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The Stabilisation of Export Earnings

Two Years' Experience in Stabex

by Klaus-Peter Treydte, Bonn *

The Convention of Lomé anticipates several basic elements of a possible new international economic order. This relates particularly to the export earnings stabilisation system "Stabex" whose merits and deficiencies after the first two years of application are discussed in the following contribution.

Whilst controversial discussions are still taking place about the basic form of a new international order and whilst there is presently no indication of a generally accepted reform in the economic relationships between rich and poor countries being realised, a number of states in Africa, the Caribbean and the Pacific Ocean (ACP countries) and the member countries of the European Communities (EC) have established a new form of economic cooperation under the terms of the Lomé Convention¹.

Agreement was reached on

- the opening of EC markets for products of the ACP countries without reciprocal preferences;
- stabilisation of the export earnings of the ACP countries;
- cooperation in relation to the industrialisation of the ACP countries;
- financial assistance with special attention to the "poorest of the poor countries"; and
- the construction of political institutions on a partnership basis.

In these areas the Convention is constitutive and anticipates several basic elements of a possible new international economic order. This relates particularly to the export earnings stabilisation systems "Stabex" whose application is discussed and appraised in the following.

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¹ The Lomé Convention was signed on February 28, 1975 between 46 ACP States and nine EC States, and came into force on April 1, 1976. The agreement runs for five years. In the meantime the number of ACP countries has been raised to 52. Documentation: ACP/EEC Lomé Agreement (text and commentaries) no. 99/75, The Directorate General for Information of the Commission of the European Communities, Brussels 1975; Friedrich-Ebert-Stiftung, The Convention of Lomé, Texts and Comments, Brussels, Bonn-Bad Godesberg 1976/77; Klaus-Peter Treydte, Das Abkommen von Lomé – Vorläufer oder Alternative einer Neuen Weltwirtschaftsordnung (The Convention of Lomé – Forerunner or Alternative to a New International Economic Order), in: Jonas/Tietz (eds.), Die Neuordnung der Weltwirtschaft (The New Order of the World Economy), Bonn-Bad Godesberg 1976, pp. 122-144.

Stabex is a system for providing compensation for earnings deficiencies for a range of products which are imported by the EC from the ACP countries. It is set in action by means of two trigger thresholds. The most important provisions of the system are:

In the main the stabilisation process is in relation to agricultural raw materials (18 agricultural raw materials or semi-manufactured products and one mineral raw material – iron ore)².

A compensation payment (transfer) is guaranteed when the export earnings of a particular developing country in its trade with the EC fall below a reference value. For a few countries (e.g. Burundi and Ethiopia) earnings fluctuations for exports with third countries are also taken into account. In principle the transfers should be paid back when the prices rise above the reference level again. At the same time any increase in earnings which is derived from a change in quantities is retained by the ACP countries, i.e. repayments are only made when they can be financed from real increases in prices and not when, with a fall in price but a substantial rise in quantities, export earnings rise above the reference level. The transfers are non-repayable subsidies in the case of a group of countries covered by Article 24: the least developed countries, inland states without access to the sea and island states.

Thresholds: dependency threshold – in general where 7.5% of the total earnings comes from one product (in the case of sisal 5%) and 2.5% for the group of countries covered by Article 24; trigger threshold – falling-off of exports to the EC below a reference value (four year moving average) of 7.5% or, in case of the group of countries covered by Article 24, 2.5%.

² Groundnuts, cocoa, cotton, coconuts, palmoil and palm kernels, leather and skins, wood, bananas, tea, sisal (according to the Treaty of Lomé 1975), extended in April 1977 to 7 further products: vanilla, cloves, pyrethrum, ylang-ylang, gum-arabic, mohair and wool.

The System in Practice

In the first two years in which the system was in force³ the following transfers took place within the framework of yearly instalments of 75 mn units of account (UA):

□ 1975 – 25 transfers in favour of 17 countries for 9 products totalling UA 72 mn.

