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On February 1st 1975, negotiations were successfully completed between the European Community and 46 African, Caribbean and Pacific countries for a successor agreement to the Second Yaoundé Convention of Association (signed in 1969 and in force until the beginning of this year). The new Convention was signed at Lomé, in Togo, on February 28th; formal ratification by the various countries should be complete in early 1976, but the Convention's provisions on trade, commodity stabilisation and industrial cooperation should enter into force later this year.

This briefing will examine the most significant provisions of the Convention, highlighting the changes from its predecessor, and trace the extent to which they meet the recommendations of the House of Commons Select Committee on Overseas Development in 1973<sup>1</sup> and what they indicate of Community policy on development.

#### The background

The 46 ACP countries consist of former dependencies of Belgium, France and Britain in Africa, the Caribbean and the Pacific, plus a few other African states, emphasising the essentially African nature of the link. They comprise:-

- i) the nineteen countries already associated with the Community under the Yaoundé Convention (Burundi, Cameroon, Central African Republic, Chad, Congo (Brazzaville), Dahomey, Gabon, Ivory Coast, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, Senegal, Somalia, Upper Volta, Togo, Zaïre).
- ii) twenty-one Commonwealth countries - twelve in Africa (Kenya, Uganda, Tanzania, Botswana, Gambia, Ghana, Lesotho, Malawi, Nigeria, Sierra Leone, Swaziland, Zambia), six in the Caribbean (Bahamas, Barbados, Grenada, Guyana, Jamaica, Trinidad & Tobago) and three in the Pacific (Fiji, Tonga, Western Samoa).
- iii) six other African states (Equatorial Guinea, Ethiopia, Guinea, Guinea-Bissau, Liberia, Sudan). Angola and Mozambique will be eligible to join the Convention once they have become independent.

Countries in a dependent relationship with the Community are not eligible to join the Convention until they attain independence. Nevertheless, the trade and aid provisions of the Convention do cover them (for example, an additional 150m units of account has been allocated to the dependencies under the export stabilisation scheme - see below). The 46 ACP countries vary widely in income levels: seventeen are in the UN's list of twenty-five least developed, with per caput income of less than \$100 a year (1970 prices), while some - Bahamas, Trinidad, Gabon - have per caput incomes above \$900. Some are rich in minerals (for example, Gabon, Mauritania, Zaïre, Botswana, Nigeria, Zambia, Guyana, Jamaica, Trinidad) while others have a very poor resource base (Upper Volta, Dahomey, Rwanda, Lesotho, Malawi, Barbados, Grenada). They are thus almost as heterogeneous as the whole group of developing countries; almost, because they do not include any very large, very poor countries, such as India or Bangladesh.

<sup>1</sup> The United Kingdom's Entry into Europe and Economic Relations with Developing Countries. HMSO, 1973.

They make up around 14 per cent of the population of the Third World (excluding China) and are the only independent developing countries toward which the Community as such has a fully fledged development policy encompassing both aid and trade (dependencies of Community members are treated very similarly and the Community has special trade agreements with the Mediterranean countries - Morocco, Algeria, Tunisia, Malta, Cyprus, Spain, Israel, Yugoslavia).

#### The terms

The Lomé Convention has six main headings or titles:

- (i) Trade cooperation
- (ii) Export earnings from commodities
- (iii) Industrial cooperation
- (iv) Financial and technical cooperation
- (v) Establishment, services, payments and capital movement
- (vi) Institutions

The most significant clauses appear under the first two and the fourth headings, and are examined in more detail below. The third title covers measures to stimulate the flow of Community technology, capital and knowhow to the ACP (including the establishment of a Centre for Industrial Cooperation, to disseminate information) and to promote ACP industrial products in Community markets. The fifth title contains general and mutual guarantees of non-discrimination on the provision of services and most-favoured-nation treatment on payments and capital transactions. The sixth title defines the function and composition of the institutions (the Council of Ministers assisted by the Committee of Ambassadors, a Consultative Assembly, and a Court of Arbitration). The fifth and sixth titles are essentially a repetition of titles three and four of the Second Yaoundé Convention, while the third title is a new one, reflecting the more forcefully expressed interest of the 'new' members of the ACP in access to the Community's resources of capital and industrial skills.

#### Trade between the Community and the ACP

The Lomé Convention's general trade provisions are very similar to those of the Yaoundé Convention. There are three main changes, two of which are significant.

