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EEC's Association Policy

by Dr Dieter Friedrichs, Brussels *

In Part IV of the Treaty of Rome, Articles 131–136, it is laid down that all overseas countries and territories which were or had been dependencies of EEC member countries should be associated with the Community in order to assist economic and social development of such countries and to build close economic relations between them and the European Community. The present article discusses the effects which this policy has had up to the present time.

In order to assess this kind of association properly and to understand many of the problems arising from it, it has first to be remembered that, at the time, France had made the association of its African dependencies, with which it maintained special relations, an indispensable condition for its signature under the entire corpus of the Rome Treaties of 1957.

French Demands

This meant that France's partners who would have accepted the Treaty also without these territories being associated with the EEC had to shoulder a new kind of responsibility. However, France and its overseas territories then constituted an entity that had grown historically, and this entity could not simply be dismantled without doing serious economic harm to the countries involved. That was why the signatories decided to embark on a wholly novel form of cooperation, called "association", and this was also extended to cover other overseas countries and territories that had special relationships with Belgium, Italy and the Netherlands.

The major feature of this kind of association, the details of which were laid down in a five-year procedural agreement that came into force at the same time as the EEC Treaty is that most of the rules and regulations adopted for governing the relations between formerly dependent territories and their metropolitan countries were extended to govern also their relations with the Community. Mainly, it was agreed that a large zone of free trade should be built by mutual dismantling of tariffs. At the same time, member countries of the

Community took part in financing help which was to be granted through the European Development Fund (EDF) to the extent of 581.25 mn Accounting Units (AU) ² over a period of five years, usually for investment projects serving the development of the beneficiaries' infrastructure and of construction.

The First Pact of Yaounde

All the overseas countries and territories so favoured became independent states in the early sixties, and they now sat down, as partners with equal rights, with the European Six in order to negotiate a renewal of their association with EEC. The result was an agreement signed on July 20, 1963, during a conference held at Yaounde (Cameroon) ³, which provided for gradual integration into world markets of all the associates. This, among other things, implied progressive dismantling of their former price and marketing guarantees, which France, in the main, had extended to them ⁴. Furthermore, the new agreement set up 18 individual

² The Accounting Unit (AU) is equivalent to the US\$ (before its devaluation) or to 0.88867088 grams of fine gold.

³ There are 18 independent states which have become Associates of the EEC through the Yaounde Convention and are known as AASM (Associated African States and Madagascar), as follows: Burundi, Dahomé, Ivory Coast, Gabon, the Cameroons, the People's Republic of Congo (Brazzaville), Malagassy (Madagascar), Mali, Mauritania, Niger, Upper Volta, the Zaïre Republic, Ruanda, Senegal, Somalia, Togo, Chad, and the Central African Republic.

According to the decisions of the Council of Ministers of the EEC of February, 1964, and of September, 1969, the following overseas countries and territories (OCT) are associated with the EEC: the French territory of the Afars and Issas, the Comore Islands, Saint-Pierre et Miquelon, New Caledonia, the Wallis and Futuna Islands, French Polynesia, the South Sea and Antarctic Territories, the Netherlands Antilles, and Suriname.

The four French Départements of Guyana, Guadeloupe, Martinique, and Réunion are not associated with the EEC but form part of the French Metropolitan area and are thus being treated as parts of France.

⁴ Former dependencies were granted higher prices through a French price guarantee for certain of their products, whose world market prices were significantly lower.

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¹ The type of association with African developing countries is different from that under Article 238 of the EEC Treaty, which applies to the association agreements made with Greece, Turkey, Tunisia, Morocco, and Malta.

free trade zones linking EEC with the Associated Countries⁵, which secured for all the products exported by Associates (with the exception of certain farm products, in so far as they are identical and/or competitive with European products, under Article 11 of Yaounde I) access to the European Common Market without any import duties and without any quota restrictions. Farming of the Associated States, on the other hand, was to be favoured by special production and diversification aid aiming at price support and structural improvements.

