European Economic Community — Associated African States and Madagascar

PARLIAMENTARY CONFERENCE OF THE ASSOCIATION BETWEEN THE EEC AND THE AFRICAN STATES AND MADAGASCAR

WORKING DOCUMENTS

11 JANUARY 1971 ENGLISH EDITION* DOCUMENTS 34 and 35

Report and Complementary Report

drawn up on behalf of the Joint Committee

on the
Sixth Annual Report on the activities of the Council of Association (Doc. 32-I/II)
to the
Parliamentary Conference of the Association

Rapporteur: Mr. André Guillabert

*) This translation must not be treated as an official text. Readers are reminded that the official texts exist only in the Dutch, French, German and Italian languages.

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At its meeting in Hamburg on 14 January 1970 the Joint Committee decided, in compliance with Article 14 of the Rules of Procedure, to submit a report to the Parliamentary Conference of the Association on the Sixth Annual Report on the Activities of the Association Council. Mr. Guillabert was appointed Rapporteur in accordance with Article 15 of the Rules of Procedure.

The problems raised by the Association during the course of 1970 were examined by the Joint Committee at its meetings on 20, 21, 22 and 23 May in Florence and on 28, 29 and 30 October 1970 in Libreville.

The explanatory statement was unanimously approved on 30 October 1970 in Libreville, in the presence of: Mr. Ngoo' Mebe (Cameroon), Chairman; Mr. Achenbach, Vice-Chairman; Mr. Aigner, Mr. Armengaud, Mr. Bos (deputizing for Mr. Werner), Mr. Briot, Mr. Ntakabanyura (Burundi), Mr. Ayando (Central African Republic), Mr. Ibata (Republic of the Congo), Mr. Bango-Bango (Democratic Republic of the Congo), Mr. Ebagnitchie (Ivory Coast), Mr. Dewulf, Mr. Fellermaier, Mr. Bouanga (Gabon), Mr. Galli (deputizing for Mr. Santero), Mr. Gerlach (deputizing for Mr. Corona), Mr. Girardin (deputizing for Mr. Colin), Mr. Glinne, Mr. Kompaore (Upper Volta), Mr. Laudrin, Mr. Andrianatoro (Madagascar), Mr. Sissoko (Mali), Mr. Fall Babaha (Mauritania), Mr. Offroy (deputizing for Mr. Hunault), Mr. Ndahayo (Rwanda), Mr. Valantin (Senegal) (deputizing for Mr. Guillabert), Mr. Omar Giama (Somalia), Mr. Spénale, Mr. Dagadou (Togo), Mr. Westerterp (deputizing for Mr. Schuijt).

The motion for a resolution was unanimously adopted on 9 January 1971 in Yaoundé, in the presence of: Mr. Ngoo Mebe (Cameroon), Chairman; Mr. Achenbach, Vice-Chairman; Mr. Guillabert (Senegal), Rapporteur; Mr. Aigner, Mr. Bersani, Mr. Briot, Mr. Ntakabanyura (Burundi), Mr. Califice (deputizing for Mr. Colin), Mr. Kassongo (Democratic Republic of the Congo), Mr. Corona, Mr. Ebagnitchie (Ivory Coast), Mr. Dewulf, Mr. Fellermaier, Mr. Bouanga (Gabon), Mr. Girardin (deputizing for Mr. Santero), Mr. Glinne, Mr. Kalenzaga (Upper Volta), Mr. Houdet (deputizing for Mr. Armengaud), Mr. Laudrin, Mr. Andrianatoro (Madagascar), Mr. Sissoko (Mali), Mr. Fall Babaha (Mauritania), Mr. Perret (Niger), Mrs. Orth (deputizing for Mr. Hein), Mr. Ndahayo (Rwanda), Mr. Schuijt, Mr. Omar Giama (Somalia), Mr. Sourdille (deputizing for Mr. Hunault), Mr. Spénale, Mr. Aladji Oueddo (Chad), Mr. De Medeiros (Togo), Mr. Triboulet (deputizing for Mr. Habib-Deloncle), Mr. Werner.

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A

Motion for a Resolution

on the Sixth Annual Report on the Activities of the Council of Association

The Parliamentary Conference of the Association,

— meeting in Yaoundé from 11 to 13 January 1971, in compliance with Article 52 of the Convention of Association between the European Economic Community and the African and Malagasy States, signed in Yaoundé on 29 July 1969,

— having noted the Sixth Annual Report on the Activities of the Council of Association (Doc. 32-I/II) and the report of the Commission of the European Communities to the Council on the management of financial and technical cooperation in 1969 (Doc. 32-III),

— having heard statements by the President of the Council of Association, the President of the Council of the Communities and the representative of the Commission of the Communities,

— recalling its resolutions of 10 December 1964, 8 December 1965, 14 December 1966, 7 December 1967, 15 January 1969 and 13 January 1970,(1)

— having regard to the report and complementary report presented by Mr. Guillabert on behalf of the Joint Committee (Docs. 34 and 35),

1. Notes with pleasure that the Second Yaoundé Convention has come into force as scheduled on 1 January 1971, the expiry date of the transitional measures which have made for continuity and normal operation of the Association in the interim period;

2. Recalls that the Association provides a permanent framework for measures taken by the European Community to promote the development of the Associated States, based on the mutual desire of all the partners to cooperate and on their sense of common purpose, in particular at the inter-African level;

3. Records with satisfaction that the coming into force of the new Convention coincides with the beginning of the Second Decade of the United Nations for Development to which all parties to the Convention have pledged support;

(1) Official gazette of the European Communities No. C 15, 5. 2. 70, p. 6.

I. *Institutional matters*

4. Stresses that, whilst bearing in mind the political trends shown by the Parliamentary Conference, the Council of Association must continue to take political decisions and meet in the presence of the responsible ministers from the twenty four States so that decisions are reached after hearing all the partners in the Association at governmental level;

5. Hopes that the consultations provided for in the Convention will effectively safeguard the vital interests of the Associated States and that, with this aim in mind, the EEC Member States will refrain from entering into final commitments, which may have a bearing on the Association's progress, before consulting the Associated States.

II. *Trade*

6. Is pleased that for the second year running, exports from the AASM to the Community rose in 1969 by a total of 17 per cent — i.e. at a higher rate than the average increase in exports from all the developing countries to the Community;

7. Notes, however, that there were substantial variations by country and product in the increase in value of exports from the AASM;

8. Notes with satisfaction that there has been further diversification in the nature of exports from the AASM both to the six Member States and to non-member countries;

9. Notes that improvements have been made in the arrangements for importing into the Community certain agricultural products of the AASM which compete with similar European products and that accordingly it should be possible to take more measures of this kind in particular for sugar from the AASM;

10. Regrets that the suspension of duties decided for certain products, which has resulted in a decrease of the tariff preferences enjoyed by the AASM, should have taken place before the sales promotion measures laid down in the new Convention have become operational and before a policy has been envisaged to stabilize the market rates for primary commodities and thus effectively remedy the deterioration in the terms of trade from which most of the developing countries and in particular the AASM continue to suffer;

11. Notes that — in case of a change in the cyclical situation and, in particular, in case of a marked drop in the prices of products subject to suspended duties — the Community will reconsider the decision it has taken and will if necessary, go back on the suspension measures in order to take into account the interests of the AASM;

12. Appreciates the provisions in the new Convention designed to improve the possibilities of promoting sales of AASM products and the measures already taken for this purpose by the Commission of the Communities while pointing out that these measures will only have short term effects;

13. with this aim in mind, invites the AASM to work out a parallel programme of vigorous local action to improve their marketing structures and train qualified marketing personnel in larger numbers;

14. Considers, however, that these sales promotion measures cannot dispense the Community and Associated States from jointly promoting an effective policy on primary commodities by encouraging, on a worldwide basis, the work now being done by UNCTAD and the International Monetary Fund to define and implement measures aimed in particular at bringing about an improved balance between supply

and demand, at fixing profitable prices for the producer and equitable prices for the consumer, at financing any necessary regulating stocks and at setting up in appropriate cases a programme for the diversification of production;

15. Emphasizes that, according to surveys carried out by the United Nations Economic Committee for Africa, the generalized preferences suggested by UNCTAD for manufactured and semi-manufactured products of the developing countries might, owing to the low level of industrialization of the least advanced countries — which include two thirds of the Associated African States and Madagascar — increase the leeway of these countries if the following principles are not strictly adhered to:

these generalized preferences must

(a) conform fully with the spirit of Resolution 24/II adopted in New Delhi and therefore be applied without discrimination or reciprocity;

(b) take effect simultaneously and for the same range of products in all the developed countries which have offered to grant preferences; this simultaneousness is an essential prerequisite for application of generalized preferences in a manner which is fair to all concerned, it being understood that the implementation of these preferences depends upon the outcome of the consultations regarding the reverse preferences.

16. Also considers it essential that the generalized preferences

(a) be accompanied by the indispensable guarantees stipulated at the New Delhi Conference for the least advanced countries and for those countries which benefit from regional preferences and would be adversely affected by the application of generalized preferences,

(b) on no account replace the system of regional preferences on which the Association is founded in the spirit of Protocol No. IV annexed to the Convention;

III. *Financial and technical cooperation*

17. Is gratified with the increase in the overall amount of financial aid granted to the developing countries by the six Member States of the Community as a whole — which now exceeds 1 per cent of their total gross national product — and inparticular with the increase in aid granted to the AASM under the Second Yaoundé Convention;

18. Notes that the coordination between the bilateral programmes of financial and technical cooperation and Community programmes is gradually improving and considers that it must be pursued;

19. Appreciates the arrangements made by the Council of Association and the action taken by the Commission of the Communities in commissioning during the transitional period surveys of investment projects to be financed from the third European Development Fund so as to offset, to some extent, the effects of delays in reaching decisions on financing due to the long time taken to ratify the Second Yaoundé Convention;

20. Considers that it is necessary to continue the diversification and development of the agricultural economies of the AASM and to adjust technical assistance measures in this field to present-day requirements;

21. Considers it significant that the Association has resolutely chosen the industrial option, with the active support of the European Investment Bank, as a vital, although not exclusive, contribution to the development of the AASM;

22. Hopes that, quite apart from the technical procedures laid down in the Convention, the Community will make full allowance in its commercial and industrial

policy for its responsibilities to the developing countries and more particularly to the AASM, through a policy of industrial transfer which should now be outlined;

23. Is pleased with the steps taken by the governments of some EEC Member States to guarantee against risks of a non-economic nature, investments by their nationals which contribute to the creation of new wealth in the AASM, since these measures are a useful encouragement to industrialization;

24. Feels that the difficulties standing in the way of industrialization can be overcome particularly if the Associated States themselves manage to enlarge their markets through economic groupings and better coordination of their industrialization policies;

IV. *The future of the Association*

25. Considers that a future enlargement of the Association could make a useful contribution to African unity by promoting regional economic groupings;

26. Notes, however, that enlargement also entails commercial risks for the AASM, in particular because of the very keen competition to which their basic agricultural products would be exposed;

27 .Accordingly requests that the AASM may be enabled to assert their interests on the Council and Association Committee in connexion, in particular, with the information which the Commission must provide at regular intervals — in compliance with the obligations resulting from the Yaoundé Convention — on relevant aspects of the negotiations with the countries which have applied for membership of the Community and on the prospects which the enlarged Community would offer to the AASM.

28. Invites its President to forward this resolution and the relevant report to the Council of Association, the European Parliament and the Parliaments of the Associated States, the Council and Commission of the European Communities and, for information, to the European Investment Bank.

B

EXPLANATORY STATEMENT

INTRODUCTION

1. The Association is at a turning point in its history. It is on the verge of a new period of change and uncertainty.

The changes taking place with the new Yaoundé II Convention are a result, among other things, of a development set in train by the standing confrontation of two schools of thought. The Association was from the very beginning regarded by some as a purely transitional arrangement which would go by the board once the AASM attained full economic and political independence. For others — and in particular for the parliamentarians of the Association for whom this has always been a matter of principle — the Association is the framework for an enduring cooperation between Europe and Africa.

The uncertainty now surrounding the Association is due to the convergence of a number of events whose cumulative influence has affected the Association in varying degrees.

2. The first uncertainty arising in 1969 was the unduly long prolongation of the transitional period; the effects of this are discussed throughout the Sixth General Report on the Activities of the Council of Association. The Association Committee, for example, was obliged to extend the transitional measures, originally scheduled to apply until 30 June, up to 31 December 1970. This extension of the time-limits laid down for the transitional period was due to the fact that the Yaoundé II Convention had not been ratified by some Member States. Since then events have taken a more favourable turn and the new Convention came into force on 1 January 1971 following the deposit of the instruments of ratification by the Netherlands and Italy.

Rightly or wrongly these delays in ratification lent colour to the view among the AASM that some Parliaments of the Member States had ulterior motives and that their Governments were not in a position to fulfil, within a reasonable period, the commitments they had entered into (1). As the debates held by the Joint Committee in Libreville showed, the psychological effect of this uncertainty affected the climate of confidence in the Association in 1969, although the transitional period actually had fewer adverse effects in terms of trade and finance than might have been feared, thanks to the timely measures taken by the Commission of the Communities and the Council of the Association.

3. These delays in the ratification of the Community's commitments were all the more alarming to the Associated States because they occurred at a time when the AASM were in real need of reassurance about the future in view of the external threats bearing down on the Association: the obvious opposition of the United States and the pressure it exerts on certain Member States are not without effect on the policy of the latter. Similarly the Association has not been unaffected by the internal pressures in certain business circles within the Community whose sources of supply lie in countries other than the AASM.

This spirit of opposition, which hung over the renewal of Yaoundé I, continues to lie heavy on the negotiations in GATT and UNCTAD. It is worth noting that the renewal of Yaoundé II was only secured at the price of certain concessions, i.e. a reduction in the preferences enjoyed by the AASM on Community markets. Despite the protests of the Associated African States the Six confirmed at the meeting of the Council of Association on 30 September that they would make reductions in the common customs tariff on a series of tropical products, including three major export products of the AASM, when the Convention came into force.

4. These cuts in regional preferences on *primary commodities* enjoyed by the AASM are being made at a time when UNCTAD plans to introduce a system of generalized preferences on *manufactures*

(1) Italy, for example, took three years to ratify Decision 67/491, adopted by the Council of the Communities on 27 July 1967 on the granting of temporary financial aid for the oleaginous products of the AASM. As a result a Community decision of real importance in its effects on the Associated States was held up until quite recently.

and semi-manufactures of all the developing countries during the course of 1971. This will therefore reduce the preferences also granted to the AASM on processed products, because the Community's offer is based on duty-free entry — up to certain limits — for all industrial products of the developing countries.

5. Finally, in a situation where the Community is torn between its commitments to the Eighteen and its commitments to the Third World as a whole, we have the opening of negotiations with the United Kingdom. This event, in itself a good thing, is another source of uncertainty for the AASM; they would like to know what conditions the Community will offer the English-speaking African countries in the Commonwealth, most of whose products are competitive with those of the Eighteen and some of whom may also need to call on the financial und technical cooperation of the Community. It is therefore difficult to assess what effects the opening up of the Community will have on the Association itself.

6. In conclusion, it is more necessary than ever that the 24 partners should keep closest watch on the development of the Association and keep control of it, and that the six Member States in particular should make known their options and the nature of the cooperation they intend to extend in the future.

CHAPTER I

THE INSTITUTIONS

7. An analysis of the decisions taken by the Association Committee on the transitional provisions discussed in the first part of the General Report shows that in practice the Association Committee has come to take the place of the Association Council. Indeed the latter held no meetings at all between 29 May 1969 and 30 September 1970, i.e. over a period of sixteen months. This seems hardly consistent with the provisions of the Yaoundé Convention, Article 44 of which lays down that the Council shall meet once a year.

8. Had the Council of Association not delegated certain powers to the Association Committee, as a result of which the latter was able to take important decisions and so keep the Association operating normally, the Council might have laid itself open to a charge of shirking its responsibilities.

In fact, it is encouraging to see what has been done by the Committee. At its meeting of 17 July it approved the Sixth Report on the Activities of the Council of Association and—for the first time in years—sent it punctually to the Joint Committee and its Rapporteur. The cooperation of the joint secretariat of the Council made possible not only the prompt adoption of the Sixth Report but also its transmission to the parliamentary bodies of the Association.

As Mr. Damiba, the President of the Association Council, explained before the Joint Committee in Libreville (1) it is still the Council that has the ultimate political responsibility. The powers it has delegated since 1964 to the Association Committee do not relieve the Council of its political responsibility because at each of its sessions it has to express its opinion on the reports submitted by the Association Committee on the matters it has dealt with.

9. The long-awaited meeting of the Association Council on 30 September was rather a disappointment for two reasons: one was the absence of some European und some African Ministers; the other was the fact that the consultations held about tariff changes the EEC envisages for some tropical products showed how hard it is for the AASM to convince their European friends of the validity of some of their basic claims. Indeed the AASM were unable to get the Six to change their minds.

This consultation procedure between the Six and the Eighteen should be reviewed to ensure that the AASM viewpoint really exercices some influence on the Association Council's final decision. In fact the debates have always left the AASM with the impression that when the Six have come to an agreement beforehand the AASM are faced with a *fait accompli*, because the agreement then proves to be sacrosanct.

The Council meeting did, on the other hand, prove more satisfactory when it came to the consultations between the Six and Eighteen on generalized preferences. The Community acceded to a request of the Associated States to include, in its offer, a general clause to the effect that the Community and the developed countries would redress any unfavourable situation that the introduction of the system of generalized preferences might produce in the developing countries at present enjoying special preferences.

Similarly the Association Council welcomed the information given by the Community about the applications for membership of the United Kingdom, Denmark, Ireland and Norway and about the Community's attitude on their implications for the policy of the Association.

10. Relations between the various bodies of the Association have gone satisfactorily because all have kept in constant touch with each other, thanks to the active participation of representatives of the Association Council and of the European Commission at meetings of the Joint Committee.

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(1) The Joint Committee held two meetings in 1970, the first in Florence from 20 to 23 May and the second in Libreville from 28 to 30 October.

