

# European Communities

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### Report

drawn up on behalf of the Committee on Development and Cooperation

on the Lomé Convention signed on 28 February 1975 by the EEC and the  
African, Caribbean and Pacific States (Doc. 212/75)

Rapporteur: Miss C. FLESCH

PE 41.182/fin.



By letter of 23 July 1975, the Council of the European Communities consulted the European Parliament on the text of the Lomé Convention, signed on 28 February 1975 between the EEC and the African, Caribbean and Pacific States, and on the Internal Agreements on the implementation of the Convention and the explanatory memorandum of the Convention.

On 8 August 1975, the President of the European Parliament referred the text of the Lomé Convention to the Committee on Development and Cooperation as the committee responsible and to the Committee on External Economic Relations and the Committee on Agriculture for their opinions.

On 4 March 1975, the Committee on Development and Cooperation had appointed Miss Colette Flesch rapporteur.

It considered Miss Flesch's draft report at its meetings of 1 and 2 July, 17 September and 30 September 1975.

At its meeting of 30 September 1975, the committee unanimously adopted the motion for a resolution and explanatory statement.

Present: Miss Flesch, chairman and rapporteur; Mr Deschamps, Mr K. Nielsen and Mr Sandri, vice-chairmen; Mr Bersani, Mr Behrendt (deputizing for Mrs Boothroyd), Mr Broeksz, Sir Geoffrey De Freitas, Mr Dondelinger, Mr Durieux, Mr Glinne, Mr Härzschel, Mrs Kellet-Bowman (deputizing for Mr Jakobsen), Mr Martens (deputizing for Mr Galli), Mr Radoux (deputizing for Mr Corona), Lord Reay, Lord St Oswald, Mr Seefeld, Mr Walkhoff, Lord Walston and Mr Zeller.

The opinion of the Committee on Agriculture is attached.

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The Committee on Development and Cooperation hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

on the Convention of Lomé signed on 28 February 1975 between the EEC and the African, Caribbean and Pacific States.

The European Parliament,

- having regard to the Memorandum of the Commission of the European Communities to the Council on the future relations between the Community, the present AASM States and the countries of Africa, the Caribbean, the Indian and Pacific Oceans referred to in Protocol No. 22 to the Act of Accession (COM(73) 500 final);
  - having regard to the resolution adopted by Parliament on 10 December 1974 on the negotiations between the EEC and the ACP countries on the renewal and enlargement of the EEC/AASM Association and on 14 March 1975 on the EEC/ACP Convention;
  - having regard to the Lomé Convention signed on 28 February 1975 between the EEC and 46 African, Caribbean and Pacific States and the Internal Agreement on the measures and procedures required for implementation of the Convention (Doc. 212/75) and the explanatory memorandum of the Convention (Doc. 212/75/Ann.);
  - having regard to the report of the Committee on Development and Cooperation and the opinion of the Committee on Agriculture (Doc. 283/75);
1. Wishes to pay tribute to all the contracting parties and in particular to the Commission of the European Communities and the Committee of Ambassadors and Plenipotentiaries of the ACP States for their open-minded attitude, their realism and their political resolve to reach an agreement based on respect for their mutual interests;
  2. Believes that the Lomé Convention marks a step forward in the development policy of the EEC and an improvement in international economic relations, in that it establishes a new model for relations between developed and developing states, compatible with the aspirations of the international community towards a more just and more balanced economic order;

3. Considers the Lomé Convention as the logical sequel to the association policy carried out by the Community to date, the positive results of which have enabled the Community to advance more boldly towards closer forms of cooperation with the ACP countries;
4. Approves the Community's innovatory policy with regard to development and in particular the six innovations introduced by the Lomé Convention, namely:
  - modification of trade links between developing and industrialized countries, which are no longer based on reciprocal trade advantages but will henceforth offer additional benefits to exports from the ACP countries on the EEC markets;
  - a system for stabilizing export earnings from the main products of the ACP countries (STABEX);
  - specific provisions for sugar imports from the ACP countries whereby the Community undertakes to buy specific quantities at guaranteed prices, the level of these prices being linked in future to the prices obtaining in the Community;
  - participation by the beneficiary States in the administration of financial aid from the Community;
  - introduction of special measures in favour of the 'least developed' among the ACP states;
  - definition of a policy of industrial cooperation, regarded as one of the major objectives of the Convention;

I. Trade cooperation:

5. Notes that the new trade arrangements do indeed take account of the differences in the levels of development of the Member States and the ACP States and consequently allows free access to the Community markets to almost all ACP products, while the ACP States will grant the products of the Member States no less favourable treatment than that of most-favoured nation;
6. Notes in particular that, for agricultural products affecting the ACP countries, the Community had made arrangements which are appreciably more favourable than those applied to third countries, while taking care not to neglect the problems of European agriculture;

7. Regards the definition of the concept of 'originating products' in the Convention and the methods advocated for administrative, statistical and customs cooperation as highly favourable to the development of EEC/ACP trade;

II. Stabilization of export earnings:

8. Endorses the principle of stabilization of export earnings for products of importance to the economy of the ACP countries affected by fluctuations in price and/or quantities;
9. Believes that the introduction of a system for stabilizing the export earnings of the ACP is of considerable political significance in that it establishes a precedent at international level and offers a practical solution, even if only partial, to the problems of the developing countries which produce raw materials

III. Industrial cooperation:

10. Shares the view of the ACP that industrial cooperation is essential for their economic development with a view to bringing about a better distribution of industries both within these states and between them, establishing new industrial and trade links between the industries of the various EEC and ACP partners, in particular through the transfer of capital and technology required by the ACP;
11. Agrees that it is sensible to set up incentive structures, namely the 'Committee on Industrial Cooperation' responsible for suggesting appropriate solutions, and the 'Centre for Industrial Development' responsible for information, the organization of contacts and all industrial promotion measures;
12. Hopes that a system of multilateral guarantees for private investments between the EEC and all the ACP States may be set up alongside the Lomé Convention, in order to stimulate the private investment needed by the ACP States and to create the most favourable conditions possible for the achievement of this industrial cooperation;

IV. Financial and technical cooperation:

13. Notes with satisfaction that the Community, despite the present economic difficulties of all the Member States, has found it possible to grant aid amounting to 3,390 million u.a. for the ACP States and 160 million u.a. for the overseas countries, territories and departments, which is three times as much as the aid granted under the Yaoundé II Convention;

14. Regrets however, that, in view of the amount of aid involved, it has not been possible to include the European Development Fund in the budget as recommended by Parliament, but notes with satisfaction the Member States' agreement in principle to budgetization within the framework of the renewal of the Convention;
15. Notes with satisfaction that, because the requirements of financial cooperation made it necessary for the Member States to define European unit of account based on a 'basket' consisting only of the Member States' currencies, the Convention of Lomé has afforded the Community an opportunity to demonstrate its identity and progress towards economic and monetary union;
16. Views as entirely appropriate the new aid strategy which extends the range of sectors or bodies that are to benefit from interventions from the EDF, giving in particular greater encouragement to regional projects, supporting the ACP's small and medium-sized enterprises and financing micro-projects corresponding to the needs of the local communities, especially in rural areas;
17. Approves the principle of participation by the ACP States in the administration of the EDF, which also reflects a desire to decentralize procedures away from Brussels towards the countries concerned in respect of the programming of aid, the preparation and evaluation of projects, their implementation and the final evaluation of the results;
18. Considers it appropriate, also, that the Convention of Lomé provides for price preference in favour of ACP undertakings in the case of invitations to tender for works contracts costing less than two million u.a. and for supplies contracts, whatever their cost;
19. Welcomes the fact that, in addition to the revenue stabilization fund and the broadening of the instruments for financial cooperation, provision has been made for an endowment earmarked for exceptional aids which might be granted in the event of serious difficulties resulting from natural disasters or similar extraordinary circumstances;

V. Special measures in favour of the 'least developed' countries

20. Welcomes the fact that special measures have been taken to grant additional benefits to the least developed countries in future:
  - under the STABEX arrangements, the least advanced countries will not be required to reimburse any transfers from which they may benefit following a fall in their export earnings, and



- under the EDF, through ad hoc actions in the area of technical assistance and supervisory staff training and through Community financing, on a temporary and degressive basis, of the operating costs relating to investments financed by the Community which are of special importance to the economic and social development of these states;

#### VI. The institutions

21. Approves the institutional framework provided for under the Convention of Lomé, consisting of a Council of Ministers assisted by a Committee of Ambassadors and a Consultative Assembly;
22. Welcomes in particular the creation of a Consultative Assembly consisting, on a basis of parity, of members of the European Parliament and of representatives designated by the ACP countries, and hopes that this Assembly will adopt as soon as possible the detailed rules for the application of Article 80 (5) of the Convention, in particular as regards consultation between the social partners;
23. Invites the Council of Ministers to make all appropriate arrangements as soon as possible to ensure the maintenance of effective contacts, consultations and cooperation between the economic and social sectors of the Member States and of the ACP States;
24. Earnestly invites the responsible authorities of the Member States, and in particular the national parliaments, to ratify the Convention as soon as possible so that all its provisions can come into force on 1 January 1976;
25. Instructs its President to forward this resolution, and the report of its committee for information, to the EEC-ACP Interim Committee and to the responsible bodies in the African, Caribbean and Pacific States.

EXPLANATORY STATEMENTI. GENERAL CONSIDERATIONS

1. The signing of the Lomé Convention by the Nine Member States of the Community and 46 African, Caribbean and Pacific States, is a milestone in the history of international economic relations and in the life of the EEC. It is a sign of encouragement in a world deep in crisis, a crisis within industrialized countries and a crisis between industrialized and developing countries. The new convention does not remove the contradictions in which the claims of the Third World have plunged the developed countries, it has not produced solidarity in the Western world, but it does nevertheless represent a step towards the establishment of more normal, balanced relationships between the nine Member countries of the EEC and 46 developing countries. For the Community it represents a major success on the external front in sharp contrast with the Nine's lack of unity on certain internal policies.