Table 1

Transfer payments for the first two years of operation 1975 and 1976 according to countries and products

Benefiting ACP Country	Product	in UA	in %
1975			
Benin	Groundnuts	464,330	0.64
	Coffee	1,174,883	1.63
	Cotton	4,299,556	5.99
	Oilcake	1,191,079	1.65
Burundi	Cotton	965,602	1.34
	Raw skins & hides	520,053	0.72
Cameroon	Raw wood	3,601,423	4.99
Central African Republic	Coffee	353,108	0.49
People's Republic of the Congo	Raw wood	7,361,677	10.20
Ivory Coast	Raw wood	15,000,000	20.78
Ethiopia	Coffee	9,339,683	12.95
	Raw skins & hides	5,080,364	7.04
Fiji	Copra oil	615,140	0.85
Ghana	Raw wood	5,176,408	7.18
	Groundnuts	685,239	0.95
Upper Volta	Cotton	175,936	0.24
	Groundnuts	5,441,294	7.54
Niger	Raw skins & hides	507,747	0.70
	Fresh bananas	1,296,907	1.80
Somalia	Raw skins & hides	635,238	0.88
	Raw skins & hides	1,658,579	2.30
Tanzania	Cotton	1,887,082	2.62
Togo	Coffee	2,680,324	3.72
Uganda	Cotton	1,748,932	2.42
Western Samoa	Cocoa	276,978	0.38
Total 1975		72,137,562	100.00
1976			
Benin	Palm oil	765,576	3.17
	Cotton	2,750,347	11.39
Central African Empire	Cut timber	549,807	2.38
Fiji	Copra oil	1,499,834	6.21
Madagascar	Sisal	1,762,943	7.30
Niger	Groundnut oil	6,755,991	27.99
	Groundnut cake	153,269	0.63
Sierra Leone	Iron ore	3,977,274	16.48
Tanzania	Sisal	5,165,208	21.40
Tonga	Copra	117,508	0.49
Western Samoa	Copra	643,066	2.66
Total 1976 (1st transfer amount)		24,140,823	100.00

Sources: Commission of the European Communities, Report on the functioning of the system for stabilising export income introduced under the Lomé Agreement for the Financial Year 1975, No. Com (76) 656 (end) of Dec. 9, 1976, p. 18, Press release IP (77) EC Commission Revue of May 13, 1977.

□ 1976 – 11 transfers in favour of 9 countries for 9 products totalling UA 24 mn (1st transfer block).

The distribution by groups of countries between repayable and non-repayable transfers was practically balanced out. The group of countries falling under Article 24 received some 56% of the transfers, whilst the other countries received 44%. These latter transfers will sooner or later (in accordance with article 21, paragraph 3) re-enter into the system. In 1976 the transfer payments made in favour of the least developed countries increased. They received in that year about 77% of the transfers as non-repayable subsidies.

Seen in relation to the export earnings of the countries benefitting the transfers form a substantial source of aid. In the case of Benin, for example, 24% of export earnings and for Niger, Ethiopia and Burundi, 13%, 6.5% and 5.5% respectively (all products and all destinations, 1974). The importance of the transfers is seen even more clearly when for an individual product the transfers are compared with the export earnings (all destinations). The percentages arrived at this way are given below⁴:

Burundi (Cotton)	63 %
Togo (Coffee)	39 %
Niger (Groundnuts)	39 %
Somalia (Skins & Hides)	33 %
Burundi (Skins & Hides)	33 %
Benin (Cotton)	27 %
Ethiopia (Skins & Hides)	27 %
Benin (Groundnuts)	25 %
Niger (Skins & Hides)	20 %
Sudan (Skins & Hides)	16 %
Ethiopia (Coffee)	15 %
Somalia (Bananas)	12 %
Ghana (Wood)	11 %

These figures show clearly the importance of the guarantee function of the system for the export earnings of the ACP States, and especially of the least developed of them.

The stabilisation of export earnings should help with respect to two potential causes: fall-offs in economic activity and damage caused by events of nature. In the first two years in which the Convention applied the following relationship between the compensation payments for economic factors as opposed to factors stemming from events of nature developed:

³ Total financial provisions of 375 mn units of account for a period of 5 years. Unused funds from the yearly instalments of 75 mn units of account can be carried forward to the next year.

⁴ Source: EC Commission, Information Bulletin, July 1976.

Products	1975	1976
Where exports were hindered for economic reasons	67 %	31 %
Where exports were hindered by events of nature	33 %	69 %

The change-round of the proportions between 1975 and 1976 is noteworthy and can be taken as an indication that the system fulfills its double protective role against economic changes and changes caused by events of nature.

Limited Applicability

Since the signing of the Lomé Convention Stabex has been very positively viewed, particularly on the part of the Federal German Government, as an important, and actually the sole practicable alternative to the different raw material policy programmes and concepts (UNCTAD, etc.). Apart from this general agreement there are a range of critical points of view which can be categorised as follows:

- Criticism of the limited applicability of the system with respect to the countries favoured by it and the products covered.
- Criticism of the present form of framework of the model and technical problems in relation to carrying out the stabilisation of export earnings.
- Criticism of the social and development policy dimensions.