11. A major change has taken place within the Commission, the linchpin of the Association: the Governments of the 24 Associates can only join with the members of the parliamentary bodies of the Association in regretting the departure of Mr. Rochereau who was completely dedicated to the cause of the Association and enjoyed the confidence of all the AASM.

An encouraging factor, on the other hand, is that the new member responsible for relations with the Eighteen, Mr. Jean François Deniau, has a wide experience of Africa and is also the Community's negotiator with the four States that have applied for membership. This promises well for the Association because there is no doubt that the Community's 'negotiator' will throughout the negotiations bear in mind the problems of the AASM for which he is one of the persons responsible.

CHAPTER II

THE PREFERENTIAL SYSTEM OF THE ASSOCIATION

12. The Association's system of regional preferences has caused so much controversy in the third countries that it may be worthwhile explaining what the actual content of the Association's preferential policy now is.

The system of free trade areas between the Community and each of the 18 AASM countries, based on preferences amounting to more than straightforward tariff concessions, is evolving all the time and has undergone major changes since 1960.

13. In 1958 the trade policy instituted between the Community and the States (then the African and Malagasy territories) was mainly French-inspired, both out of necessity and because of current attitudes. As the preferential system of the Association stemmed from historic links, it brought with it originally not only major tariff concessions (i.e. duty-free entry for products exported by the AASM) but also marketing and price guarantees on Community markets, products of the associated countries being regarded as Community products. Conversely the privileged treatment given to France in the African territories at the time entirely dependent on it was extended to its five partners which thus benefited from the same preferences (reserve preferences).

14. As from 1960, the horizontal relationship that had linked most of the AASM together within the same economic area disappeared with their accession to independence. In 1963, when the First Yaoundé Convention was signed, production aid was intended to be phased out by means of a gradual reduction in price support for the main AASM products; it was agreed that when Yaoundé I expired on 30 June 1969 the AASM ought to be in a position to align their product prices on world prices.

At the purely tariff level there were then a series of reductions in the common customs tariff (CCT) following mlutilateral negotiations in GATT —the Dillon Round and then the Kennedy Round —of as much as an average of 25 per cent for most products and a 15 per cent suspension for coffee and cocoa, with the application ahead of schedule of a reduced CCT rate for these products. There was also a complete suspension of the CCT for tea and tropical woods. Then again, there was no tariff protection for certain primary commodities such as oleaginous seeds, cotton and rubber, where the CCT duty was nil.

A. The new tariff reductions on primary commodities

15. The signature of Yaoundé II provided the opportunity to lay down another milestone in the process of tariff dismantlement within the Association. When consultations took place on the Council on 30 September 1970, the Community confirmed its intention of making partial suspensions in the CCT on several tropical products, including three that matter to the AASM —coffee, cocoa and palm oil (1)—and other products (coconut, pepper, cinnamon, ginger (2) etc.) (see list in Annex II to the Sixth General Report, Doc. 32/I-II).

16. These tariff changes were one aspect of the negotiations leading to the renewal of Yaoundé I; as stated in the annual report, it was at the third meeting of the Contracting Parties at ministerial level on 29 May 1969, and at the sixth meeting of 13 June 1969 of the Contracting Parties at ambassadorial level, that the Associated States were officially informed that the Member States wanted to make a 'gesture' on behalf of the developing third countries.

This point was made in June by representatives of certain Member States when the Council of the Six discussed the desirability of reducing the CCT on cinnamon and tung oil. Some delegations wanted the EEC to refrain from reducing the CCT so as not to harm Madagascar which exports these products to the Community, its main customer, but two delegations of the Member States found this unacceptable and stressed that this CCT reduction had been regarded as final, as indicated

(1) Suspension of duty
- on unroasted coffee, from 9.6 to 7%, subject to the existence and proper operation of the international agreement on coffee;
- on cocoa beans from 5.4 to 4%;
- on palm oil from 9 to 6%.

(2) However, the Community decided to make no change in the CCT for tung oil and to effect a less appreciable suspension of the CCT for cinnamon.

in the explanatory statement attached to Yaoundé II, as outlined before the German and Dutch Parliaments.

17. The Community would thus be hard put to go back on this gesture because it was regarded by some as one of the conditions for the renewal of Yaoundé I. For the Community it was a worthwhile demonstration of its sense of responsibility towards the Third World as a whole and a sop to some of the other industrialized countries, particularly the United States, which take issue with the preferential policy of the Association.

It was thanks to the Commission that the Community decided to limit this gesture so as not to damage the interests of the Associated States.

18. At meetings of the Contracting Parties —and as early as 26 March 1969—the AASM came out strongly against any plan to reduce CCT duties, as indicated in the Sixth General Report (pp. 31-32): 'In their opinion the tariff dismantlement measures introduced since the Rome Treaty was signed in 1958 have harmed their commercial interests. Coming on top of the disappearance of a privileged market where most of these States enjoyed price and marketing guarantees for their products, these measures would even have dealt a severe blow to their export revenue and to the commercial footing acquired on these privileged markets of the Europe of the Six.

'For the Associated States there is a connection between the succession of CCT reductions on the main tropical products made since 1958 and the sharp fall in their exports of some of these products to the Community (unroasted coffee 141 million units of account in 1967 as compared with 160 millions u.a. in 1958), or the negligible increase in exports of others (53 million u.a. for bananas in 1967 as compared with 48 milllion u.a. in 1958). Over the same period the EEC's imports of unroasted coffee from Latin America increased by more than 30 per cent and banana imports from the same source by more than 100 per cent.

'Palm oil is another case in point; the Associated States felt that it would be wrong to reduce the duty from 9 to 6 per cent. They pointed out that between 1960 and 1965 their exports of palm oil to the Community decreased appreciably both in quantity and in value—from 131,000 tons or $30.5m to 101,500 tons or $25.4m. EEC imports from third countries, on the other hand, rose substantially—from 135,000 tons, or $30m, in 1960 to 162,000 tons, or $42.5m, in 1965.

The Associated States argued that any measure involving the suspension of duty on this product would adversely affect the export receipts of some Associated States—particularly the Democratic Republic of the Congo, the Republic of Dahomey and the Ivory Coast Republic—because palm oil is a major feature of their export trade.'

19. On this evidence, the AASM have proved their point that the tariff suspensions already made had weakened their export capability on the markets of the Six; it is therefore for the Community and the bodies of the Association to take all appropriate steps to redress the damage suffered by the AASM(1).

The fact remains that it would be difficult for the Community to go back and readjust its common customs tariff; this would be bound to provoke very strong reactions from third countries.

20. The Associated States note with regret that in signing Yaoundé II the Community again weakened the preferences system enjoyed by them. This undoubtedly confirms that the trend is gradually to reduce Association preferences.

21. The unbiased conclusion that follows from this is that there has been a steady whittling away of the grounds for criticism by third countries because the Association is definitely bent on dismantling its trade and tariff preferences. It can hardly be said that the Associates have consolidated their links in this sphere. It would rather appear that the links between the 24 partners have changed, the emphasis shifting from trade protection on a steadily decreasing scale to greater financial and technical cooperation, which is tending to become the major feature of the Association between the 18 and the Six. The Association ought to watch this development carefully to ensure that it does not go too quickly, bearing in mind the overriding importance of trade policy for the AASM.

B. Extension to the three East African countries of preferences already granted to the AASM

22. The Arusha II Agreement came into force at the same time as Yaoundé II. The effects of this competition for the AASM will thus begin to be felt this year because Arusha I never came into effect.

Indeed the provisions of the Arusha Agreement relating to trade agreements are identical with those of Yaoundé II and provide for duty-free entry into the Community of products originating in East Africa. It was in this way that the Community manifested its concern to give the three East African countries the same import system as that applied to AASM products. In the case of three products, however, Protocol II to the Agreement lays down certain safeguard clauses should imports of coffee, cloves and canned pineapples exceed the following quantities during any given year:

(1) The Community made it clear that it would make tariff 'suspensions' and not final reductions in its customs tariff so as to be able to review the situation if it were proved that the interests of the Associated States had really been prejudiced.

(i) Unroasted coffee, 56,000 tons;

(ii) Cloves, 120 tons;

(iii) Canned pineapples, 860 tons.

In that case 'the Community shall be authorized —subject to consultation with the Partners States of the East African Community—to take the necessary measures to avoid serious disturbances in traditional trade flows'(1).

23. Similarly, the system for imports from East Africa of agricultural products similar to and competitive with European products, subject to market regulation, is the same as that in the Yaoundé Convention(2). In both Conventions Article 1,2 of Protocol No. 1 states that 'the treatment which the Community applies to these products shall be more favourable than the general treatment applied to like products originating in third countries.' The regulation implementing this Article, submitted by the Commission of the Communities to the Council, is designed to bring imports of agricultural products from East Africa freely into line with those from the AASM and to accord the same privileges.

24. The AASM welcomed, and continue to welcome, the Association of the three countries of East Africa with the Community because they feel that it will be conducive to African unity and regional cooperation through the possibility it holds out of enlarging the free trade areas that already exist in Africa.

This does not mean they are unaware of the difficulties they could be faced with as a result of competition from East African products on Community markets. This applies to tropical products for which demand is not very elastic in the European consumer countries where the AASM are already meeting with keen competition from the Latin American countries.

25. And it will particularly apply to agricultural products similar to and competitive with European products. In view of the protectionist nature of the common agricultural policy it is to be feared that the exportable quantities of such agricultural products from East Africa may, coming on top of those of the AASM, alarm the Community and drive it to 'adjust' its regulations relating to products originating in Associated African States accordingly, with a view to safeguarding its interests as envisaged in Protocol No. 1 annexed to the Convention.

This fear is not wholly unjustified, for example, in the case of the import system recently proposed by the Commission for imports of maize from the Associated African States. As the East African countries were major potential exporters the Community proposed a 'preference' reducing the levy(3) by 0.10 u.a. per 100 kg; the resulting concession would be equal to 2.8 per cent of the levy, a negligible amount. Never before has the Community granted such a paltry concession to the AASM. When this problem was debated in the European Parliament it clearly emerged that the Community was alarmed at the possibility of large tonnages being imported from East Africa. It could have been much more liberal in its regulations had it only had to take the small-scale exports of the AASM into account, as it does in the case of other products the Community imports from the AASM in small quantities(4).

26. To sum up, giving East Africa the same system for the imports of agricultural products as the AASM—however desirable this may be—is liable to result in a less favourable system for certain AASM exports to the Community than before.

C. UNCTAD's generalized preferences for the manufactures and semi-manufactures of the developing countries

27. The system of generalized preferences is scheduled to come into operation during the course of 1971.

This system is as it were the second component of the reduction in the preferential concessions enjoyed by the AASM. The Community offer is based on duty-free entry for all the developing countries. AASM products will thus no longer enjoy a privileged position—vis-à-vis third countries—on Community markets, except in so far as third countries will have to respect certain export ceilings.

28. Unlike the suspension of duties on certain AASM tropical exports, however, the granting of generalized preferences does not come as a surprise to the AASM. Indeed the Eighteen have never raised any objection to the introduction of a system of mutually acceptable generalized preferences; they went all the way with the group of 77 developing countries on the general principle of such preferences during the discussions at UNCTAD and when Resolution II/21 was unanimously adopted by the 132 participating countries in New Delhi.

29. In accordance with Protocol No. 4, the Community got in touch with the AASM at

(1) It should be noted that these ceilings were set fairly high and allow for a gradual increase in the exports of East Africa, bearing in mind the present level of exports of the three products to the Community.

(2) See Articles 2,3 and 4 of the Arusha Agreement which are the same as Articles 2,3 und 4 of the Yaoundé Convention.

(3) The Community levy is a tax on imports of certain agricultural products. It is equal to the difference between the internal prices guaranteed to producers in the Community and world prices.

(4) Kenya and Tanzania exported 74,000 tons of maize to the Community in 1968; the AASM exported only 818 tons.

UNCTAD and consulted them officially on several occasions, among them the meeting of the Association Council on 30 September 1970. The Associated States were informed in March 1969 about the nature of the preliminary offer made by the Community to the OECD on the system of generalized preferences it proposed to apply for its own purposes (See General Report, pp. 37-39):

'— as a general rule this preferential treatment will apply to all the manufactures and semi-manufactures in Chapters 29 to 99 of the Brussels Nomenclature where these originate in the developing countries;

'— the preference will consist in granting duty-free entry;

'— preferential imports will be admitted up to ceilings calculated on the basis of value in the case of each product by reference to standard criteria for all products;

'— in order to restrict the scope of the preferences granted to the most competitive developing country or countries and to keep a major proportion for the least competitive, preferential imports from a single developing country for a given product should not as a general rule exceed 50 per cent of the ceiling set for the product in question.

'The annual ceilings would normally be worked out according to the following formula: c.i.f. value of imports from the beneficiary country (basic amount) plus 5 per cent of the value of c.i.f. imports from other countries (additional amount).

'As regards processed agricultural products the Community would grant tariff preferences on some of them (shown in a limitative list annexed to the communication) and involving mainly products concerning the Member States. Some of these products are also of importance to the Associated States (pyrethrum, saps and extracts, tapioca, roasted nuts and fruits without alcohol and with added sugar). However, in the case of most of the major products exported by the AASM (manioc flour, products processed from pineapple, coffee and cocoa, spices) the Community has not considered any concession.

'As regards the safeguard mechanism, this is the direct result—in the case of the industrial products —of the system of predetermined import ceilings chosen by the Community. In the case of processed agricultural products, on the other hand, a special safeguard mechanism will come into operation. The purpose of the ceilings systems is to protect the industries of the Member States and the AASM against excessive competition from developing third countries. These ceilings will not apply to exports to the EEC by the AASM who will still be completely exempt from customs duties without any quantitative restriction.'

30. The AASM broadly supported the system proposed by the Community although it did not meet their request to exclude such sensitive agricultural products as manioc tapioca, although it did so for a similar product of interest to the Member States, viz products processed from potato starch.

On the other hand the Community supported the AASM at UNCTAD when it decided to include in the system of generalized preferences a general provision—covering both industrial and agricultural products—to the effect that the developed countries would redress any unfavourable situation caused by the introduction of this system in any of the developing countries at present enjoying preferences in some developed countries. The interests of the AASM could thus be taken into account if sensitive products like tapioca and canned products processed from fruit and vegetables, hides, skins and leather, were threatened following the introduction of the system.

This provision did not meet with any objection from the developing countries as a whole because it went back to a proposal adopted by the 'Group of 77' both when the Algiers Charter was being drawn up and at the New Delhi Conference. But at the last meeting of the Special Committee on Preferences in Geneva the United States stated it could not acccept this clause; the Special Committee was thus obliged to drop it. The spokesman for the European Communities stated that the text on special preferences did not quite measure up to the wishes expressed by the 'Group of 77' and that the Community reserved the right to take any necessary measures, within the framework of its offer, to offset any adverse consequences the application of the general system of preferences might have for the countries associated with the Community.

Similarly, the Community agreed to continuous consultations between the 24 Associates (in accordance with the provisions of Protocol No. 5) throughout all the negotiations.

31. Regardless of the Community's offer and in view of the impossibility of winning over all the industrialized States to a uniform offer, the trend is now towards the introduction of different systems of preferences (EEC, United Kingdom, United States, Japan, Nordic countries, etc.).

It is important for the AASM to know what practical advantages they will gain from generalized preferences when the markets of the major industrialized States, apart form the EEC, are opened up to their processed products. It is particularly important for them to be able to see whether these prospects of new markets will offset the competition they will meet with on Community markets from the processed products exported by the developing countries that are more advanced economically and whose products are therefore more competitive than their own.

32. A recent study of the draft system of generalized preferences(1) made by the Economic Commission for Africa—with the help of GATT and UNCTAD staff—on the basis of the various offers made by the OECD countries, shows that the least advanced of the developing countries will get little or nothing from the system of generalized preferences whereas the most prosperous and the most advanced among them will gain appreciable benefits. The study highlights how little this system will help the development of the African countries. The conclusions of the Economic Commission for Africa are as follows:

(a) The total extra receipts that all the African countries concerned can expect from generalized preferences would only amount to $14.5m per annum. If in addition the United States sticks to its original decision not to offer generalized preferences to countries that are parties to preferential agreements—i.e. those associated with the EEC or which are members of the Commonwealth—then $370,000 must be deducted from this figure. Since one also has to deduct the value of special preferences relating to products included in the system of generalized preferences (estimated to be worth $3.5m for the three North African countries associated with the EEC and approximately $90,000 for East Africa) the total amount of extra receipts for all the African countries concerned would actually come to $10.5m per annum;

(b) Seven African countries would stand to gain nothing at all;

(c) More than half of the developing countries in Africa, comprising a quarter of the population, would each receive less than $10,000; these are the poorest countries which together account for only 18 per cent of the total gross national product of the region;

(d) In monetary terms it follows that the 23 countries, where the GNP is around $88 per inhabitant, would get 0.04 US cents per inhabitant per annum;

(e) Only four African countries would each get more than a million dollars per annum, which is equivalent to 15 US cents per inhabitant.

33. The conclusions of the Economic Commission for Africa about the AASM are particularly disturbing:

(a) None of the AASM would get more than half a million dollars and approximately two-thirds would get less than $10,000. The AASM could in fact only expect to benefit to the extent of $1.1m a year, those of the Commonwealth $6.2m and the other African countries $7.2m;

(b) Summing up, the ECA concludes that to make a complete economic assessment of the system one has to take into account the reactions of competing exporters. The exporting industrialized States might cut their prices if they feared losing any considerable part of the market. Consequently the gain in terms of price could be less than the preferential margin.

There could also be a change in the competitive position of the exporting developing countries already enjoying preferences, i.e. those associated with the EEC and those in the Commonwealth. Their preferential situation would come to an end when the general system of preferences came into operation. If these factors are borne in mind when the assessment is made it could turn the calculated negligible or nil benefit in terms of the receipts of these countries into a net loss. The markets they have already gained through special preferences are liable to be threatened and their expected but not yet guaranteed access to new markets could be challenged or even blocked as a result of keener competition from other developing countries (sec. 43).