2. As regards relations between rich and poor countries, the Lomé Convention seems to offer an alternative means of stemming 'the development crisis' of the last 10 years, references to which may be found in every report by bodies specially concerned with development cooperation. This simmering development crisis has been viewed and accepted in some quarters as an inevitable trend in relations between rich and poor countries. And yet this slowly gathering crisis has come at a time of unprecedented economic growth and prosperity in the OECD countries, which have created, invested and distributed vast amounts of wealth. During the last 10 years, the DAC countries (Development Aid Committee<sup>1</sup>) have increased their national product by approximately two thirds in real terms and their real per capita income in 1973 was 50% higher than in 1963. During the same period, the population of the Third World countries has increased at such a high rate that economic aid per capita is now 30% lower in real terms than 10 years ago.

It is of course difficult for the developed countries to increase their aid contributions in proportion to the rate of population expansion in the developing countries, for which they are not responsible. This is all the more difficult in that, in the European countries, for example, the proportion of active population - those who create national wealth - is tending to fall as a consequence of a lower birth rate and increased longevity. It is therefore more than ever necessary for aid from the developed countries to be used by the recipients in such a way as to enable them to increase their own production at least in proportion to population growth.

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<sup>1</sup> The members of the DAC are: the Federal Republic of Germany, Australia, Austria, Belgium, Canada, Denmark, United States, France, Italy, Japan, Norway, New Zealand, the Netherlands, Sweden, Switzerland, the United Kingdom and the EEC Commission.

3. As stated in the 1974 OECD report on development cooperation, historians looking at trends over the last 10 years will almost certainly conclude that a great opportunity was missed to meet the basic development needs of poor countries at a time when it would have been relatively easy. It is easier to change priorities and reallocate investment expenditure in a period of strong growth than it will be in years ahead when the world economy will be going through major structural changes with a much lower rate of expansion.

4. The imbalances arising from this development gap, which is partly the result of the deterioration of the terms of trade of developing countries, are the source of increasingly intolerable injustices for millions of people whose survival is in the balance.

Not only has the EEC long been aware of and criticized these injustices, but it was the first to propose practical solutions which served as a basis for negotiations between the EEC and the ACP for the renewal and the enlargement of the Yaoundé 'Association'. For it was on 9 April 1973, before the 'oil crisis', that the EEC Commission's development policy department issued a memorandum entitled:

'Memorandum from the Commission to the Council on future relations between the Community, the present AASM States and the countries in Africa, the Caribbean, the Indian and Pacific Oceans referred to in Protocol No. 22 to the Act of Accession'.<sup>1</sup>

The Commission stated that financial aid alone was not enough to bring about a satisfactory growth rate in the Third World and would only be effective if applied to economies with a minimum degree of stability. In order to meet the demands of the developing countries who insisted on improved trade relations with the industrialized countries, the international community, said the memorandum, should implement a policy with the following aims:

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

Thus the EEC Commission's Development Policy Department was clear-sighted and attempted to take the lead in preventing confrontations arising from the development gap.

<sup>1</sup> Doc. COM(73) 500 final

5. Shortly afterwards, the developing countries who were richest in natural resources, in other words the oil producing countries, succeeded in joining forces and led a revolution in international economic relations which is unlikely to lose impetus.

The communication from the Commission to the Council of 30 October 1974 entitled 'development aid, sketch of future Community action'<sup>1</sup> likewise reflects this clear-sighted attitude since it follows the lines laid down in April 1973 and makes a bold but sober attempt to suggest an overall development policy and draw the right conclusions from the intervening reversal of trends.

6. The Lomé Convention is the outcome of this original policy and shows that in development aid the Community is keeping up with the times. The generosity of the concessions and offers - to which we will return in detail - made by the EEC to its 46 new partners demonstrates the extent of the changes which have occurred over 5 years, since the signing of the Yaoundé II Convention. But it should not be forgotten that the EEC could not have signed the Lomé Convention thus taking a further step forward had it not been for the previous Yaoundé Convention which thanks to the effectiveness of its machinery marked an important step towards more balanced relations between the EEC and the developing countries.

## II. EXTENT AND SCOPE OF THE LOMÉ CONVENTION

7. Who are the partners of the Nine Member States in the Lomé Convention?

They are:

- 19 States already associated with the Common Market up to 31 January 1975 by the Yaoundé Convention: Burundi, Cameroon, Central African Republic, the Congo, the Ivory Coast, Dahomey, Gabon, Upper Volta, Mauritius, Madagascar, Mali, Mauritania, Niger, Rwanda, Senegal, Somalia, Chad, Togo and Zaïre;
- 21 Commonwealth States to which the EEC offered special agreements when the United Kingdom joined the Common Market:

in Africa: Botswana, Gambia, Ghana, Kenya, Lesotho, Malawi, Nigeria, Uganda, Sierra Leone, Swaziland, Tanzania, Zambia;

in the Caribbean: the Bahamas, Barbados, Guyana, Grenada, Jamaica, and Trinidad and Tobago;

in the Pacific: Fiji, Samoa and Tonga.

<sup>1</sup>Doc. 430/74

- 6 African states without particular links with the EEC countries were invited to join because their economies were 'comparable': Ethiopia, Liberia, Sudan, Guinea, Equatorial Guinea and Guinea Bissau.

The Convention thus covers all of independent black Africa, that is to say the whole of the African continent except for the three Maghreb countries, Libya, Egypt, Spanish Sahara, South Africa, Namibia, Angola and Mozambique.

The 46 partners of the Nine Member States of the EEC have a total population of approximately 275 million which means that the Lomé Convention concerns 525 million people in Europe, Africa, the Caribbean and the Pacific.

8. The Convention is concluded for a period of five years and expires on 1 March 1980 (Art. 91) It enters into force on the first day of the second month following the date of deposit of the instruments of ratification of the Member States and of at least two thirds of the ACP States, and of the act of notification of the conclusion of the Convention by the Community.

The Convention is open-ended in character. Any State whose economic structure and production are comparable to those of the ACP States can apply for accession.

The Convention may be denounced by the Community in respect of each ACP State and by each ACP State in respect of the Community, upon six months notice.

Eighteen months before expiry of the Convention the Contracting Parties will enter into negotiations in order to examine what provisions will subsequently govern relations between the Community and the ACP States.

9. Although it is the direct successor to the Yaoundé II Convention signed between the EEC and 19 African States, Madagascar and Mauritius, the Lomé Convention is in fact a completely new type of Convention. This is clear from the preamble, which is quite different from Yaoundé II:

'Resolved to establish a new model for relations between developed and developing states, compatible with the aspirations of the international community towards a more just and more balanced economic order'.

A new pattern is therefore proposed the details of which could form the basis of the new economic order to which all the developing countries aspire and which underlies their whole thinking.

10. The Lomé Convention introduces 6 important features not found in existing association agreements:

(1) Traditional and existing trade links in international economic relations as a whole have been modified to take account of different levels of development. The opening of the EEC markets to ACP products and the facilities for access granted by the EEC do not involve any matching concessions for the EEC on ACP markets. The principle of reciprocity in trade on which the Yaoundé Conventions were based has thus been abandoned. Moreover, the now accepted definition of origin for ACP products tends to encourage local processing of primary products as well as trade between the ACP countries themselves by considering all of them as a single customs territory.

(2) The contracting parties 'desirous of protecting the interests of the ACP states whose economies depend to a large extent on exports of primary products' have agreed that the Community will guarantee a more stable export income from the principal ACP exports, by setting up a system for the stabilization of export earnings (STABEX). The funds set aside for this purpose will be used to carry out compensatory financial transfers when prices fall below a reference level.

(3) The arrangements for importing sugar from the ACP are without precedent, since under them, prices to be paid to the ACP are virtually indexed to prices paid to European farmers.

(4) The ACP States will, in future, participate in the administration and management of financial aid granted by the EEC.

(5) The EEC accepts the notion of 'least developed countries' among the ACP and provides for special measures to help the 'least developed, land-locked or island' countries set out in a list (Articles 24 and 48). This concept finds expression both in the operation of the stabilization fund and in the machinery for financial and technical cooperation.

(6) Industrial development, already provided for in the previous Yaoundé Conventions, takes a new turn through the enlarged industrial cooperation measures to help the ACP, and constitutes a major aim of the Convention.

11. The number of countries concerned and the content of the Convention demonstrate the size and scope of the commitments made by the 54 partners.

### III. TRADE COOPERATION

#### A. General trade arrangements

12. The spirit in which trade is to be carried out between the EEC and the ACP is clear from the wording of Title I. It talks of 'trade cooperation', whereas in previous conventions signed between the EEC and developing countries, this chapter was entitled 'trade'. This points clearly to the qualitative change in relations between the EEC and its new partners, which differ from the traditional trade arrangements still prevalent in international economic relations in general.

13. Article 1 of the Convention - a complete innovation - defines the objectives of trade cooperation:

'To promote trade between the Contracting Parties, taking account of their respective levels of development, and, in particular, of the need to secure additional benefits for the trade of ACP states, in order to accelerate the rate of growth of their trade and improve the conditions of access of their products to the market of the European Economic Community, so as to ensure a better balance in the trade of the Contracting Parties.

The trade provisions therefore cover:

- special advantages for ACP products entering the EEC without equivalent advantages for European products exported to the ACP (Chapter 1);
- trade promotion measures financed by the EEC. (Chapter 2).

14. Under the trade provisions, products originating in the ACP enter the Community free of customs duties or charges having equivalent effect and with no quantitative restrictions. The Community thus guarantees the ACP the same treatment as Member States grant each other. However, for certain agricultural products subject to market organization under the Common Agricultural Policy, limitations are placed on free entry arrangements, but import arrangements for the ACP are in any case more favourable than those for third countries.

15. The exact scope of the Community's concessions in this field will be realized from the following figures: in 1973, imports of products originating in the ACP into the EEC were worth 7,6 million dollars. Products falling within the common agricultural policy, including sugar, accounted for approximately one thousand million dollars or 13.4% of the total. By undertaking to grant more favourable arrangements for these agricultural products than is granted to third countries, the Community has really gone further than the undertaking actually states. In practical terms, the Community's concession is equivalent to granting free access for 71.9% of imports of the agricultural products concerned. In the case of sugar, which accounts for 22.3% of such imports, special arrangements have been adopted. For the remaining 5.8%, the Community grants more favourable arrangements than to third countries. When these various percentages are related to the total value of imports originating in the ACP, it will be seen that in reality 99.2% of those imports will enjoy free access.

These figures show the exceptionally favourable nature of the Community's agricultural concessions, the most extensive ever made to the third countries, and this in spite of the difficulties which exist on certain European agricultural markets.

