

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(92) 496 final

Brussels, 25 November 1992

Proposal for a
COUNCIL REGULATION (EEC)

introducing a diversification and development programme for
certain banana-producing countries of Latin America

(presented by the Commission)

EXPLANATORY MEMORANDUM

Introduction

This proposal fulfils the undertaking entered into by the Commission on 7 August 1992⁽¹⁾ to set up a diversification and development fund for banana-producing countries of Latin America to accompany the introduction of the common organization of the market (MO) for bananas.

In the light of action taken on its proposal for an MO, the Commission proposes, where appropriate, to reconsider the projects to assist the banana-producing countries of Latin America.

1. Political relations between the Community and the banana-producing countries of Latin America

At the beginning of the past decade, the Community set up consultations between the two regional bodies covering the banana-producing countries of Latin America, namely the Andean Pact on the one hand and the Central American Common Market, including Panama, on the other hand. From the outset, therefore, a regional approach was stressed.

Since then dialogue with the two regional groupings referred to above has always been exceptionally good.

In Central America, the San José Dialogue, initiated in 1984, culminates each year in a Ministerial Conference (eight to date). The agreement with the Andean Pact, signed in 1983, was one of the first cooperation agreements signed by the Community in Latin America.

(1) COM(92) 359.

In the framework of its relations with those two regional bodies, the Commission has laid stress on two main themes:

- the link between democracy and development which it considers inseparable in its action. Support, in particular economic support, is therefore seen as a factor in the development of democracy;
- the problem of drug production and trafficking.

In consultations with the countries concerned when drawing up its proposal for an MO for bananas, the Commission noted the situation and the concerns of the Latin American producers and took the view that the Community should step up cooperation with them.

2. Prospects for diversification and expansion of the Latin American countries' shares of the market

The dollar-zone banana-producing countries vary greatly as regards the relative scale of the banana industry, its importance in terms of the national economy and therefore its impact on employment and foreign exchange generation.

Thus, certain countries with a more highly diversified economy (Columbia and Ecuador) fall into a different group from those with an economy based solely on a limited range of export products and which are amongst the poorest in the Latin American sub-continent. This is the case of Honduras, the poorest country in Central America, where bananas account for 36% of exports, as well as Panama (29%) and Costa Rica (20%).

In the knowledge of the risks they face, the countries concerned have endeavoured since the early 1980s to diversify their traditional products and markets.

Experience in the past ten years points to positive results in those countries' efforts to achieve greater regional integration and to strengthen their position on international markets.

It also highlights the potential limits to such efforts, which fall under several headings:

- firstly geopolitical: an often limited territory and the small markets and productive capacities of most countries condemn in advance a certain number of initiatives, which can only be planned on a regional scale;
- secondly technical-economic: a lack of basic infrastructures, an insufficiently trained labour-force and the high cost of venture capital for enterprises all curb investments.

Sight should also not be lost of the heavy burden of external debt.

It may therefore be said to state that despite the fact that their economic policies are in line with the objective of boosting production, the banana-producing countries of Latin America, and in particular the poorest among them, do not at present have the capacity to mobilize the resources necessary for the further development of their non-traditional sectors.

Furthermore, the problem posed by the rapid extension of drug production and trafficking in Central America, which is of the greatest concern to the Community, should be mentioned. The Community intends contributing towards combating this phenomenon by offering the people concerned alternative sources of income.

3. EEC support for marketing

In the framework of the SPG, in 1990 the EEC granted the Andean countries engaged in the fight against drug production and trafficking (excluding Venezuela) the benefit of a series of tariff measures expiring in 1994. That initiative was extended to countries in Central America in 1991.

However, the list of products currently exported in significant quantities to the Community remains short: only a minority of countries are able at present to benefit from those provisions.

Furthermore, the development aid programme implemented by the Community in Latin America targets as a priority the less-advanced countries and lays stress on initiatives of a social nature not eligible for other sources of financing.

It is therefore clear that the Community does not at present have an effective instrument to provide support for the countries concerned in their efforts to diversify.