34. Lastly, the Economic Commission for Africa considers that the aim of Resolution No. 21(II) at the second session of UNCTAD (on accelerating the development of the developing countries, especially the least advanced among them) could only be achieved if other measures were taken in addition to the system of generalized preferences—that is, so as to take into account the special problems of the least advanced countries, on the grounds that at the present stage in the discussions of generalized preferences it would be hard to imagine a more unfair way of distributing aid among the developing countries.

35. After this ECA study came the conclusions of the UNCTAD Special Committee on Preferences of 11 October 1970. These show that:

1. In contrast to what was originally envisaged in New Delhi it has not been possible to establish a *single* contractual charter freely negotiated between the developed and the developing countries; instead different systems of concessions granted by each of the donor countries at their own discretion are to be introduced;

2. The exceptions hedging the offers of the developed countries show that the system brings practically no benefit to the least advanced countries because it will be a long time before they export heavy equipment and other capital goods. It is therefore hard to understand why the United States and Japan, for example, should have excluded from their offers products the AASM could export such as footwear, certain textiles and oil products;

3. The AASM would have no guaranteed access to the markets of the United States and Japan,

(1) 'Le projet de systèmes de préférences générales et les pays africains' United Nations — Economic and Social Council, 5th Joint Meeting of the Economic Commission for Africa, M 70-1532, August 1970.

for example, because the USA and some other countries have linked this problem with that of the abolition of reverse preferences. The conclusion of the Special Committee is that consultations should be held as soon as possible between the parties directly concerned so as to work out arrangements before the introduction of the system of generalized preferences. In this connexion the AASM would have to negotiate bilaterally with the United States, Austria, Japan and Switzerland, all of whose offers are subject to the abolition of reverse preferences, about the conditions governing such abolition(1).

4. The vast number of safeguard mechanisms embodied in the various offers and the fact that each donor country has decided to stick to its own definition of the term 'products originating in...' leads one to expect serious practical difficulties when it comes to the application of the measures enacted.

5. One of the shortcomings in the arrangements made is the failure to draw up a single list of the countries to enjoy these preferences. Each developed country has in fact reserved the right itself to specify the countries that will benefit from this system. Thus the four developed countries whose offers are made subject to the abolition of reverse preferences could exclude the AASM if the proposed consultations were not successfully concluded in the near future.

   Similarly it was not only the members of the 'Group of 77' that claimed the right to generalized preferences; other countries such as Rumania, Bulgaria, China, Cuba, Turkey, Israel, Greece, Spain and, acting for Hong Kong, the United Kingdom did so too.

6. The special measures on behalf of the least developed countries were not stipulated by the donor countries as a whole. Nor did any action ensure from the condition laid down by the African States, and then taken up by all the 77, that equivalent benefits should be extended to the developing countries enjoying special preferences in certain industrialized countries before they could accept the abolition of the preferences that they formerly enjoyed for their manufactures. The only reference in the chapter on special measures is the following:

   'Where possible, and from case to case, the donor countries will try and include products of export interest to the least advanced of the developing countries in the generalized preference schemes, and grant greater tariff reductions for such products.'

   This clause, hedged as it is with all these reservations, is hardly binding on the donor countries and in no way offers a guarantee to the AASM. Similarly, although the conclusions of the Special Committee on Preferences were accepted by the AASM, this does not bring the discussions to an end because certain important conditions for the application of the system will still have to be negotiated bilaterally; thus they have not yet been endorsed by the AASM;

7. The American offer has moreover still to be ratified by the United States Congress, and it is quite likely that in the present protectionist atmosphere this will take some time yet and it is not even certain that it will be done at all. Because the Community said that is was ready to apply the system as soon as possible a serious imbalance could immediately arise both in the timing and in the very nature of the offers. The United States has excluded most textiles and other products of interest to the AASM from its offer, and is preparing quantitative restrictions on these products which will apply to exports from all countries including those of the Community.

   Consequently exports of these products from all the developing countries will pour into the Community, which is already hard put to protect itself, behind its common customs tariff, against such established competitors as Japan and Hong Kong.

   Thus the 'generous' initiative taken by the Community regarding generalized preferences is liable to involve certain dangers both for the Eighteen and to the Community itself if it is not followed by equivalent offers by other industrialized States.

   Practically speaking, the system of generalized preferences proposed in New Delhi will be of little worth unless the offers of donor countries are equivalent and come into force simultaneously; otherwise the system will be thrown out of balance and adversely affect those that are giving the most—in this case the Community and its Associates.

   The Community cannot lose sight of this aspect of the problem at subsequent discussions on the UNCTAD Council. *The simultaneous entry into force of the various systems appears to be an indispensable condition of their applicability.* It seems obvious that the Community must at least wait until the four countries which have made conditional offers are able to apply the system they themselves have proposed.

36. We quote as an example a draft resolution proposed by the Ivory Coast, on behalf of the African Group, before the UNCTAD Council's Committee on invisible transactions and financing at its meeting in July. This included the following suggestions on the nature of the *special measures* which could be taken in favour of the least advanced countries:

(1) As a result of the position adopted by the United States and other donor countries, Jamaica and Trinidad and Tobago, stated at the closing session of the Special Committee that they did not envisage abolishing reverse preferences for the time being and were not able to give their agreement to the final conclusions of the Committee, bearing in mind the reservations made by some of the donor countries which would exclude them from the major industrial markets.

1. That measures should be taken as soon as possible to eliminate or reduce the tariff and non-tariff obstacles to trade in primary commodities the export of which is of special interest to the least advanced of the developing countries; and that to achieve this objective the studies already made on this subject by other international bodies that deal with the problems of trade in primary commodities should be taken into account;

2. That the developed countries concerned should refrain—in order to allow the greatest possible increase in export opportunities for the least advanced countries—from any national agricultural production that is uneconomic and would have to be supported by a high level of customs protection or by subsidies; and that these countries should take due account of the restrictive effects which such support policies have on the exports of products of special interest to the least developed countries;

3. That the developed countries should take particular account, as regards the production of synthetic products or substitutes, of the interests of the least advanced countries which produce natural products, and that they should give the utmost consideration to the interests of these countries when it comes to marketing agricultural surpluses;

4. That favourable treatment should be granted to the least advanced countries when apportioning production or export quotas under any international arrangement affecting products of special interest to them; and that these arrangements should, wherever possible, include special conditions in favour of the least advanced countries—for example, a clause exempting them from contributing towards financing buffer stocks;

5. That special financial assistance and appropriate technical aid should be given to the least advanced countries to help them with production and marketing so as to make them more competitive in international trade in primary commodities;

6. The Committee calls on the Secretary-General of UNCTAD to take, as a matter of priority, in cooperation with the other United Nations bodies and on the basis of the method advocated in Section III of the Secretariat's report contained in Doc. TD/B/C. 1/13, any measure likely to facilitate application of the recommendations set out above, which would gradually lead to an increase in the exports of the least advanced countries, to an improvement in their terms of trade and, above all, in their export receipts.

It is hardly necessary to add that these African proposals were not exactly welcomed by the prosperous countries during the discussions on UNCTAD's specialised committee.

D. Final comments

37. In the light of the rather disappointing picture that emerges from the study made by the Economic Commission for Africa and of the conclusions of the Special Committee on Preferences adopted in Geneva on 11 October, one cannot but point out that the system, which is scheduled to run for ten years, is being introduced at a time when the AASM are planning to accelerate their industrialization and therefore need guaranteed privileged markets to protect their emergent industries. Just as the AASM no longer enjoy either price guarantees or assured markets for their primary commodities and tropical products, so too they will have to contend with the keen competition of the more advanced developing countries in marketing their manufactures and semi-manufactures.

38. One may also ask what will be left of the Association if — under pressure from the United States, for example—the AASM were to go back on the reverse preferences that they grant the Community and to follow the Community along the path of tariff reductions.

39. Lastly it may be asked what would happen if all the EEC-AASM preferences were abolished because trade between the Eighteen and the Six has increased less over the last decade than trade between the Community and the other developing countries. The tariff protection measures are indeed inadequate on their own to stimulate trade; but the trade promotion measures provided for in the new Convention, and which are supposed to take the place of tariff concessions, will only make themselves felt gradually—at the very best in a few years' time, despite the efforts already made by the Commission of the Communities.

CHAPTER III

TRADE

A. The development of trade between the partners of the Association and with certain third countries

40. For the second year running AASM exports to the Community seem to have expanded satisfactorily: from $1,466m in 1968 to $1,717m in 1969, an increase of 17 per cent(1). In comparison with 1967—when the AASM exports fell by 1 per cent in value—the increase was around 30 per cent. The exports of Latin America to the Community also increased but to a lesser degree, i.e. by 14.4 per cent. Only the exports of the non-associated African countries expanded more quickly than those of the AASM, i.e. by approximately 45 per cent over the last two years.

(1) In the first eight months of 1970 AASM exports amounted to $ 1,289m as compared with $ 1,129m for the corresponding period in 1969, an increase of 14 per cent (or 33 per cent by comparison with 1968).

This means that the AASM benefited from the general expansion in world trade in 1968 and 1969 in common with most of the other developing countries. This favourable trend in the trade of the developing countries was due to the expansion of industrial production in the major States in 1968 and 1969, particularly the EEC and Japan where the biggest increases occurred. The economic overheating in most of the industrialized countries and the speculative nature of international currency fluctuations helped to stimulate demand for primary commodities and led to a more favourable trend in the prices of many primary products (see secs. 60 to 65).

The upward trend continued during the first eight months of 1970 although to a lesser degree[1]. It should be remembered that in 1969 AASM exports to the EEC developed particularly well.

41. It would also appear that the diversification of AASM economies has enabled them to offer new products to add to their established exports. This is particularly true of rapidly expanding countries like the Ivory Coast and Cameroon. There has also been an increasing diversification of markets, both in the Member States and in third countries.

An analysis of AASM exports to the Community shows that those to the Belgium-Luxembourg Economic Union increased the most sharply (+28 per cent) by comparison with 1968; exports to Italy and the Netherlands also increased appreciably (+24 per cent); exports to Germany by 14 per cent. On the other hand exports to France, still the highest in absolute value, rose at a much lower rate (+9 per cent).

This trend towards a better spread of AASM exports to the EEC continued during the first eight months of 1970. During this period France's share in the total exports amounted to only 37 per cent (53 per cent in 1964, 39 per cent in 1969) whereas the relative share of the other countries (particularly Belgium and Italy) has steadily increased.

Exports of the AASM to the EEC

($ million)

	1966	1967	1968	1969	8 months 1970	% variation 69/70	% variation 8 months 1970 / 8 months 1969
Germany	170	179	218	248	185.2	+ 14	+ 13
France	600	610	614	667	479.1	+ 9	+ 7
Belgium/Luxembourg	341	287	374	479	358.0	+ 28	+ 19
Italy	153	164	162	200	171.0	+ 24	+ 31
Netherlands	54	61	98	121	95.9	+ 24	+ 13
EEC	1,319	1,304	1,467	1,717	1,289.2	+ 17	+ 14

42. The breakdown by country shows that trade in general developed satisfactorily for all the AASM, even though the situation varied appreciably from one to another.

Most of the AASM increased their exports in proportions varying from 7 per cent (Madagascar) to 50 per cent (Mali, following the resumption of trade with France with the signing of the new Franco-Mali monetary agreements in 1967). The increase was particularly sharp in the case of Dahomey (+35 per cent), the Democratic Republic of the Congo (+23 per cent), Gabon (+20 per cent), Upper Volta (+22 per cent) and Togo (+33 per cent).

[1] In the first eight months of 1970 AASM exports amounted to $1,289m as compared with $1,129m for the corresponding period in 1969, an increase of 14 per cent (or 33 per cent by comparison with 1968).

43. *Exports of each of the AASM to the EEC*

($ thousand)

Origin	1969	% variation on 1968	8 months 1970	% variation 8 months 1970 / 8 months 1969
Burundi	3,353	+ 10	2,658	+ 24
Cameroon	177,090	+ 21	123,892	+ 6
Central African Republic	16,435	+ 18	16,426	+ 64
Republic of the Congo	47,640	+ 12	29,081	— 11
Democratic Republic of the Congo	633,169	+ 23	504,990	+ 27
Ivory Coast	371,504	+ 16	258,847	+ 7
Dahomey	18,995	+ 35	17,566	+ 41
Gabon	100,501	+ 20	72,617	+ 12
Upper Volta	4,843	+ 22	4,331	+ 35
Madagascar	53,848	+ 7	40,938	+ 14
Mali	5,108	+ 50	5,100	+ 85
Mauritania	61,005	+ 18	44,001	— 5
Niger	32,072	+ 12	23,215	+ 2
Rwanda	4,167	+ 13	2,946	+ 13
Senegal	97,066	— 9	78,943	+ 4
Somali	16,105	+ 5	11,752	+ 15
Chad	19,396	— 15	12,089	— 4
Togo	54,902	+ 33	39,775	+ 2
Total AASM	1,717,189	+ 17	1,289,167	+ 13

44. On the other hand some States experienced serious difficulties which led to a fall in their exports: Chad (—13 per cent) following the fall in cotton prices, Senegal (—9 per cent) following three bad groundnut crops in succession[1].

The development of AASM exports to the Community during the first eight months of 1970 brings out appreciable differences from one country to another. The exports of three States decreased by comparison with the same period in 1969 (Republic of the Congo, —11 per cent; Mauritania, —5 per cent; Chad, —4 per cent). Other countries managed to increase their exports considerably (Mali, +85 per cent; Central African Republic, +64 per cent; Dahomey, +41 per cent; Upper Volta, +35 per cent; Democratic Republic of the Congo, +27 per cent; Burundi, +24 per cent). The appreciable recovery in the trade of some countries which have been experiencing a relatively slow growth is encouraging.

As regards the nature of AASM exports it is worth noting that these still consist to a large extent of primary commodities (81 per cent) where they are still dependent on world prices for these products.

45. AASM imports from the Community showed a sizeable increase in value ($820m in 1964, $1,019m in 1968 and $1,116m in 1969).

Since 1964 Italy, Germany and the Netherlands have become larger suppliers of the Associated States. The Netherlands have almost tripled their sales to the AASM ($33m in 1964, $91.4m in 1969); Italy has more than doubled its sales ($40m in 1964, $87m in 1969[2]); France, however, increased its exports by only 13.7 per cent over the same period, even though these still amount to about 63 per cent of total EEC exports to the AASM.

During the first eight months of 1970 Member States' exports to the AASM increased at roughly the same rate (by 11 per cent) as compared with the first eight months of 1969, France remaining the main exporting country (60 per cent). The Netherlands, which made the most progress in 1969, fell back to the level of the corresponding period in 1968.

(1) Groundnut exports amounted to only 95,903 tons in 1969 (4,044m Frs CFA) as compared with 243,000 tons (8,216 m Frs CFA) in 1967; exports of crude and refined oils: 116,134 tons (9,160m Frs CFA) as compared with 198,000 tons (13,288m Frs CFA); oil-cakes: 188,549 tons (3,868m Frs CFA) as compared with 248,742 tons (5,400m Frs CFA).

(2) According to figures given in the addendum to the General Report (p. 6) Italy's exports to the AASM increased even more sharply in 1968 ($93.5m).

Exports of the Member States to the AASM

($ million)

	1966	1967	1968	1969	8 months 1970	% variation 69/70	% variation 8 months 1970 / 8 months 1969
Germany	84	93	119	149	105.4	+ 26	+ 11
France	569	627	649	664	496.4	+ 2	+ 10
Belgium/Luxembourg	93	82	104	125	100.1	+ 20	+ 24
Italy	59	72	80	87	77.3	+ 8	+ 34
Netherlands	39	50	66	91	43.2	+ 38	— 29
EEC	846	926	1,019	1,116	822.4	+ 11	+ 11

This trend towards greater diversification of trade between the AASM and each of the six Member States is very gratifying and shows that the Association is profitable to all partners, including the Member States which are to some extent getting a 'fair return' on their contributions to the EDF.

46. *Exports of the EEC to the AASM*

($ thousand)

Destination	1969	% variation on 1968	8 months 1970	% variation 8 months 1970 / 8 months 1969
Burundi	7,333	— 25	4,760	— 4
Cameroon	130,767	+ 15	100,665	+ 15
Central African Republic	22,833	+ 6	18,479	+ 21
Republic of the Congo	55,716	— 11	39,071	— 1
Democratic Republic of the Congo	214,618	+ 31	165,373	+ 20
Ivory Coast	210,603	+ 4	157,954	+ 14
Dahomey	32,286	+ 22	24,849	+ 21
Gabon	54,050	+ 28	49,889	+ 13
Upper Volta	21,505	+ 7	14,154	— 4
Madagascar	105,602	— 8	74,195	0
Mali	14,834	— 4	13,870	+ 62
Mauritania	20,929	— 9	15,686	+ 7
Niger	24,842	+ 4	22,694	+ 34
Rwanda	5,312	— 9	4,523	+ 32
Senegal	132,698	+ 16	80,150	— 12
Somalia	19,542	— 1	11,426	— 12
Chad	17,472	+ 7	14,763	+ 43
Togo	25,971	+ 16	18,905	+ 14
Total AASM	1,116,913	+ 11	822,416	+ 11

The decrease in purchases from the Community by some Associated States is to some extent due to a general decrease in their imports aimed at improving their overall balance of trade. In the case of Burundi the 25 per cent decrease in 1969 is due to the fact that its imports from the Community in 1968 increased at the exceptionally high rate of 42 per cent as compared with the previous year.

47. The Community's share in AASM purchases was, however only 62.3 per cent of their total imports in 1968, as compared with 70.5 per cent in 1962. This means that the AASM have diversified their imports somewhat too.

The figures given in Table IV of the addendum to the Sixth General Report show that the share of the United Kingdom, USA and Japan in AASM purchases increased from 10 per cent in 1960 to 13.5 per cent in 1968.