Thus, despite the disturbances on the Community's beef and veal market, the EEC has tried to take account of the ACP's difficulties in exporting beef and veal to the United Kingdom, following the introduction of a regulation under the organization of agricultural markets which establishes import levies. It has been decided to allow a reduction of 90% on the Community levy; the ACP State will collect a sum, equivalent to the levy that should have been imposed by the Community, in the form of an export tax. This should permit the traditional trade flows between, for example, Botswana and the United Kingdom to be maintained.

Overall, the tariff concessions granted to the ACP by the EEC represent a loss of revenue of between 100 and 120 million u.a. per year for the Community.

16. As regards the definition of origin, the Community's conditions were adopted, after laborious negotiations, in a manner favourable to the ACP. The Community made two major concessions on this: it treated the ACP states as a single customs territory thus permitting the successive stages of processing and transformation to be carried out within the ACP states. Moreover, it is ready to consider requests for temporary derogations justified by the requirements of industrial development in these states. For their part, the ACP states have also accepted the lists of exceptions proposed by the EEC.

17. As regards the access of EEC products to the ACP markets, the ACP are free to decide on their own commercial policy arrangements both towards the EEC and to third countries, provided that they do not discriminate between Member States and grant the Community 'no less favourable treatment than that of most-favoured



nation'. However, the most-favoured nation treatment which is mentioned does not apply to economic and trade relations between the ACP states or between one or more ACP states and other developing countries. This means that the EEC will receive no less favourable treatment than that granted to any 'developed' country, but will not receive better treatment than other developed countries which do not grant trade advantages to the ACP.

18. If, as a result of applying these measures which greatly favour the access of ACP products to the Community, serious disturbances occurred in a sector of the economy of the EEC or of a Member State, the Convention provides for a safety device: this is the safeguard clause in Article 10 of the Convention authorizing the Member State concerned to take the necessary measures to prevent a deterioration in a sector of the economy of a region of the EEC.

19. Furthermore, provision is also made for reciprocal information and consultation procedures to ensure the effective implementation of trade cooperation between the contracting parties; these would come into play particularly if a Member State had to take safeguard measures.

#### B. Trade promotion

20. The trade promotion provided for in Chapter 2 includes EEC financing for improving the structure of the ACP's foreign trade, the training of staff in foreign trade, participation by ACP states in fairs and exhibitions, improved cooperation between businessmen in the Member States and the ACP States and the establishment of appropriate structures for this purpose, the carrying out of market research and the distribution of information in the Community and the ACP. These measures were already provided for and applied under the Yaoundé Convention.

21. How are these trade provisions to be judged?

Trade arrangements greatly favouring the access of ACP products to the EEC market are a major objective of the Convention with which your committee is completely in agreement.

There is nothing, however, to guarantee any genuine form of preferential access - not of course on a reciprocal basis - for EEC exports. Could the Community not have obtained at least some guarantee of supplies, particularly for certain energy products (oil) or other primary commodities which the EEC needs, in exchange for the revenue stabilization it is offering the ACP. The Community has obtained a supply guarantee corresponding to current trade patterns for one product only - sugar which benefits from a special arrangement.

22. The intentional imbalance between the trade obligations of the Community and those of the ACP raises certain problems concerning other international obligations of the contracting parties, particularly in GATT. However, concern to ensure the compatibility between the EEC's various commitments under GATT and its obligations to its Lomé partners was kept in mind by the negotiators, especially on the EEC side. The EEC, after consulting the ACP, has in any case

presented the convention to the GATT authorities before its entry into force and before the advance applications on 1 July 1975, of its trade provisions.

C. Specific provisions for sugar imports from the ACP

23. These provisions are laid down in Chapter 2 (Article 25) and in Protocol No. 3. Sugar posed a particularly difficult problem during the negotiations on the Convention. Arrangements for this product had to take account of its importance to the economy of several ACP countries, particularly Commonwealth countries (Mauritius, Fiji, Guyana, Jamaica, Swaziland, Trinidad and Tobago, Barbados) and also of the sugar cane requirements of the United Kingdom, a traditional customer of those countries both refining and consuming the bulk of their raw sugar.

In the EEC Accession Treaty (Protocol 22) the Community had undertaken to protect the interests of countries whose economies depended to a large extent on the exporting of primary commodities, particularly sugar. In this spirit and under the terms of the agreement arrived at after prolonged negotiations, the Community has undertaken, for an unlimited period, to buy and import at guaranteed prices specified quantities of cane sugar, raw or white, originating in the ACP, which the ACP States undertake to supply<sup>1</sup>. Guaranteed prices expressed in units of account are negotiated annually, Cif European ports, for unpacked sugar of standard quality, within the price range obtaining in the Community. In fact, this guarantee concerns sugar which could not have been marketed under satisfactory conditions at prices freely negotiated between sellers and purchasers. The Community does not intervene if a Member State allows the selling prices within its frontiers to exceed the Community threshold price. The normal EEC intervention agencies will only intervene to purchase, up to the tonnage limits agreed, the quantities of ACP sugar which cannot be sold on the free market. The guaranteed price for the 1975 marketing year is 255.30 u.a. per metric ton, but an agreement has in fact been concluded between the ACP countries and the United Kingdom for a price of £260 per long ton for sugar shipped in 1975.

For each of the 12-month periods from 1 July to 30 June the guarantee covers a total amount of 1,321,500 metric tons (instead of the 1.4 million metric tons requested by the ACP at the beginning of the negotiations).

24. Considered in the light of a policy on primary commodities, this sugar agreement is a complete innovation and sets a new standard. It is an unprecedented offer, never before made by an industrialized country to developing countries. It creates first of all a special link between the

<sup>1</sup> Mauritius: 487,200 metric tons; Fiji: 163,600 metric tons; Guyana: 157,700 metric tons; Jamaica: 118,300 metric tons; Swaziland: 116,400 metric tons; Trinidad and Tobago: 69,000 metric tons; Barbados: 49,300 metric tons; Malawi: 20,000 metric tons; Tanzania, Congo, Madagascar: 10,000 metric tons each; Uganda and Kenya: 5,000 metric tons each.

Community and a group of developing countries since the Community's undertaking is open-ended and not linked to the duration of the Convention, although there is a legal possibility of reviewing the agreement after 5 years and it may be denounced if two years' notice is given.

From the point of view of price policy, it establishes an indexing system since the price guaranteed to the ACP is fixed within the annual Community price range reviewed each year in the light of current economic conditions. Another completely new feature is that the Commission must consult the exporting ACP countries before proposing Community prices for each marketing year.

From the commercial policy angle, the Community's guarantee to purchase ensures the ACP countries of an income in foreign currency on which they can count to establish their development plan. In return, the Community is sure of guaranteed supplies without endangering the free marketing of sugar on its own markets.

#### D. Protocols on bananas and rum from the ACP

25. The Yaoundé Convention confirmed the provisions laid down in 1957 in the protocol on the tariff quota for import of bananas, annexed to the implementing Convention on the Association of the Overseas Countries and Territories, which is itself an annex to the Rome Treaty. These arrangements did not meet with the approval of the AASM, which were virtually excluded from the Community markets, in particular the Federal Republic of Germany, the largest consumer of bananas in the EEC. In fact this protocol was at variance with the general provisions of the Implementing Convention and, in practice, enabled the Federal Republic to continue to obtain supplies from third countries, namely from Latin America, without paying customs duties and at lower purchase prices than the AASM could offer. Furthermore, for reasons unconnected with the EEC, Somalia, a major producer among the AASM, had practically ceased to export, following the closure of the Suez Canal.

At the beginning of the negotiations, therefore, the ACP expressed the hope that the arrangements for imports of bananas, which also applied to new partners such as Jamaica, would be adjusted and put on a more equitable basis.

Protocol No. 6 of the Lomé Convention safeguards traditional exports from the ACP to the EEC and in particular joint endeavours by the EEC and the ACP, in the form of production aids and outlets for bananas on the Community markets. To assist in the attainment of these objectives, a permanent joint group was set up, immediately after the Convention was signed, to keep the progress made under continuous review and to make such recommendations as were considered appropriate.

This joint group, created within the Committee of Ambassadors, is already functioning.

26. Protocol No. 7 on rum provides that, pending the entry into force of a common organization of the market in spirits in the EEC, rum from the ACP may be imported into the Community duty free, within certain annual quotas. These quotas are calculated on the basis of the largest annual quantities imported from the ACP States into the Community in the last three years, increased by 40 % annually on the United Kingdom market and 13 % on the other Community markets. Should the ACP experience any difficulties, the Community also undertakes to take appropriate measures to increase the quantities that may be exported by the ACP and similarly, in collaboration with its partners, to seek ways of expanding rum sales in non-traditional markets.

#### IV. STABILIZATION OF EXPORT EARNINGS

27. With the aim of remedying the harmful effects of the instability of export earnings and of thereby enabling the ACP States to achieve the stability, profitability and sustained growth of their economies, the

Community shall implement a system for guaranteeing the stabilization of earnings from exports by the ACP States to the Community of certain products on which their economies are dependent and which are affected by fluctuations in price and/or quantity.' (Article 16 of the Convention).

The disruptive effects of fluctuations in the export earnings of the developing countries are well known. They have an adverse effect on investment planning and the internal balance of public finances. The resulting loss of tax revenue for the State concerned therefore has to be counteracted, either by increasing the tax on the income of producers or by incurring external debts, with the attendant risks of inflation. In both cases the erosion of the producers' real income may cause them to cease production of the export crops concerned and thus precipitate a drop in earnings. In addition, these fluctuations in export earnings have an appreciable effect on the balance of payments.

28. Various forms of aid have been advocated in the international organizations over the years to counteract these fluctuations in earnings, which are the bane of the developing countries and are so often invoked by these countries as a reason for seeking guarantees from the industrialized buyer countries in respect of prices and quantities equivalent to the traditional trade flow. However, the appeals to the various UN bodies and the International Monetary Fund over the past ten years have not had any practical results.

29. In the framework of the EEC-AASM Association, the Joint Committee (then under the chairmanship of Mr Gaston Thorn) drew up, in October 1967, a report and a resolution, which were adopted by the Parliamentary Conference on 5 December 1968, forcefully advocating methods of guaranteeing the Associated African and Malagasy States fair and remunerative earnings from their products<sup>1</sup>.

