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The Convention of Lomé – Towards a New International Cooperation?

by Hajo Hasenpflug, Hamburg *

The relations between 46 developing countries and the EC had to be reviewed and revised after the expiry of the EC association agreements with the 19 Yaoundé states and the three Arousha states and also because of the accession of Great Britain to the EC which made it necessary to include also the LDCs of the Commonwealth.

There are elements in the Convention between the 46 African, Caribbean and Pacific states (the ACP countries) and the nine members of the EC, which was concluded in Lomé on February 28, which may give new impulses to the search for a new economic order. The new Convention covers in detail the following spheres:

- ☐ Cooperation in the field of trade policy,
- ☐ Stabilisation of export earnings (incl. the Sugar Protocol),
- ☐ Industrial cooperation, and
- ☐ Financial and technical cooperation.

Waiver of Reciprocal Preferences

As regards trade, the main achievement is that the EC has at last renounced the claim to mutual tariff preferences and granted unreciprocated unilateral trading advantages consistent with the concept of a "unilateral free-trade area" (Article XXIV in conjunction with Part IV GATT) to the ACP states. Almost all goods from ACP countries will be allowed access to the EC market without either customs or similar dues or quantitative restrictions. The ACP states on their side have merely undertaken to concede most-favoured-nation treatment to the EC and promised not to discriminate against member states of the EC.

The only qualification to be made about the agreed trade arrangement is that the principle of free access will not apply to certain ACP products which are, directly or indirectly, in the ambit of the common agricultural policy. According to the final text this still leaves 94.2 p.c. of the \$ 1.02 bn of EC imports from ACP countries affected by the

common agricultural policy (i.e. 13.4 p.c. of all EC imports from ACP states) with free access to the EC. In regard to the other 5.8 p.c. which are subject to restrictions the Community has undertaken to concede to the ACP states more favourable treatment, as a rule, than to third countries.

Another innovation in the trade policy part of the Convention is the relaxation of the regulations concerning the origin of goods: the EC has undertaken to treat the ACP countries as a unitary tariff area, i.e. to concede the attribution of cumulative origin to them. This arrangement facilitates joint production of export goods by ACP states and thereby encourages regional integration between ACP states.

Stabilization of Export Earnings

In view of the marked dependence of the majority of developing countries upon their earnings from exports of a few commodities (see Table) the states which are associated with the EC through the Convention of Yaoundé have repeatedly presented demands for the stabilization of their producer prices. When the EC was enlarged, the EC states recognised the validity of this demand in principle by Protocol 22 of the Act of Accession so as to conform with the interests of the sugar and raw material exporting AASM and Commonwealth countries.

Starting from maximal positions, the ACP countries in the negotiations demanded that a guarantee of the purchasing power of their major export products should form part of the stabilization system for their export earnings. That however would have amounted to a kind of indexation of export and import prices, and apart from technical

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difficulties of a statistical nature which would probably have defied solution, it is doubtful whether this would really have been of benefit to all or even some of the associates since there are trade flows not only between industrialized and developing countries but also between the various developing countries. The only certain result of such indexation would have been a further stimulation of the current worldwide inflation. Moreover, such interference with the market mechanism usually gives rise to ruinous surpluses.

The Commission therefore decided to stabilize the earnings and not the prices. This however entails another risk: the producers will keep their outputs as high as possible because they are well aware that they will be compensated for any decline in earnings caused by falling prices. For this reason the EC considered appropriate safeguards in the earnings stabilization system indispensable: these safeguards include in particular an arrangement putting an upper limit on the stabilization fund and strict criteria about the conditions in which the system becomes operative.

The arrangement finally arrived at provides in detail that the stabilization system for the export earnings shall apply to 12 primary commodities (or groups of commodities), namely: ground-nuts; cocoa; coffee; cotton; coconut; palm and palm-kernel products; leather, skins and hides; timber; fresh bananas; tea; raw sisal; and iron ore. In regard to iron ore the Community has stated that its inclusion in the list is exceptional and that it is in principle opposed to the inclusion of iron ore products. It was also provided that a decision may be taken in 12 months' time to extend the list by the inclusion of other commodities upon which one or more ACP states depend to a substantial degree for their economies if their prices undergo wide fluctuations.