As before, all manufactures and tropical agricultural products exported by the ACP have free access to Community markets. Common Agricultural Policy products are imported free when Community rules 'at the time of importation' provide for import duties only. Otherwise - where variable import levies are applied - the Convention undertakes to accord 'more favourable treatment than the general treatment applicable to the same products originating in third countries to which the most-favoured-nation clause applies'. This provision will also apply to any new products brought under CAP, and negotiations on levy reductions for some products, such as rice, are proceeding. But it is much less than the ACP's demand for equality of treatment with domestic CAP suppliers. Although CAP exports from the ACP group as a whole are only 4% of their total, for individual Commonwealth countries (eg Jamaica and Botswana) the proportions can be much higher. The wording of the CAP provision ensures a preferential margin over other foreign suppliers, even though not free access. But unlike the corresponding Yaoundé clause, a loophole is left for CAP products from other developing countries to be admitted on equally good terms under the Generalised Preference Scheme (GPS).

The new departures in the Convention are, first, the specific point that 'reverse preferences' - reciprocal concessions on Community exports - need not be extended by the ACP. This abandons the principle - largely

a legal fiction - of a free trade area on which the Yaoundé Convention was based. For the ACP, its importance lies mainly in the fact that they are not likely to be excluded from the United States' GSP - a significant consideration for the Caribbean.

Second, ACP countries may give preferential treatment to other developing countries over and above the terms of access extended to the Community. This is an important change in that trade among developing countries - whether or not formally linked in customs unions or free-trade areas - is now actively encouraged by the Convention.

The third important new departure lies in the terms extended to sugar imports - in which India is included with the ACP. Sugar is the only product to receive specific guarantees of both price and access. The Convention provides for total annual imports of 1.4m tons from the ACP countries, for an indefinite period (although the details of implementation are to be reviewed after seven years); the price is linked to the EEC support price for beet production - thus the 1975/6 price is equivalent to some £150 a long ton. Thus, within an overall quota which will be stringently administered as between individual countries, ACP sugar supplies are receiving treatment similar to that accorded to the Community's beet producers.

The Convention does not, therefore, substantially improve the terms of access for ACP countries over what would have been the case if the Yaoundé Convention had simply been reviewed (although there has been some tidying up of anomalies). And there is now no reason in principle why the same terms as are given to ACP countries on CIP products should not, through the GSP, be extended to other developing countries. But the goal identified by the Select Committee as 'the most important for associates, associables and the rest of the Third World' - free access to the EEC market - is not brought very much nearer by the terms of the Convention.

#### Stabilisation of export revenue

An entirely novel feature of the Lomé Convention is that contained in title ii, an export revenue stabilisation scheme - STABEX - covering selected ACP exports of raw materials to the Community. The list - to be revised after one year - features fresh bananas, cocoa (beans, paste and butter), coconut products (copra, coconuts, coconut oil and oilcake), coffee (raw or roasted, extracts, essences and concentrates), cotton (not carded or combed, and linters), groundnuts (shelled or unshelled, oil and oilcake), raw hides, skin and leather, iron (ore, concentrates and roasted pyrites), palm oil and palm nut and kernel products, raw sisal, tea and wood (in the rough, squared, or sawn lengthwise only). In any future revisions, the Community intends to oppose the inclusion of any other minerals: iron ore was accepted 'solely to enable overall agreement to be reached on the new Convention'. The system applies to an ACP country's exports of one or more of these commodities when these exports to all destinations represent 25 per cent or more of total export earnings (in the case of the 34 least developed, landlocked or island ACP countries) or 7.5 per cent (for the remaining countries). In 'certain special cases' ('at the moment' Burundi, Ethiopia, Guinea-Bissau, Rwanda and Swaziland) exports of the commodity to all destinations will be covered by the scheme.

The operation of the scheme is as follows. A base or 'reference' level is set for each ACP state, representing the average of its earnings from exports of the individual product to the Community over the preceding four years. If during a calendar year its earnings fall 7.5 per cent or more below this reference level (2.5 per cent in the case of the 34), the ACP country can request interest-free loans from the special stabilisation fund to cover or partly cover the difference. The country will, however, not be eligible for the funds if the fall in its earnings is due to its own trade policies. The STABEX loans are repayable over the five years after their allocation, if the prices obtained exceed the prices at the reference level and if the volume of their exports to the Community is at least equal to that of the reference level; the amount of the

repayment is to be equivalent to the reference level volume multiplied by the difference between the reference and actual prices. In fact most countries - the 34 mentioned above - are not required to repay.