These recommendations by the parliamentary organs of the Association coincided with the Commission's views. Therefore, with a view to renewing and expanding the Yaoundé Convention, the Commission put forward what was known as the 'Deniau Plan', a system for stabilizing the export earnings of future ACP partners. However, the main problem was still to win the recognition of the nine EEC Member States for the principle of the stabilization of earnings, with its attendant financial implications. Strong reservations were expressed, and it is to Mr Cheysson's credit that he succeeded in persuading the Member States to accept a STABEX system, which the ACP regarded as a test of the EEC's political commitment, and without which the Lomé Convention would probably not have been signed.

<sup>1</sup>Armengaud report on suggestions for promoting the marketing in the EEC of products from the Associated States at stable and profitable prices (Doc. 20, 20 November 1967 - Parliamentary Conference of the Association)

30. The STABEX system operates as follows:

Export earnings to which the system is applicable are those accruing from exports by the ACP to the Community of the products on a list drawn up with due regard to such factors as employment, deterioration of the terms of trade between the Community and the ACP State concerned, the level of development of the State concerned and the particular difficulties of the least developed, landlocked or island ACP States (Article 17).

The products eligible for STABEX are as follows:

Seven basic tropical products (groundnuts, cocoa, coffee, cotton, coconut, palm, palm nut and kernel products) and products of first-stage processing derived from these basic products (e.g. groundnut oil and oilcake, cocoa butter, extracts of coffee), leather and skins, wood, tea, raw sisal, and finally iron ore, the only mineral product, which the Community eventually agreed to include in the list in order not to jeopardize the conclusion of the whole agreement, although it still has strong objections to minerals being covered by the STABEX system.

A list showing products eligible for STABEX as a proportion of total ACP exports is annexed. This list of products is not final. If, after it has been in operation for a year, it emerges that one or more products of major importance to the ACP's exports are affected by sharp fluctuations, the Council of Ministers may decide to include them in the list of products covered by the STABEX system.

In normal circumstances the export earnings from a product mentioned in the list must have represented 7.5 % of its total earnings during the preceding year. For sisal the percentage is 5 % and for least developed, landlocked or island states listed in Article 24, 2.5 %.

31. The mechanism is based on the statistics of ACP exports and EEC imports. Statistical and customs cooperation has been established between the EEC and the ACP for this purpose.

In order to implement the system, a reference level is calculated for each ACP State and for each product. This corresponds to the average of export earnings during the four years preceding each year of application. An ACP State is entitled to request a financial transfer if, on the basis of the results, its actual earnings from the export to the Community of each of the products considered individually are at least 7.5% below the reference level; for the least developed, landlocked or island states the percentage is 2.5 % (Article 19 of the Convention).

Transfers are not automatic. The request from the ACP States is submitted to the Commission, which examines it in conjunction with the State concerned. If the fall in earnings from exports to the Community of the products in question proves to be the result of a trade policy measure of

the ACP state concerned adversely affecting exports to the Community in particular, the request is not admissible. Similarly, if the total exports of the requesting ACP state show a significant change, it has to be determined to what extent such changes are likely to affect the amount of the transfer.

When the request from the ACP state has been approved by the Commission, all necessary steps are taken to ensure that transfers are made rapidly, for example by means of advances, normally six-monthly. The ACP state is required to inform the Commission annually of the use to which it has put the resources transferred.

32. The STABEX system has been allocated a total amount not exceeding 375 million u.a. for the duration of the Convention. This sum is divided into five annual instalments of 75 million u.a. The balance is automatically carried forward to the next year. On the other hand, if the transfers to be made in the course of a year exceed the annual amount, the Council may authorize an advance payment of up to 20 % of the following instalment in the first four years.

33. A major problem in the negotiations was the reconstitution of STABEX resources. Article 21 of the Convention provides that ACP States that receive transfers must contribute, in the five years following the allocation of each transfer, towards the reconstitution of the resources made available to them. Each ACP State helps to reconstitute these resources when it is found that the trend of its export earnings will so permit, in other words if:

- the unit value of the exports is higher than the reference unit value;
- the quantity actually exported to the Community is at least equal to the reference quantity.

If these two conditions are met at the same time, the recipient ACP State pays back into the system, within the limit of the transfers it has received, an amount equal to the reference quantity, multiplied by the difference between the reference unit value and the actual unit value.

If, after five years, the resources have not been fully reconstituted, taking into consideration in particular the situation of and prospects for the balance of payments, exchange reserves and foreign indebtedness of the ACP States concerned, the Council may decide:

- that the sums outstanding are to be reconstituted wholly or in part, in one or more instalments;
- or that rights to repayment are waived.

The states listed in Article 48(2) of the Lomé Convention are not required to reconstitute the amount of the transfers they have received<sup>1</sup>.

34. The establishment by the Lomé Convention of a system for stabilizing the export earnings of the ACP is an important innovation in international economic relations. The system offers far more extensive safeguards to the ACP and represents a far greater commitment by the EEC than any of the existing world agreements on specific products.

The political significance of the system is thus considerable, in two senses. It offers a practical solution, albeit only partial, to problems that have for many years stood in the way of harmonious and equitable relations between producers and users of primary commodities. It also constitutes a precedent and a model for future trade relations between industrialized and developing countries. The system adopted by the Community is in keeping with the measures the developing countries which produce raw materials have for a long time wanted the purchasing industrialized countries to adopt. It could constitute an important development in international economic relations, in that it establishes that such relations cannot, in future, be based solely on the laws of supply and demand.

#### V. INDUSTRIAL COOPERATION

35. The central position that industrial cooperation will occupy in future in the policy of cooperation between the EEC and the ACP also reflects the changes that are occurring in international economic relations. The developing countries are playing an increasingly important part in industrial production and the international trade in manufactured products. The ACP regard industrial cooperation as essential if structures are to be changed and a new international economic order created, thereby establishing the genuine partnership on which they wish the new Convention to be based.

36. It is to the Community's credit that, since the beginning of the negotiations it has shown itself highly receptive to the ACP's wishes and has accepted all the objectives set out in a specific memorandum presented by the ACP at the Conference in Kingston in January 1974.

37. The need for industrial cooperation, as provided for in the Convention, arises from the vital necessity, acknowledged by the EEC and the ACP, of promoting the industrial development of the latter, with the following objectives (Article 26 of the Convention):

<sup>1</sup> Namely: Botswana, Burundi, Central African Republic, Dahomey, Ethiopia, The Gambia, Guinea, Guinea-Bissau, Lesotho, Malawi, Mali, Mauritania, Niger, Rwanda, Somalia, Sudan, Swaziland, Tanzania, Togo, Tonga, Uganda, Upper Volta, Western Samoa



- (a) to promote the development and diversification of industry in the ACP States and to help bring about a better distribution of industry both within those States and between them;
- (b) to promote new relations in the industrial field between the Community, the Member States and the ACP states, in particular the establishment of new industrial and trade links between the industries of the various partners;
- (c) to increase the links between industry and the other sectors of the economy, in particular agriculture;
- (d) to facilitate the transfer of technology to the ACP states and to promote the adaptation of such technology to their specific conditions and needs, for example by expanding the capacity of the ACP states for research, for adaptation of technology and for training in industrial skills;
- (e) to promote the marketing of industrial products of the ACP states in foreign markets;
- (f) to encourage the participation of nationals of ACP states, in particular that of small and medium-sized industrial firms, in the industrial development of those states;
- (g) to encourage Community firms to participate in the industrial development of the ACP states, where those states so desire and in accordance with their economic and social objectives.

The Convention thus propounds a number of original ideas on industrial cooperation and covers all the areas relating to the industrialization which is the ACP's objective: the development of industrial infrastructures (transport, energy, research, training); assistance with the establishment of manufacturing undertakings processing raw materials; industrial training schemes in Europe and the ACP; industrial information and promotion schemes and studies; support for trade promotion schemes.

38. The Convention also provides for special instruments in this sector for the implementation of the policy; it sets up a Committee on Industrial Cooperation, responsible for suggesting appropriate solutions, in other words, playing an active part in promoting industrial cooperation. The Committee is required to report to the Committee of Ambassadors.

The Committee is also responsible for guiding and controlling the Centre for Industrial Development, a new concept and an exclusively

operational body which will be administered jointly by the ACP States and the Community, and will be responsible mainly for industrial information, the organization of contacts and other aspects of industrial promotion. In particular the Centre will act as an intermediary in arranging meetings with commercial operators in the Community and supplying them with information.

39. No specific sum has been allocated under this heading to finance industrialization schemes. However, under the heading of financial and technical cooperation there are plans to make available substantial resources and specific techniques, with a view to assisting the ACP in industrialization. Many of these are important new techniques particularly suited to the assistance in the field of industrialization that is both possible and desirable. Productive investment schemes in the industrial sector will be financed as a matter of priority by loans from the European Investment Bank, normally with an interest rebate, and by what is termed 'risk capital', used to assist small and medium-sized firms: in future, the Community will finance schemes to assist such undertakings, generally through financial bodies in the ACP, which will be allowed a line of credit.

40. The Convention thus establishes a specific framework for future developments in the industrialization field. But this is merely an outline. Much will depend on the extent to which it is possible to interest and involve commercial operators in these schemes, for it is they who implement industrial projects, and are responsible for providing the technical know-how and management essential for the marketing of products. The success of these schemes will depend on the extent to which commercial operators regard the host country as stable and secure.

On this point it will no doubt be regretted that none of the Convention's provisions refers to guarantees offered to private investors.

41. Commercial operators in the industrialized countries must lose no time in becoming more aware of new circumstances, which requires more attention to rapidly changing social and political situations. They must also appreciate the difficulties with which the ACP are faced in their industrial policy. The industrialization of the ACP is a complex subject which has to be seen in the context of an overall development plan, closely linked to agricultural development in particular, in which governments must remain in sole charge of the policies for which they have opted.

42. As regards the new international division of labour advocated by the developing countries in general provision must be made for transfers of industry from Europe to the developing countries, with particular emphasis on industries employing large numbers of low-qualified workers. All the partners must however appreciate that it is impossible to carry out a wholesale and immediate transfer of the groups of industries, for example the textile industry, that still contribute to the prosperity of the industrialized countries and provide a stimulus to the more vulnerable areas of the EEC in particular. The European countries would be placing themselves in a position of dependence on the new producer countries, and having suffered the consequences of their energy dependence on the oil-producing countries, they are not prepared to accept such a situation again.

