in the economic and social infrastructure which serves the rural areas, a further gearing of education to the needs of rural modernization and finally that small industrial and craft undertakings, auxiliary to agricultural production, should establish themselves in sufficient numbers and make progress to help maintain a balance in the social-economic structure of the regions concerned.

The period required for the execution and maturing of projects in this field means that there must be sustained effort for a long time, significant enough to arouse the support of the rural workers and lasting enough to produce a structural transformation of the economy.

Training and social development

Aid to social development covers sectors as varied as health, water management, education and training, and housing. Although what has been said above about infrastructure applies also to the financing of social investments made in the framework of financial cooperation, the other training activities call for further attention and clarification insofar as, apart from their direct social effects, they have a significant effect on the success of measures of economic development. These activities should therefore be still further adapted to meet the priority needs of this development, and in particular should contribute towards ensuring maximum use and efficiency of the investments.

First of all, an even closer link is required between training activities and investments at the stage when the schemes are being implemented. In this context special attention must be paid not only to the training of the personnel necessary for their operation and maintenance, but also to the training of local staff intended to replace in due course technical aid staff from outside the area.

Secondly, training activities must reinforce the constant efforts made by the Associated States

to adapt their education system to local conditions and to the demands of development, and to train staff qualified to teach in these improved institutions.

Thirdly, in view of the shortage of administrative staff in the various areas of economic life, a special training effort should be made in this field. Some priority should be given to technical education and vocational training, particularly in order to meet the demands of industrialization.

Finally, the most rigorous action must be taken to cope with the increasing demands for management staff in the various areas of economic life, particularly in the sectors of agriculture, trade, tourism and crafts.

Industrialization

The types of aid provided for by the Yaoundé Convention permit the preparation of industrial projects by financing general and specific studies. They also subsequently permit the financing of the implementation of the projects.

Community aid is therefore already making good any lack of internal and external public and private financial resources, for the promotion of large or medium-sized undertakings. In extending these activities, it should give more effective support to the efforts of the associated countries (or of their regional bodies) to conceive new projects and to interest both national and foreign investors in them.

With this aim in mind, the first series of measures should deal with the improvement of industrial information. The lack of information about the associated countries limits and checks initiative from the private sector. By helping to inform potential investors of the conditions for the establishment and operation of industrial undertakings in the associated countries and the concrete possibilities that exist there, the Community could facilitate industrial investment.

Secondly, the Commission in close cooperation with the EIB could take general measures to

promote industrialization. To this end, in well defined sectors, meetings could be organized between, on the one hand, those responsible for industrial policy in the Associated States, and on the other hand the industrial federations of the member countries of the Community, individual investors etc. It is clear that such activities should be undertaken only at the request of the Associated State or States in question, that they should remain strictly supplementary to measures taken by these States and that the Community should not be held responsible for the viability of particular projects.

Again with a view to providing a better answer to the needs of the Associated States, another improvement is required in financial cooperation applied to industrialization. This would provide better support for the development of small and medium-sized concerns and at furthering the promotion of national industrial undertakings. With this aim in mind, financial and technical aid should be contributed by the Community to institutions concerned with industrial promotion in the Associated States and also to their institutions for financing and assisting small and medium-sized national undertakings.

Marketing and sales promotion

The types of aid provided for by the Second Yaoundé Convention allow intervention measures in several fields, in Africa and in Europe, to improve the marketing of products from the Associated States and to increase their sales on external markets.

In view of the gradual reduction of the tariff preferences enjoyed by products from the associated countries on the Community market, the competition which these products meet on external markets and the ever more highly structured organization of the commercial sector in these countries, it is important to give active support to the efforts made by the Associated States to boost the sales of their products and to diversify their outlets.

The priority objectives of aid to marketing and sales promotion must be to improve and intensify the provision of information to buyers on the external markets and to reinforce the competitive trading position of the associated countries.

All these measures to be put in hand should be directed primarily towards the Community market without, however, excluding other markets in the world which offer good trading prospects or, to the extent that regional cooperation measures would be geared to organizing them, the markets of the associated countries themselves.

Adaptation of 'special aids'

In the course of the first two years of the application of the Second Yaoundé Convention, the means provided for in Article 20 were applied several times in order to help certain Associated States to cope with the serious difficulties that natural disasters such as a severe drought or epidemics entailed for their economy. The very great flexibility of the intervention measures — which may take the form, in particular, of cash payments — was an important factor in the efficacy of these aids. Owing to the conditions of implementing these 'special aids', no Associated State has so far asked for them in connection with a fall in the world prices of a major export product.

