european community

BACKGROUND INFORMATION

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BACKGROUND NOTE

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HISTORIC EC-THIRD WORLD PACT DUE FOR SIGNATURE FEBRUARY 28

Washington, D.C. -- An historic trade and aid pact linking the nine European Community nations and 46 developing countries for the next five years was completed by plenipotentaries in Brussels, January 31. The treaty, to be known as the Lome Convention, is scheduled for signature at Lome, Togo, on February 28.

Babacar Ba of Senegal, as spokesman for the African, Caribbean and Pacific (ACP) countries, said after the final 24-hour negotiating session that the Accra meeting would be essentially a formality.

The Lome Convention will supersede the First Yaounde Convention, signed at Yaounde, Cameroon on June 1, 1964, the Second Yaounde Convention, signed in the Cameroonian capital July 29, 1969, and the Arusha Convention, signed in that Tanzanian provincial city on September 24, 1969. "Yaounde I" linked 18 former French and Italian colonies in Africa to the then 6-nation EC. "Yaounde II" brought together the same countries: after achieving independence, the British former colony of Mauritius adhered on June 30, 1973. These conventions preserved traditional economic and trade ties between Community members and former dependencies. The Lome Convention consolidates these arrangements and extends them to African, Caribbean, and Pacific (ACP) developing countries

An association agreement signed with Nigeria in 1966 was never ratified by Nigeria, where civil war broke out that year. The Arusha and Nigerian agreements were limited to trade: the Yaounde Conventions included financial and technical cooperation chapters.

Following enlargement of the Community to nine nations on January 1, 1973, by the adhesion of Britain, Denmark and Ireland, the Common Market proposed an expanded Yaounde-type agreement that would embrace the 19 Yaounde II countries, 20 Commonwealth countries in the ACP areas, and all other independent sub-Sahara African countries. Negotiations began July 25, 1973, in Brussels. The major breakthrough toward agreement was achieved at a ministerial meeting of the ACP countries in Kingston, Jamaica, on July 29, 1974. On this occasion EC Commissioner Claude Cheysson, the Market's chief negotiator, agreed to a compensation fund to guarantee the export prices of certain tropical raw materials on which some countries are heavily dependent.

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What an EC statement calls "one of the most complex negotiations ever undertaken by the Community" links over a quarter-billion Europeans to nearly 300 million people in the Third World. Per capita GNP among the EC Nine varies between $2,000 and $3,000. Average per capita GNP for the ACP partners was $148 in 1971, increasing in real terms by only 2.1 per cent annually.

Eighteen of the 46 ACP countries are on the United Nations list of 26 "poorest" countries. The 46 countries already sell over half their exports to the Nine, which provides nearly half their imports.

The treaty will have six main parts:

1. <u>Terms of Trade and Commercial Cooperation</u>

ACP exports will enter the Community free of import duties and quotas, except that only 96 per cent of ACP sugar exports and 84 per cent of other ACP agricultural exports are fully covered. The uncovered ACP agricultural exports will get preferential treatment over exports to Europe from third countries.

The ACP countries will give the Nine no "reverse preferences," but will give them most favored nation (MFN) treatment and will not discriminate between EC member states.

The EC agreed to a more flexible interpretation of rules of origin for ACP products, notably by accepting the 46 countries as a single unit for production purposes.

2. Export Revenue Stabilization

Regarded as the most innovative element in the new convention, this chapter sets aside a maximum of 375 million units of account (UA) (One UA = $1.20635 at current rates) for transfer to countries heavily dependent on the export of certain raw materials and agricultural items, when the price of these falls below a determined reference point. Clauses call for a higher trigger-mechanism figure for the poorest countries, which do not have to repay the compensation funds. (Other ACP associate states must repay when the price rises.)

Products affected are: peanuts, cocoa, coffee, cotton, coconuts, palm nuts and kernels, hides and skins, timber products, bananas, tea, raw sisal, and iron ore.

3. Sugar

This section, hammered out at a special additional meeting on February 1, guarantees purchase and supply by both parties of fixed quantities of sugar. Each producing country will have a quota, within a convention maximum total of 1,400,000 tons. Quotas for the first half of 1975 will total 400,000 tons. The guaranteed minimum price is based on the January agreement between sugar producing countries and Britain, which set a figure of 260 pounds sterling (approximately $620) a ton.

If a producer country fails to meet its quota for reasons other than force majeure, its quota is reduced -- and the deducted portion may be redistributed to other convention producer countries -- for the remaining period of the convention.

Unlike the rest of the 5-year pact, the sugar chapter is of indefinite duration. It can be cancelled by either side at two years notice, but not earlier than the expiry of the Lome agreement, giving the sugar clauses a minimum life of seven years. Under present EC rules, a cancellation decision by the Community would require a unanimous decision of the Council of Ministers.

4. Financial and Technical Cooperation

The EC agrees to total aid for the five-year period of 3,390 billion UA (approximately $4.07 billion) -- up from approximately $1 billion for Yaounde II, and an increase of over 10 per cent from the original EC proposals for the new agreement.

Financial aid will total 2.265 billion UA, made up of 2.1 billion UA in grants, 430 million UA in special loans, 95 million UA in risk capital, and 390 million UA in European Investment Bank loans at higher interest rates than special loans.

The ACP associate states will play a greater role than under Yaounde I and II in the preparation and management of aid projects, which will stress regional programs, the development of small and medium enterprises, and special measures for the poorest countries.

5. Industrial Cooperation

An Industrial Cooperation Committee and an Industrial Development Center will be set up to promote the exchange of industrial knowhow.

6. Implementation

As under the Yaounde agreements, management of the Lome Convention will be through ministerial and ambassadorial councils -- with the EC and the 46 ACP associates having equal representation -- and a consultative assembly of parliamentarians from both sides, also on a basis of parity.

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The 46 ACP countries to be covered by the Lome Convention are:

Bahamas, Barbados, Botswana, Burundi, Cameroon, Centrafrican Republic, Chad, Congo-Brazzaville, Dahomey, Equatorial Guinea, Ethiopia, Fiji, Gabon, Gambia, Ghana, Grenada, Guinea, Guinea-Bissau, Guyana, Ivory Coast, Jamaica, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Somalia, Sudan, Swaziland, Tanzania, Togo, Tonga, Trinidad, Uganda, Voltaic Republic, Western Samoa, Zaire, Zambia.

The nine EC countries are:

Belgium, Britain, Denmark, France, Holland, Germany, Ireland, Italy, and Luxembourg.