43. In short, industrial cooperation involves risk, perhaps a greater risk than any other activity. The industrialization of the ACP brings together partners with different interests: the foreign investor, who will not invest unless he is sure of a reasonable measure of profit and security, and the governments of the ACP, bent on implementing a development programme which will make them economically independent, create more employment and improve their balance of payments. All private investment in a country depends on confidence in the country's future, its policies, economic objectives and planning, and also confidence that the undertaking in which the capital has been invested will prosper. Without prejudice to the form this industrial cooperation should take, one aim should be, for example, to set up more joint undertakings between national and overseas partners. In many cases this seems the arrangement most suited to the interests of all partners and most likely to ensure the satisfactory transfer of the capital and technology that the ACP need. Such associations depend on the national and overseas partners combining efforts and resources to enter into and operate an industrial investment, whose risks they agree to share because it is to their mutual advantage.

44. Finally, although the possibility is not mentioned in the Convention, provision should be made for establishing a system of multilateral guarantees for private investments in the ACP, based on the Commission proposals on which Parliament delivered a favourable opinion on 13 February 1974<sup>1</sup>.

However, such guarantees are no substitute for the conditions that must be created and maintained if overseas industrialists are to agree to participate. These conditions depend entirely on the governments of the ACP States.

45. However, since all parties to the Convention have expressed their willingness to contribute to industrial cooperation, there is reason to hope that this challenge will be met.

#### VI. FINANCIAL AND TECHNICAL COOPERATION

46. 'The purpose of financial and technical cooperation is to correct the structural imbalances in the various sectors of the ACP States' economies ... it shall complement the efforts of the ACP States and shall be adapted to the characteristics of each of the said States' (Art. 40).

Although the new Convention endeavours to build on the highly satisfactory results of the financial and technical cooperation established under Yaoundé II, it also makes provision for the improvements, adjustments and reforms necessitated by the enlargement of the Convention and the changes in relations between industrialized and developing countries. By giving the recipient states a major role in the administration and management of the aid, and channelling this cooperation along different lines, the authors of the new Convention have altered the nature of financial and technical cooperation to allow for the ACP's development.

##### A. Overall amount of aid

47. The total amount of aid is 3,550 million u.a., 3.5 times as much as the aid granted under Yaoundé II. It is divided into two sections:

(i) The EDF, administered by the Commission, with 3,150 million u.a. compared with the 905 million u.a. in the Third EDF (including Mauritius) provided for under Yaoundé II. In other words, the original figure is multiplied by 3.5.

(ii) Loans from the EIB's own resources: 400 million u.a., compared with 100 million u.a. under Yaoundé II, i.e. 4 times as much.

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<sup>1</sup> Report by Mr Armengaud on the proposal to the Council for a regulation establishing a Community guarantee system for private investments in third countries (Doc. 208/73)

Of this overall amount, the ACP in fact receive 3,390 million u.a., 160 million u.a. being earmarked for the overseas countries and territories, which have special relations with France, the Netherlands and the United Kingdom, and the French overseas departments.

|                        | ACP   | OCT   | General |
|------------------------|-------|-------|---------|
| Subsidies .....        | 2,100 | 65    |         |
| Special loans .....    | 430   | 40    | 2,650   |
| Risk capital .....     | 95    | 5     | 100     |
| Stabex .....           | 375   | 20    | 400     |
| Reserves .....         |       | 20    |         |
|                        | <hr/> | <hr/> | <hr/>   |
| EDF total .....        | 3,000 | 150   | 3,150   |
| Normal EIB loans ..... | 390   | 10    | 400     |
|                        | <hr/> | <hr/> | <hr/>   |
| TOTAL .....            | 3,390 | 160   | 3,550   |

48. In the final stage of the negotiations the ACP were granted a specific concession in regard to the period of application of the aid. Article 91 provides that the Convention shall expire five years after the date of its signature, namely 1 March 1980. Since the average ratification period is generally at least a year, the aid will have to be granted within a period of about four years after the Convention's entry into force.

49. The breakdown of aid from the various Member States shows that the percentage provided by each country differs from the contributions to previous development funds.

|                | 1st EDF | 2nd EDF | 3rd EDF | 4th EDF |
|----------------|---------|---------|---------|---------|
| Belgium        | 12.04   | 9.45    | 8.89    | 6.25    |
| Germany        | 34.41   | 33.77   | 33.16   | 25.95   |
| France         | 34.41   | 33.77   | 33.16   | 25.95   |
| Italy          | 6.88    | 13.70   | 15.62   | 12.00   |
| Luxembourg     | 0.22    | 0.27    | 0.26    | 0.20    |
| Netherlands    | 12.04   | 9.04    | 8.89    | 7.95    |
| United Kingdom | -       | -       | -       | 18.70   |
| Denmark        | -       | -       | -       | 2.40    |
| Ireland        | -       | -       | -       | 0.60    |

B. Definition of the unit of account presented considerable problems

50. Under the Yaoundé system, the unit of account was pegged to gold or a reserve currency convertible into gold, i.e. the dollar, and the rates of conversion into the national currencies of the Member States were determined by fixed parities laid down by the IMF. When the dollar became inconvertible on 15 August 1971, all the European currencies were floated except for the French franc, and the Community no longer had any legal basis for pegging the unit of account to the dollar.

The Community therefore had to find a new calculating system for EDF and EIB transactions. After lengthy discussion on the basis to be used for defining the unit of account, the Member States decided on a unit of account fixed on the basis of a group of currencies which would be appropriately weighted while their comparative rates of exchange would be kept under daily observation.

51. Rather than adopting the special drawing right, as defined and calculated by the IMF, in which the dollar represented 35 %, the Community decided to base the unit of account on a Community 'basket' consisting only of European currencies, which would be weighted in a manner to be determined. In view of the shortage of time and anxious not to delay the signature of the Convention, the negotiators agreed on a compromise which is explained in a Community statement relating to Article 42, to the effect that the amount of aid, in a European unit of account to be determined, shall be equivalent to 3,390 million SDR, calculated on the basis of their value on 28 June 1974 (the date the SDR 'basket' was established).

52. It was not until 21 April 1975 that the Council decided on the value of the unit of account and weightings in the European currencies on which it was to be based<sup>1</sup>.

The value of the unit of account is decided by the Commission on the basis of rates quoted daily on the exchange markets. It is published in the Official Journal of the Communities.

<sup>1</sup>The unit of account is determined by the sum of the following amounts in the currencies of the Member States:

|            |        |           |         |
|------------|--------|-----------|---------|
| DM         | 0.828  | Dutch fl. | 0.286   |
| £ sterling | 0.0885 | B. Frs.   | 3.66    |
| F. Frs.    | 1.15   | Lux Frs.  | 0.14    |
| It. lire   | 0.109  | D. Kr.    | 0.217   |
|            |        | Ir. £     | 0.00759 |

The value of the unit of account in a particular currency is equivalent to the sum of the exchange value in this currency of the amounts shown above.

This unit of account also applies in EIB transactions.

53. Thus, in the monetary field too, the Lomé Convention has afforded the Community an opportunity to reinforce its Community identity and progress further towards economic and monetary union.

C. Methods and conditions of financing

54. As most of the ACP States are still at an early stage of development, grants still account for 80 % of the total aid, while special loans and risk capital represent only 20 %.

The method or methods of financing for each project or programme are decided jointly by the EEC and the ACP State concerned, with a view to the best possible use being made of the resources available, and the level of development and economic and financial situation of the ACP State. Account is also taken of the nature of the project or programme, its prospects of economic profitability and its social and economic impact.

55. The special loans already provided for under the Yaoundé Convention have now been standardized at highly favourable terms: a duration of 40 years with a 1 % interest rate and a grace period of 10 years.

However, when the final borrower is not the State but an individual or an undertaking, financing is in two stages (grant or loan), a distinction being made between the terms offered to the States and those offered to the final borrower.

56. In addition, in order to assist the execution of industrial, mining and tourism projects of general interest to the economy of the ACP State concerned, the Community may grant assistance in the form of risk capital in order to step up the own resources, or resources assimilated thereto, of those countries' firms. With a view to encouraging a more extensive use of this type of assistance, the Convention lays down new procedures which are more flexible and more appropriate to the requirements of industrialization: thus the Community can in future grant quasi-capital assistance in addition to the traditional acquisition of holdings. This assistance may take the form of:

- subordinated loans, which shall be redeemed and in respect of which interest, if any, shall be paid only after the other bank claims have been settled on market terms;
- conditional loans, which shall be serviced and in respect of which redemption shall be due only after fulfilment of conditions laid down when the loan is made, indicating that the project has overcome the

particular risks to which it was exposed and has achieved a certain level of profitability.

57. Finally, an interest subsidy is generally granted on normal loans from the EIB reducing the interest rate to be paid by the borrower by 3 %. However, no rebate is granted in the case of loans for investments in the oil sectors, wherever these are located, or in the mining sector, unless in the latter case they are situated in one of the least developed States listed in the Convention.

The sum of 100 million u.a. has been set aside from the non-repayable aid to finance interest subsidies.

58. These improvements in the methods and conditions of financing are coupled with a new allocation of responsibilities among the Commission, the EDF administration and the EIB. Thus, by agreement and in conjunction with the ACP:

- the Commission will be responsible for the examination and administration of grants and special loans;
- the Bank will be responsible for the examination and administration of normal loans, interest subsidies and risk capital.

D. PARTICIPATION BY THE ACP STATES IN THE ADMINISTRATION AND MANAGEMENT OF AID

59. The main innovation introduced in the field of financial cooperation is not the new forms of aid but the participation by the ACP States in the administration and management of this aid.

It is to the credit of the Commission and in particular the EDF authorities that they have appreciated the need to adapt procedures to the spirit of the new Convention, ensuring that the ACP States participate in the management of European Development Fund projects. In this the Commission is acting on a recommendation by the European Parliament on 10 June 1974<sup>1</sup>.

60. Apart from the role the ACP States are to play in the general direction of aid, provision is made for active participation by aid recipients in each of the various stages of a project: aid programming, submission and appraisal of projects, preparation of financing decisions, execution of projects and final evaluation of the results.