Financial aid to be granted by EDF was increased from AU 581 to 800 mn, and this total was not only to be used for giving grants-in-aid but also for making long-term loans (up to 40 years) under specially favoured conditions, e.g. low rates of interest of 2.5 p.c. New clauses of the agreement were those about the right of settlement of nationals of EEC and its associated states in the entire area covered by the agreement, about liberalisation of inter-area payments, and about conditions regulating the accession of new members to the Community. Finally, a new network of common institutions, to be manned by all members and associated members of the Community with equal rights, was set up: they are the Council of the Association, the Committee of the Association, its Parliamentary Conference, and its Arbitration Tribunal, which, together with the permanent representatives of Associated States with the European Community, and with the EDF Comptrollers in Africa, enable the Community, its individual members, and its Associates to pursue a perpetual dialogue.

The Second Yaounde Agreement

A new agreement was signed, also in Yaounde, on July 29, 1969, but there were delays in its ratification that postponed its coming into force to January 1, 1971. It is to run until January 1, 1975.

Yaounde II has continued along the path of Yaounde I, making further progress towards trade liberalisation and towards opening up the Association area to the world outside it. In doing so, the new agreement has done away with financial aid to production for the purpose of price support⁶, and tariff advantages open to Associated States have contracted, since the Common Market Tariff was lowered both generally through the Kennedy Round and specifically for a number of tropical crops (coffee, cocoa beans, palm oil). To com-

pensate Associated States for this, the EEC has promised to grant Associates more favourable treatment than third-party countries regarding identical and/or equivalent and competing farm products: many of these products may now be imported duty-free into the Common Market Area. On the other hand, EEC exports have also obtained so-called counterpart preferences, which means that they may enter Associated States duty-free.

As one of its special purposes, Yaounde II has proclaimed, and gives support to, mutual regional cooperation of Associated States among themselves⁷, and through the third EDF which, including loans made by the European Investment Bank (EIB), totals AU 1,000 mn, special support is now given to African production and to marketing of its output. The new Yaounde Convention, through financial and technical cooperation, intends to supplement the Associates' own efforts to accelerate their economic and social development.

The kind of cooperation between industrialised and developing countries which has been developed by the instrument of association with EEC has so far remained unique worldwide. To illustrate what it means in practice, some of its main and complex tasks will be discussed below.

Worldwide vs. Regional Development Policies

The Association is frequently accused of being one-sided, strengthening the worldwide trend of forming power blocs. It is stated that the European Community is bearing responsibility towards all countries of the world, so that it is inadmissible to discriminate between different groups of them.

Yet the European Community, on principle, has always stated its willingness to cooperate with all developing countries (LDCs), and numerous EEC initiatives⁸ have shown clearly that its policies tend to establish worldwide cooperation. Its main activities, it is true, focus on regional cooperation between Europe and Africa. This is so not only for the above-mentioned historical reasons but is justified by the relative scarcity of the Community's funds, which cannot, if they are to be used effectively and efficiently, be spread over all LDCs. There is also the fact that, among Associated States in Africa, the proportion of economically least-devel-

⁷ In this case, EEC does not insist on the most-favoured nations' clause and on strict free trade, if AASM states want to arrange for economic unions, free trade zones, or other trade agreements, as long as these do not affect EEC interests adversely.

⁸ For example, other association treaties, trade agreements and preferential treatment arrangements with Greece, Turkey, Tunisia, Morocco, Malta, the Lebanon, Israel, Spain, Yugoslavia, Iran, the three East African states of Kenya, Uganda, and Tanzania, and Nigeria; the preparation for special links with Latin America: reductions of the Common External Tariff before the due date; tariff reductions under the Kennedy Round; preferential tariffs for finished and semi-finished goods produced in LDCs, which came into force on July 1, 1971.

⁵ The Treaty of Rome had provided for a single Free Trade Zone made up of European members of the EEC and all African associate countries.

