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Intereconomics

Suggested Citation: Hasse, Rolf; Weitz, Robert (1978) : The renegotiation of the lomé convention: Experiences and demands, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 13, Iss. 11/12, pp. 273-278,
<https://doi.org/10.1007/BF02929256>

This Version is available at:

<https://hdl.handle.net/10419/139573>

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The Renegotiation of the Lomé Convention

Experiences and Demands

by Rolf Hasse, Robert Weitz, Cologne *

Negotiations for an extension of the Lomé Convention of February 28, 1975 (Lomé I) began – almost unnoticed by the public – on July 24, 1978. An analysis of the experiences with the Lomé Convention and the demands and amendments presented by the contracting parties is offered in the following article.

The Lomé Convention was the successor of the Yaounde and Arusha Conventions. It embraced all the developing countries in Africa, the Caribbean and the Pacific (ACP states) which had belonged to the French and British preference zones but allowed (in Art. 89, 90) other developing countries to join, so that the number of ACP states has in the meantime risen from 46 to 53.

The Lomé Convention constituted an attempt not only to reaffirm existing preferences but to achieve the aim of continual growth and integration of the ACP economies with a global economy conjoined by division of labour through a large variety of direct and indirect measures. From the point of view of the ACP states the arrangements for cooperation in trade policy, industrial collaboration, stabilization of export earnings and the sugar agreement were the most important results and achievements of the negotiations. On these issues the EC states and Commission departed significantly from their original concept, going a long way to meet the demands of the ACP states¹.

The EC has opened its markets unilaterally to the ACP states. It has freed their exports to the Community of customs duties and other import restrictions, so that 99% of the goods offered by ACP states are now enjoying free access to the EC markets²; a few agricultural products are the only exception. The EC has however reserved the right to resort to protective measures if "serious disruptions" occur in an economic area in the

Community in consequence of the Convention (Art. 10).

It agreed to initiate numerous measures for the promotion of trade and sales, in addition to the removal of obstacles to imports, so as to improve the competitive position of ACP products. Amongst such measures are participation of ACP states in international trade fairs and exhibitions in the Community, assistance with the marketing of ACP products, dissemination of trade information in the Community, and training of specialist personnel.

Characteristics of the Convention

The EC was to assist in extended industrial collaboration to build up the industrial sector and diversify production, to facilitate technology transfer, explore new energy sources, encourage direct participation in enterprises in ACP states (joint ventures), and to initiate regular exchanges of information. Micro-projects and small and medium-sized projects were to be promoted on a much larger scale than previously – presumably partly in response to the criticism directed at the multinational corporations. Entrepreneurial engagements in ACP states are promoted and arranged by the Centre for Industrial Development (CID) which was set up for this very purpose.

The two most spectacular features of the Lomé Convention were the Stabilization Fund for Export Earnings (STABEX) and the Sugar Agreement. Through STABEX the EC undertook unilaterally to guarantee the export earnings of the ACP states from certain (categories of) goods within narrow fluctuation bands by making compensatory payments. The Sugar Agreement is an inter-

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¹ Concerning all details cf. Rolf Hasse, Robert Weitz, Das Abkommen von Lomé – Übergang oder Alternative zu einer neuen Weltwirtschaftsordnung? (The Lomé Convention – Transition or alternative to a new international economic order?), Untersuchungen des Instituts für Wirtschaftspolitik, Cologne University, Vol. 43, Cologne 1978.

² Special arrangements were made for sugar, rum and bananas.

nationally binding contract for one commodity for which it sets fixed quantities and prices.

An important feature of the Lomé Convention is the abandonment of the principle of the equal status of developing countries. The ACP states were graded according to their state of development and transport impediments (islands, lack of direct access to the seas) and differentiated in regard to resource allocations and loan terms. They were in fact divided into three groups:

- Group 1, comprising 13 states which alone are subject to the normal conditions of the Convention;
- Group 2, comprising 40 least developed insular and land-locked states for which STABEX sets lower dependence and activation thresholds than for Group 1 countries;
- Group 3, comprising 27 least developed states with special STABEX dependence and activation threshold provisions: they need not repay STABEX transfers and are given especially favourable terms for their borrowings, interest subsidies and non-repayable grants.

