COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION

on the administration during 1987 of the system of compensation for loss of export earnings for least-developed countries not signatory to the Third ACP-EEC Convention

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I. Introduction

1. Article 10 of Council Regulation (EEC) No 428/87 of 9 February 1987 setting up a system of compensation for loss of export earnings for least-developed countries not signatory to the Third ACP-EEC Convention[1] stipulates that:

"The Commission shall report annually to Parliament and the Council on the administration of the system during the preceding year".

2. This report covers administration of the system during 1987, the first year of its operation. Administration for that year concerned transfers in respect of the first application year, namely financial year 1986. As all the decisions on these transfers have been taken, most of the administration for financial year 1987 has been concluded. There was therefore no reason not to draw up this report before the end of calendar year 1987.

3. This report covers:

(a) the background to the system;

(b) preparations for its implementation;

(c) the budgetary aspects of administration of the system;

(d) the results of the first year of implementation;

(e) the use made of transfers.

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[1] OJ No L 43, 13.2.1987, p. 1.

II. Background to the system

4. At the Paris conference on the least-developed countries in September 1981, the Community expressed its willingness to see what steps could be taken to offer these LDCs not part to the Lomé Convention similar arrangements to those of Stabex. At the UNCTAD meeting in October 1985, devoted to a mid-term review of the Paris Conference, the Community stated its intention of setting up a system similar to Stabex for countries not signatory to the Lomé Convention as from financial year 1987.

5. In June 1986 the Commission presented the Council with a communication incorporating two proposals for Regulations (a framework Regulation and an implementing Regulation) designed to provide the legal basis for this measure and the detailed rules for its implementation.

On 9 February 1987 the Council adopted both Regulation (EEC) No 428/87 setting up a system of compensation for loss of export earnings for least-developed countries not signatory to the Third ACP-EEC Convention and Regulation (EEC) No 429/87 laying down detailed rules for the implementation of Regulation (EEC) No 428/87, thereby fulfilling the commitment given by the Community in Geneva in October 1985.

III. Preparations for implementation of the system

6. In theory implementation of the new system posed problems similar to those which emerged when Stabex was set up by the First Lomé Convention. However, the difficulties proved even greater since cooperation with some of the countries not signatory to the Lomé Convention only started fairly recently.

7. On account of these difficulties and because the relevant departments in the recipient countries needed to familiarize themselves with the system, a number of information visits were made to most of the countries in question. The first of these visits was to Bangladesh in February 1986 since the volume of its exports covered by the system is far higher than that from the other countries. In the period between adoption of the rules setting up the system (9 February 1987) and the time limit for presenting transfer requests for 1986 (31 March 1987), similar missions went to Haiti, the Yemen Arab Republic, Nepal, the Maldives and Lao People's Democratic Republic.

8. These fact-finding missions showed that most recipient countries do not yet really have the statistical machinery to undertake the statistical cooperation necessary for implementing the system. In some cases, it transpired that the only way of ensuring that these countries are not excluded from the system is to fill in the missing data with Community import figures. The cross-checking referred to Article 4 of the implementing Regulation is therefore not possible in all cases.

IV. <u>The budgetary aspects of administration of the system</u>

9. According to Article 4 of the framework Regulation: "the estimated budgetary cost of implementing the system ... should not exceed 50 million ECU for the five-year period from the financial year 1987 to the financial year 1991." This amount corresponds to an average annual expenditure of 10 million ECU. However, Article 937 of the 1987 budget only provides for 6.25 million ECU in commitment appropriations and 5 million ECU in payment appropriations.

This amount proved insufficient to cover in full all the justified transfer requests for the application year 1986. Since the appropriations provided were significantly less than the theoretical average annual expenditure, there were no grounds for making use of Article 5 of the framework Regulation or Article 1 of the implementing Regulation, which provide for a reduction in transfers if resources are insufficient. It was therefore necessary to top up the payment appropriations of Article 937 with an internal transfer from Article 930 "Financial and Technical Cooperation with LDC-LAA". This transfer was approved on 7 July 1987.

V. Results of the first year of application

10. For the application year 1986 the Commission received a total of eight transfer requests, submitted by four recipient states:

Recipient states	Products
Bangladesh	Shrimps and prawns
Bangladesh	Tea
Bangladesh	Hides and skins
Bangladesh	Jute
Yemen Arab Republic	Coffee
Yemen Arab Republic	Cotton
Yemen Arab Republic	Hides and skins
Nepal	Hides and skins

11. Four of these transfer requests proved to be inadmissible for the following reasons:

Request	Reason
Bangladesh, shrimps and prawns	No loss of earnings
Bangladesh, hides and skins	No loss of earnings
Yemen, hides and skins	No loss of earnings
Yemen, cotton	Dependence threshold not reached

12. Examination of the other four transfer requests showed that the recipient states in question were entitled to transfers for the following amounts:

Transfer	Amount in ECU
Bangladesh, tea	1 228 004
Bangladesh, jute	4 389 100
Yemen, coffee	379 013
Nepal, hides and skins	232 759
Total	6 228 876

13. In no case was it necessary to hold the consultations provided for in Article 11 of the implementing Regulation.

14. Examination of all the transfers was completed in July and all the transfer agreements were accordingly signed on 30 July 1987.,

VI. Use of transfers

14. Nepal intends to use the transferred funds for the sector in question, namely hides and skins. Some of the money will be used to improve processing techniques and technology and some will be used for market surveys and trade promotion. There are also plans to purchase a computer for administration purposes, which will be used amongst other things to provide the monthly statistics required as part of the statistical cooperation for the implementation of Stabex.

15. The two transfers for Bangladesh will also be used for the sectors concerned, tea and jute. In the latter case the aim is to improve the quality of the product, to increase the possibilities for its use in local industries, to promote the marketing of jute and carry out research into ways of improving quality and establishing new manufacturing processes. In the case of tea, there are plans to expand irrigation systems.

16. Yemen intends to use the transfer funds for a rural regional development project which is being carried out in Al Mahwit province.