In the new Convention, this instrument of financial and technical cooperation will, however, have to be adapted so as to avoid overlapping with the means of economic cooperation that are to be introduced to alleviate the harmful effects of reductions in export receipts.

Adjustments in the implementation of financial and technical cooperation

Improvement of technical assistance methods

Technical assistance, which plays a very important part in implementing cooperation, must

necessarily be as brief as possible, but must leave a legacy of completed projects that are well adapted and provided with the national personnel essential for them to work efficiently. In this field, it seems that the concern of the Associated States to depend less and less on assistance which is sometimes difficult to control is perfectly justified. This desire is all the more understandable, since, in the actual application of aid, the financing of technical assistance reduces by a corresponding amount the volume of the resources that can be allocated to investments or to other projects for which foreign means would be needed in any case.

In order to meet the wishes of the Associated States, it will first be necessary to require the experts, consultant bureaux and assistance companies to train nationals, with a view to their taking over, by bringing them into partnership.

Secondly, the Community should concentrate on facilitating this takeover by easing — provisionally and on a digressive scale — the additional financial burden of personnel caused thereby to the beneficiary countries.

Finally, the Community should lay special emphasis on the training of national personnel who are required in order to strengthen the authorities and organs of the Associated States administering the technical assistance services and to set up national consultant bureaux.

Speeding up of evaluation and implementation of projects

The competent authorities of the Community and the Associated States are constantly trying to find and apply technical and administrative measures in order to improve the procedures and speed up the implementation of financial and technical cooperation. In addition, certain more general arrangements could usefully be made concerning the programming of operations, some expert services and various works contracts.

There is no doubt that the evaluation of individual projects would be greatly speeded up if

the departments of the Commission could already be in possession of fuller and more detailed files. The elaboration of these files by the associated countries is now facilitated by the programming of Community operations, which is jointly carried out by the departments of the Commission and the authorities of each Associated State. The gradual preparation of projects which have thus been given priority would require in addition a review of the initial programme in the middle of the period of application of the Association Convention with the object of bringing it up to date.

Again with a view to reducing the time between a request for financing and the implementation of the project, a speeded-up and simplified procedure should be set up to enable the Commission, with the agreement of the Associated States, to hire the services of outside consultants. This 'hiring' would apply to urgent short-term expertise, relating to the preparation, evaluation or carrying out of the projects. These consultants would operate as specialised and temporary auxiliaries of the Government departments of the Associated States or the Commission, according to needs and circumstances.

If projects are to be implemented more quickly, certain changes will have to be made to the present provisions for invitations to tender. For small projects the ceiling under which the speeded-up procedure can be applied should be raised from 500 000 to 1 million u.a. For large projects it would have to be left to the Commission, in conjunction with the authorities of the Associated States concerned, to decide in the light of the nature or scope of the work whether a preselection of firms is necessary. The present obligation to pre-select for all projects of more than 5 million u.a. retards certain projects without effecting any practical improvement in the conditions of competition.

Follow-up of aid

The principle of the responsibility of the Associated States for the use and upkeep of investments financed by the Community is well estab-

lished; however, the associated countries must also be able to receive aid from the Community in special cases, when their own resources are clearly insufficient for the suitable upkeep or management of investments which are vital importance to their socio-economic development.

The new Convention must make express provision for such special aid, the forms and conditions of application of which have already been determined by the Association Council.¹ In addition to the provision of training programmes and technical assistance, and the supply of equipment—action already envisaged by the 2nd Yaoundé Convention in this field—the Community could:

- (a) participate in the financing of major or exceptional repairs;
- (b) supply temporary technical and financial aid to restore or improve the way a project is run or managed in conjunction with a parallel and progressive effort by the authorities or bodies benefiting these from to take over responsibility for the costs concerned.

Widening of financial and technical cooperation

The experience acquired, together with the new dimensions resulting from the enlargement both of the Community and of the Association, make it necessary to improve in depth the methods and instruments of financial and technical cooperation. This calls for a series of new measures relating both to the allocation of the aid and to its terms and conditions of application. This must be supplemented—as will be seen in the next section—by stressing the participation of the Associated States in the general direction and implementation of financial and technical cooperation.