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<sup>1</sup>Dewulf resolution and report on the overall result of financial and technical cooperation within the framework of the EEC-AASM Association (Doc. 111/74, para. 30 & 31)



Already that is, even before the Convention has been ratified Community aid, integrated in the development plans and programmes of each ACP State, is being programmed in conjunction with the State concerned, in such a way that the latter can obtain as clear an idea as possible of the aid it can expect during the period covered by the Convention.

This programme is drawn up on the basis of proposals made by each ACP State, in which it has fixed its objectives and priorities.

In these programmes, the ACP are entirely responsible for preparing their applications for finance. The financing proposals which summarize the conclusions of the appraisal are also drawn up by the ACP States and the Commission departments in close collaboration, before being submitted to the EDF Committee<sup>1</sup> for an opinion and to the decision-making bodies of the Community.

61. The ACP States expressed a wish to attend the meetings of the EDF Committee at which projects are discussed. However, to avoid any institutional difficulties that this may involve, a compromise was agreed upon. If a project is not approved by the EDF Committee, the ACP State concerned is consulted by that Committee as to what action should be taken and the advisability of modifying the project to ensure its acceptance. The ACP are given every opportunity to present further arguments in support of their project.

62. In short, it will be extremely difficult in the future for the Community to refuse to contribute to the financing of a project that has been given priority by an ACP State.

63. As regards the execution of projects, the concept of participation by the ACP States is reflected in the fact that each State is entirely responsible for negotiating and concluding works and supply contracts and technical assistance contracts.

64. In addition, a series of new measures is laid down, aimed at encouraging participation by the firms and technical experts of the recipient States in the execution of projects.

To this end, while upholding the principle of participation in tenders, markets and contracts financed by the EDF by nationals of all the signatory States on equal terms<sup>2</sup>, the Lomé Convention extends the preferences that

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<sup>1</sup>The Committee of the European Development Fund is composed of representatives of the nine Member States, the Commission and Council of the EEC and in certain cases the EIB

<sup>2</sup>Article 56 of the Convention and Article 18 of Protocol No. 2

can be granted to ACP undertakings. It has been decided for this purpose:

- to raise the limit below which an accelerated procedure for issuing invitations to tender is used from 500,000 to 2,000,000 u.a. This procedure is advantageous to firms in the ACP States in that the tenders are advertised mainly in these States and as the time-limits for the submission of tenders are shorter, these undertakings are in the best position to win the contracts;
- to allow a 10 % price preference to firms of the ACP States for works whose value is less than 2 million units of account;
- to grant a 15 % preference to firms of the ACP States, without any limits, for the allocation of supply contracts. This provision constitutes a considerable improvement on the provisions of the Yaoundé Convention (Protocol No. 2, Article 20);
- to make more frequent use of public works departments; this was formerly authorized only where the urgency of the situation was recognized or if the minor importance of certain works or supplies so warranted. In future, public works departments may be used when, in the case of schemes costing under 2 million u.a., the recipient State has substantial suitable equipment and qualified staff resources available in its own national departments (Protocol No. 2, Article 19);
- to confer additional responsibility on the national authorities in the choice of consultants and the negotiation and conclusion of contracts with these consultants, while encouraging national consultants, where these exist, to participate in technical cooperation schemes (Protocol No. 2, Chapter 9).

65. Two further reforms, relating to the Commission's Paying Agents and Delegates in the ACP States, reflect the desire to decentralize responsibility in the EDF's operations.

- (i) The duties of the EDF Paying Agent have always been carried out exclusively by public bodies in the Member States<sup>1</sup>, a bank of issue or a financial institution designated by the Member State in which the Commission had an account. These Paying Agents were responsible for all payments in respect of EDF operations, on the basis of a general delegation of powers by the Commission or specific instructions from the Commission. Under this system, payments have always been effected with the minimum of delay, and the Commission has been able to fulfil its obligation to centralize the accounts of all EDF transactions.

<sup>1</sup> The only exception was the National Bank of Somalia in Mogadiscio where the Commission had an account in Italian lire

At an early stage in the negotiations, the ACP expressed the hope that the functions of Paying Agent would in future be assumed by their own bank of issue or by the national body responsible for development. This request was granted. From now on these functions will be carried out by the banks of the Associated States. The Commission undertakes to open an account in each Associated State or to replenish accounts by reference to the actual cash requirements of the State concerned. Transfers are to be made in the currency of one or other of the Member States and converted into the national currency of the ACP State as and when payments fall due. The Paying Agent is not remunerated for its services; no interest is payable on deposited funds.

(ii) Similarly the Commission has complied with a request from its partners by modifying the responsibilities of the Commission Delegates in the ACP State. There are three aspects to this modification:

- (a) increased powers for national authorities in regard to the implementation of financial and technical cooperation counterbalanced by a reduction in the administrative, financial and technical responsibilities of the Delegates (the abolition of a number of certificates and prior authorizations formerly issued by Resident Supervisors);
- (b) the relaxation and acceleration of implementation procedures by transferring to the Delegates a number of responsibilities formerly exercised by the Commission;
- (c) a new role for the Delegates in providing general information and assistance with the preparation, appraisal and execution of projects, if this is requested by the ACP States.

66. Finally, the results of completed projects are assessed regularly by the relevant Commission departments in conjunction with the departments in the ACP States concerned.

#### E. NEW FORMS OF AID

67. In the light of the experience gained during the period of the second Yaoundé Convention, the negotiators of the new Convention felt it advisable to adhere to the structural priorities that had been laid down, particularly as regards the development of economic and social infrastructures, rural development and education. Direct actions to encourage industrialization, marketing and sales promotion will also be continued and intensified.

68. In addition, as under the second Yaoundé Convention, exceptional aid may be accorded to ACP States faced with serious difficulties resulting from natural disasters or comparable extraordinary circumstances (compare Article 59 with Article 20 of the second Yaoundé Convention).

A special appropriation fixed initially at 50 million u.a. has been constituted. At the end of each year of application of the Convention, this appropriation is to be restored to its initial level although it may not exceed 150 million u.a. during the period of application of the Convention. However, in the event of this appropriation being exhausted the Community and ACP States will adopt suitable measures to deal with any extraordinary circumstances that may arise.

69. Independently of these priorities, provision is made for a number of innovations in regard to regional cooperation, aid to the least developed countries, specific measures in favour of small and medium-sized national firms and microprojects (see Protocol No. 2, Chapters 4, 5 6 and 7).

#### Promotion of regional and interregional cooperation

70. The scope of the regional cooperation already provided for under the Yaoundé Convention is considerably extended, on the initiative of the ACP States themselves, which have drawn attention to the need to step up economic cooperation within the ACP States and between their various regions, the rapid development and diversification of their economies, the reduction of their economic dependence on the rest of the world and the establishment of appropriately large markets.

One of the greatest obstacles to the financing of regional cooperation in the past has been the fact that many beneficiary States were reluctant to participate in joint regional projects because the cost of the projects was deducted from the aid allocated to them for purely national projects. To eliminate this problem and encourage regional cooperation, it has therefore been agreed that approximately 10 % of the Community's overall financial resources (about 340 million u.a.) should be set aside exclusively to finance regional projects.

#### Special measures in favour of the least developed States

71. The special needs of the least developed States have already been recognized by the international organizations for many years. The Lomé Convention goes even further and defines in practical terms the additional measures to be undertaken in favour of these countries.

Community aid will comprise mainly grants, special loans or risk capital.

The Community will give special attention to the application of the following aid measures: the technical assistance necessary for identifying, preparing and carrying out projects; training schemes for management and other staff required for the economic development services and technical departments of these States. In addition, the least developed countries will be given priority in the allocation of aid to small and medium-sized firms and microprojects for rural areas. Finally, the Community will waive one of the EDF's sacrosanct principles in that it may 'finance, temporarily and on a diminishing scale, the running costs of or major repairs to investments previously financed by the Community which are of special importance to the economic and social development of the State concerned. This aid shall be accorded only where such expenditure on running costs or major repairs proves too great for the State or other beneficiaries'. (Protocol No. 2 Article 11(3)). The latter can be regarded as a completely exceptional measure, since as a general rule the Community never pays the running costs of completed projects.

The least developed States are listed in Article 48<sup>1</sup>. This list may be amended by a decision of the EEC-ACP Council of Ministers.

It should, moreover, be noted that under the STABEX arrangements, the 'least developed' States benefit from two special measures:

- in the case of the least developed, landlocked or island ACP States, listed in Article 24, the system is applied if export earnings from a product eligible for STABEX represent at least 2.5% of total export earnings. For the other ACP States, the system only applies if export earnings from the product are at least 7.5% of total export earnings;
- the 'least developed' countries listed in Article 48(2) are not required to refund to STABEX amounts drawn, whereas the rule for the ACP States as a whole is that they should contribute within five years to the replacement of their share in the stabilization funds.

72. Measures in favour of small and medium-sized national firms: the Community will finance projects in favour of small and medium-sized firms, cooperatives or local authorities in the ACP States. This will generally be done through public or semi-public financial bodies specialized in development, such as the national or regional development banks approved by the Community and the ACP States concerned.

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<sup>1</sup> Article 48: The following ACP States shall be eligible, according to their particular needs, for the special measures ...: Botswana, Burundi, Central African Republic, Chad, Dahomey, Ethiopia, the Gambia, Guinea, Guinea-Bissau, Lesotho, Malawi, Mali, Mauritania, Niger, Rwanda, Somalia, Sudan, Swaziland, Tanzania, Togo, Tonga, Uganda, Upper Volta, Western Samoa'

Having assessed the capacity of the financing body and the aid requirements, and approved a programme of action submitted by the State concerned, the Community opens a line of credit for the financial body for a maximum of 2 million u.a., which may be used over a period of not more than three years. At the end of that period, the line of credit may be renewed. The outline rules governing the use of the credit are the subject of an agreement between the Community and the financing body. This will enable the ACP States, through the financing bodies, to follow a comparatively flexible and pragmatic policy in regard to the small and medium-sized firms for which they are responsible; the Community merely verifies that this loan falls within the terms of the agreement. The financing body is only required to provide the Community annually with a report on the implementation and financing of the approved programme.