⁶ To make up for this at least partially, a new form of financial aid will be provided up to a maximum of AU 80 mn for extraordinary needs (in cases of natural disasters, crop failures, drastic price drops, etc.) and more trade promotion through technical aid, market research, staging of trade fairs, etc.

oped countries is large, and the Association has hitherto been the only institution which devotes particular care to their interests. Therefore, it cannot be seen why successful regional cooperation with associated Africa should be given up only to serve allegedly worldwide but anonymous joint responsibilities.

Regionally Exclusive Trade

For a long time, the same charge of regional isolationism had been levelled against trade policies which were practised within the Association range, because the Association was said to be a zone with regionally restricted preferences threatening to militate against export developments in other industrialised and developing countries. But statistical trade returns, as far as they are available, do not justify such fears. Average annual growth of EEC imports from its Associates, over the last ten years, was of the order of 6 p.c., whilst its imports from other LDCs (including crude and other oils) grew, on average, by 7.1 p.c. (cf. Table 1). All in all, it can be stated that the expected effect of ex-

Table 1
Average Annual Growth Rates of EEC Trade with all LDCs 1958-69
(In p.c.)

Area	EEC Exports to	EEC Imports from
all LDCs	4.5	7.1
Latin America	3.5	6.0
Asia (Far East)	5.8	5.3
Middle East	8.8	6.7
AASM countries	5.6	6.0
North Africa	-1.2	11.4
other African LDCs	6.8	7.7

clusivity, feared from European integration, on the evolution of international trade with countries outside the EEC and its Association area has been nil. On the contrary, all trading partners of the EEC have benefited from its dynamic growth.

Table 1 shows annual averages during a period of twelve years, but these conceal

their significant improvement during recent years;

the differences between developments from one country to another (see Table 2).

During the first association years, in spite of tariff reductions and dismantling of quotas, traditional routes of trade hardly changed, and France remained by far the most important trading partner of Associated States. It was only gradually that trade diversification, which is the purpose of association, came into being. The new ties between Associates and all the members of the Community

Table 2
EEC Trade with AASM Countries, by Individual EEC Members; Average Annual Growth Rates, 1958-69
(In p.c.)

Country	EEC Exports to AASM	EEC Imports from AASM
Germany	11.1	11.3
France	4.6	2.8
Italy	13.4	13.4
Netherlands	10.6	9.4
Belgium/Luxembourg	2.1	6.9
Total	5.6	6.0

became stronger and led to the evolution of a regionally widened zone of preferences⁹.

For several years now, the above-mentioned counterpart preferences have been the butt of most violent criticism. But these are, on principle, one of the indispensable characteristics of free trade zones which GATT specifically permits. Moreover, the Associates themselves see in such preferences measures of special significance, because these are one of their own independent contributions towards building the overall structure of association. Besides, all the partners involved have emphasised repeatedly that neither the Association Agreement in general nor these counterpart preferences in particular prevent negotiations on a system of generalised preferential duties or accession of EEC Associated States to such an all-embracing system of preferences from taking place¹⁰.

In this context, it is of interest that the EEC's balance of trade with its Associates and also with all other LDCs has been consistently in deficit which, during the period 1958-70 amounted to the

Table 3
Growth of EEC Imports from the Third World: 1958-69

Origin	Overall Growth in p.c.	cumulative deficits of Balance of Trade (—) or surpluses (+), of EEC in US\$ mn
all LDCs	108	- 9,640
AASM and North Africa	88	- 4,540
Latin America	92	- 2,940
Middle East	86	- 8,430
Far East	87	+ 4,730
other LDCs	—	+ 1,540

equivalent of \$ 4.5 bn (cf. Table 3). In other words, the Community has paid out to LDCs currency which they urgently need for financing their own imports, repaying debts, etc.

⁹ In spite of this, overall results seem adverse, because France, with its persisting predominance in trade with AASM countries is depressing the EEC averages.

¹⁰ See Protocol No. 4, Agenda to the Yaounde II Agreement.

To assist LDCs in carrying out economic and social changes, it is not enough to facilitate their trade, because the scope of such measures is limited. It is necessary to supplement trade by financial and technical aid given by developed countries. That is why the activities of EDF have been growing in importance, parallel and additional to increased help through trade policies.