Increased support for regional cooperation

There are many examples of regional cooperation among Associated States. Whatever the

scale of the objectives sought, they all reflect the difficulty—particularly evident in countries which are too small, land-locked or poorly endowed with natural resources—of furthering their development by themselves. In accordance with the desire expressed by the AASM in this respect, the Yaoundé Convention has already stressed the importance here of Community aid, and in practice the Commission always tries to promote regionalisation of development by proposing that a problem should be studied or a national project conceived at regional level whenever this appears useful or necessary or efficient operation.

With the enlargement of the Association, the indispensable task of pooling national resources and extending markets, in short of regional cooperation, takes on a new importance, particularly in Africa. The Association can and must help the old and new associates to overcome their technical, economic, psychological and other differences. If it does not provide effective instruments to reinforce all efforts at regional cooperation, it will not fulfil one of its essential vocations.

To this end, three specific new measures should be introduced into the future Convention:

(a) The pluriannual programmes drawn up by the Associated States for implementing Community aid should be harmonized in the sectors where regional action is in the common interest. Appropriate contacts between Associated States, or an initiative from their multinational bodies, could give a stronger impetus to the conception and development, with the Community's active support, of regional projects and regionally coordinated projects, particularly in the field of transport and telecommunications, industrialisation, energy, stock breeding, technical and advanced training, and trade promotion.

(b) In order to facilitate the establishment or extension of productive undertakings on a

¹ 10 October 1972.

regional scale, the Community could encourage such projects by providing appropriate compensation to Associated States which open their markets to the products of such undertakings not located on their territory: Community financial aid could, in particular, enable these States to have a share in the capital of these undertakings and thus benefit from their development.

(c) One of the best means of encouraging regional cooperation in whatever sector would be for the Community to find methods of financing and charging the cost of regional projects that would not diminish the total aid that may be allocated to each of the co-participating countries for its projects of strictly national interest. To this end a part—limited of course—of the EDF resources could be reserved exclusively for supporting regional projects. At the request of the interested countries or competent regional organizations the Community would participate in the financing.

If the sums initially earmarked for this purpose appeared insufficient and were quickly exhausted, a further instalment from the European Development Fund would have to be allocated. Such a review and decision could for example take place after the Association Convention had been in force for two years.

Reinforcement of cooperation with the least advanced Associated States

A salient point of recent international discussions, in particular those which were held in connection with the third UNCTAD, has been the formal recognition of the special needs of the least advanced developing countries and the acceptance by the international Community of a programme of special measures in their favour.

Generally speaking, the Community is entitled to see in this trend a further justification for the special effort it has been making for some years to help certain particularly handicapped regions of the world. In practice, the Commu-

nity has, on the basis of existing provisions, already given some consideration to the specific problems which face the least advanced Associated States. However, the Commission considers it is necessary for the partners of the Association to act upon the conclusions of the third UNCTAD, and take still stronger measures in this sense. The revision of certain criteria and the attribution—in the course of financial and technical cooperation within the future Association—of greater importance to the level and conditions of development of the different countries would be moves in this direction.

The least advanced Associated States should also receive special treatment in all fields, for example by providing technical assistance to enable them to absorb a greater volume of outside aid, by granting them the most favourable financial conditions, and by a particularly flexible application to aid of rules, for instance for the upkeep and management of investments of capital importance. These proposed specific provisions make it all the more necessary for particular attention to be paid to all the provisions for financial and technical cooperation when they apply to the least advanced countries.

Priority to labour problems

The action of the EDF—particularly insofar as it is mainly directed towards rural development—has already contributed considerably to the improvement of labour conditions in agriculture and thus to the slowing down of the movement away from the land—the main reason for the rapid growth of urban unemployment.

As already stressed in the chapter on rural development, the Community should in future take as one of its main criteria for deciding whether or not to intervene the greater or lesser contribution of a project to the solution of these serious labour problems: the direct or indirect effect of the aid in terms of job creation or improvement of conditions should be a

prior consideration in the choice of projects and the way in which they are conceived technically.

In view of the important role agriculture plays in the associated countries this effort will continue to be directed first of all to the rural community. In the industrial sector Community aid should deliberately favour branches of production which employ a large number of workers. Infrastructure projects may themselves contribute to the creation of jobs on condition first of all that they are implemented in such a way as to provide the maximum number of jobs, even if this apparently raises the cost of the whole operation, and secondly that priority is given to infrastructure projects which make a maximum indirect contribution to the creation of jobs in the productive sectors.