#### The financing of microprojects

73. Up to the present, the EDF's resources have been concentrated on medium and large-scale projects, partly because the States themselves preferred to promote 'spectacular' projects and partly because those who provided loans feared that smaller-scale projects would fail to achieve their object. Experience in development has shown that smaller projects are often more suited to the recipients' real priority needs and that the latter are more prepared to support and participate in such projects. As a result it is easier to ensure their successful conclusion, implementation and maintenance. These projects are generally less costly. Even without taking full advantage of the opportunity to decentralize decision-making procedures and control, these small-scale projects can be implemented much more rapidly. They also enable foreign aid to be brought more closely in line with the needs of the local community, particularly in rural areas.

74. Also in this area, the Community has endeavoured to make its aid as functional as possible by contributing, on an experimental basis, to the financing of microprojects.

Microprojects relate essentially to rural areas. (Art.15). However, the Community may also assist in the financing of microprojects in urban areas. These projects may include dams, wells and water supply systems, silos and warehouses for storing provisions and crops, rural service tracks,.....primary schools, dispensaries, maternity homes, social assistance centres, etc. They must stem from an initiative taken by the local community which will benefit from the project.

The financing of micro-projects has, in principle, a tripartite structure and stems from:

- the Community benefiting, in the form of a contribution in money or in kind adapted to its capacity to contribute;
- the ACP State, in the form of a financial contribution or a contribution of public works services;
- the Fund.

The local community that has submitted the application must undertake to maintain and run the project, in conjunction with the national authorities as appropriate.

75. An appropriation of 20 million u.a., deducted from the grant aid, may be used for operations of this nature. At the end of the second year after the entry into force of the Convention, the Council of Ministers will decide on the follow up to this experiment. Financing decisions are to be taken within the framework of an annual programme submitted by the national authorities and approved by the Commission. This agreement will be deemed to be given within one month of notification of such decisions.

These measures provide further evidence of the Commission's desire to decentralize decision-making and allow the ACP States to undertake responsibility for these projects.

#### F. TECHNICAL COOPERATION

76. Technical cooperation, whether linked with investments or of a general nature, is identical in its objectives to the cooperation provided for under the second Yaoundé Convention.

There is, however, a new element in the form of a negotiated agreement on the principles of management and implementation which were formerly laid down by the Commission, and the introduction of certain procedures which ensure, in this area too, that the national authorities play a more decisive role in the administration of technical cooperation, and measures to involve specialists from the ACP State concerned in its implementation.

77. The Community has thus suggested to the ACP partners a number of reforms which are incorporated in the Convention, in the form of a greater variety of procedures for awarding contracts, a wider choice for the ACP States, particularly in regard to the consultants they use for contracts (so that they now have a real choice) and the transfer to the ACP of the responsibility for drawing up and negotiating contracts.

VII. PROVISIONS RELATING TO ESTABLISHMENT, SERVICES, PAYMENTS AND CAPITAL MOVEMENTS (Title V of the Convention)

78. The arrangements in matters of establishment and provision of services are based on the principle of non-discrimination. The Member States of the Community are to accord equal treatment to nationals and companies of the ACP States. 'However, if, for a given activity, an ACP State or a Member State is unable to provide such treatment, the Member States or the ACP States as the case may be, shall not be bound to accord such treatment for this activity to the nationals and companies or firms of the State concerned' (Article 62).

As regards the capital movements linked with investments and current payments, 'the ACP States on the one hand and the Member States on the other shall avoid as far as possible, taking discriminatory measures vis-à-vis each other or according more favourable treatment to third States ...' (Article 66).

79. These somewhat cryptic provisions are not entirely satisfactory as regards the application of the most favoured nation clause.

The Commission should be able to explain to our committee how the negotiators wish these provisions to be interpreted.

VIII. INSTITUTIONS

80. The EEC/ACP negotiators agreed that the institutions would be set up on the basis of the Convention's content. Negotiations on the institutions took place in the final stage. The institutional structure reflects the importance the contracting parties attach to their cooperation and introduces new factors which did not appear in the second Yaoundé Convention.

The institutions are: the Council of Ministers, assisted by the Committee of Ambassadors, and the Consultative Assembly.

81. The Council of Ministers is composed, on the one hand, of the members of the Council of the European Communities and of members of the Commission of the European Communities and, on the other hand, of a member of the Government of each of the ACP States. The office of President of the Council of Ministers is held alternately by a member of the Council of the European Communities and a member of the Government of an ACP State, (Article 70).



Meetings of the Council of Ministers are called once a year by its President and it may, in addition, meet whenever necessary. Its task is to define the broad outlines of the work to be undertaken in the context of the application of the Convention, periodically to review the results of the arrangements under the Convention and take such measures as may be necessary for the attainment of its objectives. It also has the power to take decisions in the cases stipulated in the Convention. It may in addition formulate such resolutions, recommendations or opinions as it may deem necessary to attain the common objectives and ensure the smooth functioning of the arrangements of the Convention. It publishes an annual report and such other information as it considers appropriate. It may make all the arrangements that are appropriate for ensuring the maintenance of effective contacts, consultations and cooperation between the economic and social sectors of the Member States and of the ACP States.

The Council of Ministers may set up committees or groups and ad hoc working groups, to undertake such activities as it may determine.

Finally, at the request of one of the Contracting Parties, exchanges of view may take place on questions having direct repercussions on the matters covered by the Convention or on any other economic or technical questions of mutual interest (Article 74).

82. The Committee of Ambassadors is composed, on the one hand, of one representative of each Member State and one representative of the Commission and, on the other, of one representative of each ACP State.

The Committee of Ambassadors assists the Council of Ministers in the performance of its functions and carries out any mandate entrusted to it by the Council or exercised other powers assigned to it by the Council. It also keeps under review the functioning of the Convention and the development of the objectives as defined by the Council of Ministers, and accounts for its actions to the latter, particularly in matters which have been the subject of delegation of powers. It supervises the work of all the committees and other bodies or working groups, whether standing or ad hoc, established or provided for under the Convention, and submits periodical reports to the Council of Ministers (Article 77).

83. On the basis of Article 74, the Council of Ministers has set up six sub-committees: on trade cooperation, customs cooperation, the stabilization of export earnings, industrial cooperation, sugar, financial and technical cooperation, in addition to a permanent working group on bananas.

The secretariat duties necessary for the functioning of the Council of Ministers and the Committee of Ambassadors or other joint bodies are carried out on a basis of parity.

84. The Consultative Assembly is composed, on a basis of parity, of members of the European Parliament representing the Community and representatives designated by the ACP States.

The Assembly meets at least once a year. The Council of Ministers is required to submit an annual report on its activities to the Consultative Assembly. It may set up ad hoc consultative committees to undertake such specific activities as it may determine. It may also adopt resolutions on matters relating to the Convention.

The European Parliament and the representatives designated by the ACP have decided, with the agreement of the Council of Ministers<sup>1</sup>, to hold an informal preparatory meeting of ACP and Parliament representatives in Luxembourg in November 1975, to define the conditions for the establishment of the future Consultative Assembly, and determine its composition and rules of procedure.

85. As requested by the European Parliament, provision has also been made for consultations between the social and economic sectors. Article 74(6) stipulates in this connection, that 'the Council of Ministers may make all the arrangements that are appropriate for ensuring the maintenance of effective contacts, consultations and cooperation between the economic and social sectors of the Member States and of the ACP States'.

The view has been taken that if the Council failed to implement this provision of Article 74, consultation between the economic and social sectors could be provided for under Article 80(5) of the Convention, which states: 'The Consultative Assembly may set up ad hoc consultative committees to undertake such specific activities as it may determine.'

86. The Assembly, as a mouthpiece for the signatories of the Lomé Convention, should have a part to play in motivating the implementation of the Convention, similar to the role of the Parliamentary Conference of the EEC-AASM Association and its joint committee under the second Yaoundé Convention.

It is worthy of note that the most important innovations in the new Convention, for example the stabilization of export earnings and the participation of the ACP States in the administration of the EDF, have been proposed by the parliamentary bodies.

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<sup>1</sup>At its constituent meeting in Georgetown on 6 and 7 June 1975

87. Any differences of opinion as to the interpretation or application of the Convention are to be submitted to the Council of Ministers. If the Council fails to settle the dispute, there is provision for a good offices or arbitration procedure. Thus the Permanent Court of Arbitration that was established under the Yaoundé Convention has been abolished. In fact, it was never called upon to give a decision. It is therefore highly probable that any disputes as to the application of the Convention will be resolved mainly in the Council, as in the past.

#### IX. CONCLUSION

88. The innovations introduced by the Convention of Lomé are a logical progression from the second Yaoundé Convention. Without the valuable experience in the field of development gained under the latter Convention, the progress achieved in the EEC's cooperation policy would have been much less rapid.

However, the Lomé Convention differs considerably from the previous Convention in content and political scope, since the totally new measures it initiates radically alter relations between the industrialized and the developing countries. In contrast to all the vague discussion that is still going on in the international organizations as to the form the new economic order should take, the Lomé Convention constitutes a positive achievement and a practical demonstration of the basic principles of this new order.

89. The arrangements laid down in the Lomé Convention create an important precedent in view of the scale of the economic unit constituted by the contracting parties: nine European States have established relations with 46 African, Caribbean and Pacific States, representing, in all 525 million people. From now on there will be nothing to prevent developing countries from invoking the provisions of the Lomé Convention, when concluding agreements on specific products with the industrialized countries, as a means of seeking guarantees for the stabilization of their export earnings and commercial cooperation, with a view to redressing the balance in their favour with the aid of additional trade benefits.

Similarly, in the light of the guarantees offered to the ACP by the Community under the protocol on sugar, it will be difficult in future for a rich country to reject as absurd the idea of pegging the prices of primary commodities.