48. The United States more than doubled their sales to the Associated States between 1960 ($55m) and 1968 ($131,8). As a comparison, AASM imports from the United States roughly equal in value those from the Federal Republic of Germany. Taking 1961 as the base year (index = 100) AASM imports from the United States rose to 209 in 1968 whereas those from the Community only went up to 151, with a total value of $1,080m. Japanese exports also rose sharply from index 100 in 1961 to 401 in 1968, representing a value of $41.1m. Similarly the share of the other developing countries in AASM imports has increased; this would appear to indicate that inter-African trade is expanding and that there is now greater economic solidarity both between the Associates and between the AASM and their neighbours.

49. These different trends emerging from the external trade figures of the AASM are a fairly convincing reply to the criticism that the Association is a neo-colonialist enterprise. Far from being self-sufficient, there is no doubt that the Association is contributing to the expansion of trade not only internally but also between each of the Associates and industrialized and developing third countries.

As to the way the AASM balance of trade with the Community is developing, this is not only active but has continued to improve, with a real rate of cover of imports by exports of 135 in 1968 as compared with only 113 in 1962. For 1968, this corresponds to exports of $1,331m against $1,080m of imports from the Community.

B. The market for the main primary commodities of the AASM in 1968/69

50. On the whole the rate of expansion of AASM exports to the EEC from 1968 to 1969 appears to have been satisfactory(1). But one is obviously dealing with an average which does not bring out the wide differences from country to country and from product to product.

As shown by the following brief analysis of the main products, mining products, especially copper, are the biggest factor in this increase, whereas some of the major agricultural products (coffee, bananas, oleaginous products) stayed more or less at the same level or even fell slightly below it. Only cocoa and cotton showed a substantial increase.

Coffee

51. AASM coffee exports to the EEC decreased by 4 per cent from 1968 to 1969, falling from 225,406 to 216,965 tons. Their value in 1969 ($163.7m) was 3 per cent less than in 1968. The main cause seems to be that France purchased less.

After a sharp fall in the first six months of 1969, prices rose when frosts hit Parana in Brazil; then they positively soared following the ravages of leaf disease in Brazil. On the New York market the price of robusta, which was still 30.40 cts/1b in July 1969, went up to 43.07 cts/1b in April 1970 to level off at around 42 to 43 cts/1b in September 1970. Following these increases the International Coffee Agreement quotas and prices were revised in August 1970 (robustas +7 cts/1b). As a comparison, the purchasing price of coffee from the Ivory Coast for the 1970-71 marketing year was 105 Frs. CFA per kilo as compared with 95 Frs CFA in 1969-70.

Cocoa

52. AASM sales of cocoa in the EEC increased by 9 per cent from 168,630 tons in 1968 to 182,981 tons in 1969. In value this increase was particularly impressive (+49 per cent) in view of the strong demand for cocoa on the world market, (from $114.3m to $170.6m). The market, which was very buoyant, at times even chaotic, in 1969, slowed down slightly in 1970 because of uncertainty about the production figures for the next marketing year.

Bananas

53. AASM banana exports to the Member States fell back slightly in 1969 (from 254.348 tons in 1968 to 245,896 tons in 1969, or —3 per cent). The fall was even greater in value (—5 per cent): from $48.6m to $46.0m.

In 1969, however, the market was better than might have been feared at the beginning of the year because, contrary to general expectations, a reasonable balance was maintained between supply and demand on the world market. The prices of Ivory Coast bananas on the French market held fairly well (121-134 FF/kg) and reached some fairly high peaks in 1970 before the seasonal summer fall-off.

In 1969, as in previous years, 80 per cent of AASM banana exports went to France through the organization operating under the aegis of the Comité interprofessionnel bananier which reserves two-thirds of the French market for the Overseas Departments and one third for the AASM. The AASM are still experiencing great difficulties in penetrating the German market which, under the Protocol annexed to the Rome Treaty, enjoyed a nil duty quota of 596,000 tons exempt from the CCT (20 per cent), and was able to obtain almost all the supplies it needed from Latin America.

As in previous years, Germany asked the Community to increase this tariff quota. At the Association Committee's consultations in June the Cameroon delegate indicated that his country was unable to make any offers this year.

(1) It would be premature to extend the analysis to the first months of 1970 because the data for individual products are not yet significant.

The plan for redeveloping the banana industry is being implemented and Cameroon thinks that it will be unable to offer any quantities before a year or two. The offers submitted to Germany by the Ivory Coast in previous years never came to anything commercially, and it has had to look for markets elsewhere, in particular in the United Kingdom. As a result it cannot make any new offers to Germany this year. Lastly, in Madagascar the crops suffered from bad weather.

The AASM broadly stressed the difficulties of marketing African bananas in Germany although they were not in a position to meet the conditions laid down by that country.

On the European side efforts are still being made to solve this problem, notably within the framework of a Community regulation now in preparation.

Oleaginous products

54. The Community's imports of shelled groundnuts from the AASM fell appreciably in 1969 as a result of a drop in production in Senegal (from 362,483 to 250,604 tons —or 31 per cent). For the third year running drought caused serious difficulties in Senegal and the most recent crop in some areas like Thies will be no better than 40 per cent of that of 1969-70, which was itself lower than the normal crop and amounted to only 750,000 tons. On the other hand the price situation was such that the fall in value could be kept down to 16 per cent ($56,956,000 to $47,657,000). As regards groundnut oil the fall-off in tonnages was not so big (from 160,839 to 118,253 tons) and that in prices was still smaller (from $41.1m to $37.7m, or 8 per cent). The prices of edible oils were distinctly higher in 1968 than in 1969 and the market was firm in 1970.

In the sector of concretes, the sales of AASM palm kernel oils in the EEC were roughly the same in 1969 as in 1968 (61,422 tons in 1969 as against 62,025 tons in 1968) but in value there was a sharp fall (from $11.6m to $8.9m). The same trend occurred regarding sales of palm oil (from 151,999 to 147,142 tons) where there was an even sharper fall in value (from $29m to $25.5m). Exports of palm kernel oil increased in volume (from 30,797 to 31,292 tons) but fell back in value (from $10.4m to $8.7m).

As regards the market for palm kernel oil, there was a distinct fall in prices in 1969 after the sharp increase in 1968, and they only recovered towards the end of the year and in the first few months of 1970. Palm oil and palm kernel oil followed the same pattern although prices were firmer towards the end of 1970.

Cotton

55. AASM cotton exports to the EEC increased by 10 per cent in 1969 from 88,397 to 97,464 tons, the increase in value being from $52.9m in 1968 to 56.4m$ in 1969.

The market was rather slow during the first half of 1969 although prices picked up well in later months: this recovery was maintained throughout 1970. The most recent estimates of a smaller American crop promise firm prices.

Although the cotton crops were good in certain countries like Cameroon—because of the abundant rainfall, the increased use of fertilisers and greater technical assistance, bad weather led to mediocre harvests in 1969 in other countries such as the Democratic Republic of the Congo.

Crude ores

Iron ore

56. In 1969 AASM exports (from Mauritania) increased from 4,796,000 tons (1968) to 5,681,000 tons (+18 per cent). But the increase in value was only 13 per cent (from $49.5m to $55.8m) following the 4 per cent fall in price of iron ore decided upon by Swedish and Venezuelan producers.

Mauritanian producers have decided to raise their prices by 8 per cent for 1970.

Manganese ore

57. AASM exports increased from 511,896 tons in 1968 to 648,407 tons in 1969 (+27 per cent) and in value from $15.1m to $15.6m (+3 per cent). The market is rather difficult to follow because the prices of the various ores differ with their manganese content.

1969 prices fell as a whole as a result of the abundance of manganese deposits throughout the world but ores with a high manganese content mined at Moanda (Gabon) should not be at all difficult to sell.

Tin ore

58. AASM tin ore exports to the EEC in 1969 fell by one thousand tons (from 8,249 to 7,287 tons). The fall in value was, however, small (from $17.5m to $17.2m) and was due to a tin shortage experienced during the year which sent up prices from £1,366 per ton in January 1969 to £1,616 in the following December.

Copper

59. AASM copper exports (Democratic Republic of the Congo) increased from 300,198 to 325,556 tons (+8 per cent). In terms of value the trend was even better, with a rise of 32 per cent (from $343m to $452.9m).

The firm demand and the difficulties supply had in keeping up with it led to a boom which brought up electrolytic copper prices from £510 per ton (London market) in January 1969 to £700 per ton in December. In April 1970 prices were still fairly high (£660 per ton) but subsequently fell.

Zinc ores

60. AASM zinc exports went up from 72,577 tons in 1968 to 76,049 tons in 1969 (from \$3.8m to \$4.1m).

The price, which had been stable for several years, rose from £112 per ton (London price) in January to £130 per ton in December. The rise stopped in 1970 and prices fell back te £120 per ton in May 1970.

Calcium phosphates

61. Exports of phosphates (Senegal and Togo) increased from 1.6m tons in 1968 to 1.8m tons in 1969: their value followed closely (from \$26.1m to \$28.9m).

Prices were fairly stable during 1969. The wholesale price on the French market has fallen by one centime since January 1970 (new price: Frs. 104.2 per ton).

62. To sum up, the value of AASM exports of ores increased in 1969 in the case of such products as copper, phosphates and zinc ore because of the rise in world prices: whereas exports of iron ore, manganese ore and tin ore showed a slight fall in value. The AASM producers who benefited from this trend were:

— the Democratic Republic of the Congo: copper, tin and zinc:

— Ivory Coast and Gabon: manganese ore;

— Mauritania: iron ore;

— Rwanda: tin ore;

— Senegal and Togo: phosphates.

63. The fairly good export performance of the developing countries as a whole and of most of the AASM in 1968 and 1969 (and probably in 1970 too) has not stopped the deterioration in their terms of trade.

According to a study on international trade presented at the Ninth Session of the UNCTAD Council[1], the terms of trade of the developing countries improved slightly in 1968 as compared with 1967 but were still 7 per cent lower than in 1960. The adverse variations in the terms of trade in the developing countries acted as a powerful brake on the growth of the purchasing power of their exports. In the case of most of these countries this growth was on average less than 2 per cent between 1960 and 1966 and negative (—4 per cent) in 1967. In 1968 it practically returned to the 2 per cent level. It is estimated that the average annual loss suffered by the developing countries between 1965 and 1968 because of the variation of their terms of trade with the developed countries amounted to \$1,300m or one fifth of the public funds received from the developed countries and multilateral organizations. Although they made modest gains from their exports during the three years under review, the developing countries experienced increasingly serious losses on their imports because import prices increased more sharply than their export prices. These losses were particularly high in 1967 when the prices of their imports were approximately 8 per cent higher than the average for 1960 to 1964. A comparison of the currency receipts of the developing countries in 1967 and 1968 brings out three significant changes:

(a) A sharp increase in revenue from exports of primary commodities (including exports of oil which account for a large part of this revenue);

(b) The fall in the amount of public funds;

(c) The appreciable increase in outside private investment (which has increased the indebtedness of recipient countries).

It is pointed out in the same paper that if one disregards oil-exporting countries, the net financial support and reserves were inadequate in the case of most of the developing countries to bridge the wide gap between the rate of growth of their exports and that of their imports.

64. This is abundant justification for the concern expressed by UNCTAD, the International Monetary Fund and the World Bank as to the need to formu late a genuine policy for primary commodities.

C. Stabilization of primary commodity prices

65. The problem of regularizing primary commodity prices at a level that is stable and profitable for producers continues to be a point of concern for the AASM as indeed for all the developing countries. UNCTAD is actively dealing with the problem; its specialized committee on primary commodities is engaged in laborious studies in Geneva although it is making no progress towards solutions because it is unable to obtain the agreement of the industrialized States. This serious problem was, however, the subject of important resolutions passed in New Delhi.

People are always talking about Resolution II/21 passed in New Delhi on generalized preferences but the five other resolutions on primary commodities, which were also unanimously adopted by the 132 participants, seem to have been forgotten by the responsible government authorities in the prosperous countries. These resolutions were as follows:

Resolution 16(II): International action on primary commodities

[1] See UNCTAD Doc., Ninth Session, GE 69/17.288.

Resolution 17(II): General agreement on agreements relating to primary commodities

Resolution 18(II): Coordination by UNCTAD of the activities of inter-governmental bodies dealing with primary commodities

Resolution 19(II): Studies undertaken by international financial institutions on the stabilization of primary commodity prices

Resolution 20(II): Minimum guaranteed agricultural income.

(The full text of Resolution 19 and 20 is given in Annex I)

66. As regards content these resolutions approximate very closely to the recommendations of the Joint Committee and Parliamentary Conference of the Association in the report submitted on its behalf by Mr. Armengaud(1), at the time regarded as a revolutionary, or—more exactly—a pioneer effort. Following on from his suggestions, the Commission of the Communities deserves praise for proposing, in its excellent memorandum of 1968 on the renewal of the Yaoundé Convention, clear-cut and reasonable solutions which were discussed at length at the Yaoundé II negotiations and which the Governments of the Member States unfortunately did not think fit to adopt.

It is, to say the least, rather extraordinary that there is no longer any discussion on the Council and Committee of the Association about stabilizing primary commodity prices because of the negative attitude adopted to this problem by certain Member States, even though it is becoming more and more of a burning issue than ever in UNCTAD.

67. Indeed the Committee on Primary Commodities approved several texts at its fourth session held in Geneva from 19 to 31 May 1969, one of which concerned the elements of a policy on primary commodities(2). The following points from this document are worth noting:

I. *Scope of a policy on primary commodities*

A concerted international policy in the field of primary products was defined in Recommendation A.II.1 adopted by the United Nations Conference on Trade and Development, First Session, on international agreements on primary commodities, the removal of obstacles to trade and the expansion of trade.

A concerted policy which would take into account, inter alia, the work done by UNCTAD and other international bodies concerned since the first session of the Conference, should result in:

(a) Helping the international community to enable the developing countries as a whole to meet their essential food needs from their own production;

(b) Ensuring normal supplies of primary commodities;

(c) Introducing a dynamic element into the export receipts of the developing countries by helping to eliminate short-term fluctuations in primary commodity prices by stabilizing them at a fair and profitable level and by increasing and diversifying the exports of these countries.

II. *Means of implementing a primary commodities policy*

Stable, fair and profitable prices were one of the features of any policy for regulating the market for a given product.

Stabilization of prices at levels profitable to producers and fair to consumers could be achieved by recourse to a range of techniques that were now well-known and could be used singly or in combination and vary from product to product. With particular regard to products exposed to competition from synthetics or substitutes, stabilization of prices should be effected in conjunction with scientific and technical research designed to improve the competitiveness of the natural product and to find new applications so as to create additional markets and promote modern marketing methods for these products.

The prices policy should be coupled with measures to maintain production trends that ensure a proper balance between supply and demand.

68. Similarly the International Monetary Fund and the World Bank have actively continued studying the problems of financing buffer stocks and drawing up programmes for the diversification of a number of the products under threat either from excess supply on the world market or from competition from synthetics or substitutes. These studies were made following the resolution, adopted by the Council of Governors of these two bodies at their joint meeting in Rio de Janeiro in 1967, recommending the development of appropriate machinery for stabilizing primary commodities(3).

(1) Doc. 20/1967 on 'Ways of increasing sales of AASM products at stable and remunerative prices.'

(2) Official documents of the Trade and Development Council, eighth session, Supplement No. 3.

(3) Resolution No. 22-29 on stabilizing primary commodities adopted on 29 September 1967 by the Council of Governors of the IMF at their joint meeting with the Council of Governors of IBRD—See IMF—Summary Proceedings Annual Meeting, p. 280.

In view of the efforts made by international bodies and studies that are now public knowledge. the Rapporteur considers it regrettable that the Community, which in the past has shown initiative and imagination in proposing practical and reasonable ways of stabilizing primary commodities, within the EEC-AASM framework, does not seem to be interested in this problem at the very time when the United Nations bodies are moving towards arrangements similar to those proposed by the Community a few years ago.

69. The representatives of the Member States, who rejected special solutions for stabilizing the prices of AASM products at the Yaoundé II negotiations on the ground that they wanted world-wide solutions that would suit all producer developing countries and all consumer industrialized countries. have in fact joined in with the representatives of other industrialized countries in vigorously 'discussing' the solutions proposed within the framework of the Committee on Primary Commodities.

70. To sum up, if all Member States of the Community had the political will really to arrive at a policy on primary commodities, the EEC-AASM Council of Association would undoubtedly be the right setting for working out a common position for the Twenty four which would then have a real impact in UNCTAD. Coordinated initiatives by the Twenty four in this field would make an important contribution to the policy to be followed in the framework of the Second Development Decade.

D. AASM agricultural products which compete with similar European products

71. With the new arrangements adopted for the transitional period and intended to remain in force for the duration of the Second Yaoundé Convention, the Community has tried to dispel some of the concern expressed in the AASM about the import regulations likely to be applied to their agricultural products. It will be recalled that misunderstandings arose between the 18 African countries and the Six on the construction to be placed on Article 11 of the First Yaoundé Convention and also because of difficulties which the AASM had encountered in selling certain processed agricultural products to the Community (manioc starch and flour, sugar, rice etc.); these difficulties were due to the stringent nature of the common agricultural policy regulations.

Protocol No. 1 to the new Convention indicates that the treatment accorded to agricultural products covered by a market organization in the Community shall—unless an exceptional situation arises—be more favourable than the general treatment accorded to like products originating in non-member States. These special arrangements would remain applicable until the new Convention expires. If changes are made in the common marketing organization, the advantages granted by the Community should be equivalent to those enjoyed by the AASM previously.

After consulting the AASM regulations were adopted by the Community on beef and veal, oleaginous products and products processed from fruit and vegetables, tapioca, chocolate and manioc derivatives.

The new regulations stipulate that the products concerned shall be imported into the Community without payment of the normal customs duties. This provision is contained in the regulations applicable to beef and veal, oleaginous products and products processed from fruit and vegetables. In cases where the common marketing organizations stipulate a levy on the products, comprising a fixed component and a variable component, the Community will not charge the fixed component on products originating in the AASM. This arrangement applies in particular to products processed from cereals and rice.

The new arrangements for *manioc roots and flour* take over the provisions applicable previously, i.e. an abatement on the variable component of the levy amounting to 0.12 u.a. per 100 kg (for roots) and 0.18 u.a. per 100 kg (for manioc flour).