Greater aid to small firms and small development projects

Community development policy has, until now, mainly concentrated on the realization of medium or large-scale operations. The ways and means of supplying aid were not entirely suitable for the financing of small projects. However, as experience has clearly shown, these can be of great importance for development. In particular, they can often be better adapted to the real needs of the population and in this way mobilize local initiative and participation. This strengthens the guarantees of upkeep and successful conclusion, and the implementation generally costs less. Finally, provided use is made of the opportunity thus offered to decentralise the process of decision and supervision, small projects can be carried out very rapidly.

All these factors and findings show the need for changes to be made in the method of co-operation in order to satisfy the needs expressed by the Associated States.

Small firms

Financial aid and technical assistance to profitable small and medium-sized firms ought to be

provided through local specialised institutions. The 2nd Yaoundé Convention outlined practical methods of enabling these institutions to play their part in this field. The new Convention should specify and extend these opportunities so that such operations may be concluded with all desirable flexibility and speed.

In addition, the financial support given by the Community should, wherever necessary, be accompanied by technical assistance to the national development banks in allocating and supervising the use of loans, and to the small undertakings in putting them to good use.

Furthermore, the small firms in the associated countries could certainly benefit from a generalisation of the price preference policy which will be proposed later for the local suppliers.

Small development projects 'at the grass roots'

Micro-projects (small productive, sanitary, hydraulic, educational equipment, etc.) relating to a rural community can not usually bear the management and amortization costs of a loan. The peoples concerned cannot provide the necessary guarantees, and therefore many ideas and much good will remain untapped.

It is desirable, and possible, that the Community should encourage the implementation of these small projects and thereby encourage wider public participation in their development by making a financial contribution. This contribution, in the form of a subsidy, would be in addition to the amount provided by the beneficiary community and the State to which it belongs. In many cases the beneficiaries could also do voluntary work, with the State supplying the technical support from its supervisory staff. The decision-taking and implementing procedures for these small projects should be largely decentralised and speeded up, and it is clear that the rules concerning international competition will have to be revised and made more flexible.

Participation of Associated States

The enlargement of the Association should provide an opportunity for intensifying the effective participation of the Associated States in the guidance of financial and technical cooperation, particularly within the association institutions. With the same end in view, the role of the Associated States in carrying out financed projects must be strengthened as much as possible with the Community's help.

Strengthening the participation of Associated States in the general guidance of aid

The programming, evaluation and conduct of the investments financed by the Community have enabled a permanent dialogue to be established with the Associated States. This practical cooperation has lent exemplary significance and reality to the Association.

However, since the joint institutions were set up, the Association Council has never discussed in sufficient depth the general guidance of financial and technical cooperation, a matter about which the Commission annually reports to it.

But the means of extending their cooperation and making it more effective can only come from a joint effort by all the partners. In order to advance beyond past achievements the Community should propose two special measures to improve the dialogue:

(a) In order to enable the Association Council to obtain a complete picture of the financial and technical cooperation, the Commission's annual report should give fuller details of the conditions in which aid is put into effect and used, in addition to the financial report and sectoral inventory of operations:

(b) The Community could organise regular discussions with the Associated States on the problems arising from the implementation of financial and technical cooperation. Their

aim would not be to reach decisions, but jointly to seek a fuller understanding of the realities and to enable both the Associated States and the Community bodies to play a more informed part in the discussion of measures of financial and technical cooperation.

Strengthening the participation of Associated States in implementing projects

Generalisation of the price preference accorded to Associated State suppliers

Implementation of the EDF-financed projects must in itself contribute to the development of firms in the Associated States. To this end, the Community may already grant, in particular cases, a price preference of up to 15% to supplies from firms in the country concerned or in other associated countries in the same region.

This preference cannot be extended beyond certain limits without an evident risk of raising considerably the cost of the projects and reducing the overall efficacy of the aid. Nevertheless, since greater participation of firms in the associated countries is an important aim in itself, it is worthwhile to generalise this provision: the preferential margin would automatically apply to all offers of supplies coming from any member of the Associated States. It should also be remembered that the International Bank for Reconstruction and Development operates in this way and inserts such a provision as a general clause in all its financing contracts.