Summary data relating to main exports eligible for STABEX1. STABEX products as a percentage of total exports

|                                |   |
|--------------------------------|---|
| Botswana                       | leather and hides (9%)                            |
| Burundi                        | coffee (86%), cotton (3%), leather and hides (6%) |
| Cameroon                       | cocoa (23%), coffee (26%), timber (12%)           |
| Central African Republic       | coffee (23%), timber (21%), cotton (18%)          |
| Chad                           | cotton (69%)                                      |
| Dahomey                        | palm and palm nut products (34%)                  |
| Ethiopia                       | coffee (38%), leather and hides (13%)             |
| Fiji                           | coconut oil (5%)                                  |
| Gabon                          | timber (32%)                                      |
| Gambia                         | groundnuts, groundnut oil and oilcake (94%)       |
| Ghana                          | cocoa (61%), timber (19%)                         |
| Ivory Coast                    | cocoa (15%), coffee (23%), timber (29%)           |
| Jamaica                        | bananas (4%)                                      |
| Kenya                          | coffee (22%), tea (11%)                           |
| Liberia                        | iron ore (71%)                                    |
| Madagascar                     | coffee (30%), sisal (3%)                          |
| Malawi                         | tea (17%), groundnuts (7%)                        |
| Mali                           | cotton (39%), groundnuts (7%)                     |
| Mauritania                     | iron ore (73%)                                    |
| Niger                          | groundnuts (15%), groundnut oil (9%)              |
| People's Republic of the Congo | timber (42%)                                      |
| Rwanda                         | coffee (61%), raw hides (4%)                      |
| Senegal                        | groundnuts and groundnut oil (35%)                |
| Sierra Leone                   | iron ore (10%), palm nuts and kernels (5%)        |
| Somalia                        | bananas (26%)                                     |
| Sudan                          | cotton (56%), groundnuts (9%)                     |
| Swaziland                      | cotton (3%)                                       |
| Tanzania                       | coffee (19%), cotton (13%), sisal (9%)            |
| Togo                           | cocoa beans (26%), coffee (13%)                   |
| Tonga                          | copra (50%)                                       |
| Uganda                         | coffee (66%), cotton (15%), tea (5%)              |
| Upper Volta                    | groundnuts and groundnut oil (8%), cotton (22%)   |
| Western Samoa                  | copra (45%), cocoa (28%)                          |

Sources: International Financial Statistics, Nov. 1974 - National Statistics

2. EEC imports (EUR 9) originating in ACP countries (1973)

|                                   | <u>1,000 U.A.</u> |
|-----------------------------------|-------------------|
| Shelled groundnuts                | 102,169           |
| Groundnut oil                     | 83,085            |
| Cocoa beans                       | 288,418           |
| Cocoa butter                      | 39,189            |
| Cocoa paste                       | 12,391            |
| Raw coffee                        | 350,271           |
| Bulk cotton, not carded or combed | 126,855           |
| Copra                             | 763               |
| Coconut oil                       | 6,716             |
| Palm oil                          | 27,027            |
| Palm nut and kernel oil           | 20,685            |
| Palm nuts and kernels             | 32,029            |
| Bovine cattle leather             | 20,512            |
| Tropical wood in the rough        | 440,111           |
| Tropical wood sawn                | 73,920            |
| Fresh bananas                     | 56,721            |
| Sisal                             | 27,926            |
| Tea                               | 62,337            |
| Iron ore                          | 275,890           |
|                                   | <hr/>             |
| <u><u>TOTAL</u></u>               | 2,047,015         |

OPINION OF THE COMMITTEE ON AGRICULTURE

Draftsman: Mr F. HANSEN

The Committee on Agriculture appointed Mr Hansen draftsman.

At its meeting of 2 and 3 October 1975 it examined the draft opinion and adopted it unanimously.

Present: Mr Laban, vice-chairman and acting chairman; Mr Hansen, draftsman, Mr Boano, Mr Della Briotta, Mrs Dunwoody, Mr Frehsee, Mr Hughes, Mr de Koning, Mrs Orth

1. The Convention signed in Lomé on 28 February 1975 between the Community and 46 African, Caribbean and Pacific States (ACP States)<sup>1</sup> is a new departure in economic and trade relations. It is the first instance of an agreement of such scope between industrialized States and so many developing countries.

#### I. General considerations

2. The new Convention is the sequel to the Yaoundé Convention and the Arusha Agreement and extends these special relations to several other African countries and to the Caribbean and Pacific countries. It will expire at the end of five years from the date of signature, in other words on 1 March 1980. Eighteen months before it expires, the signatory States will enter into negotiations in order to examine what provisions will subsequently govern relations between the Community and the ACP States.

3. It should be pointed out that the contracting parties have signed an interim agreement permitting the advance implementation of certain provisions of the Convention. Thus, special interim provisions have been adopted for cane sugar from the ACP States to enable the provisions of the Protocol on sugar to be applied from March onwards.

4. The main provisions of the Convention are the adjustment of trade arrangements, the creation of a system for stabilizing export earnings, the introduction of industrial cooperation, and consideration of the situation of the least-favoured countries.

The Committee on Agriculture has been asked for its opinion on the mainly agricultural aspects of the Convention.

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<sup>1</sup>The ACP States that signed the Convention of Lomé are:

- 19 States that until 31.1.1975 had been associated with the Common Market under the Yaoundé Convention: Burundi, Cameroon, Central African Republic, Chad, Congo, Dahomey, Gabon, Ivory Coast, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, Senegal, Somali, Togo, Upper Volta and Zaire;
- 21 Commonwealth countries with which the EEC had offered to conclude special agreements once the United Kingdom joined the Common Market:
  - in Africa: Botswana, Gambia, Ghana, Kenya, Lesotho, Malawi, Nigeria, Sierra Leone, Swaziland, Tanzania, Uganda and Zambia;
  - in the Caribbean: the Bahamas, Barbados, Grenada, Guyana, Jamaica, and Trinidad and Tobago
  - in the Pacific: Fiji, Samoa and Tonga
- 6 African States that had no special links with EEC countries but that had been invited to join the others because their economy was 'comparable': Equatorial Guinea, Ethiopia, Guinea, Guinea Bissau, Liberia and Sudan.

## II. The agricultural aspects of the Convention

5. The major principles governing the Convention are as follows:

- opening of the Community market to ACP products and renunciation by the Community (because of the different level of economic development) of the right to freedom of access to the market of the ACP partners; in other words, abandonment of the principle of trade reciprocity;
- obligation on the ACP States to grant to the Community the most-favoured-nation treatment and not to discriminate between the Member States of the EEC.

6. The trading system introduced grants free access to the Community markets to most agricultural exports from the ACP States (about 94%). Agricultural products and processed agricultural products are exempt from customs duties and charges having an equivalent effect. Thus the Community grants the ACP countries the same advantages that the Member States grant to each other. For certain agricultural products that come under the common organization of the market, however, the freedom of access arrangement is restricted to some extent but is still more favourable than that applicable to third countries.

7. The Community has undertaken to give more favourable treatment to ACP products than to products from third countries by adopting internal procedures. Specific measures are already planned to guarantee certain ACP products outlets in the Community.

- Beef and veal: special measures have been taken to maintain ACP exports of beef and veal to the Community despite implementation of the safeguard clause;
- maize, rice, millet, sorghum and processed rice and cereal products: reductions on 'third-country' levies have been guaranteed;
- some fruits and vegetables: these can be imported duty-free or at a very reduced rate of customs duty irrespective of marketing timetables.

8. This list is not restrictive since the Community has declared its willingness to consider granting other agricultural products special treatment through consultation machinery provided for in the Convention.

9. The above gives an idea of the extent of the advantages granted by the Community in the agricultural sector despite current difficulties in some sectors of the European economy. Nevertheless, the Community reserves the right to invoke safeguard clauses should the need arise. If application of the above provisions should cause serious disturbances in one sector of the economic activity of the Community or one or more Member States, the Community



may take or authorize the Member State concerned to take the necessary protective measures. Such measures have to be notified immediately to the Council.

x

x x

10. The Convention also provides for the introduction of special arrangements for sugar, rum and bananas.

11. The sugar agreement (Article 25 and Protocol No 3 annexed to the Convention) gave rise to particularly lengthy negotiations, partly because of the importance of sugar for some ACP countries and partly because of the present situation on the world and Community markets.

12. Under the agreement, the Community undertakes for an indefinite period to import, at guaranteed prices, specific quantities of raw or white cane sugar which originate in the producing and exporting ACP countries and which those States undertake to deliver to it. The Community had offered to buy 1,375,000 tonnes of ACP cane sugar at guaranteed prices for an indefinite period. In view of the supply undertakings given by the ACP countries, the provisions of the 'sugar' chapter apply to a total of about 1,275,000 tonnes.

13. The sugar will be put on the Community market at prices freely negotiated between buyers and sellers. The Community reserves the right to intervene to buy at the guaranteed price only when the guaranteed price cannot be obtained on the market. The guaranteed price will be fixed annually by the partners within the price range obtaining in the Community, taking into account all major economic factors. Purchase at the guaranteed price is assured through the medium of intervention agencies or of other agents appointed by the Community.

The present agreement may be reviewed after a period of five years and denounced subject to two years' notice.

14. This 'sugar' agreement, the duration of which is not connected with that of the Convention, is a new departure in the history of relations between industrialized and developing countries. The Community is guaranteed supplies and there is genuine index-linking, the price guaranteed to the ACP States being fixed within the Community price bracket which is reviewed annually in the light of the economic situation.

15. Provision is made for annually fixed quantities of Caribbean rum to be imported duty-free into the Community. It should be pointed out that the Protocol safeguards the position of rum originating in the French overseas departments.

The Protocol on bananas provides that no ACP State should be placed, as regards access to the markets and market advantages, in a less favourable situation than in the past or at present.

16. Lastly, in a declaration annexed to the Convention, the Community undertakes to encourage the development of fishery and related industries in the ACP States. The ACP States for their part undertake to negotiate with the Community agreements on fishery activities in their territorial waters and not to discriminate between or against Member States of the EEC.

### III. The institutions

17. The Convention of Lomé sets up an institutional framework for its implementation, consisting of the following main institutions:

18. The Council of Ministers is composed on the one hand of members of the Council of the European Communities and of members of the Commission of the European Communities and, on the other hand, of a member of the government of each ACP State. The office of President of the Council of Ministers is held alternately by a member of the Council of the Communities and a member of the government of an ACP State.

Finally, any dispute concerning the interpretation or implementation of the Convention is placed before the Council of Ministers. Provision is made for an arbitration procedure should the Council of Ministers fail to settle the differences.

19. The Committee of Ambassadors is composed, on the one hand, of one representative of each Member State and one representative of the Commission and, on the other, of one representative of each ACP State. It assists the Council of Ministers in the performance of its functions and carries out any mandate entrusted to it by the Council.

20. The Consultative Assembly is composed, on a basis of parity, of members of the European Parliament and of representatives designated by the ACP States.

It meets at least once a year. The Council of Ministers is required to submit an annual report on its activities to the Consultative Assembly which may adopt resolutions on matters concerning the Convention.