The Community will grant complete exemption on *tapioca, chocolate* and other cocoa-based preparations produced in the AASM.

72. Taken as a whole, the new import arrangements applicable to products similar to *Community products* as described in the Sixth General Report (see pages 12-19) are more favourable to the AASM than the previous arrangements. During consultations held in the Association Committee, the AASM signified their agreement with these arrangements subject to certain reservations.

The AASM asked for a further reduction in the variable component of the levy on *manioc starch.* They felt that the 50 per cent reduction in this component was not making the product sufficiently competitive on Community markets.

The Associated States wanted clarification of the nature of the special measures (other than financial) which the Community proposed to apply under certain circumstances to *oleaginous products;* these measures would affect the volume of oilseed imported by the EEC from the Associated States. The latter regretted that the Community was unable to treat their oleaginous products in the same way as similar products in the Community itself.

The Council has not yet taken a decision on the *import regulations for tobacco.* However, the AASM are pleased that the Commission of the Communities has submitted a proposal advocating continued axemption from import duties for products originating in the AASM. Any other measure would be less favourable than the arrangements granted at present to the AASM.

The Council of the Communities had intended the arrangements applicable to *sugar* imported into the Community from the AASM to come into force on 1 July 1968 at the same time as the regulation organizing the sugar market in the Six. In the interim the Community proposed a cash advance to temporarily balance the financial mechanisms of the equalization fund stipulated in the OCAM sugar agreement. The internal community regulations were adopted on the scheduled date but nothing has yet been done about the import arrangements for the AASM. On the other hand Regulation No. 853/70 of 10 May 1970 satisfied the requirements of Surinam by making the internal community arrangements applicable to that country with retrospective effect from 1 January 1968.

When the representative of the Republic of the Congo asked the Community at the Libreville meeting whether it intended to apply the arrangements laid down for Surinam to the AASM as well, the Commission's representative stated that the EEC Council had not agreed to do so and did not propose to alter its position for the time being. It is useful to point out that when the case of rice imports into the Community arose, exceptional transitional measures were adopted for Surinam, and the Community agreed to allow the AASM the benefit of the same arrangements but for twice the tonnage. The AASM therefore hope that the Community will reconsider the regulations on AASM sugar and adopt an equitable and balanced attitude towards all the Associated States.

The benefit proposed by the Commission to the Council for *maize* (reduction in the levy 0.10 u.a. per 100 kg) is very disappointing and not likely to give any real economic advantage to the principal exporting country in the AASM, namely Madagascar. The Council should adopt a specific regulation on the lines of the arrangements applicable to exports of beef and veal from Madagascar to Reunion Island when it reaches its decision, in order to make allowance for the special nature of the trade in maize between Madagascar and Reunnion Island.

E. Quantitative restrictions on imports of Community products into certain Associated States

73. Article 7 of the Yaoundé Convention stipulates that the AASM Governments may introduce or retain on a transitional basis quantitative restrictions on the importation of products originating in Member States if the purpose of these restrictions is to protect their new industries. Any such decision by the AASM must, however, be preceded or accompanied by notification to the Community in accordance with Article 3, 4 of the Convention and Article 3 of Protocol No. 2.

In several cases, however, Associated States have failed to consult the Community before taking a decision and have not reserved an overall quota for it in compliance with Protocol No. 2.

These problems have been discussed individually in the Association Committee which has generally been able to clarify and normalize the situation.

Nevertheless the Associated States must respect the procedure for consultation laid down in the Convention just as the Six must consult the AASM in a real spirit of cooperation e.g. when they lay down arrangements for importing AASM agricultural products which compete with similar European products.

CHAPTER IV

FINANCIAL AND TECHNICAL COOPERATION

74. Before analyzing the aid granted by the Community to the AASM it is worth stressing the substantial effort made by the Six to help the underdeveloped countries. According to recent figures supplied by the Development Aid Committee of the OECD, the total amount of aid granted by the Six in 1969 corresponded to more than 1 per cent of their gross national product and therefore complied with one of the recommendations adopted at the New Delhi Conference on Trade and Development. Aid granted by the Six varies from country to country between 1.03 and 1.32 per cent of their gross national product; these percentages are among the highest allocated by donor countries(1).

75. Aid to the 18 Associated States forms part of this overall programme. Quite apart from the bilateral aid granted by the Member States, the effort made by the Six at Community level was reflected in the Community decision, taken in 1969 when the First Yaoundé Convention was renewed, to increase the absolute value of aid over the next five years from the Third European Development Fund. The new figure is 918m instead of 730m from the second EDF.

A. The second European Development Fund

As of 30 November 1970, a total of 707,333,000 u.a., with 647m going to the AASM(2), had been committed from the second European Development Fund.

76. An analysis of the sums committed from the second European Development Fund shows that five countries, which are the most important economically, have received the greatest assistance

(1) The total amount of aid (public and private) granted by the Six in 1969 was as follows (in $m): Federal Republic of Germany 1990; France 1742; Italy 842; Netherlands 360; Belgium 248; Total for EEC: 5188. The comparative figure for the United States is $4646m, representing 0.49 per cent of the gross national product.

(2) The difference between these two figures is accounted for by measures taken in favour of the overseas departments and the overseas countries and territories representing a total of 60,179,000 u.a.

Commitments from the second EDF as of 30 November 1970

(in thousand u.a.)

	Economic and social investments		Diversification aid		Production aid GRANTS	Assistance linked to investments GRANTS	General technical cooperation GRANTS		Emergency support GRANTS	Technical and delegated supervision GRANTS	Total	Advances to price stabilization funds
	GRANTS	Loans on special terms	GRANTS	Loans on special terms			Scholarship programme	Other measures				
Burundi	10,166	—	5,250	—	—	2,575	1,924	424	—	519	20,858	1,000
Cameroon	26,136	7,371	750	7,151	7,612	401	2,669	584	—	1,579	54,253	—
Central African Republic	15,668	—	1,513	227	5,056	1,629	616	150	—	1,136	25,995	—
Congo (Brazzaville)	13,151	—	4,576	—	—	612	1,228	34	—	841	20,442	—
Congo (Kinshasa)	47,390	3,000	9,000	6,000	—	574	3,928	4,603	—	736	75,231	—
Ivory Coast	2,613	6,013	39,970	6,395	—	82	2,109	240	—	1,174	58,596	—
Dahomey	15,476	—	1,585	—	3,918	790	1,228	2	—	723	23,722	—
Gabon	10,766	2,500	4,000	—	—	2,428	375	5	—	416	20,490	—
Upper Volta	20,655	—	6,000	—	—	1,379	1,658	38	—	976	30,706	—
Madagascar	34,031	—	7,001	1,862	22,095	1,273	1,122	100	1,013	1,430	69,927	—
Mali	25,290	—	1,245	—	4,147	1,499	616	—	101	685	33,583	—
Mauritania	12,331	—	2,245	2,754	—	227	588	5	—	412	18,562	—
Niger	20,548	—	1,625	—	4,395	1,549	909	280	225	809	30,340	—
Rwanda	7,222	—	5,250	—	—	2,980	1,739	1,487	—	427	19,105	—
Senegal	12,985	—	10,633	—	30,427	189	855	16	—	1,081	56,186	8,710
Somalia	12,971	—	6,500	—	—	3,472	1,765	1,068	1,849	475	28,100	—
Chad	23,251	1,215	1,301	—	4,177	1,446	749	67	—	860	33,066	1,766
Togo	10,695	—	2,466	—	3,164	1,565	1,309	—	—	464	19,663	—
Amounts not distributed	—	—	—	—	—	528(1)	—	4,550(2)	—	1,382	6,460	1,227
Administrative and financial costs	—	—	—	—	—	—	—	—	—	—	1,869	—
Overall total	321,345	20,099	110,910	24,389	84,991	25,198	25,387	13,653	3,188	16,125	647,154	12,703

(1) 'Amounts not distributed' are the fraction of the overall credits opened for study purposes (12,310,000 u.a.) and for project management (3,200,000 u.a.) not yet used by the principal authorizing officer of the EDF to finance these operations; this heading also covers studies which cannot be distributed between the individual countries.

(2) 'Amounts not distributed' are the fraction of the overall credits opened for general studies (1,490,000 u.a.) which has not yet been used by the principal authorizing officer of the EDF to finance these operations, as well as general studies and programmes of colloquia, training courses and information which cannot be distributed between the individual countries.

(Congo-Kinshasa, Madagascar, Ivory Coast, Senegal, Cameroon) with credits amounting to 312.5m u.a., i.e. almost half the total funds of the EDF. However, the Commission of the Communities will have to make a sustained effort to correct certain imbalances which appeared in previous years if aid is to be distributed as equitably as possible between the 18 AASM.

The guidelines laid down by the Association Council only provide a general framework and do not make it easy to distribute credits between the 18 countries whose governments lodge applications for financial aid for specific projects. The European Development Fund has to choose between two options:

(a) Either to distribute the credits as equitably as possible between the 18 countries at the risk of diluting the sums available;

(b) Or to give priority to sound projects put forward by States which are in the best position to achieve a rapid rate of economic development, thus enabling the latter to develop more independently and act as leaders for the more backward Associated States.

In fact the Commission has combined these two formulae and tried to allocate aid fairly so as to favour sound projects (generally proposed by the countries with the most advanced economies) while striking a balance between the 18 countries in the spirit of the Preamble to the Convention which calls for the harmonious and balanced development of all the Associated States.

77. The following table shows how the distribution of funds between the different sectors of activity has evolved since the Yaoundé Convention came into force. It is clear that preference has been given to financial assistance for productive projects; in particular there has been a sharp increase in efforts to industrialize the Associated States.

Distribution by sectors of activity (1)

(%)

	1.6.64 1.6.65	1.6.65 31.12.66	1967	1968	1969
Industrialization (including energy supplies) (2)	1.0	1.2	3.5	18.4	23.1
Rural production	51.1	36.6	47.0	36.0	45.4
Transport and communications	20.4	31.8	25.7	35.4	18.4
Social	19.8	29.3	23.7	11.4	7.8
Miscellaneous	7.7	1.2	0.4	0.1	1.5

(1) Based on gross commitments.
(2) Excluding loans granted by the European Investment Bank.

The report on technical and financial cooperation[1] shows that in 1969, as in previous years, 80 per cent of the new credits from the European Development Fund were devoted to financing investment projects and associated technical assistance on the basis of criteria laid down by the Commission. The priorities formulated by the AASM themselves, especially in their short and long term development programmes were also taken into account, as was the guidance given by the Association Council in its resolutions 1/66, 2/67 and 3/68.

Following the principles outlined above the, Commission helped to encourage inter-African cooperation by promoting projects of joint interest to two or more States, e.g.:

(a) Financing the industrial slaughterhouse in Ouagadougou designed to serve the States of the Entente Council in connexion with their cattle-raising/meat programmes;

(b) The project for genetic improvement of millet which is initially confined to Senegal but could subsequently concern all the countries in the western Sahara area by providing new and more productive strains of millet developed under a programme of applied agronomic research;

(c) Several highway projects are designed to provide nationwide networks; this is an important factor in interregional trade.

78. In accordance with the recommendations given by the Association Council in paragraph 3 of resolution 1/66, the Community is continuing to promote concerted action, either in certain key

(1) See Doc. 32-III.

sectors of activity or in geographical development zones. In many cases the two forms of concertation are combined in a single project.

In Burundi and Rwanda, for example, concentration of European Development Fund activity in the tea production sector has resulted in the financing of industrialized plantations and then in the extension of these plantations to the villages. The tea plantations have been backed by processing factories which in turn are powered by new hydro-electric generating stations and high tension lines. The many projects in this sphere financed by the first and second European Development Fund should enable this new form of activity to become a permanent feature and help to diversify the economy of these two countries. A total amount of some 7m u.a. has been invested in Burundi. EDF-financed projects in the tea sector in Rwanda include the design of highways to transport products and an executive training programme for agricultural cooperatives. In all, the EDF has financed 11 study projects with a value of 5.8m u.a. in this sphere in Rwanda.

79. The priority given to rural production in 1969 as in previous years, accounting for 47 per cent of the activity of the European Development Fund, is in line with the decisions of the Association Council and the wishes of the Joint Committee. The Commission has concentrated on development and training measures designed to familiarize the local farmers with new techniques which will increase productivity and provide encouragement by holding out the prospect of higher incomes. These measures include training and technical assistance for farmers as well as applied research programmes[1].

To give the rural projects a greater chance of success the Commission has extended its aid by defraying a proportion of the operational costs in the early stages.

90 per cent of the projects submitted to the Commission in 1969 again related to rural development. This proves just how important the agricultural sector still is to the development of the AASM in spite of their desire to speed up the process of industrialization.

80. The stronger measures to develop production structures have been accompanied by a very substantial reduction in price support operations from 6.2m u.a. in 1968 to 1.36m u.a. in 1969. This accords with the terms of the First Yaoundé Convention which provided for the price support policy to be abolished. The new policy of aid for the Associated States is based on aid for the modernization of production structures rather than on price support.

81. Expenditure of 106m u.a. was authorized in 1969; this was below the annual average for 1964-1968, i.e. 127m u.a. This reduction is explained by the fact that credits available from the second EDF were gradually used up, while (and this is a still more important factor) difficulties arose with certain projects while they were being examined.

82. On the other hand progress in implementing the projects accelerated sharply on previous years. Payments reached a figure of 145m u.a. in 1969, the highest figure since the European Development Fund came into existence.

In connexion with the 1969 accounts, the Board of Auditors made certain general remarks on the preparation and implementation of the projects; these remarks are set out in Annex II. The Board noted that as of 31 December 1969, i.e. 8 years after the end of the period covered by the first Convention, some 150 projects still remained to be completed out of a total of 387 projects financed. Only 11 were completed in the last financial year.

83. The Commission of the Communities, which manages the EDF, has prepared a general specification for EDF contracts. This document, which has still to be approved by the Association Council, will be useful to industrial companies in all the countries affected by EDF contracts. It will lessen the adverse effects of the disparities existing between regulations applicable in the different AASM countries which benefit from Community measures. Disparities in specifications tended to favour those companies which knew the local administrative procedures to the detriment of other companies which were perfectly competitive economically.

84. Without examining in detail every aspect of financial and technical cooperation which is regularly studied by the Joint Committee, full details being given in the report on financial and technical management for 1969[2] forwarded to all the members, your Rapporteur wishes to stress the additional efforts made by the Community and AASM countries to bring about more active *sales promotion*. This is where financial and technical cooperation become really significant. However important Community aid may be, it must always be accompanied by vigorous action on the part of the AASM to improve their commercial structure.

In 1967 the Community already agreed to step up its aid for marketing and promoting sales of AASM products. This idea was finally embodied in the text of the Second Yaoundé Convention, i.e. in Article 19, which provides for useful new forms of assistance.

In the spirit of these new provisions of the Second Yaoundé Convention, the Commission of

(1) See p. 23 of the Report on Financial and Technical Mamagement for examples of EDF intervention in the sphere of rural development and training.

(2) Doc. 32/III.

the Communities has already embarked upon a series of measures described by its representative in the Joint Committee at its meetings in Florence and Libreville. In addition to AASM participation in trade fairs and exhibitions which will continue at the request of the Associated States, the Commission has recently issued a 'Guide for EEC/AASM exhibitors'. It is hoped that this publication, which has been drafted on the basis of a Community programme, will improve the commercial impact of AASM participation in major international exhibitions. The guide contains information and practical advice on the preparation, construction and management of exhibition stands.

The AASM are also able to apply through their governments for:

(a) Experts to be sent to study existing trade structures and propose reforms in the interests of greater efficiency;

(b) Studies to be carried out to facilitate the establishment of common marketing organizations;

(c) Training facilities to be provided for foreign trade technicians;

(d) Market research studies to be carried out with particular reference to the means of encouraging inter-African trade;

(e) The dissemination of information in the Community and in the Associated States to be improved with a view to developing trade[1].

85. The increase in aid for marketing AASM products is justified by the following considerations:

1. The Community market, which is today the most important outlet for AASM products, is becoming increasingly exposed to competition from non-member States; at the same time the tariff preferences from which the AASM benefit are being cut.
2. The Community feels that this new form of aid for AASM products is more adequate and may, to some extent, lessen the impact of the abolition of price support at a time when not all the Member States are yet in a position to sell their products at world market rates.

If it succeeds in improving the structures and methods of the organizations and personnel in companies helping to develop external trade, this marketing aid will undoubtedly be very useful.

86. The Associated States are so convinced of the desirability of rationalizing production and marketing that they are making a major effort, which has already met with some success, to coordinate their action by organizing their markets for each product.

We do not intend to survey here all the economic groupings in Africa which are contributing to coordinated production and marketing. However, it should be noted that coffee and sugar agreements have been in existence for several years in the Common Afro-Malagasy Organization (OCAM). More recently an association has been set up to develop rice cultivation in West Africa; this Association groups together 14 States with the aim of improving the quantity and quality of production as well as the conditions of storage and marketing. The States will have to supply the installations and land necessary for research and training staff; they will also have to make financial contributions towards the running costs of the Common Organization. Last May the Entente Council, comprising the Ivory Coast, Niger, Upper Volta, Dahomey and Togo, approved the establishment of an economic community for cattle and meat with the aim of modernizing production and rationalizing meat marketing in the five countries.

87. The Community could help these market organizations, especially by granting financial aid. The European Development Fund has for instance granted a loan to facilitate operation of the OCAM Sugar Agreement until the African States are able to pay their contributions. It would also be useful for the Community to grant exemption from the common agricultural policy in favour of the AASM[2].

88. However, these sales promotion measures are not enough on their own. Useful though these measures may be, it must be stressed that they cannot dispense the Community from the need to lay down an effective policy on primary commodities. Rationalization of marketing networks, the surveying of new markets and efforts to improve production are doomed to failure unless producers have the guarantee of a fair and profitable price level to encourage them to develop and improve their production.

89. In the sphere of *technical cooperation* the problem of *study grants* and *personnel training* is particularly important.

The Joint Committee has already stressed that investment on education and vocational training is vital to the economic development of the AASM; its importance rises with the completion of more and more agricultural, industrial and infrastructural projects involving the use of increasingly sophisticated and expensive plant and machinery.