Strengthening the role of the Associated States in the preparation and implementation of investments

Because of the lack of qualified people or equipment, the Associated States must almost always call on outside help for the preparation of projects, and often for the supervision of their execution. Thus they are forced to

abandon part of their prerogative to foreign firms and research departments.

The public authorities of the Associated States are understandably anxious to change this situation as quickly as possible and themselves to carry out directly many of the tasks which they are at present obliged to entrust to outsiders. The Community must help all trends in this direction which — besides being justified in principle — cannot fail to improve collaboration between its own bodies and those of the Associated States. Thus the function of Community technical cooperation is to be, as far as is possible, an additional means of assistance and not a substitute.

Wherever, therefore, an Associated State has administrative staff able to carry out preparatory studies for a project, the Community should supply the various logistical means which the State lacks in order that it may carry out these studies on its own authority.

Similarly, it is desirable to facilitate a greater degree of direct participation of the national administrations in the supervision of work and the carrying out of projects. For this purpose, the Community should have the power to bear the costs of the logistical means required to deploy the available national personnel. If there are not enough of the latter the Community must continue, as in the past, to provide specialised technical assistants in order that the national administrations may carry out their tasks on their own responsibility.

Financial aspects of cooperation

The financing of financial and technical cooperation within an enlarged Association raises two basic questions: that of the volume of Community aid and that of the adaptation of financial conditions to the needs of the Associated States. Discussion of the financial aspect will be supplemented, in the next section, by proposals concerning ways and means of providing aid, i.e., the budgeting of the EDF and its financing from the Community's

own resources, proposals which go beyond the scope of the Association.

Volume of Community aid

It is difficult to estimate the amount of Community aid which will be required in the next Convention before the new Associated States are known. In deciding its attitude to this question, the Community must certainly take into account the two basic principles laid down at the time of the enlargement of the Community and established in the Protocol No 22 of the Act of Accession.

Maintaining the advantages obtained by the AASM

The enlargement of the Association must not interfere with the advantages accruing to the present Associated African States and Madagascar from the provisions relating to financial and technical cooperation.

Quantitatively, these advantages must be considered in real terms, i.e., the nominal amount of the 3rd EDF must be increased in proportion to the lowering of the purchasing power of the unit of account since 1969.

Qualitatively, the advantages obtained by the AASM include the main terms and forms of the aid: this means in particular the marked predominance of subsidies and a wide range of possible measures of intervention.

Similar treatment of comparable situations

The total volume of aid must be fixed so that all the countries formerly and recently associated can be treated similarly on the basis of the needs resulting from their respective social-economic situations, their level of development, specific obstacles which are retarding this development and the resources which each has at its disposal.

In order to respect the two principles which it has laid down, the Community must substantially increase the volume of its financial aid to the associated countries. The Commission reserves the right to formulate in due course detailed grounds for the decisions required in this connection.

Financial conditions to suit the needs of the Associates

The very wide range of financial measures available to the Community — from subsidies to loans on market terms, and including a series of intermediary conditions — means that the most varied situations can be confronted adequately. This flexibility and capacity to cope appropriately with a wide range of situations will prove to be of particular value when a number of new countries join the Association. However, it would not do if in attempting to adapt the terms and conditions of financing to each case, this were paradoxically to run counter to the general aims of cooperation. It must be remembered that, in general, the level of economic development reached by the majority of the present or future associated countries is still quite low, and that the first necessity is to make an overall adjustment of the financial conditions of Community aid to this situation.

(a) In view, especially, of the low level of development in these countries, and of the primary necessity to reorganize their basic infrastructure and raise the productivity of the traditional rural activities which occupy most of the population, it is advisable — in accordance moreover with the commitments to which reference has been made — to maintain a predominance of subsidies. The Community would otherwise help to create or to increase the burden of debt which, for some of the countries concerned, is already heavy, if not unbearable. By applying a liberal policy in this sphere, the Community will be merely following the general guidelines laid down by the Summit Conference of October 1972, as well

as the recommendations of UNCTAD and the OECD Development Aid Committee.

(b) In order to decide the type of financing required by a project and especially the granting of repayable aid, the 2nd Yaoundé Convention lays down that consideration must be given to the financial profitability of the project in question and also the associated country's capacity to bear debt. The new Convention should specify that the basic criterion in this field must be the social-economic level and situation of the country concerned, including its own efforts and potentialities. By giving priority to this criterion the Community should in each case ensure the best financial conditions to the associated countries. The terms for special loans will therefore have to be standardized at the most advantageous level allowed by the 2nd Yaoundé Convention, i.e., interest rate 1 %, repayment within 40 years, deferred amortization of 10 years. For the least advanced Associated States the interest rate should even be nil.