Table 2
Break-down of transfers according to products
1975 and 1976

Products	in UA	in %
1975		
Groundnuts	6,590,863	9.14
Bananas	1,296,907	1.80
Raw wood	31,139,508	43.17
Cocoa	276,978	0.38
Coffee	13,547,998	18.78
Cotton	9,077,108	12.58
Copra oil	615,240	0.85
Raw skins and hides	8,401,981	11.65
Oilcake	1,191,079	1.65
Total	72,137,562	100.00
1976		
Groundnut oil	6,755,991	27.99
Groundnut cake	153,269	0.63
Cotton	2,750,347	11.39
Copra	760,574	3.15
Copra oil	1,499,834	6.21
Palm oil	765,576	3.17
Cut timber	549,807	2.28
Sisal	6,928,151	28.70
Iron ore	3,977,274	16.48
Total	24,140,823	100.00

Sources: Report 656, op. cit., p. 20, Commission, Information, April 1977.

The criticism of the limitation of the export earnings stabilisation to the ACP countries appears, when viewed in abstraction, to be correct. Solely the needs of a country, and not its regional grouping, should be the measure for determining development policy. This criticism neglects, however, the fact that this form of agreement cannot be concluded in a vacuum but must be seen in its historical and political context. In the case in question this is the attempt to achieve a development-oriented supersession of the old colonial ties between Europe on the one side and Africa and parts of Asia and Latin America on the other. Over and above this it must not be forgotten that a number of ACP countries belong to the "poorest of the poor countries" and that for the time being Africa as a total region can be viewed as the most important "hot-spot" in relation to development policy.

Also the question as to how many products should be included in the stabilisation programme had to be solved through a compromise which could not solely be orientated towards the demands of developing countries, but had to take account of the financial limits which the European Communities had established. The concentration on agricultural products (with the exception of iron ore) does in principle meet the needs of the developing countries. It neglects, however, several mineral raw material exporting countries (e.g. Zambia) which would also profit substantially from an export earnings stabilisation programme.

Programme Contents

In relation to the criticisms about the contents of the Stabex programme, three areas should be considered:

For the critics, the repayment component in the system has, in its totality, turned out to be too small. The compensation payments are in principle repayable (with the exception of the group of countries covered by Article 24). However, it is highly probable that in total very little is paid back. Firstly, because only after a rise in unit prices in subsequent periods is the repayment mechanism triggered, and even then the form of the repayment instalments is negotiable, and secondly, because in any case (as in 1975 and 1976) more than half of the transfers were paid as subsidies. In other words, the critics fear that in the long run Stabex will be viewed by the ACP countries as a source of more or less non-repayable subsidies from the European Communities.

The fact that the uses to which the transfers can be put are free of restrictions, i.e. that the funds are not tied to particular projects purposes, is likewise a point of criticism. According to the critics, the earnings stabilisation programme

would be more efficient if the transfers had to be used for industrial diversification purposes. The following of the present procedure, the critics say, degrades the funds in the medium term, to a financial instrument which compensates for the neglected diversification of production which would make the countries less dependent and lessen their susceptibility to fluctuations in export earnings.

This criticism is, however, also too abstract. The present procedure is in fact an advantage over the old system of "Caisses de Stabilisation" (used in francophone Africa), where the payments were made directly to the producer and thereby led indirectly to the maintenance of the current productive structure. Now governments have room for manoeuvre, through the transfers, in relation to financing diversification, as they no longer need to pass on the compensation payments to the producer. At the same time the EC had intentionally made these monies free of any strings so as not to allow the old colonial paternalism to re-enter through this door. As a political compromise formula the Lomé Convention provides for regular consultations about the use of funds, with the help of which the industrial diversification can be tackled on the basis of partnership.

As regards the technical problems relating to Stabex which so far have not met with an optimal solution the fact that the four year moving average, which is used as a reference period, works in practical terms in a regressive manner, is the most important point of criticism. Anticipated gains from growth for certain products are not included in the calculation. Regressive aspects also appear on account of the fact that once-and-for-all deviations from the four year moving average which lie under the trend pull down the total average and as a result act against possible future transfers. Alongside this important point of criticism (which is also accepted by the EC as a weak point in the regulation, and which they are thinking of correcting in future Stabex negotiations⁵) are other critical points of minor importance in relation to the prevention of fraud and the proof that changes in exports do not result from deliberate discriminatory commercial policy measures vis-à-vis the EC.