(1) The Commission is now working on a 'Vade Mecum' for EEC-AASM exporters which will contain detailed practical information. An annual study will be published on the foreign trade of the AASM.

(2) By allowing import quotas similar to the quota for 8,000 tons of sugar originating in Surinam.

In 1969-70 the Community stepped up its aid to students and trainees and diversified its activity in this sector. The number of study grants rose from 1,182 in 1964-65 to 1,893 in 1967-68 and reached 2,100 in the 1969-70 academic year. In addition a programme of scholarships for specific training courses enabled grants to be awarded to 830 students making a total of 2,950 scholarships for 1969 against 1,369 in 1964-65.

Grants for correspondence courses rose sharply from 1,516 in 1967-68 to 2,050 in 1968-69. The programme of job-oriented training was enlarged by the inclusion of instructors to train craftsmen and managers of small companies. The programme for training supervisory and executive grades now concerns some 710 persons.

90. The average success rate of grant-holders in examinations was 82.2 per cent while 17.8 per cent failed. These results were identical to those for the previous year. The survey conducted by the Commission of the Communities among 2,300 former grant-holders who had completed their training on 1 January 1967 showed that 94 per cent found or returned to a job in their country of origin. The jobs taken up were generally equivalent to the level of training followed. 29 per cent of grant-holders went into agriculture, 17 per cent into the statistical services, 12 per cent into the government service and 10 per cent into the social and health services. The EEC survey also revealed the requirements for additional training and retraining. A first follow-up seminar was also held in Yaoundé in May 1969; it was attended by former grant-holders who had in the meantime taken up responsible positions in the statistical services of their own countries.

91. The Joint Committee has already stressed the need to develop *in-situ* training for young Africans so as to give them tuition which is fully adapted to the environment in which they will work later on. But this is not always possible and many grant-holders still have to train abroad, especially in the Community countries.

Difficulties have sometimes arisen because, in the absence of intergovernmental agreements on the mutual recognition of diplomas, some Associated States do not automatically recognize the validity of diplomas awarded to their nationals in certain Member States, and oblige them to complete a further year's study after their training course in Europe before they can take an appropriate post in their home country. The problem of mutual recognition of studies and diplomas could be solved within the framework of cultural agreements between Member States and Associated States.

92. For the 1970-71 grant programme the Community has tried, within the framework of the transitional measures, to make credits available for further action in this priority sector; it has renewed the grant programme by allocating funds equivalent to those available in the previous year.

The Associated States would have liked an increase in the funds available for grants, but because the credits of the third EDF have been blocked until the second Yaoundé Convention takes effect, the Community felt that it could not exceed the scheduled figure for 1969-70; in its opinion these funds will in any case be sufficient to renew some existing grants, thus enabling students to complete their courses, and also to grant new scholarships.

B. Transitional financial measures and prospects for the third European Development Fund

93. In spite of the failure to ratify the Convention and in order to avoid interruptions in the examination of projects during the transitional period, the Association Council decided at its meeting on 29 May 1969 to allow the AASM to submit proposed projects and programmes for financing from the third EDF; it also decided that the balance of funds from the second EDF could be used to finance the studies needed to finalize these projects or programmes. Use of the remaining credits from the second EDF has enabled studies to continue during recent month through an overall authorization of 1.5m u.a. opened under the heading of technical cooperation linked to investments.

94. The Commission has also made use of the transitional period to prepare measures to be taken under the third EDF. At the end of 1969 the Commission already sent fact-finding missions to the Upper Volta, Togo, Dahomey and Madagascar to collect data on the development programmes in these countries and on the projects which they intend to submit as well as on the priority they give to the individual projects.

In 1969 the Associated States submitted 25 new projects to the Commission which would cost a total of approximately 37.5m u.a.; only 11 of these projects are intended to be financed from the second EDF at a cost of approximately 9m u.a. 14 projects had therefore already been submitted by the end of 1969 for financing from the credits of the third EDF, to a value of 28m u.a. The number of applications has increased since then.

As the EEC Commission clearly states in its report on the management of the EDF it was therefore 'the lack of further funds and not a lack of projects which finally limited the new commitments entered into in 1969.' While the Commission's departments continued to examine projects and while the EDF Committee was able to meet normally to deliver its opinion on future projects, no decision on financing could be taken before effective ratification of the second Yaoundé Convention.

As a result of the preparatory examination of the files completed by the EEC Commission and the EDF Committee during the transitional period, the first decisions on financing from the third EDF can now be adopted at the end of January 1971.

95. Another problem remains to be solved; it was raised in paragraph 17 of the resolution passed by the Parliamentary Conference in Hamburg, recommending the definition of a timetable for the payment of Member States' contributions to the third EDF so as to enable the fund to receive interest on the sums allocated.

C. Measures taken by the European Investmant Bank

96. In its own sphere of activity the European Investment Bank usefully supplemented EDF action by granting normal loans. On 30 November 1970 the total value of the loans made available by the EIB from its own ressources was 49m u.a., distributed as follows:

(a) Ivory Coast (11.7m u.a., i.e. 24.9 per cent of the total);
(b) Mauritania (11m u.a., i.e. 23.5 per cent);
(c) Cameroon (11.3m u.a., i.e. 24 per cent);
(d) Congo (Brazzaville) (9m u.a., i.e. 19.2 per cent);
(e) Gabon (3.2m u.a., i.e. 6.9 per cent);
(f) Senegal (2.4m u.a., i.e. 5.2 per cent);
(g) Upper Volta (0.45m u.a.)

The other activity of the Bank in 1969 centred on joint examination with the Commission of the four projects financed by loans on special terms exceeding 15m u.a. The Joint Committee welcomes this coordination of studies and action of the EDF and EIB, which it has always recommended.

The projects financed by the Bank were mainly industrial. They will therefore be examined in Chapter V on industrialization.

CHAPTER V

INDUSTRIALIZATION OF THE AASM AND ECONOMIC COOPERATION BETWEEN AFRICAN STATES

A. The Community's contribution

97. The Joint Committee and the Parliamentary Conference examined the problem of industrialization of the AASM in detail during their five discussions on the working document and subsequently on Mr. Dewulf's excellent report(1). These discussions are still sufficiently fresh in the mind of the Committee members for it to be unnecessary to return to them here.

It is gratifying to note that in compliance with the Resolution passed by the Parliamentary Conference in Hamburg in January 1970, the General Report on the activities of the Council devotes a particularly interesting chapter to the problems of industrialization and the achievements to which the Community has contributed.

Referring to page 50 of the Sixth General Report of the Council, your Rapporteur shares the view of those government officials who consider that the industrialization of their country must continue with efficiency, modesty and realism. Mistakes have been made and resources wasted in the past; while this fact must be remembered it does not prevent a dynamic approach to the problem just as it has not lessened the will of the responsible officials in Africa and Madagascar to push ahead with their industrialization. The Association has resolutely chosen industrialization as an important contribution (but not the only one) to the development of the AASM.

98. The Sixth General Report(2) points out that as long ago as 1962 the contracting parties fixed diversification of the economy and industrialization of the Associated States as one of the objectives of the Association; part of the Community's aid programme (15 per cent) consisted of repayable aid in the form of special loans granted by the EDF and normal loans granted by the European Investment Bank. The Association Council has shown a special interest in the use of aid for industrialization and made the following recommendations in its Resolutions I/66 and III/68:

(a) The AASM economies should be diversified:
 — by extending the range of agricultural and industrial production both for home consumption and for export;
 — by facilitating the creation of an industrial base, in particular by putting local production on an industrial footing;
 — by avoiding ill-coordinated action which may lead to overproduction and competition contrary to the interests of the Associated States.

(b) Special attention should be given to projects of regional interest in order to ensure that the economies complement each other more effectively, thus promoting cooperation and inter-African trade.

(c) Although industrialization is initially characterized by the creation of production units for consumer goods, the desirability of creating facilities to manufacture the means of production should be studied.

99. On the level of practical achievements, the Community has, through the EDF and EIB, contributed directly and indirectly to the industrial development of its Associated States. The volume of aid committed from the second EDF and the resources of the EIB amounts to 86.5m u.a., i.e. 11.9 per cent of the total aid. Of this sum:

(1) See Document 31 (10 January 1970) of the Parliamentary Conference.

(2) Page 50, Doc. 32/III.

— the second EDF committed 41.9m u.a., i.e. 6.3 per cent of the total amount available to it; the EIB allocated 46.7m u.a. out of a total of 49m u.a. granted to the AASM in the form of loans.

1. *EDF measures*

100. Total expenditure for industrialization of the Associated States probably amounts to 25.13m u.a. for the first EDF and 141.6m u.a. for the second EDF.

(in thousands of u.a.)

Type of action	Method of financing			
	Grants	Special loans	Total	%
Preparatory studies for industrial investment	1,336	—	1,336	
Supply of electric power	11,260	9,000	20,260	12
Infrastructure directly related to industrial projects (e.g. wharf at Nouakchott, fishing ports)	11,536	5,254	16,790	10
Agricultural-industrial complexes — cattle rearing products (slaughter houses) — oil palms (including oil processing plants) — tea cultivation (including packaging factories) — cotton (including ginning plant and oil processing plants) — cocoa (packaging)	122,379	1,661	124,040	75
Manufacturing industry (cement works, textile factory, wagon assembly and repair workshops)	—	4,255	4,255	3
Total	146,511	20,170	166,681	100
In percentage	88 %	12 %	100 %	

(Source: Sixth General Report, p. 54 bis)

This table shows:

(1) That industrialization of the Associated States is characterized essentially by the local conversion of raw materials, especially in the agricultural sphere, i.e. by setting up agricultural-industrial complexes which accounted for 75 per cent of the Community aid for industrialization;

(2) Measures taken under the EDF centred on vocational and technical training preparing for industrial occupations. The Community rightly considers that an investment policy can only be valid if it is accompanied by a programme to train the men who will be responsible for completing and operating the projects.

In addition the EDF carried out industrial prefinancing studies to a value of $1,336,000.

Finally some financial assistance granted under the first and second EDF for the improvement of economic and social infrastructures contributed indirectly but positively to industrialization by opening new possibilities for the latter (the construction of the Trans-Cameroon railway, the port of Owendo and many highways are examples).

101. This policy of the European Development Fund resulted in the completion of the following industrial projects in 1969 alone[1]:

(a) Economic and technical studies for the creation of a steel industry in Senegal;

(b) Part of the Inga hydro-electric scheme in Congo (Kinshasa); this will facilitate the creation of new industries;

(c) In the Ivory Coast, continuation of measures to develop cotton production, concentrating on rationalization of this crop and on the supply of industrial equipment for storage and processing;

(d) In Upper Volta, construction of the industrial slaughterhouse at Ouagadougou, which will allow intensified slaughtering and therefore improve the nutrition of the population while also leading to an increase in exports;

(e) In Madagascar, construction of a new industrial slaughterhouse associated with refrigerating installations and facilities for the storage and transport of chilled meat, primarily to satisfy the meat requirements of the inhabitants of Tananarive;

(1) See report of the Commission to the Council on the management of financial and technical co-operation (p. 48).

(f) In Senegal, the improvement of millet by creating new and more productive strains in order to make good the nutritional deficiency of the population and reduce imports of food cereals;

(g) Finally in the Central African Republic, two river infrastructure projects, i.e. the development of a fleet on the Upper Sangha River and the construction and fitting out of the river harbour at Nola to enable timber to be exported from a region of forests.

2. *Measures taken by the European Investment Bank*

102. The EIB has special responsibilities for industrial financing and made an important contribution in this sector. The following projects were financed by ordinary loans from the resources of the EIB:

(in million u.a.)

	Amount
Energy — 1 project	4.050
Mining and quarrying — 2 projects	20.000
Agricultural and food industry — 7 projects (banana packing, essential oils, oil processing plants, pineapple canning factories, milling plant)	14.623
Textile industry — 3 projects	4.433
Fertilizers — 1 project	2.430
Metallurgy — 1 project	1.215
Total: 14 projects	46.746

These projects concern the Ivory Coast, Cameroon, the People's Republic of the Congo (Brazzaville), Senegal, Mauritania, Gabon and Upper Volta.

103. The co-financing of industrial projects in the AASM by the EIB—whose share in the investment varied between 11.3 and 42.3 per cent from project to project — and other bodies such as the AASM Governments, private investors, bilateral aid organizations (aid and cooperation funds), the Kreditanstalt für Wiederaufbau, the Deutsche Entwicklungsgesellschaft, and multi-national financial institutions (IBRD = World Bank, and IFC = International Finance Corporation) is evidence of effective coordination between the Community bodies which distribute aid and other bilateral and multilateral aid organizations; this has often been encouraged by the Joint Committee.

104. The Sixth General Report tried to evaluate the economic impact of the industrial projects financed by the Community. Immediately after their completion, the 21 industrial projects financed by the Community had a favourable influence in terms of the creation of new jobs, added value, improvement in trading balances and payments and even in the sphere of tax receipts. The General Report evaluates these effects as follows(1):

(in millions of a. u.)

	14 projects financed from EIB resources	7 projects financed from EDF resources	Total
(estimates in approximate figures)			
Contribution to a total industrial investment of	226	50	276
Number of jobs created directly	(6,650)	(1,900)	(8,850)
New added value created each year:			
(a) industrial added value, created directly	59	24	83
(b) allowing for foreseeable indirect effects	120	50	170
Favourable impact on trading balance (by substitution for imports and increasing exports)	75	25	100
Net effect on the balance of payments after deducting foreseeable outgoing transfers	35	17	52
Annual addition to tax revenue (once tax exemptions granted in accordance with the investment codes expire)	25	7	32

It may be felt that these results, in particular the creation of 8,850 new jobs in the AASM, are still unsatisfactory having regard to the real needs and the number of young people who have received school and university education and are coming onto the labour market.

105. In this respect the new Convention reflects the desire of the Community to increase the funds available for industrialization projects while at the

(1) See p. 63.

same time achieving greater flexibility and efficiency in the granting of aid through more appropriate procedures. By joint agreement the negotiators of the second Yaoundé Convention have made a number of innovations designed to strengthen the means of action available to the EIB; this will make it easier for the Associated States to use this institution, as the Parliamentary Conference had hoped.

As regards these new provisions it should be recalled as indicated in the Sixth General Report (p. 68), that:

(a) Overall interest rebates may be granted on loans by the Bank at the following rates:

— 2 per cent up to the end of the fifth year of repayment on investments in the manufacturing industries in the zones of immediate influence of the major centres of industrial development in the Associated States;

— 3 per cent for the whole duration of the loan on investments in regions which are relatively under-industrialized or very remote from sea access; the same rate applies to investment on tourist facilities.

This rate of 3 per cent can therefore be considered as a 'special measure' to encourage investment in the least-privileged regions of the Associated States.

(b) An outright interest rebate of 2 per cent for the whole duration of the loan, which may be cumulative with the rebates mentioned above, is also possible on loans granted by the Bank through the development banks.

This innovation and the possibility of granting loans under special conditions from EDF resources through the development banks are likely to facilitate the financing of small and medium-scale industrial projects which it would be difficult to evaluate and supervise without the cooperation of these development banks;

(c) Through the EDF resources the Community will be able to contribute to the formation of risk capital for companies, in particular by taking up capital holdings; these operations must only be temporary. They will be examined and managed by the EIB acting as a representative of the Community.

106. These new procedures for granting interest rebates will only be useful if the Commission actually applies them. It will in fact be remembered that the previous Convention already made provisions for interest rebates but they were only granted on one single loan(1).

(1) This was an EIB loan for the construction of a forest road in Gabon; the EDF granted a 3 per cent interest rebate.

107. Irrespective of these technical procedures laid down in the Convention, the Community should also base its commercial and industrial policy on its responsibilities to the developing countries and in particular to the AASM through a policy of industrial transfer which has so often been mentioned but has still not been properly defined. In its memorandum to the Council on the Community's industrial policy, the Commission expressed its concern in this sphere(2):

'The conditions under which a progressive and orderly transfer of certain industrial activities could be organized for the benefit of the developing countries will be the subject of later studies and proposals. It is in the interest of the Community to adopt a more outward-looking approach towards exports from the developing countries. However, this development which has already begun primarily in the context of the Associations and which is likely to be reflected in the work of UNCTAD should be programmed as accurately as possible so that the sectors concerned know in advance the time limits they will be given to adapt themselves to a new situation. The Commission will submit proposals to the Council on this point for the different sectors concerned.'

The Joint Committee would like discussions to be held with the Commission of the Communities on the guidelines which the latter intends to recommend on this subject for the different sectors.

B. The problem of guaranteeing private investments

108. All the Associated States are convinced that a guarantee on investments is necessary to encourage industrialization; with this aim in mind all of them have laid down investment codes which grant advantages (varying from case to case) to foreigners. Similarly para-governmental African bodies such as the Mutual Assistance and Guarantee Fund of the Entente Council guarantee loans by local investors.

The Parliamentary Conference of the Association has repeatedly raised the matter of an additional guarantee, i.e. a multilateral guarantee which would be financed collectively by all the Member States on part of the funds which they make available to the Associated States. This proposal aroused a great deal of controversy; some considered it essential and others pointless or even dangerous and immoral.

Government officials in certain Member States have made progress on this problem and have proposed a new solution which seems more realistic and easy to apply. The French Government for instance has now decided that the State will provide insurance coverage (in return for a pre-

(2) See supplement to Bulletin 4/70 of the European Communities: Principles and Guidelines for a Community Industrial Policy.

mium paid by the industrial companies concerned) on non-economic risks, in particular nationalization, arising in connexion with investment by its nationals in the African countries of the Franc area.

This guarantee would only apply to new investments which are likely to effectively accelerate the development of the countries in the Franc area(1).

Similar measures have been taken by the Dutch and German Governments.

At the Community level, following a suggestion made by the Association Council and the Parliamentary Conference, the Commission of the Communities has been asked to study a multilateral guarantee on investments in the AASM.

The President of the World Bank has also ordered a study of a plan for insurance on private investment with a view to channelling private capital back to the developing countries.