Whether and when the mechanism of the system is to be brought into operation for any of the listed commodities is determined by reference to a so-called dependence threshold and a release threshold. The dependence threshold limits consideration for purposes of the stabilization system to countries which derived a certain minimum percentage share of their total export earnings in the preceding year from the particular commodity concerned. The minimum rate is 7.5 p.c. (for sisal exceptionally 5 p.c.). The significance of the release threshold is that it limits the operation of the scheme to situations in which the proceeds from exports of a commodity to the Community are at least 7.5 p.c. below the level at which the EC obtained its supplies on average in the four preceding years. The ACP countries concerned

are entitled to request financial transfers when both these indicators apply. Special regulations have been made for 34 ACP states, namely the least developed countries, the land-locked countries and the island states. For these 34 countries both thresholds have been set at 2.5 p.c., and for several of them — Burundi, Ethiopia, Guinea-Bissau, Rwanda and Swaziland — the system operates in regard to all exports irrespective of the country of destination.

A total sum of 375 mn units of account made up of five annual tranches of 75 mn units each has been set aside for the operation of the system during the term of the Convention. If an annual tranche is not used up, what is left is carried forward to the next year. To prevent the system from degenerating into a "bottomless pit", the EC states have stipulated and the other countries accepted that the recipients of interest-free transfers shall as a rule share in reaugmenting the stabilization fund when their earnings situation has improved; 24 poorer countries¹ have however been exempted from these obligatory repayments.

An evaluation of the export earnings stabilization system must lead to the conclusion that the concept of an equalization fund to offset fluctuations in the export earnings of developing countries can serve as a model for future improvements of development aid policy. In view of the fact that the exports of primary commodities provide most ACP states with their principal source of foreign currencies and thus perform a key function in the development of these countries, the new system may be regarded as a basis for trouble-free financing of projects and programmes which are essential for growth and possibly for entire development plans. The only qualification to be made is that the system tends to solidify existing structures. Tendencies towards overproduction will be reinforced because the impulse to reduce acreages and cut back outputs when prices fall disappears. On balance a positive view may nevertheless be taken of the stabilization system because it appears to be a sound compromise between complete elimination of the market mechanism and adherence to the principle of *laissez-faire*.

Problematic Sugar Protocol

Special protocols have been attached to the Convention for several commodities which are of importance to certain ACP countries or groups of them, namely, for bananas, rum and sugar. The Banana Protocol serves the purpose of giving the

¹ Botswana, Burundi, Central African Republic, Chad, Dahomey, Ethiopia, Gambia, Guinea, Guinea-Bissau, Lesotho, Malawi, Mali, Mauritania, Niger, Rwanda, Somalia, Sudan, Swaziland, Tanzania, Togo, Tonga, Uganda, Upper Volta, and West Samoa.

ACP states, especially Somalia, better sales opportunities in the EC. With this aim in view a mixed group has been set up to consult about suitable measures. The Rum Protocol facilitates duty-free imports of rum under a quota system which allows for traditional trade flows.

The solution for the sugar problem goes a step further in the direction of export earnings stabilization. It will be remembered that Great Britain and the sugar producing countries of the Commonwealth had a special arrangement – the Commonwealth Sugar Agreement which expired at the end of 1974 – under which the British market was supplied at agreed prices in the framework of national quotas. The Community inherited this scheme and committed itself to the purchase of a maximum of 1,375,000 tons of sugar a year in return for assured deliveries by the ACP countries. The crucial point of the Sugar Protocol is the EC commitment to absorb sugar at guaranteed prices. The sugar is in the first place offered in the Community market at prices freely negotiable between the buyers and sellers. The Community intervenes as a purchaser of sugar at the guaranteed price if the latter falls below a certain minimum level. This guaranteed price is fixed annually by the negotiating parties in the light of the prices prevailing in the EC countries (at present about £ 151 a ton).