Table 4
EEC Members' Contributions to EDF
(In AU mn and p.c.)

Country	Under Rome Treaty 1958-62/64 ¹		Under Yaounde I 1964-69/70		Under Yaounde II 1971-75	
	AU mn	p.c.	AU mn	p.c.	AU mn	p.c.
Belgium	70.00	12.04	69.00	9.45	80.00	8.89
Germany	200.00	34.41	246.50	33.77	298.50	33.16
France	200.00	34.41	246.50	33.77	298.50	33.16
Italy	40.00	6.88	100.00	13.70	140.60	15.62
Belgium/ Luxembourg	1.25	0.22	2.00	0.27	2.40	0.28
Netherlands	70.00	12.04	66.00	9.04	80.00	8.89
EDF	581.25	100.00	730.00	100.00	900.00	100.00
EIB (European Investment Bank)			70.00		100.00	
Total	581.25		800.00		1,000.00	

¹ Through negotiating and ratification delays in finalising the new treaties, the distribution of monies from Funds was inadvertently extended for more than five years. In order to avoid a repetition of this, the new Yaounde II Convention has fixed a definite end-date for fund activities.

Aid offered by the Community is being given according to objective criteria and as a supplement to the recipient countries' own efforts. The six EEC countries have contributed rising sums to the three funds (see Table 4), and it must be underlined that the share of Italy has been rising progressively. The monies vested in the second and third EDF (the first one consisted exclusively of non-repayable grants-in-aid¹¹) are channelled to Asso-

Table 5
Groups of Recipients of EDF Aid, and Forms of Financing under the Two Yaounde Agreements

	Yaounde I		Yaounde II	
	AU mn	p.c.	AU mn	p.c.
(1) AASM				
EDF grants	630.00	77.5	748.00	74.8
EDF loans ¹	46.00	5.8	80.00	8.0
EIB loans	64.00	8.0	90.00	9.0
sub-total	730.00	91.3	918.00	91.8
(2) Overseas countries and territories				
EDF grants	60.00	7.5	62.00	6.2
EDF loans ¹	4.00	0.5	10.00	1.0
EIB loans	6.00	0.7	10.00	1.0
sub-total	70.00	8.7	82.00	8.2
Grand Total	800.00	100.0	1,000.00	100.0

¹ Loans under special conditions: for 40 years and at 2.5 p.c. interest.

ciate States and overseas dependencies in various forms (see Table 5). Up to now, the most important recipients of EDF aid have been the Zaire Republic, the Ivory Coast, the Malagassy Republic, the Cameroons, Mali, Chad, and Upper Volta.

From time to time there have been open complaints about the ratio between the contributions of some EEC members to EDF and the placing of contracts with them, but it would be completely contrary to the letter and the spirit of multi-lateral aid without strings to make it one of its conditions that donors are to be repaid by contracts of the same value as their financial contributions. In addition, EDF has to pay heed to the special position of France in regard to Associated States. Nonetheless, over the years, the distribution of EDF-financed contracts has lately changed to a more or less satisfactory pattern (see Table 6).

Table 6
Contracts Awarded, by Nationalities of Bidders. First and Second EDF-financed projects, as of Dec. 31, 1970

Area	First EDF		Second EDF	
	In AU mn	p.c.	In AU mn	p.c.
Belgium	17.15	3.69	31.80	7.87
Germany	30.90	6.66	90.50	22.35
France	202.80	43.68	160.30	39.61
Italy	65.10	14.03	40.90	10.11
Netherlands	22.80	4.91	19.30	4.76
Luxembourg	1.50	0.32	3.40	0.84
AASM/Overseas Countries and Territories	123.60	26.62	58.00	14.34
Third-Party Countries	0.40	0.09	0.50	0.12
Total	464.20	100.00	404.70	100.00

The two Yaounde Agreements specifically state that other African countries may join the Association, and this has been done. It is too early, however, to assess the eventual value of the newly-concluded agreements already now. That is why they are only briefly stated here.