(c) However, whenever the final borrower is not the Associated State but a firm or a local authority, a two-tier loan will be suitable. A distinction will then have to be made between the terms for the State as first borrower, which will have the benefit of the standardized favorable terms mentioned above — and those for the final borrower, which, on the contrary, will be decided for each individual case.

By combining these various methods, the Community will contribute very positively to alleviating or forestalling a worsening of the burden which external debt represents for many of the present or future associated countries. In addition, it will help to promote its partners' ability to finance their own development.

EDF budgeting and its financing from the Community's own resources

Hitherto the EDF has been financed by contributions from the Member States of the

Community, separate from the Community budget.

However, satisfactory from a technical point of view, this formula has nevertheless had the disadvantage of involving over-long hiatuses between one convention and another, because of the time required for ratification, and these have undoubtedly been harmful to the Associated States. In practice, the undertakings taken for five years had been applied over longer periods, without transitional financial arrangements. Budgeting would make it possible to solve the problem of continuity.

Moreover, in the logic of Community development, the whole of the Community expenditure including development assistance should form part of the budget, especially as from 1975 when the full financing will be derived by its own receipts.

This evolution has been recommended by the European Parliament and the Commission is of the same view.

The Commission considers that the budgeting of the EDF would be technically and financially possible, and that it both could and should be put into effect without calling in question the present rules, which allow the Associated States to participate in the running of the Fund, as is politically essential.

For this reason the Commission will present a communication on this subject at the appropriate moment.

3. Cooperation in other fields

Rules concerning the establishment and the provision of services

The rules set out in the second Yaoundé Convention in respect of the right of establishment and the provision of services are essentially designed to define two basic principles of the Association: non-discrimination between

nationals of Member States and the most favoured nation clause.

The application of these rules has not caused any major problems. The existing arrangements should therefore be extended in the future Association. Experience does indeed show that the three East African States have not had any difficulty in complying with similar arrangements under the Arusha-Agreement, and it is reasonable to think that their application to the new States likely to apply for association would not pose any problems.

Rules concerning external payments and capital movements

The rules concerning external payments and capital movements — which are closely linked with the rules governing the creation and provision of services — are an essential feature of the Association in that such provisions are either a necessary adjunct to the texts covering commercial trade and financial cooperation, or an extension of basic principles of the Association in the field of payments and capital (non-discrimination among Member States; treatment of the most favoured nation).

As in the previous field, the application of the present provisions concerning payments and capital has not hitherto raised any problems. Consequently, it therefore seems unnecessary to change the basis of most of the existing rules.

The enlargement of the Association raises the question as to whether the provisions covering current transactions and investment operations under the Yaoundé Convention may raise problems for the lesser developed countries of the Commonwealth wishing to become associated members. In these countries there are, in fact, various degrees of exchange restrictions and their membership of the sterling area raises, in principle, the problem of a possible discrimination among Member States.

If discrimination of this kind exists it ought to be eliminated as far as the different Member States of the Community are concerned. On

the other hand, where differentiations in administrative formalities still exist, a provision which in practice guaranteed complete equality of treatment as between citizens of the different Member States (see Annex VI, Yaoundé Convention) should be sufficient.

Generally speaking, the following provisions form the 'minimum' obligations which are indispensable for the smooth running of the Association:

- (i) non-discriminatory treatment between Member States as regards their investments and also related capital movements and current payments;
- (ii) most favoured nation treatment (with one exception in favour of regional cooperation);
- (iii) agreement of all parties to authorize payments resulting either from free circulation of goods as provided by the Association, or from provisions for financial and technical cooperation.

Concerning certain provisions which, in the form of declarations of intent (see Annex V, Article 39.1 Yaoundé Convention) go beyond the indispensable obligations mentioned above, these should be examined, when the time comes, to see if they present real problems for some partners to the negotiation.

The special problems which some of these rules could present to the three countries belonging to the South-African Monetary Union (Botswana, Lesotho, Swaziland) require further and deeper study in order to facilitate the association of those countries.