The arrangement for sugar, which was made for an indefinite period and can be terminated after seven years at the earliest, is an example of an international commodity agreement where the Community has a substantial financial interest in an equitable price trend in the EC as well as in the world market. The Community would incur considerable financial expense if it failed to reduce its own sugar production to a level slightly below that of consumption and to prevent the emergence of excess capacities such as encumbered the world market in the sixties.

Industrial and Financial Cooperation

Taking their cue from the demands for a new international division of labour voiced by developing countries especially since the UN Raw Materials Conference in April 1974, the ACP states urged the inclusion in the Convention of elements aimed at assigning to the developing countries a growing proportion of the global industrial production and international trade in manufactured goods. The Community met these demands by declaring itself willing to take various measures, namely: development of infrastructures for industrialization; contributions to the establishment of manufacturing enterprises, especially in the raw material processing industry; measures for the promotion of vocational training for industry; en-

couragement of the transfer and adaptation of technologies; measures in the fields of industrial information, furtherance of industry and commerce, and feasibility studies.

The practical work on industrial cooperation is to receive special assistance from two agencies: an Industrial Cooperation Committee which is to give an impetus to industrial cooperation, and an Industrial Development Centre competent to provide industrial information, help to establish contacts and perform other promotional services.

Incentives for the expansion of industry can be provided in particular out of the financial resources earmarked for this purpose by the EC. They total 3.39 bn units of account (1 unit of account = 1 special drawing right) of which 3 bn will go to the new European Development Fund² and 390 mn to the European Investment Bank. The EDF funds comprise 2.1 bn units of account to be disbursed in irrecoverable grants and 375 mn for export earnings stabilization; the remainder will be used for loans to be made on special terms. Bearing in mind how many ACP states there are and that a period of five years is involved, the total amount may not be sensational but against the background of Europe's internal economic problems it certainly deserves to be noted as a positive development.

To sum up, a positive view may be taken of the Convention concluded at Lomé although some points invite criticism, because it goes beyond previous agreements between industrialized and developing countries in creating elements which can assist the undisrupted development of the Third World. The arrangements for the stabilization of export earnings and concerning sugar in particular are at least a promising start because the interests of both sides have been taken into consideration.

As against this it seems doubtful whether the expectations that are connected with the agreements concerning industrial cooperation can be fulfilled, since it cannot easily be seen which factors should induce the European industries to increase their investments in the ACP states. The EC has to be careful not to raise false hopes. On the contrary, it must be made clear that in the framework of our economic order not more can be done than to give the private business sector incentives for activities abroad. In addition, the EC must not fail to remind the ACP states of their obligation, according to Article 38 of the Convention, to create a favourable investment climate in their countries.

² The EC member states contribute to the European Development Fund in the following proportions: Belgium 6.25 p.c., Federal Republic of Germany 25.95 p.c., France 25.95 p.c., Italy 12 p.c., Luxembourg 0.20 p.c., Netherlands 7.25 p.c., Great Britain 18.75 p.c., Denmark 2.40 p.c., Ireland 0.60 p.c.