All these measures are undoubtedly an additional inducement and will facilitate industrialization. These guarantees have the merit of not increasing the burden borne by the African States themselves.

C. Efforts made by the AASM themselves to promote economic cooperation on industrial development

109. As the Association Convention indicates, the aid granted by the Community can only supplement the efforts made by the AASM themselves. The latter have made considerable progress in establishing the vital instruments for coordinating their industrialization programmes.

At inter-governmental level, the Conference of OCAM Heads of State and the conference of Ministers of the OERS, (Organization of States bordering on Senegal), the Entente Council and the UDEAC (Central African Customs and Economic Union) are both active. To quote one example, the Conference of Ministers of Planning and Industry in the OERS, held in Dakar last June, adopted a list of four integrated, sub-regional industries providing for the creation of two steel plants in Mauritania and Mali, a paper factory in Guinea and a petro-chemical complex in Senegal. An additional list recommends the establishment of a tyre complex in Guinea, a nitrogen industry in Mali, a copper industry in Mauritania and a pharmaceutical products factory in Senegal. In another resolution on the primary industries, the same Ministers recommend the creation, in accordance with proposals made by the four States, of a chemical industry in Guinea, a sugar refinery, a milling plant and an alumina complex in Mali, as well as a cement and plaster works in Mauritania.

At the same time they decided to make a comparative study of their development plans with a view to proposing measures of harmonization.

The UDEAC has laid down special tax harmonization measures and customs practices in order to establish a domestic market. These efforts have enabled joint industrial companies to be set up with the benefit of a single tax system. The Heads of State of the Union wish to integrate the economies of the Central African countries more fully.

The UDEAC Heads of State(2) meeting last April in Bamako, decided to convert the customs union into an economic community open to all West African States wishing to participate. The report which they drew up recommends regional industrialization plans so that the products of industrial projects agreed upon between the States would benefit from very favourable customs arrangements likely to make them competitive with products imported primarily from the industrialized countries.

Speaking during President Senghor's visit to the Community, President Malfatti said that the Commission was getting ready to provide 'technical assistance' for this great plan in connexion with the preparation of the union treaty.

110. Similarly, regional development banks such as the African Development Bank to which 32 African countries belong are actively financing industrialization projects. In existence for three years now, the Mutual Aid and Loan Guarantee Fund of the Entente Council has already guaranteed loans on industrial projects to a value of 2,124m francs CFA.

111. The EEC Commission can play a useful part in the coordination now being organized between several Associated States. A meeting was for example held in Brussels last July between representatives of the governments of Burundi, Rwanda and the Democratic Republic of the Congo, to examine jointly under the auspices of the Commission, the procedure for regional cooperation on electric power supplies in the Great Lakes area which are of interest to all three countries. An outline agreement was reached by which the three countries will cooperate, first through a study company and then through an operating company, on the development of new sources of power and transmission lines. Short-term measures have also been taken to meet the energy requirements of Rwanda.

(1) At the same time measures will encourage French companies to establish, equip and operate new industries in these countries. The sphere of application of the guarantee is clearly defined. It excludes speculative operations in real estate, petroleum investment and the running of casinos, cinemas and restaurants.

(2) Ivory Coast, Dahomey, Mali, Mauritania, Niger, Senegal, Upper Volta.

D. Special difficulties standing in the way of industrialization of the AASM

112. Industrialization of the AASM raises immense problems and will continue to do so for a long time. According to Mr. Woods, Ex-President of the World Bank, this is because Africa 'remains the only continent on which almost all the countries still do not combine the essential prerequisites for industrialization.'

The benefits which industrialization is expected to bring in terms of economic and social progress in the developing countries will take a long time to materialize. According to the Sixth General Report the industries which are easiest to develop have for the most part already been established in the AASM over the past ten years. New projects are likely to encounter greater difficulties which can only be overcome if the Associated States themselves manage to enlarge their market by effectively coordinating their industrialization policies.

This is confirmed in fairly disturbing terms by the study (referred to earlier) carried out by the UN Economic Commission for Africa. This document states that added value in the manufacturing sector which had increased at an annual rate of about 9.5 per cent between 1960 and 1965 began to tail off significantly during the next three years and the annual rate only reached 6.9 per cent up to 1968. To some extent this reduction in the growth rate since 1965 is attributable to the exceptional conditions which prevailed in many of the principal producing countries. At one time or another in the 8 years after 1960, non-economic factors unfavourably influenced manufacturing production in 5 of the 10 most important producer countries in developing Africa. In these countries industrial activity is mainly characterized by initial conversion *in-situ* of primary products of agriculture. An increasing number of industrial concerns in the area are becoming involved in simple processing of this kind. In recent years the African countries have become increasingly aware of the possibility of creating industries for processing fruit and vegetables. In several countries of tropical Africa, such as Senegal, Mali, Ghana, the Ivory Coast, the Sudan, Kenya and Ethiopia, new factories have been established to process tomatoes, pineapples, citrus fruit and other fruit and vegetables. There are now projects for setting up more than 20 additional factories of the same kind in other countries of tropical Africa. Of 30 factories established in these countries and from which the necessary information was obtainable, most are experiencing serious economic difficulties and some have had to close down.

113. The African leaders are well acquainted with these difficulties and realize the need for reflection on the form which industrialization should take in their own countries and regions. They now know that industrialization in Africa is a very different proposition from industrialization of the European countries. In fact the governments must face up to a series of special economic factors. The question of employment takes priority. School attendance and higher training which do not lead up to employment are a source of grave social disorder, and may often result in a drain of qualified personnel who look for jobs elsewhere and try to find a standard of living which does not yet exist in their own country. Because of the population explosion in the 1950's the number of young people arriving on the labour market will increase troughout the 1970's. Unless far-reaching measures are taken, unemployment will become even worse and by 1980, or perhaps sooner, an explosive social and political situation will have been created in almost all these countries.

The African Governments must examine every possible solution and agree to coordinate their efforts. The problem is that all these urgent tasks have arisen at the same time. An active population enjoying good health which is well-fed and has a higher level of professional training together with a more abundant supply of capital to finance productive investment and larger outlets at home and abroad to sell the products of these new workers are obvious preliminary steps—but something more is needed.

Experts endowed with common sense and imagination should be called upon to find formulae enabling more labour and less capital to be used in every sector of the economy without pushing overall cost prices up to a prohibitive level. It will also be necessary to obtain the active cooperation of foreign investors, most of whom are content to opt for the simplest solution and reproduce in Africa manufacturing systems based on the replacement of expensive labour by complex automatic equipment which is difficult to maintain. But labour is not expensive in Africa.

In the donor and beneficiary countries alike, governments should recognize the vital importance of creating jobs and abstain from encouraging foreign investors by measures which tend to reduce the cost of capital in relation to that of labour. If subsidies are granted they should apply to the jobs which are created and not to investments[1].

114. It is not easy to coordinate the efforts of the AASM to promote industrialization through regional agreements creating viable economic areas. The industrial choices are often painful. For all the individual governments which naturally wish to defend their own national interests, they imply an effort of discipline or the renunciation of operations which are politically justified at national level.

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[1] These ideas were put forward by Mr. Martin, Chairman of the Development Aid Committee of the OECD, in a report submitted to its Tokyo meeting on 15 September 1970.

The difficulties experienced in organizing the OCAM sugar market are an example: Senegal, which is a member of this agreement, has preferred to create its own sugar industries by planting sugar cane as quickly as possible on 5,300 hectares of land. Meanwhile the refinery which has been built will be fed with imported raw sugar bought on the world markets and not necessarily at the price fixed by the producers under the Sugar Agreement.

Having regard to national interests, what government could resist the tempting offer of a company which provides every necessary guarantee and proposes to establish a sugar industry when part of the profit would go to the State and sugar could be sold to consumers at a reduced price?

115. Similarly it has not yet been possible to set up the common market for meat in OCAM. There are, however, very good prospects for developing domestic trade in OCAM between the Sudanese countries which produce meat and the densely wooded countries which consume it. But it is not easy to balance the interests at stake here. The consumer countries consider that they are not adequately safeguarded by the draft agreement which proposes to establish 'profitable' prices for the producers. The proposed market organization was not confined to distribution arrangements; it also stipulated an increase in production and a system of regular supplies while provision was to be made for protection against imports from third countries. The root of the problem is that the African States do not have the resources to set up a common market organization with a system of intervention and financing similar to that provided by the European Guidance and Guarantee Fund (EAGGF).

116. In the light of their own experience, the EEC States will readily understand how difficult it is for the Six, let alone eighteen countries to set up commom market organizations and rapidly harmonize legislation in sectors which are recognized as vital to the economy.

117. In fact the Associated States will do all they can, but it is difficult for them to copy a pattern of development applied elsewhere, bearing in mind their own particular context which is unique in many respects.

While it is true that industrial development is the only way of ensuring a more acceptable standard of living for their inhabitants, industrialization is not a panacea. The African States are bound to notice that the type of prosperity offered by industrial societies in the western world and in eastern Europe still creates dissatisfaction and new tensions. The general conditions of life in these countries are such that social tension does not diminish as prosperity increases.

Collective thought must be given to the development of modern societies and the Africans cannot run the risk of modernizing their countries on a foreign pattern which would lead to an undesirable social and political revolution.

CHAPTER VI

THE ENLARGEMENT OF THE COMMUNITY AND ITS IMPACT ON THE EEC-AASM ASSOCIATION

118. The opening of negotiations between the European Economic Community and four applicant countries, including the United Kingdom(1), will not only raise the problem of establishing Association links between the enlarged Community and the dependent Commonwealth territories but also of the possible accession to the Association of independent African States which may wish to move in the same direction and establish special ties with the enlarged Community.

The enlargement of the Community and the foreseeable enlargement of the Association entails many unknown factors for the AASM and, consequently, some risks.

It is not known how many countries will choose an association formula on the lines of the second Yaoundé Convention; nor is it known how large the new market will be or what economic impact it will have on the agricultural policy and common commercial policy.

119. Which countries are likely to be associated with the enlarged Community?

First and foremost Britain's Associated States and Dependencies(2) which may enter into an association with the enlarged Community in the same way as the existing associated overseas countries and territories. The form of this association would correspond to the provisions of Part Four of the Rome Treaty and the decision taken by the Council of the Communities on 25 February 1964, concerning the association of the countries and territories; this decision will lapse on 31 January 1975. For the period lasting from the date on which the Treaties of Accession come into force to the date on which the aforementioned decision of the Council expires, implementing procedures would have to be negotiated with the United Kingdom. These negotiations would cover inter alia:

(a) Provisions on the progressive elimination of customs duties and quantitative restrictions

(1) Denmark, Norway and Ireland.

(2) (a) *Far East and Pacific Ocean:* Brunei, Pitcairn, British Solomon Islands Protectorate, Gilbert and Ellice Islands, New Hebrides.
(b) *Atlantic Ocean:* Bahamas, Bermuda, Falkland Islands and Dependencies, St. Helena and Dependencies, British Antarctic Territory.
(c) *Caribbean Sea:* Cayman Islands, British Honduras (Belize), British Virgin Islands, Turks and Caicos Islands, Montserrat, Antigua, Dominica, Grenada, St. Christopher-Nevis-Anguilla, St. Lucia, St. Vincent.
(d) *Indian Ocean:* Seychelles, British Indian Ocean Territory.

between the enlarged Community and countries of this kind;

(b) Provisions on financial and technical cooperation: principles of participation by the enlarged Community in aid granted to Britain's Associated States and Dependencies;

(c) Determination of the contribution by the Member States of the enlarged Community to this form of aid;

(d) Fixing the volume of aid and the procedures for granting aid to Britain's Associated States and Dependencies;

(e) Measures concerning the right of establishment, services and capital movements.

After 31 January 1975, identical rules would be applicable throughout the Community's overseas countries and territoiries and Britain's Associated States and Dependencies; these rules will therefore have to be worked out in due course.

The principle of the association of these territories seems to have been accepted(1) on the basis of the procedures laid down for the overseas countries and territories which are already associated with the Community, a list of which is appended to the decision taken by the Council of the Communities on 25 February 1964.

120. As far as the independent Commonwealth States(2) are concerned, it seems that the enlarged Community could make a limited offer at present to those African States with an economic structure comparable to that of the AASM(3). These countries would be able to choose between the alternatives envisaged in the Declaration of Intent issued in July 1963 by the Council of the Communities when the First Yaoundé Convention was signed and renewed on signature of the Second Yaoundé Convention in July 1969.

The text of the Declaration of Intent of 2 April 1963 which sets out the Community's offers is as follows:

'On the occasion of the signature of the Association Convention between the EEC and the AASM, the Member States of the EEC meeting in the Council, aware of the importance of developing cooperation and inter-African trade and desirous of signifying their will to cooperate on the basis of complete equality and amicable relations in accordance with the priciples of the United Nations Charter, declare that they are favourably disposed to negotiate with non-member countries which make corresponding requests and whose economic structure and production are comparable with those of the Associated States, with a view to concluding agreements leading to one of the following formulae:

'(a) Accession to this Convention in accordance with the procedure laid down in Article 58,

(b) Association agreements entailing mutual rights and obligations, in particular in respect of trade,

(c) Trade agreements designed to promote and develop trade between the Community and these countries.'

121. Referring to this Declaration of Intent, Nigeria and the three East African States (Uganda, Kenya, Tanzania) applied for an association with the Community in accordance with the second formula.

It remains to be seen which independent African countries would be interested in an offer from the *enlarged Community* and which of the three possible formulae they would choose.

122. The question as to whether more African countries will accept a formula of the type laid down in the Second Yaoundé Convention will arise when the new Third Yaoundé Convention is negotiated, i.e. after July 1973.

According to the declaration made by the Council of the Communities on 11 and 12 May 1970, the structures of the existing EEC-AASM Convention are to be maintained since they are considered an integral part of the Community system in the same way as the Treaty of Rome and the regulations based on it. Like the present EEC-AASM Convention, the association formula laid down in the future Third Yaoundé Convention would therefore include a section on trade, a second section on financial and technical cooperation with provisions on the freedom of establishment, freedom to supply services and free capital movement, and a third section on joint institutions.

If the structures of the existing Yaoundé Convention are retained, the implementing procedures and in particular the preferential arrangement for trade and financial and technical cooperation will have to be negotiated between the enlarged Community and all the applicant countries; this may significantly alter the content of the present Association.

123. It is not possible to say at present which countries will apply for an association on the lines of the Yaoundé Convention and which will prefer an association of the Arusha type or a simple trade agreement. It is probable that different options will be chosen depending on the level of development of the country concerned and the existing pattern of its trade.

(1) However, the case of Hong Kong is different because of its economic situation and export trade which raises special problems differing from those of the other dependent countries.

(2) *Developing countries in Africa and the Indian Ocean:* Botswana, Lesotho, The Gambia, Ghana, Malawi, Mauritius, Nigeria, Sierra Leone, Kenya Swaziland, Tanzania, Tonga, Uganda, Zambia.

(3) For the countries in the Caribbean and Indian Ocean, the problem remains in abeyance because it raises special difficulties. The economy of some of these countries is oriented essentially towards sugar exports but to differing degrees: sugar accounts for 80—90 per cent of the total exports from Mauritius, 60—70 per cent from Barbados, about 20 per cent from Guyana and Jamaica, and 5 per cent from Trinidad and Tobago.

The question of renegotiating the Association Agreement with Nigeria, which has never taken effect, remains open.

For Ghana, whose main export product, i.e. cocoa, is perfectly competitive on the European market, an association agreement of the Arusha type, enabling it to increase its exports to the Community, seems desirable.

Sierra Leone, which exports iron ore, diamonds and palm oil to the United Kingdom may be interested in links with the enlarged Community but probably only if it is given financial and technical assistance.

The position of the three East African States (Kenya, Uganda, and Tanzania), defined in the Second Arusha Agreement, is already known but it is difficult to determine whether they will opt for renewal of this Agreement when it expires in January 1975 or whether they will prefer a closer association of the Yaoundé type.

The representatives of Zambia have given no indication of their intention towards an enlarged European Community but Malawi, according to statements made by its President, Mr. Banda, on 29 June last, would apply for association with the Common Market 'at the same time as the British Government applies to join the EEC.'

Botswana, Lesotho and Swaziland raise certain problems because of the customs union between these countries and South Africa.

124. On the basis of these rather rudimentary facts and other more specific information, it is possible to make a number of reasonable assumptions on the effects which enlargement of the Community would have on the 18 AASM; it is also possible to show the *drawbacks* and *advantages* which there would be for each of them.

125. Three factors combine to suggest that it will be difficult to maintain the preferential system applied under the existing association; firstly the coming into force of the Arusha Agreement which grants the commercial arrangements specified in the Second Yaoundé Convention to the three East African States (Kenya, Uganda, Tanzania); secondly the probable application in 1971 of generalized preferences for manufactures and semi-manufactures originating in all the developing countries, and thirdly the entry into the Association during the next four years of the United Kingdom's Associated States and Dependencies which would benefit from the new trade arrangements.

The Community and Commonwealth *tariff preferences* raise major difficulties. The United Kingdom made more concessions than the Community during the Kennedy Round. It is therefore doubtful whether it will agree to the common customs tariff at its present level; if it does, it would have to re-establish on many tropical products, such as coffee, cocoa and palm oil, the duties which it cut or abolished in accordance with the policy expressed repeatedly at sessions of GATT and UNCTAD. How would GATT react then? Is there not a risk that the tariffs of the enlarged Community will be harmonized at the lowest level, i.e. at the level of the United Kingdom backed by GATT? Does this mean that the tariff preferences of the enlarged Association are to be reduced still further?

126. It must be recognized that enlargement of the EEC-AASM Association to other countries whose products compete directly with those of the AASM and which already sell their products at competitive prices on the Community market without tariff preferences will to all intents and purposes compel the 18 States to fall into line very quickly with world market prices so as to maintain their existing outlets in the Community without allowing their new partners in the Association to steal a march on them. This is particularly true of products such as cocoa, coffee, bananas and palm oil.