Insignificant Trade Expansion

The ACP states must have been disappointed by the development of their trade with the EC coun-

tries since they entertained very great expectations. As compared with the preceding year the EC imports from ACP states fell in 1975 by 17 volume % although the exemption from import levies had come into force immediately after the signing of the Convention. The decline was only in part attributable to the recession, for the EC imports from all developing countries were only 10% down and the EC imports as a whole were a mere 1.5% lower (see Table 1). In 1976 shipments to the EC area recovered but the imports from other developing countries (+ 27.1%) and the world at large (+ 26.9%) advanced faster than those from the ACP states (+ 20%). Only in 1977 imports from the ACP states rose much faster (by nearly 19%) than those from all developing countries together (+ 7.5%) and the total EC imports (+ 10.2%). This alone however does not warrant the Commission's interpretation of the 1977 figures as evidence of "delayed ignition" of the Lomé Convention.

The continuing concentration in the EC trade with ACP states on a small number of more advanced countries gives more cause for misgivings than the low growth rate of the EC-ACP trade. Between 63 and 70% of all EC imports from ACP states came from seven countries: Nigeria, Zaire, Ivory Coast, Zambia, Liberia, Cameroun and Gabon. Nigeria alone accounts on average for al-

Negotiation Positions

The principal requests of the ACP states concern:

- Guarantees against further erosion of their tariff preferences,
- Removal of extant import obstacles (beef) and extension of the preferential treatment for certain products (bananas, rum),
- Supply of EC surplus farm products at concessionary prices,
- Improvements of the Stabilization Fund for Export Earnings (STABEX): Additions to the list of compensatable commodities (copper, phosphates), easing of the terms of entitlement to compensatory payments, mitigation of the revolving element in STABEX, provision of larger funds,
- Extension of the sugar protocol to more countries (Zambia),
- Increase of the funds available to the European Development Fund (EDF) which has been

put in charge of the operation of the agreement and speeding-up of the fund appropriations.

The negotiation position of the EC states comprises the following demands and offers:

- Improvement of the protective clause in Art. 10 for sensitive products,
- Initiation of a formal consultation procedure to bring industrial investments in ACP states into line with the structural changes in the EC,
- Control over the use of compensatory payments under STABEX so as to make sure of the desired export diversification in the ACP states,
- Conclusion of investment protection agreements,
- Incorporation of a human rights clause providing for temporary suspension of resource transfers as a possible sanction in the case of grave infringements.

most 30% of all ACP deliveries to EC countries. A similar concentration characterizes the export trade of the EC: the eight largest ACP importers absorbed 50-65% of all EC exports to ACP countries. The trade relations with several of the least developed ACP states on the other hand - Mauritania, Gambia, Benin, Ethiopia, Somalia, Lesotho, Trinidad and Tobago, Tonga, and the Fijid Islands - have made below-average progress.

Unutilized Chances

The inconsiderable trade expansion is assessed by the ACP states as proof of the erosion of their trade preferences by the EC system of generalized preferences for the totality of developing countries, the special preference agreements with the Maghreb and Mashrek states and the trade agreements with the state trading countries, and they expect their own preferences to be eroded further by the projected southward enlargement of the Community. They therefore press for the removal of extant obstacles to EC imports from ACP countries and new selective measures to promote sales of their goods in the EC area. Would such measures be of help to them?

The experience to date suggests that the complaints about inadequacy and inefficiency of the sales promotion measures have been directed to the wrong address. Immediately after the Convention had come into force the EC Commission sent a catalogue of intended measures under Art. 13 to the ACP states, explaining the purpose and implications of each measure. There has been unexpectedly little response to this initiative. The ACP states have so far failed to make full use of the opportunities opened to them by the Commission, and the main reason for this lies in the internal economic orders of many ACP states which operate central planning systems. The application of these opportunities to the national plans miscarried in many cases; the ACP officials concerned often failed to appreciate the significance of the measures focused on the production and export sector, and the state apparatus of the ACP states stood aloof even when directly involved. The Commission reports for instance that only 26 ACP states have made use of the offer to have detailed trade brochures produced at the expense of the EC. The ACP states ought to avail themselves of the existing trade promotion facilities before broaching others.

Agricultural Field

If the last remaining tariff barriers in the agricultural field were removed, the ACP states would not find many new outlets as long as the EC abides by its agricultural market orders which give the local producers effective protection

through surplus purchases and rule out any price competition by third countries. The high-price system of the European agricultural market orders has raised the self-supply rate for protected agricultural products to such a high level that imports are virtually no longer needed. The ACP states have felt this themselves in the case of beef and rum. Certain ACP states had been assured of "dynamic" tariff quotas for beef³ and rum under special agreements with the EC but were unable to make full use of them, either because the EC's own production (of beef) was too high or because the demand (for rum and bananas from ACP states) was too low. As regards these three products the ACP states are therefore more interested in purchase guarantees than in extended tariff preferences. But if the EC were to agree to a purchase guarantee for these three products, it would probably be unable to avoid giving similar guarantees for other products. The problems of financing agricultural markets and handling unsaleable surpluses would be magnified. This is why there is no point in extending the tariff preferences for agricultural products except in the framework of a reform of the European agricultural policy.