4. Need for specific support from the European Community

Alongside the introduction of the MO for bananas, the Commission has proposed the setting-up of a diversification and development fund.

That initiative has two aims:

- (a) It expresses a political opening, which must be backed up, if it is to be meaningful, by sufficient financial resources to be determined within the framework of the annual budget procedure.
- (b) It aims to deal with real difficulties with which we are familiar: the insufficient efforts which the countries are able to make using their own resources to diversify their production and their markets on the one hand and the dangerous expansion of drug trafficking on the other. This initiative is also likely to have a major impact on the ecological balance of the countries concerned in so far as it aims to curb the extension of traditional one-crop farming whose disastrous consequences on the environment have long been known.

The allocation of such resources to the financing of a diversification and development programme must stress a regional approach. This option is justified on several grounds:

- . it follows the present logic of the Community approach to Latin America, a basic tenet of which has always been the strengthening of regional cohesion and solidarity between more advanced countries and poor countries;

- . it takes account of the current trend in banana production in the various countries, including those which are not traditional exporters to the Community;
- . it makes it possible to avoid excluding the poorest countries, at present not present on the Community banana market (Bolivia, Peru and El Salvador);
- . it permits greater impact.

Diversification and development, the subject of the proposed programme, may be defined as follows:

- the concept of diversification refers to both the search for new products and new markets or new investors.

The vast scope for action covers initiatives relating to both investment proper and pre-investment. This is the case in particular of the reinforcement of producers' structures, improving the quality of bank services, market studies, the search for investors and sources of financing, etc.

- The concept of development, which is closely related to the preceding one, relates to the need to define a type of intervention likely to achieve fast spin-off in terms of both employment of the urban and rural population and, more generally, boosting the national economy.

In order to ensure that the measures to be financed are consistent with the aims, it is important to adopt an approach based on close consultation between the various economic players, i.e. public authorities as well as private businessmen. In this respect, there is provision for the Commission to consult the competent authorities of the States concerned, the regional producer associations, international financial bodies and Community operators present in the region on the implementation of the programme.

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certain banana-producing countries of Latin America

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,
and in particular Article 235 thereof,

Having regard to the proposal from the Commission⁽¹⁾,

Having regard to the opinion of the European Parliament⁽²⁾,

Whereas Council Regulation (EEC) No [on the common organization of
the market in bananas]⁽³⁾ provides for common arrangements governing
imports of bananas into the Member States;

Whereas the economies of many Latin American countries, in particular the
poorest among them, depend on a limited number of export products and
whereas the diversification of such products calls for considerable
financial resources which those countries cannot at present provide in the
present state of their economies;

Whereas the Community supports the efforts of the Andean and Central
American countries in their process of conducting economic restructuring in
a difficult social context, due in particular to the problems created by
drug production and trafficking;

Whereas the Community attaches special importance to dialogue with the
Latin American countries and to the strengthening of their regional bodies;

(1) OJ No L ...
(2) OJ No L ...
(3) OJ No L ...

Whereas the Community actively supports initiatives to preserve natural resources and environmental balance;

Whereas for those reasons Community cooperation with the banana-producing countries of Latin America should be stepped up by introducing a diversification and development programme to assist them;

Whereas the Treaty provides no powers other than those in Article 235 for the adoption of this Regulation,

HAS ADOPTED THIS REGULATION:

Article 1

A programme to provide support for diversification and development, hereinafter referred to as "the programme", is hereby instituted for the Andean countries and the countries of the Central American isthmus listed in the Annex, for a period of five years.

Title 1: The Programme's Objectives and Resources

Article 2

The objectives of the programme shall be:

- to develop economic, industrial and technical cooperation between the Community and the beneficiary countries by encouraging the development of sectors relating to non-traditional products, thereby reducing those countries' dependence on a restricted number of export products;
- to strengthen cooperation and regional integration, in particular between poor countries and relatively more advanced countries.