The significance of this scheme to the ACP countries is indicated in the two tables below:

Table 1. Percentage of selected ACP countries' total exports of commodities covered by STABEX

Burundi <sup>1</sup>	95	Congo	42
Gambia <sup>1</sup>	94	Tanzania <sup>1</sup>	41
Uganda <sup>1</sup>	86	Western Samoa <sup>1</sup>	40
Ghana	80	Togo <sup>1</sup>	39
Mauritania <sup>1</sup>	73	Senegal	35
Liberia	71	Dahomey <sup>1</sup>	34
Somalia <sup>1</sup>	71	Kenya	33
Chad <sup>1</sup>	69	Madagascar <sup>1</sup>	33
Ivory Coast	67	Gabon	32
Rwanda <sup>1</sup>	65	Upper Volta <sup>1</sup>	30
Sudan <sup>1</sup>	65	Niger <sup>1</sup>	24
Central African Rep. <sup>1</sup>	62	Malawi <sup>1</sup>	24
Cameroon	61	Sierra Leone	15
Ethiopia <sup>1</sup>	31	Botswana <sup>1</sup>	9
Tonga <sup>1</sup>	30	Fiji <sup>1</sup>	5
Mali <sup>1</sup>	46	Jamaica <sup>1</sup>	4
		Swaziland <sup>1</sup>	3

<sup>1</sup> Countries in the 'least developed', 'island' and 'landlocked' lists.

Source: Telex Africa

Table 2. Commodity imports from ACP countries of commodities covered by STABEX 1973 (million units of account)<sup>1</sup>

Fresh bananas	56.7	Groundnut oil	83.1
Cocoa beans	288.4	Bovine cattle leather	20.5
Cocoa butter	39.2	Iron ore	275.9
Cocoa paste	12.4	Palm oil	27.0
Copra	8	Palm nut and kernel oil	20.7
Coconut oil	6.7	Palm nuts and kernels	32.0
Raw coffee	350.3	Sisal	27.9
Cotton not carded or combed	126.9	Sawn tropical wood	73.9
Shelled groundnuts	102.2	Tropical wood in the rough	440.1
		Total	1,984.7

<sup>1</sup> 1 unit of account = £0.42

Source: Telex Africa

But the wide scope of the scheme - applying to total imports by the EEC of 1,985 million units of account - £827 million - is in sharp contrast to the small amount of finance available for it. The maximum amount expendable in the first year of its operation will be 90 million units of account (£38 million) i.e. a fifth of the total + a maximum of 20 per cent of the next year's allocation. If the value of STABEX products in 1975 goes down by 7.5 per cent on something like the 1973 level (the average will in fact be for 1971-1974), the whole of STABEX's funds for the year will be utilised; and a problem of rationing arises at some point.

When the Select Committee considered the proposal for an export stabilisation scheme (at that time covering sugar, groundnuts and groundnut oil, cotton, cocoa, coffee, bananas and copper) no level of funds had been suggested. It could not therefore pronounce on the adequacy of the financing. The point it made most strongly was that if the funds were on concessionary terms - as they are - they represented an allocation of aid on 'new and somewhat arbitrary criteria'. The 54 countries who are eligible for STABEX funds on a grant basis and at a lower percentage of exports do include all the UN least developed in the ACP group: but they also include countries such as the Bahamas and Trinidad whose claim to aid funds is much less apparent than that of Kenya or Zaïre which are not in the 54. The stringency of the allocation would, of course, be more disturbing if the funds available were more significant.

#### The provision for money

In contrast to the trade clauses, the aid provisions of the Lomé Convention represent a worsening on the position under the Second Yaoundé agreement. Total funds for 'financial and technical cooperation' for the period of the Convention will be 269 per cent (at current prices) above the Yaoundé II allocation, while the number of people covered has risen by 245 per cent: there is a rise in funds per caput from 11.83 (24.93) to 12.75 (25.31) units of account. But in purchasing power there will be a decline, given the rapid inflation of recent years: the Lomé per caput level is, in real terms, more than 40 per cent below the Yaoundé II figure.

Table 3. Composition of Yaoundé II and Lomé commitments  
(million units of account)

	<u>Yaoundé II</u>	<u>Lomé</u>
European Development Fund	328	3,000
of which: grants	748	2,100
special loans)		430
risk capital )	80	95
STABEX	-	375
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European Investment Bank loans (interest rate subsidised from EDF grants)	90	390
<b>Total</b>	<u>918</u>	<u>390</u>

There are three new features in the operation of the aid programme. First, a specific proportion has been allocated to one sector - 10 per cent of all funds is to be reserved for financing ACP states' 'regional projects'. Yaoundé II made no sectoral allocations, merely stating that the 'desirability of promoting regional cooperation among Associated States' be taken into account in financing projects and programmes. A second change in detail allows for aid funds 'temporarily and on a diminishing scale' to be used for current costs. The difficulty of covering the associated recurrent costs of development projects can cause distortions in development spending (to capital works as against maintenance) or make otherwise appropriate programmes non-viable.

