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COMMISSION COMMUNICATION TO THE COUNCIL

concerning an international scheme for the stabilization
of export earnings

COM(77) 113 final

Commission communication to the
Council

An international scheme for the stabilization of export
earnings

Introduction

1. In the context of an overall approach towards the raw materials issue, the Commission proposed an international scheme for the stabilization of export earnings in 1975¹. This proposal reappeared in very general terms in the guidelines adopted by the Council for the seventh special session of the United Nations General Assembly and subsequently for the opening of the CIEC².

On this basis, the Commission's departments transmitted a working paper containing a number of working hypotheses on the subject in March 1976³.

2. In view of the long discussions and negotiations on the Integrated Programme within the framework of UNCTAD, the accent has for some time been placed mainly on price stabilization (in particular on commodity agreements and, above all, on the Common Fund).

3. The trend of the discussions and negotiations on these matters, in particular at UNCTAD and in the context of the CIEC, indicates that it is necessary to reinsert them in the overall context of the problems of raw materials.

The stabilization of export earnings could complement the other efforts being made to find a solution here as part of an overall approach.

¹ COM(75) 226 final
COM(75) 294 final

² I-201/75

³ SEC(76) 398 final

Guidelines for an international export earnings stabilization scheme

4. Many different hypotheses are conceivable as regards both the type of stabilization (comprehensive or product-by-product) and the products which it would cover, the countries which ought to benefit from it and the method of managing the scheme.
5. The Commission considers that such a scheme ought to be realistic and attuned to economic requirements and development needs and should take account of the developing countries' demands and the operation of existing international schemes (IMF compensatory financing facility, Lomé Convention export earnings stabilization system). It should represent aid in addition to that already granted, with contributions being made by all countries possessing sufficient resources, and should leave the specific character and autonomy of the Lomé Convention Stabex system unimpaired.
6. The scheme should accordingly have the following features.

6.1. It should benefit the poorest developing countries, which ought to be given priority in the allocation of resources. The beneficiary countries could be identified on the basis of GNP per capita, which represents a clear and objective criterion. The list which could be used is one that is approved internationally and is also used for related purposes - namely the list of countries eligible to benefit from the IMF Trust Fund (up to \$ 100/NNP per capita)¹.

6.2. As regards the products that would be covered, these ought to be:

- (1) products which are of special importance for the developing countries;

¹ See list in the Annex. Moreover, certain other countries could be added (e.g. countries almost totally dependent on exports of a single product).

- (ii) products which are vital for employment in the countries in question, in particular tropical or mixed agricultural products
- (iii) products which are subject to substantial fluctuations owing to variations in prices and quantities.

However, it is necessary to:

underline the political and economic importance of certain products for certain countries (the link between countries and products is very difficult to establish);

examine closely the risks of abuses that are inherent in the market and marketing structures for certain products (e.g. certain ores and bananas);

take account of the influence of the common agricultural policy on the prices of and trade in the products covered by that policy.

The list of products adopted by the UNCTAD Integrated Programme is a good reference basis here, but this does not mean that one has to confine oneself to that list or take over all the products on it since they are not necessarily all suitable for such a scheme.

The Annex contains a list of products by way of example.

As regards the export earnings stabilization scheme, there are two possibilities:

(i) either a system for stabilizing export earnings from each of products taken individually (on the Lomé Stabex model). This system has the disadvantage of being more costly overall, but it tallies with the philosophy the Community has adopted in this field in the context of the Lomé Convention export earnings stabilization scheme. It also means that the experience of the Lomé Stabex scheme can be used to advantage;

(ii) or a system for stabilizing export earnings from the products involved taken as a whole ("basket"). This system means that fluctuations

Various products can be covered and make for easier coordination with the IMF compensatory financing scheme, which it may serve to improve. It also makes for easier use of existing facilities like the Trust Fund, and achieves the aim of sustaining the developing countries' import capacity while being more obviously distinct from the Lomé Stabex system. On the other hand, the relationship between the Community's contribution to the latter and the establishment of a "basket" system is more complex, and this system is less directly tailored to the problems of the producers and the demands of the developing countries for each of the products involved.

The Commission feels that these different factors must be carefully considered, and reserves the right to choose between these two alternative systems at a later stage.

6.4 Although it is possible to conceive of autonomous systems as in the case of the GSP, centralized management would be preferable so that control is maintained over the system and it is easier to coordinate with the IMF facility. Accordingly, management of the system could be entrusted to an existing body (such as the Trust Fund) or a body to be set up. The developing countries should participate fully in the management of the system.

6.5 As regards the financing of such a scheme, ceiling arrangements ought to be devised for, say, five-year periods. The scheme should be financed by all countries possessing sufficient resources. Financing could take the form of budgetary contributions and funds from international financing sources. An ad hoc scale could be devised which took account of the Community's contribution to the Lomé Stabex scheme.

Disturbances would take the form of loans at very low interest rates, although an could be made in some cases for easier terms for the poorest countries.

6.6 An approximate estimate of the cost of such a scheme is set out in the Annex.

6.7 The technicalities involved will be described in greater detail in a Commission working paper.

III. CONCLUSION

The Commission proposes that the Council adopt the principle of a national scheme for the stabilisation of export earnings.

A Community proposal regarding this scheme could be made in the appropriate forum (for example, the CIEC). The details will have to be worked out in depth in the course of the discussions and negotiations. The working hypotheses given as a guide in this communication convey an idea of the scope and cost of such a scheme.

It should be presented as a scheme that is parallel and complementary to price stabilisation schemes that are being discussed and negotiated under the UNCTAD Integrated Programme and should be placed in the context of an overall approach to all aspects of the raw materials issue, including industrial cooperation (in particular investment promotion) and trade cooperation (access to resources and to markets).

ANNEX

APPROXIMATE ESTIMATE OF THE COST OF FINANCING AN INTERNATIONAL
SCHEME FOR THE STABILIZATION OF EXPORT EARNINGS OVER FIVE YEARS

HYPOTHESES

beneficiary countries: members of the IMF that are eligible to benefit under the Trust Fund (see list below)

products covered:

list of products given by way of example below.

Trigger mechanism for disbursements:

Comprising:

- dependence threshold (exports of products representing at least 10% of the country's total export);
- trigger threshold (drop in earnings to at least 10% below the reference level).

Product-by-product system:

Total cost
of which ores account for¹
Cost to the Community
(which could be roughly 30%)

million \$

2 650

± 300

± 795

(not deducting Lomé Stabex)

2. "Basket" system

Total cost
Cost to the Community
(which could be roughly 30%)

approx. 1 000¹

± 300

(not deducting Lomé Stabex).

¹Between 250 and 350 million \$; this approximation is explained by possible variations due mainly to difficulties with calculations for copper.

²On the basis of a 1968-72 average.