Article 3

1. With a view to achieving the objectives of this Regulation, the programme's resources shall be used to support measures which may be supplementary to and different from those implemented under the aid provided for in Council Regulation (EEC) No 443/92 of 25 February 1992 on financial and technical assistance to, and economic cooperation with, the developing countries in Asia and Latin America⁽⁴⁾.
2. The programme's resources shall be employed within the framework defined in Articles 1 and 2 of Regulation (EEC) No 443/92.
3. The measures supported by the programme must not distort free competition.
4. The measures supported by the programme must take account of the need to protect the environment and natural resources.

Article 4

1. The measures eligible for financial support under the programme must be geared to production, special attention being paid to the development and marketing of products which are not traded in significant quantities at the time of the entry into force of this Regulation.
2. Measures eligible shall comprise in particular:
 - (a) at the pre-investment stage:
 - sectoral or product-specific analyses or studies;
 - measures concerning training, research and technology transfer;
 - reinforcing producer associations;
 - improving the legal framework;

(4) OJ No L 52, 27.2.1992, p. 1.

(b) at the investment stage:

- basic infrastructures relating to the production process;
- credit lines with a view to creating or extending enterprises;
- crop diversification programmes;
- technical assistance and the training of local personnel.

Article 5

The States listed in the Annex, together with their regional or local units, the international regional organizations, public agencies, local communities, private institutes and operators, cooperatives, producer organizations and non-profit-making bodies may qualify for financial support under this programme.

Article 6

Financial support under the programme may be granted in the form of special loans, subsidies, or a combination thereof.

Article 7

1. Financial support under the programme may cover expenditure in foreign as well as national currency if such expenditure is necessary to achieve the measures selected.
2. Maintenance and current administrative expenditure may be chargeable under the programme, with the proviso that, with the exception of training and research programmes, the defrayal of expenditure may cover only the starting-up phase and shall be degressive.
3. Recipients of financial support must contribute towards the financing of a measure, within the limits of their resources and in accordance with the type of measure concerned.

Article 8

The resources of the programme shall consist of an appropriation fixed on an annual basis by the budget authority.

Title 2: Administration of the programme

Article 9

1. The Commission shall administer the programme. It shall be assisted by the Committee provided for in Article 15(2) of Regulation (EEC) No 443/92.
2. Projects qualifying for a Community contribution in excess of ECU 1 million, together with substantial amendments to and any overruns in approved projects in excess of 20% of the amount originally approved, shall be adopted in accordance with the procedure provided for in Article 15(3) of Regulation (EEC) No 443/92.

Article 10

When implementing the programme, the Commission shall endeavour to establish dialogue and cooperation with the competent international institutions and with the contributors concerned. It shall endeavour to stimulate as far as possible the mobilization of local savings and the participation of local, regional and multilateral financial operators.

Article 11

When examining measures the Commission shall consult, as and when the need arises and in accordance with suitable rules, the competent authorities of the States concerned, producers' associations, the financial authorities and the Community economic operators present in the region.

Article 12

At regular intervals of not more than one year, the Commission shall forward to the Member States the information available to it on the sectors, projects and measures already identified which could be granted financial assistance under the programme.

Article 13

The Commission shall submit an annual report to the European Parliament and the Council on the implementation of the programme. That report shall outline the results of the implementation of the resources in terms of commitments and payments, progress in utilization of the resources and measures financed during the year. It shall contain accurate, detailed information on awards of contracts for the implementation of the measures financed.

Article 14

This Regulation shall enter into force on the seventh day following its publication in the Official Journal of the European Communities.

The applicability of the present Regulation is conditional on that of Regulation (EEC) No ... [on the common organization of the market in bananas].

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Council
The President

ANNEX

List of recipient countries provided for in Article 1

Panama
Costa Rica
Nicaragua
Honduras
El Salvador
Guatemala
Colombia
Venezuela
Ecuador
Peru
Bolivia

FINANCIAL STATEMENT

Section 1: Financial Implications

1. Title

Diversification and development programme for certain banana-producing countries of Latin America.