The third change is by far the most significant, although it is not a consistent principle behind the Convention's aid programme. It relates to the allocation of funds as between countries. Under Lomé - as under Yaoundé - there will be no commitments of a specific sum

to a specific country over the period: receipts will reflect the individual ACP country's ability to put up projects and programmes which qualify for the funds available. Inevitably the better endowed countries stand to benefit, the worse endowed - the poorest - stand to lose. The Select Committee expressed its concern at this situation, arguing that the best way to correct this is through an indicative, but firm planning of the inter-country allocation of funds: the first criterion for this allocation should be need; and that the Commission should take more initiatives to help these countries that have the greatest difficulties in absorbing aid<sup>1</sup>. The Lomé Convention has moved toward this view, in its provision that 'special attention... be paid to the needs of the least developed ACP states so as to reduce the specific obstacles which impede their development and prevent them from taking full advantage of the opportunities offered by financial and technical cooperation'. There was no such provision in the Yaoundé Convention. The means of implementing this 'special attention' have yet to be defined.

#### The Convention and the Community's development policy

The Lomé Convention is the most significant, and comprehensive, expression of the Community's policy toward developing countries. Commission officials frequently refer to it as a 'laboratory' although whether the results are then to be applied to the Community's relations with all developing countries is a matter of debate. As a prototype the Convention has certain features which could with advantage be more generally applied - concessionary access for some agricultural products, price and quantity guarantees for a competitive commodity (sugar), the notion of export stabilisation; institutions to improve the marketing of industrial goods, the commitment to a specific level of aid spending over a period of years. But is their extension to non-ACP developing countries likely - or feasible? The references in the Convention to the maintenance of the preferential status of the ACP signatories on access for CAP products may still preclude the offer of identical concessions to other developing countries (but see below). The depth and duration of the struggle over quantity guarantees on sugar make it unlikely that other commodities will receive similar treatment in the foreseeable future. Extending the same per caput level of aid to the South Asian countries alone would bring the commitment to 12,482 million units of account (22,972 million) - equivalent, on an annual basis, to almost three quarters of total net aid spending by the Community members in 1975.

Since the Lomé Convention will be in force until 1980, its provisions will affect the hopes of 'a general broadening of the Community's policies in both trade and aid towards the Third World as a whole', expressed by the Select Committee.<sup>2</sup> But the Convention is not the only expression of the Community's policy on relations with the Third World, and it does not prevent improvements in trade terms and aid flows to non-ACP developing countries. On the trade side the Convention does not preclude the extension of the GSP to CAP products and the trend has been toward improvements in the scheme. Bilateral trade agreements can also be the means of accordng special concessions on specific items - although, at the most, these could only be equal to those accorded to the ACP. On the aid side the South Asian countries stand to be the major beneficiaries of the Community's food aid programme (226 million units of account - 294.2 million - in 1974/75) and will also receive funds under the Community's contribution (250 million units of account - 2104 million - so far) to the UN Emergency Fund to help the countries most

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<sup>1</sup> Report of the Select Committee. Paragraph 92.

<sup>2</sup> Report of the Select Committee. Paragraph 28.

seriously affected by higher oil and food prices. In addition, the Commission has recommended that 100 million units of account (£42 million) be allocated for aid to non-ACP countries in 1976, rising to 200 million by 1980. Thus Community aid commitments to these countries could reach up to some 326 million units of account (£136 million) in 1976: if the Community maintains its contribution to the UN Emergency Fund, then non-ACP countries could receive up to 576 million units of account, or £240 million. (Since some ACP countries are also classified as 'most seriously affected', not all the 250 million units of account would in fact go to the non-ACP group.) This ceiling compares with an average annual rate of commitments under the Lomé Convention of 670 million units of account, or £283 million. It could be argued that the rough balance of aid to associated and non-associated countries, which Britain and the Netherlands have been seeking, is now possible. But the 'even-handedness' is considering a group of countries containing some 270 million people as equal to another group containing 1,575 million, with no reflection of the relative need of the two groups. It will still be necessary for the lateral aid programme of individual Community members to counter the distribution of the Community's collective programme.

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