The Dependence of the ACP States on Trade with the EC and Certain Export Goods

Area and Population (1972)			EC Share (1970) in p.c.			Major Export Goods (1968-70 average)			Total	
Countries	Area in 1000 km ²	Population (1000)	In total exports	In total imports	Products and Percentage Shares					
West Africa										
Ivory Coast	6,137	118,567	65	56	Coffee	30	Timber	21	Cocoa	72
Dahomey	322	5,410	69	69	Palm-oil	35	Cotton	11	Ground-nuts	53
Gambia	113	2,860	80	82	Ground-nuts	43	Ground-nut oil	35	Fodder	19
Ghana	239	9,600	49	47	Cocoa	66	Timber	10	Diamonds	4
Guinea	246	4,070	31	74	Iron ¹	90	Aluminium	—	—	—
Guinea-Bissao	36	563	—	—	Ground-nuts	69	Palm-kernels	8	Timber	5
Upper Volta	274	5,620	30	60	Cattle	48	Cotton	16	Ground-nuts	82
Liberia	110	1,590	63	43	Iron ¹	72	Rubber	16	Industrial diamonds	70
Mali	1,240	5,250	42	84	Cattle	33	Cotton	23	Fish	5
Mauritania	1,031	1,200	87	85	Iron ¹	88	Fish ²	6	Gum-arabic, Ore	96
Niger	1,267	4,200	88	87	Ground-nuts	63	Cattle	12	Cotton	2
Nigeria	924	69,100	65	55	Crude mineral oil	71	Cocoa	12	Ground-nuts	80
Senegal	196	4,080	81	55	Ground-nuts ³	57	Phosphates	8	Fish ²	71
Sierra Leone	72	2,620	81	47	Diamonds	63	Iron	12	Palm-kernels	8
Togo	56	2,050	92	68	Cocoa	35	Phosphates	28	Coffee	83
Central Africa										
Burundi	5,465	43,750	76	69	Coffee	82	Cotton	9	Oil-cake	92
Cameroon	28	3,700	29	48	Cocoa	25	Coffee	23	Aluminium	57
Congo	475	6,090	79	82	Timber	56	Diamonds	20	Sugar ⁵	83
Gabon	342	1,030	65	82	Crude mineral oil	36	Timber ⁴	25	Manganese	17
Equatorial Guinea	293	510	56	82	Cocoa	46	—	—	—	—
Central African Republic	73	310	—	—	Diamonds	46	Cotton	24	Coffee	17
Rwanda	623	1,660	59	88	Coffee	46	Tin	23	Tungsten	87
Chad	26	3,800	50	38	Cotton	54	Meat	7	Hides	88
Zaire	1,284	3,850	53	37	Copper	79	Diamonds	2	Coffee	7
East Africa										
Botswana	8,254	100,900	45	46	Cattle	80	Hides	7	Other animal products	94
Ethiopia	600	690	—	—	Coffee	58	Hides	9	Vegetables	7
Kenya	1,250	26,100	19	46	Coffee	25	Tea	16	Mineral oil products	9
Lesotho	583	11,850	38	50	Mohair	32	Cattle	22	Diamonds	12
Madagascar	30	930	—	—	Coffee	29	Vanilla	9	Rice	19
Malawi	597	7,060	43	77	Tobacco	30	Tea	22	Ground-nuts	9
Mauritius	118	4,950	70	54	Sugar	92	Molasses	3	Tea	11
Somalia	2	880	72	40	Cattle	56	Bananas	27	Hides	98
Sudan	638	2,930	60	38	Cotton	38	Gum-arabic	9	Ground-nuts	7
Swaziland	2,500	16,420	40	33	Iron	60	Sugar	27	Timber	90
Tanzania	17	420	42	58	Coffee	26	Cotton	9	Sisal	68
Tanzania	940	13,980	37	47	Coffee	17	Cotton	15	Cotton	19
Uganda	236	10,330	29	56	Coffee	55	Cotton	20	Copper	42
Zambia	753	4,360	53	36	Copper	95	Zinc	2	Cobalt	85
Africa Total										
Africa Total	19,856	263,217	60	55	—	—	—	—	—	98
Caribbean										
Bahamas	246.2	4,247	16	25	Mineral oil products	32	Cement	12	Sugar and products	—
Barbados	14	190	10	26	Sugar and products	45	Mineral oil products	13	Sugar and transp. equipm.	5
Grenada	0.4	246	58	35	Cocoa	40	Nutmeg	30	Bananas	10
Guyana	0.3	96	—	—	Bauxite and alumina	48	Sugar and products	34	Rice	68
Jamaica	215	775	25	40	Alumina	30	Bauxite	27	Sugar and products	94
Trinidad and Tobago	11.4	1,890	16	26	—	—	—	—	—	69
Pacific										
Fidji Islands	21.8	795	44	17	Sugar and products	56	Mineral oil products	11	Coconut oil	—
Tonga Islands	18.3	550	45	18	—	—	—	—	—	72
West Samoa	0.7	94	—	—	Copra	43	Cocoa	34	—	—
Total ACP										
Total ACP	20,124	268,255	54	44	—	—	—	—	—	77

1 and Concentrate; 2 fresh; 3 and Products; 4 not produced in the country (1967-69 average); 5 raw and refined.

Source: Commission of the European Communities, European Development Fund, Brussels 1974.