2. Budget heading concerned

A specific budget heading will be introduced in a corrigendum to the 1993 budget.

3. Legal basis

Proposal for a Regulation (EEC) No

4. Description

4.1 Specific objectives

There is provision for the creation of this programme as part of the implementation of the common organization of the market in bananas. It will permit the Latin American countries concerned to have access to the financial resources and technical capacity necessary to diversify their traditional production, which is over-dependant on bananas, and to identify new market outlets.

4.2 Duration

5 years.

4.3 Target population

This initiative targets both the producers and the public authorities in the countries concerned.

5. Classification of expenditure

5.1 NCE

5.2 CD

5.3 Type of expenditure concerned: subsidies

6. Type of expenditure or revenue

Depending on the type of measure to be given support, expenditure may take the following forms:

- 100% subsidy
- Subsidy for part-financing with public or private sector
- Special loans generating reimbursements to be charged against general revenue.

7. Financial impact on intervention appropriation

7.1 Method of calculation

The calculation of the financial requirements was carried out on the basis of:

- financial absorption capacity of the countries, current Community cooperation funds, average unit cost of production diversification projects currently financed by the EEC.
- amount: ECU 60 million.

8. Anti-fraud provisions

Normal Commission checks at all levels (invitations to tender, execution).

Checks carried out by the financial institutions taking part, with financial liability falling on them.

Periodical external audits.

Section 3: Cost-efficiency analysis

1. Objectives and consistency with financial planning

The introduction of the programme fulfils the political undertaking entered into by the Commission to accompany the implementation of the common organization of the market for bananas with a series of measures in favour of the Latin American producer countries to permit them to diversify production and seek new outlets.

The resources requested will enable initiatives aimed at developing non-traditional products to be financed each year for the benefit of the 11⁽¹⁾ countries concerned and their nationals. By way of example, it will involve:

- contributions to regional infrastructure programmes, in particular in the transport and communications sectors;
- contributions to regional credit programmes intended for SMEs;
- training courses relating to marketing and/or technical aspects of non-traditional products.

DG I (North-South Relations) will take account of this measure in its financial planning for forthcoming years.

The measure falls within the more general framework of Community aid to the ALA developing countries.

2. Justification for the measure

The proposed initiative has a particularly high cost/efficiency ratio, in so far as:

(1) Panama, Costa Rica, Nicaragua, Honduras, El Salvador, Guatemala, Colombia, Venezuela, Ecuador, Peru and Bolivia.

- the rules laid down for its implementation are similar to those for Community cooperation with Latin America as a whole. As a consequence they have been well tested, especially those on monitoring and controls;
- the resources will be almost totally transferred to the recipient countries whilst safeguarding the opportunities for European enterprises to tender for supplies and services. Furthermore, the funds made available will not be budgeted by the countries concerned but directly allocated to specific projects;
- there is provision for giving priority to part-financing with national or regional financial institutions. The Community contribution will consequently play a role as catalyser in mobilizing savings;
- there is no provision for measures to support prices or income but rather for initiatives falling within the free market framework;
- the Commission, assisted by the Member States, will have the last word regarding the selection of projects to be granted support in each country.

3. Monitoring and evaluation of the measure

The resources mobilized by the Commission will be allocated to specific projects. Each projet will be the subject of a financing agreement signed by the Commission and the recipient. In accordance with normal rules covering aid to the ALA developing countries, the agreement will set out in detail the objectives in quantitative terms, the timetable for execution, the deadlines and the rules on implementation.

Depending on the type of measure, on-going evaluation will be conducted by means of inspections carried out by officials from the central office or the delegations concerned, generally once a year. Each project will be the subject of a technical and financial audit, at varying intervals depending on the project concerned; in principle this will take place at mid-term and at the end of execution.

Where the Commission resources are administered by a financial institution, the latter shall be responsible for the necessary supervision.

Risks to be contemplated mainly relate to the political instability of the countries concerned.

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DOCUMENTS

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