Socio-political Problems

The socio-political problems of Stabex are added to the general criticism of the Lomé Convention. Neo-colonial structures have been proven on the basis of the analytical methodology of peace and

⁵ In the World Bank programme for compensatory balance of payments financing, the transfers are not only determined according to past values but the reference value also takes account of anticipated values, under normal conditions, for the immediate future.

conflict research. Galtung has, for example, with the scheme "exploitation, division, penetration" shown how the European Community in relation to the countries of the Third World is practising a neo-imperialism⁶. In relation to this one cannot say that Lomé and Stabex provide a radical change from the former order. Even if Stabex can be viewed as progressive in relation to certain structural changes (denial of open paternalism, grant component for the least developed countries, etc.) it must be pointed out that on the other hand the previous structure of undertakings (large undertakings stemming from colonial times, multi-national corporations in foreign and domestic trade) has survived intact and the corresponding ruling class still determines the directions of economic and development policies. Stabex contributes therefore to the support of these structures. Although Stabex appears at first sight to be non-political a more thorough analysis demonstrates that it is not a socio-politically neutral instrument.

Further Developments and Prospects

The general success of the Stabex model has caused the EC to set their thoughts in two directions in relation to export earnings stabilisation.

□ One direction is related to expanding the favoured products to vanilla, cloves, pyrethrum (an extract from plants which is used for combatting insects), gum-arabic, ylang-ylang, mohair, and wool. Following the agreement at the Council of Ministers' meeting of the EC and ACP on April 13 and 14, 1977, in Fiji, these have already been included in the programme. Copper and phosphate, as mineral raw materials, and natural rubber were also included in the discussions but up to now have not been included; instead it was decided that the stabilisation of these products must be realised in close connection with the international development of a new world economic order. The fact that the discussion took place shows, however, that these types of raw materials need not remain categorically excluded from the programme.

□ The second direction leads to an expansion of the circle of favoured countries to a potential "World Stabex", i.e. the expansion of export earnings stabilisation to countries which do not belong to the signatories of the Lomé Agreement.

As these ideas have only been developed in the first instance as a crude sketch by the EC Commission that was passed on to the Council of

⁶ Johan Galtung, *Kapitalistische Großmacht Europa oder die Gemeinschaft der Konzerne (A Superpower in the Making)*, Reinbek bei Hamburg 1973, pp. 47, 138 ff. This question is formulated even more strongly in an essay by Klaus-Peter Tredtje, *Das Abkommen von Lomé*, op cit.

Ministers, the following only contains a tentative view of the basic ideas.

The favoured products which come into question for an export earnings stabilisation policy should be orientated according to the following criteria: the importance of the product for the economy of the particular developing country; its relevance for employment — especially with respect to agricultural and semi-finished products; and fluctuations in the development of export earnings.

It is intended that the least developed countries should be the ones who would especially profit from a potential world Stabex. With respect to the procedure for earnings stabilisation, two models are under discussion. On the one hand the product-for-product model which is already being practiced, and on the other hand a shopping basket model (pannier-system), under which the sum of export earnings is stabilised. Both procedures have their advantages and disadvantages. It is clear that the product-for-product procedure can be relatively easily handled and that experience of it has already been gained from the present Stabex system. The panier-system on the other hand would be cheaper because the fluctuations in the prices and quantities of the individual products balance each other out in part in the total. The panier procedure would however for its part create delineation problems in relation to the compensation programme of the International Monetary Fund.

Conclusion

Stabex has contributed to the stabilisation of export earnings of the ACP countries, its function to improve the income situation of the countries has been pursued without disturbing the market mechanism. At the same time Stabex is not aimed at supporting outdated production structures, nor is its role simply to fill gaps in balances of payments. The Stabex programme on its own can, however, not be conceived as an alternative to a reform of world economic relations. Indexation, long-term commodity agreements, stocks and other elements in the current discussions about a new international economic order, are not contained in Stabex. Nevertheless the successful application of the system (even when one takes into account the criticisms that have been raised) leads one to think that reforms in international trade relations are practicable, and that compromise and the costs that result from it for both sides are also acceptable. After all, it is also in the interest of the European industrial countries that the demand from the developing countries for investment and consumer goods is growing in the long term and does not fluctuate a great deal from year to year.

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