Adjustment of the structures for receiving private investments

A number of the questions dealt with above — rules in respect of establishment and services, external payments, movements of capital — are clearly related to the conditions under which Member States' investors can set up

business and operate in the Associated States. If the Associated States wish to attract a greater volume of investment from the Community without thereby abandoning in any way their freedom to take measures enabling them to maintain the control of national production, it would be useful to supplement the present provisions, firstly by a reference to the envisaged Community guarantee system for private investments, and secondly by the adoption by the Associated States of certain regulations concerning the protection of investments originating in the EEC.

(a) As regards the guaranteeing of private investments, the Commission has submitted to the Council a proposal for a regulation instituting a guarantee system for investments in all third countries.¹ However, this regulation reserves more favourable conditions for the developing countries. In order to benefit from these preferential conditions, the 'host' countries must have concluded protection agreements or measures of equivalent effect with the Community: these provisions are designed to ensure a certain reciprocity of commitments.

The future Convention of Association might include an offer from the Community, under the Community guarantee system for investments, to guarantee certain investments in the Associated States under more advantageous conditions than those normally applicable.

(b) If it became apparent that no real progress was being made in the setting up of the Community guarantee system before the completion of the negotiations on the enlargement of Association, or if the acceptance of the principle of protection agreements were to raise difficulties for a large number of Associated States, it would be appropriate to insert a general clause under which the signatory States agreed on a reciprocal basis to treat the investments of their respective nationals and companies in a just, fair and non-discriminatory manner.

¹ Document COM(72) 1461 final of 20 December 1972 and Bull. EC 12-1972, Second part, point 109.

4. The institutions

In Protocol No 22 the Member States expressed their desire to safeguard past achievements and fundamental principles — including the joint institutions — all of which give the Association its own individual character. However, certain adjustments will result from the Association's experience and the additions and improvements which this has shown to be necessary, and also for the implications — in particular on the 'technical' level — of an appreciable increase in the number of partners.

Assessment of the Yaoundé Convention and Arusha Agreement

The Yaoundé Convention gives the institutions two basic tasks. In the first place they administer the Association on a basis of parity. The dialogue within the institutions gives the Association its own particular 'style', in that the application of the provisions of the Convention takes place in a flexible manner by common accord. Secondly, certain institutions—Council and Association Committee, Parliamentary Conference — undertake more tasks going beyond a simple managerial function, in particular when several guidelines of the Association have to be defined.

All things being considered, the institutions of the Association have fulfilled the tasks which were assigned to them and, from that point of view, their functioning has been scrupulously correct. In particular it should be noted that it has been possible to keep to the rotation of the presidency and of the location of meetings without making the procedures too cumbersome.

In spite of this generally positive balance sheet, there are still a number of observations which can be made:

The internal decision—making procedure within the Community proved straight away to be relatively cumbersome due to the voting quorum which was adopted under the internal

agreement concerning the application of the Yaoundé Convention which requires in particular a sizeable ministerial presence at the meetings.

Within the Council and the Association Committee, the quorum of members present laid down by Article 42 has also been the cause of problems, both for the Associated States and for the Member States, due to a certain ministerial absenteeism which has been noted on both the European and the African sides. This absenteeism is due to various reasons, the most important of which can easily be pointed out.

First of all, as regards the content of debates, up to now the accent has basically been on the administrative function of the Association Council. This implies certain tasks and decisions of a technical nature, and it is questionable whether a ministerial presence is always indispensable for these.

Secondly as regards the working procedure of the Council and the Association Committee, it is more often than not the case that the positions of the Community and of the Associated States are fully prepared before the meetings, with the result that these proceed on the basis of a dialogue between the two Presidents with the participation of the competent Member of the Commission, the role of the other participants being reduced to a passive presence.

There is no doubt that if there is a wish to develop the constructive nature of the dialogue allowed by the institutions of the Association it will be necessary to remedy the working imperfections above-mentioned and, more generally, to restore as much vigour as possible to the *institutional practice* of the Association.

Institutional adjustments and improvements

Adjustments to be made to the institutions and their operation

In order to maintain the special importance and prestige of this body, the *Association Coun-*

cil should be kept at Ministerial level and the ordinary sessions should continue to be held annually. However, on the level of decision making, it would be desirable if the two parties were to examine to what extent internal procedures could be made more flexible. The quorum of members present at the Association Council as laid down by the Yaoundé Convention should not be changed; however, if, on occasions, this quorum was not reached, a procedure should be introduced enabling a decision to be adopted 'ad referendum' within a short and previously determined period.¹ In addition an examination might be made of the possibility of delegating power from one Member State to another or from one Associated State to another.