Negotiations with the three members of the East African Community (Kenya, Tanzania, Uganda) have led to the signing of an agreement on July 26, 1968, in Arusha (Tanzania). It differs from the Yaounde agreements in so far as it does not provide for financial and technical aid for the three new associates but mainly for "aid through trade". Its main aim is the creation of a free trade zone between the signatories: East African exports, from now on, may enter the EEC area duty-free, with the exception of products for which the Euro-

¹¹ Of the total, the Agreement on Procedure, added to the EEC Treaty allocated to overseas countries and dependencies: Belgian AU 30 mn, French AU 511.25 mn, Italian AU 5 mn, Dutch AU 35 mn, making a total of AU 581.25 mn.

pean market has been formally organised by a "Marktordnung", and of those which might affect exports of the original Associate States (AASM) adversely (e.g. coffee, cloves, tinned pineapple). On the other hand, East African states may protect their young industries and draw fiscal revenues through tariffs and import quotas.

Prospects of Association Policies

In spite of all criticism—also that originating with AASM¹²—all those involved have agreed in principle that association as a special form of regional cooperation has proved its worth and should be continued, naturally with reforms to adapt to changes in the outside world and to utilise past experiences. The Association has become a durable alliance in the fields of development and trade policy¹³. The Yaounde Agreement is to terminate on January 1, 1975, and it provides that negotiations for its renewal and extension must start by August 1, 1973, which is 18 months before it lapses. Until that date, it will probably also have become clear what are the effects of the Community's enlargement on existing associations and on rela-

¹² They are afraid of a further dismantling of their trade preferences, which they believe will only be the forerunner of a dissolution of the all-embracing character of the Association.

¹³ Cf. G. J a n t z e n, *Integration und Regionalisierung der Internationalen Wirtschaftsbeziehungen (Integration and Regionalisation of International Trade Relations)*; *Hamburger Geographische Studien*, No. 24/1971, p. 50.

tions in general between the EEC and developing countries.

After the UK has joined the Common Market, the problem of EEC relations with the African states of the British Commonwealth will have to be considered¹⁴. The Community offers them three alternatives:

- accession to the Association under the Yaounde Agreement which will have been renewed after January 1, 1975;
- forming a new and special association with mainly mutual trade obligations, or
- the conclusion of a trade agreement to facilitate and increase exchanges of goods with the Community.

As to British dependent territories (except Gibraltar and Hong Kong), it has already been agreed that there is, on principle, nothing to be said against their association with the enlarged Community under Part IV of the Rome Treaty. No matter what the countries involved will decide in the end, and how all the unsolved problems will be overcome, the Community's responsibility towards LDCs is bound to become much greater.

¹⁴ They are Botswana, Gambia, Ghana, Kenya, Lesotho, Malawi, Mauritius, Nigeria, Zambia, Sierra Leone, Swaziland, Tanzania, and Uganda. Of these, Kenya, Tanzania, and Uganda have already made an agreement with the EEC.

Promotion of Investments under Yaounde II

by Dr Heinz Langerbein, Bonn *

There are many companies operating within the Common Market to whom the highly favourable conditions for making investments in many African countries, which exist under the Yaounde Agreement, are not known. In the following article the possibilities offered to private investors by Yaounde II for facilitating their ventures are discussed.

The European Economic Community (EEC) and the Associated African States and Madagascar (AASM) that are associate members of the EEC have jointly concluded a new agreement on economic development and cooperation, which came into force on January 1, 1971. Like the first of these conventions, this second one has been signed in Yaounde and it is therefore generally known as the Second Yaounde Agreement, or Yaounde II. It is striking that the new convention is geared mainly to fostering and supporting private economic

initiatives. There is probably not another agreement on international aid which contains so many enabling clauses for making private investment attractive and supplying it with new incentives. The fact that private entrepreneurs know so little about this is, without doubt, mainly due to the, often bewildering, complexity of Yaounde II, which exceeds even that of the, already highly involved, Yaounde I Agreement.

However, by delving into the details of the new agreement, as far as they touch the interests of investors, the new prospects become immediately

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