127. Admittedly the AASM may gain access to new markets in the United Kingdom, Denmark, Ireland, and Norway. But this advantage does not appear certain in the immediate future. The United Kingdom buys almost all its supplies of tropical products in the Commonwealth. 99 per cent of its imported cocoa, 90 per cent of its coffee, 99 per cent of its groundnuts and groundnut oil, 100 per cent of its palm oil products and copra and 99 per cent of its bananas come from the Commonwealth[1].

128. Turning now to *agricultural products which compete with similar European products*, the problem is disturbing. If the common agricultural policy remains as it is at present with its stringent system of protection, and all the indications are that there will be no changes since the Community has clearly informed the four applicant countries that they must accept the common agricultural policy regulations as they stand, the Community will become increasingly restrictive and will have to take even stronger defensive measures against the increasing quantities of competitive products offered on its market by all the Associated States. This will apply to oleaginous products, sugar, maize, rice and other cereals, as well as fruit and vegetables.

The only alternative would be for the Community to adopt the more favourable arrangements granted by the United Kingdom to the Commonwealth countries. Unlike the Community which applies a policy designed to protect its agricultural products while making some allowance for the interests of the AASM, the United Kingdom, which imports a great deal, grants substantial preferences to the producing countries of the Commonwealth.

(1) Information supplied by the Secretariat of the Coordinating Committee of the AASM.

This is the case for sugar, oleaginous products, canned fruit and fruit juice. In the case of these products a way should be found of aligning the new arrangements on the most favourable system, i.e. the Commonwealth system.

It should therefore be possible to negotiate an agreement on the lines of the Commonwealth Sugar Agreement on the basis of the new situation resulting from the sugar requirements of the enlarged Community. This would be a very useful concession to the AASM and would go some way towards balancing the disadvantages incurred by them as a result of increased competition from their new partners in the Association.

129. In short, it is almost certain that the system of tariff and trade preferences enjoyed today by the 18 countries will be changed both in its implementing procedures and in its effects. A new economic situation will arise for the AASM from the changes to be made shortly—which may well not be the last—in the common customs tariff and also from the extension of preferences to an increasingly large number of countries whose products compete with those of the AASM and whose economic structures are not comparable with those of the Associated States, whatever may be said on this subject. In fact, through their level of development, the three East African countries, as well as Nigeria and Ghana(1) are better placed than most of the AASM to sell their products.

130. It is already known that the countries which have applied for membership of the Community are willing to subscribe to the financial undertakings of the EEC. They will therefore have to share in the contributions of the European Development Fund. Information obtained in 1968 also shows that the total aid received by the Commonwealth countries which are likely to enter into an association would be in the same order of magnitude as that granted to the AASM(2).

At all events the final paragraph of Article 60 of the Yaoundé Convention stipulates that the accession of new members to the Association 'shall not adversely affect the advantages accruing to the Associated States signatories to this Convention from the provisions relating to financial and technical cooperation.'

131. The primary advantage accruing to the AASM from an enlarged Association would be the promotion of regional economic groupings thus helping in the long run to strengthen African unity; with this prospect in view the 18 Associated States would certainly be ready to make concessions.

The second advantage for all the partners in the Association could be the creation of an economic and trading bloc—consisting of the enlarged Community and its Associates—which could speak with a single voice in world organizations (UNCTAD, IMF, GATT); at the very least the harmonized position of such a bloc would lend it a force of persuasion which would have political repercussions.

CONCLUDING REMARKS

132. The Joint Committee felt it necessary to make a lucid analysis of the situation facing the Association at present.

After noting the changes which are taking place in the Association because of the general world situation and developments in the Member States themselves, the Parliamentary Conference must now forecast future trends and approach these developments in a realistic and positive frame of mind.

133. The process of tariff erosion in the Association is disturbing for the AASM because of the very nature of their economic structure which necessitates a series of measures to protect agricultural products until such time as industrialization becomes a sufficiently strong force in the economy. At the same time measures encouraging development are necessary to accelerate this industrialization and allow an increase and diversification of trade in a range of manufactured products which would be less subject to fluctuations in market rates than primary commodities are.

The development of EEC-AASM trade since the beginning of the Association shows that the system of tariff preferences cannot on its own allow rapid and harmonious development of trade between countries which have reached very uneven levels of development.

The Community itself now realizes that tariffs are becoming increasingly inadequate as a component of a dynamic commercial policy.

134. However the Community which is involved in a network of worldwide responsibilities, must not precipitate the movement of tariff disarmament and suddenly abandon the whole commercial policy of the Association. Such action would have disastrous consequences for the Associated States.

In the past five years the Community policy—whatever the principles underlying it may have been—has led the AASM:

(1) To give up guaranteed prices for their essential products and abandon their privileged outlets on certain important markets;

(2) To accept, since the Kennedy Round, successive reductions in tariff preferences on a number of primary commodities which are essential to their economy;

(3) To share their reduced preferences on primary commodities with other Associated States in

(1) Always assuming that these countries are interested in an agreement with the Community.
(2) Information supplied by the Coordinating Committee of the AASM.

East Africa, and, in the near future, with other African States whose products compete with their own and whose level of development makes them more competitive;

(4) To accept, willingly it is true, the introduction of generalized preferences for manufactured products originating in all the developing countries but subject to conditions and a time schedule which did not correspond exactly to their wishes.

Under the UNCTAD systems of generalized preferences in their present form:

(a) The AASM run the risk of losing access to the 'privileged' Community market which in principle is open to them, but on which the AASM will face competition from other more industrialized and competitive countries;

(b) The developed countries have given no specific commitment on special measures to assist the less advanced countries or to compensate the damage which the AASM may suffer as a result of application of the system (except for the EEC which has provided a special safeguard clause);

(c) As yet the AASM have no assurance of access to certain important new markets such as the American market.

135. Faced with this rapid development, what has the Community done to compensate more satisfactorily the erosion of the preferences and guarantees from which the AASM used to benefit?

For several years now the Community has shown its intention of applying a number of different measures and in particular of regularizing the market prices of primary commodities at a stable and profitable level if possible by concluding worldwide product agreements, or taking measures to protect the AASM within the framework of the Association until worldwide agreements can be implemented. However, this objective has tended to fade into the background while preferences have effectively been reduced. The initiative taken by the Parliamentary Conference and the Commission of the Communities which submitted reasonable proposals when it appeared that the second Yaoundé Convention would be renewed has been rejected by the EEC Council because of opposition from certain governments under pressure from their business interests whose sources of supply and markets do not lie in the AASM.

Support for new product agreements is slowly but steadily growing throughout the world.

136. In addition the Community rightly recommends a sales promotion policy to take over from the previous tariff measures. The new Convention embodies proposals for many important measures and the EEC Commission has not been slow in taking the initiative; but its action can only succeed if all the Associated States immediately take vigorous steps to change their commercial structure and bring about economic regroupings enabling an enlarged and economically viable market to be created. But this is a slow process and it will be a long time before these sales promotion measures bear fruit. Meanwhile the AASM may encounter difficulties in the next five to eight years.

137. The progressive increase in financial aid under the first Yaoundé Convention was even more marked under the second Convention. This is an important factor.

But it must be noted that in contrast to the policy of other multilateral aid organizations including the European Investment Bank, the criteria according to which the European Development Fund grants aid cannot simply be those of economic viability. The European Development Fund was founded specifically to play a part in compensating imbalance between the eighteen AASM States and to give the least favoured among them better prospects of development through appropriate aid.

138. But this financial aid on its own is not sufficient either. It is not the essential aspect of the Association. As our colleague Mr. Spénale so pertinently stated to the Joint Committee 'the Community cannot fully compensate the loss of commercial advantages by financial aid. If a country loses part of its export income and if the latter is restored to it in the form of financial aid this only compensates the budgetary impact of the loss of earnings but no wealth is created with the attendant economic effects and social implications. In addition as financial aid becomes increasingly important it creates dependence, whereas a sound commercial policy creates free partners. The specific aim of the Association was to promote adequate expansion of the economies of the eighteen AASM through a harmonious balance of commercial and financial measures, so that in the long run financial assistance would no longer be necessary between economic partners who would have become less unequal. If the Community fails to take sufficient steps to promote the development of trade and economic expansion in the Associated States the ultimate result will be the opposite of what is desirable; in one case the Association will have succeeded, in the other it will have failed.'

139. The Community has also embarked upon the road of industrialization of the AASM. The second European Development Fund and the loans granted by the European Investment Bank are contributing to the completion of a number of industrial projects and others should follow during the validity of the second Yaoundé Convention thanks to the new instruments and additional credits stipulated in the latter.

The important contribution which the Community is already making in this sector will be stepped up still further in the future.

But the introduction of generalized preferences will unfortunately be a handicap to industry in the AASM unless these preferences are accompanied by the essential guarantees laid down in New Delhi which would make them acceptable to the AASM. It is paradoxical for the Community to contribute towards the creation of industries in the AASM when the external markets for these industries are threatened from the outset. Some industries which have been created with the aid of the European Development Fund are already encountering serious difficulties. In their desire to indicate their solidarity with the 'Group of 77', i.e. with all the underdeveloped countries, the AASM have probably not realized all the implications and risks which the proposed system may entail for their own industries.

140. For the AASM, generalized preferences are coming several years too soon before their industrialization has advanced sufficiently and their economies grown strong enough; moreover the measures accompanying a development policy which would enable them to fight this commercial battle on an equal footing and other measures to counteract their worsened trading positions have not yet been taken.

141. Reference is made repeatedly to Resolution (II) 21 of the New Delhi Conference on generalized preferences but the other resolutions adopted unanimously by the 132 participants in this Conference, in particular the resolutions on primary commodities, have been forgotten by Government officials in the rich countries. While the latter have taken relatively rapid measures on the problem of generalized preferences they have not shown the same haste over the resolutions relating to primary commodities and the financial measures necessary to increase their overall aid to a level corresponding to 1 per cent of their gross national product(1). Of the three resolutions adopted at the first UNCTAD Conference, the one on generalized preferences was the easiest for the rich countries to implement immediately since it involved few risks for their own manufactured products. Indeed the productivity of their industries is so high that for the ten years during which generalized preferences will be applicable competition from new industries in the developing countries will be easy to withstand and non-existent in the case of advanced technology industries.

Many other measures will have to be taken during the next development decade in addition to generalized preferences.

142. The Community must therefore keep a close watch on the progress of the Association and envisage a lucid *overall* and *coherent* policy accompanied by a range of diversified measures in the commercial and financial sectors if the basic objective of the Association is to be safeguarded.

It is the duty of parliamentarians in the 24 States to draw the attention of the executive bodies to the problems of the Association which appear important to them and also to the measures which should be taken in the future.

Having regard to the probable enlargement of the Community with all the consequences this will have for the Association, the Parliamentary Conference must cooperate with the EEC Commission and the Association Council in a review of all the existing measures. It must show imagination and boldness in pursuing the ultimate aim of the Association which remains unchanged.

(1) On the other hand the six EEC Member States have complied with this recommendation since the total aid granted by each of them exceeds 1 per cent of their national product.

Recommendations Nos. 19/II and 20/II adopted by UNCTAD in New Delhi

19 (II) *Studies by international financial institutions on stabilization of commodity prices* (1)

The United Nations Conference on Trade and Development,

Reaffirming the importance and urgency of so conducting commodity trade as to make available to the developing countries external resources of which they stand in grave need,

Noting the resolution on commodity price stabilization adopted by the Board of Governors of the International Bank for Reconstruction and Development (IBRD) and of the International Monetary Fund (IMF) at the Rio de Janeiro session in September 1967 (2) requesting a study of the conditions in which IMF, IBRD and the International development Association (IDA) could participate in introducing suitable machinery comprising commitments balanced as between producer and consumer countries and allocate the necessary funds thereto,

1. Emphasizes the importance of the role of IMF, IBRD and IDA in helping to solve the financial and development problems arising in world commodity trade;

2. Calls the attention of these agencies to the importance it attaches to the study requested of them in the abovementioned resolution;

3. Expresses the hope that this study will contribute to the solution of commodity problems;

4. Further expresses the hope that these agencies, in preparing the study, will concentrate, inter alia, on the problems of financing buffer stocks and diversification;

5. Requests these agencies to transmit the study to UNCTAD, in view of the latter's responsibility, as defined in General Assembly resolution 1995 (XIX) of 30 December 1964, for the framing and implementation of an international policy on commodities.

77th plenary meeting,
26 March 1968

20 (II). *Guaranteed minimum agricultural income* (3)

The United Nations Conference on Trade and Development,

Recalling Article 55 of the Charter of the United Nations which provides, inter alia, that the United Nations shall promote 'higher standards of living, full employment, and conditions of economic and social progress and development',

Considering that the existence of reasonable and stable remunerative prices for primary commodities exported by the developing countries would help to ensure, for the producers of such commodities, an enhanced and more equitable purchasing power,

(1) The Conference adopted this resolution with one abstention.

(2) Resolution 22-9 — Stabilization of prices of primary products, adopted on 29 September 1967, by the Board of Governors of the International Monetary Fund, in joint session with the Boards of Governors of the International Bank for Reconstruction and Development, the International Finance Corporation and the International Development Association (see IMF, Summary Proceedings, Annual Meeting, 1967, p. 280).

(3) The Conference adopted this resolution without dissent.

1. Emphasizes that remunerative prices for primary commodity exports would help the Governments of the developing countries to ensure a reasonable income for the producers;

2. Notes with interest the proposal in the report of the First Committee of the Ministerial Meeting of the Group of 77 contained in the Annex I to the Charter of Algiers, (1)

3. Requests the Secretary-General of UNCTAD, in cooperation with the competent specialized agencies, to submit to the next session of the Committee on Commodities an outline of a first study on the possibility of defining the elements of a minimum agricultural income for wage-earning and other producers of primary commodities in developing countries and the links which could be established between such a minimum agricultural income and an organization of trade in primary commodities of interest to those countries.

77th plenary meeting,
26 March 1968

(1) TD/38/Add. 1, Annex I.

Extract from the report of the Board of Auditors of the European Economic Community on the 1969 accounts of the European Development Fund

(Doc. PE 117/III B 1970-71)

a) The first comment relates to the very serious delays affecting the different stages for implementing the projects financed by the EDF; these stages are as follows:

(a) From submission of the project to the decision on financing;
(b) From the decision on financing to the first call for tender;
(c) From the call for tender to the start of work,
(d) From the start of work to provisional acceptance,
(e) From provisional acceptance to completion of the project.

The time which elapses between the date on which a project is submitted and the date of the first call for tender which marks the beginning of the implementing stage often exceeds two or three yaers. The date on which the decision on financing is taken within this period varies. In this sphere there is a conflict between the political option consisting in accepting a very brief initial draft so as to meet the wishes of the Governments rapidly and the technical and economic option which consists in awaiting the results of the studies and preparation of the complete plan for implementation before taking the decision on financing.

The choice seems to depend either on the political climate or on the nature of the projects.

The second formula would be preferable if the time taken to finalize the project before a decision is reached really enabled the subsequent stages to be speeded up. But this is often not the case. In addition the central administration of the EDF is perhaps not properly equipped to make this preliminary examination and it is surely undesirable for the authorizing office to be called upon to act as a technical assistant to the beneficiary Government at this stage.

For the first EFD in general, the lack of adequate forward planning and the relative rapidity with which decisions on financing have been taken explain the abnormal length of the stage of finalizing the files before calls for tender can be issued. This preparatory work is entrusted to study offices which never respect the contractual time limits; the result is that the files are often imperfect and incomplete. Preparation of the tender documents then gives rise to interminable correspondence between the Government responsible for the project and the EDF administration and in many cases supplementary conditions are often introduced at a late stage thus delaying still further the date on which tenders are opened.

The delays are again excessive between the date on which the offers are opened and the date on which the contracts are signed. They are due to an imprecise definition of the respective responsabilities of the Government concerned, the authorizing office and the EDF administration in evaluating the offers and in making a final choice of the supplier; this leads to lengthy negotiations and delays in appending the final signatures.

All too often gaps in the tender documents mean that negociations have to be re-opened with the chosen supplier to introduce new elements in the contract or take into account changes made to the programme in the meantime.

The effects of these delays can be lessened by sending an order letter or issuing a service order before the contract is signed, but these procedures entail other drawbacks.

By comparison delays in actual implementation of the works appear less disturbing. The administration is then on stronger ground because of the penalty clauses applicable in the event of a delay. At this stage difficulties arise more often than not from short-comings in the management and supervision of the works irrespective of whether these services are provided by the local administrations or by a specialized office.

After provisional acceptance of the works, the completion of the contracts and definitive closure of the projects still require many months during which disputes frequently arise between the contractors, the responsible Government and the EDF administration, in particular with regard to application of the penalty clauses or alterations necessitated by defective workmanship.

b) The second general comment concerns the problems raised by the completion of studies; these problems affect both the time required for implementation and the quality of the work. More often than not there is a delay of several months but even then the projects are inadequate and the implementation files incomplete so that operations cannot begin effectively.

For reasons of geographical distribution application of the quota rule may well have led to a neglect of the rules of technical competence while studies have been entrusted to offices which are not well informed of the conditions of economic life in Africa.

In addition the EDF administration does not seem to be in a position to take financial sanctions when time limits are exceeded or when there are inadequacies in the project which are duly noted by the competent authorities. The clauses in the contracts could well be more precise on these particular points.

Similarly it would sometimes be desirable to make a more realistic appraisal of the practical possibilities of the projects in which investments are made and of the funds which could be allocated to cover expenditure on maintenance, running costs and renewal which are all necessary during the operation of these projects.

An inadequate preliminary appraisal of the projects or failure to forecast recurrent costs always reduce the viability of the financed projects substantially and lead to inadequate use of capital goods or even to their rapid deterioration.

c) The final comment concerns the procedure for reviewing the agreements on financing. These seem to be too directly linked to an observance of the financing ceilings (with a margin of +15 per cent). But sweeping changes made during implementation affecting the time required for completion or the basic consistency of the programme, or more often than not both these factors at once, do not always lead to a review of the agreement if the overall financial commitment has not been exceeded. Very often, however, these changes completely distort the significance and scope of the project which formed the basis for the decision and the agreement to provide financing.

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