In this context there is also the question of whether regional organizations might participate as such in the Council and in the Association Committee. On this point the Community should adopt a positive attitude. The precedent set by the Arusha Agreement should be recalled in this respect, as there, the Council and the Association Committee include 'representatives of the East African Community'.

By analogy a similar application could be made for any other organization. The Community, in order to establish its position in respect of possible demands should pay special attention to the extent of the transfers of powers made to the common organizations by the countries which belong to them. The Community could thus make sure that these organizations were sufficiently representative to participate in the institutions of the Association.

The *other institutions* as well as the Secretariat of the Council and of the Association Committee should not raise any particular problems related to the number of associated countries, except perhaps the problem of ensuring that all countries are fairly represented.

On a more general level, on the assumption that a single Association were to include a large number of the countries referred to in Protocol No 22, the establishment of comple-

mentary regional institutions.— concerning the African, Caribbean and Pacific countries — might prove to be useful or even essential.

Improvement of the institutions in practice

As in the past, the principal task of all the institutions must be to administer the Association. In this respect the system in operation at present, that is the power of decision and of consultation of the Association Council, the power of control of the Parliamentary conference operating on the basis of the report submitted by the Association Council on its activities, and the legal power of the Court of Arbitration should be maintained.

However, it is within this framework that various changes should be introduced. The essential point here, over and above the question of procedural improvements, is to give a new importance and scope to the debates which take place in the institutions of the Association, and to ensure that their conclusions have a greater influence.

(a) It seems essential that the consultations provided for by the Convention should have a real significance. They should in particular have a stricter nature when important interests of the Associated States are in question. In such cases, if the measures envisaged by the Community were not viewed favourably by the Associated States, the Community would have to undertake an effective reexamination of the said measures.

(b) The ministers of a large number of Member States and Associated States would find that their presence at the annual sessions of the Association Council was more worthwhile, if they were able to exchange views on questions of *economic interest* which they will be called upon to deal with on a wider basis than that of the Association.

¹ It is already possible now for such a procedure to be used: Article 6 of the internal rules of the Association Council provides for the possibility of voting by correspondence, but solely on a *matter of urgency*.

To this end the work of the Council and the Association Committee should be organized in such a way as to ensure that the dialogue between representatives of the Member States and the Associated States can be as full as possible. In addition to the items prepared in advance by the two parties in accordance with their internal procedures designed to result in decisions, recommendations or consultations as provided for in the Convention of Association, the agenda for the meetings could also make provision for items on which the States or groups of States belonging to the Association could exchange their views, without exhaustive formal consultation in advance within the two bodies.

In addition, besides the official sessions, meetings could be organized on given subjects of regional or sectoral interest, and all the States in the Association would be invited to take part in these. There would be no need to lay down any quorum for such meetings, as the exchanges of views would not be restricted and would not have to reach any decisions.

(c) The Associated States and the Community have often been faced with questions of common interest not covered by the Convention of Association, but which are likely to have direct or indirect repercussions on the system of Association.¹ The legal possibility of dealing with such questions in the institutions of the Association could be found in the extension for Protocol No 5 of the second Yaoundé Convention, but only by giving it a more general applicability: it should be possible for any question having direct or indirect repercussions on the realization of the aims of the Association to be the subject of exchanges of views within the institutions upon request from one of the parties. If this possibility existed it would in particular enable closer account to be taken of the interplay of questions relating to the activity of the Association and of questions of development in general.

The Commission thinks, however, necessary to stress that following the line which has been followed since the start of the Association, the

institutions should be used for debating subjects which would not fall into their responsibility and which must, on the contrary, be dealt with exclusively by the sovereign institution of the partner countries.

5. Duration of the new association convention

There is no reason in principle why provision should not be made for a period of application longer than that of the present Convention of Yaoundé or the Arusha Agreement. However, due to the likely new size of the Association and to the changes that this size might make necessary, the nature and the extent of which will only become apparent in practice, it seems that the adoption of a duration of five years would be wise. Past examples show indeed that experience over five years is both necessary and sufficient to bring to light a certain number of essential adjustments, which could not easily be put into practice under the present provisions.

¹ The problems posed by fields as varied as the environment, fisheries, migrant workers can be quoted as examples.