This being the situation, the demand of the ACP states that the EC should supply them with EC agricultural surplus products on preferential

³ In the case of beef the Communities waived 90% of the levy. As the EC however wished to protect itself against cheap imports, it arranged with the four ACP states concerned that these would impose their beef exports to an export tax equivalent to import duty and levy.

Table 1
Development of EC Trade with the Whole World, the Developing Countries and the ACP States

	1973	1974	1975	1976	1977
(in %)					
I. EC imports					
(change over preceding year)					
World	27.1	41.1	- 1.5	26.9	10.2
All developing countries	30.6	92.2	-10.5	27.1	7.5
of which ACP states	27.9	70.3	-17.1	20.4	19.0
Share of the seven largest ACP exporters					
- Nigeria alone	62.8	70.7	63.0	62.7	63.9
	24.2	36.5	32.6	30.8	27.9
II. EC exports					
(change over preceding year)					
World	23.9	35.4	3.6	22.0	13.8
All developing countries	20.4	53.4	25.1	15.4	21.4
of which ACP states	10.3	36.8	33.2	21.8	26.6
Share of the eight largest ACP exporters					
- Nigeria alone	50.9	56.1	63.9	66.5	64.9
	17.3	18.9	29.8	33.7	37.7

Source: The Courier, No. 50, July/August 1978, p. 19 f. (own calculations).

terms, i.e. free of charge or at prices below the very low world market level, does not make sense. If the ACP states want to establish or preserve a competitive agricultural industry, they must not curtail the outlets for their farmers by cheap imports. Shipping EC surplus products to these countries would be of help only in the event of crop failures or natural disasters.

Sensitive Products

The linkage of trade policy and industrial collaboration by the European Communities must arouse misgivings. They are evidently afraid that the ACP states may wish to export increasing quantities of "cheap products" or "sensitive goods" to the EC area. The Commission therefore advocates an elaborate system of mutual consultations so as to facilitate "structural changes without abrupt and painful disruptions" in the EC industries involved. With this proposal it is following up the demand for relocation of industrial projects or entire industries in EC states to ACP countries which was originally presented by the ACP states but rejected by the EC Commission during the negotiations for Lomé I.

The ACP states are certain to approve the Commission's proposal but it is doubtful whether the worldwide problem of structural change can be solved in this way. The Commission's language on questions of order policy is often ambivalent. The proposal amounts in its final analysis to a new form of international investment direction which under the EC's economic constitution cannot be obligatory and would therefore always be eluded. The EC could however go some way to meet the ACP wishes for import quotas for sensitive products. The ACP states could conceivably be given larger import quotas for such products at the expense of other developing countries (trade diversion) but effective measures would in that case have to be taken to avoid the abuse of the concession by shipment of sensitive products from third countries to EC ports via ACP states, as has happened in isolated cases (textiles).

Table 2

The Amounts of Financial Aid under the Lomé Convention

(in EUA mn)

	ACP states	Overseas countries and territories	Total
EDF: Total	3,000	150	3,150
of which: Grants ¹	2,100	65	2,165
Special loans	430	40	470
Risk capital	95	5	100
STABEX	375	20 (: 20 reserve)	395
EIB: Total	390	10	400
Total aid ²	3,390	160	3,550

¹ In order to secure the individual tasks financially, so-called "drawers" were established: a maximum amount of EUA 339 mn (10 % of the total aid from EDF and EIB) is provided for regional cooperation projects between the ACP states; a maximum amount of EUA 150 mn (5 % of total EDF aid) is channelled into the special aid of the 4th European Development Fund; a first tranche of EUA 20 mn is earmarked for the financing of small-scale projects for a period of two years; a maximum amount of EUA 100 mn is provided for the reduction of interest rates of EIB loans (provisions of the "Internal Financing Agreement").

² Raised to EUA 3,447.7 mn as a consequence of the entry of new members. EDF = European Development Fund; EIB = European Investment Bank.

Lomé I gives the EC already the possibility of influencing the structural planning of the ACP states through allocation of financial resources of the European Investment Bank (EIB) and the European Development Fund (EDF). The Community's policy however lacks consistency if the EIB takes a financial interest in a new textile mill in Tanzania while the EC shuts the Community market to the products of such mills.

Volume and Application of Funds

Lomé I provided for a volume of funds, including those for STABEX, of 3,390 European Units of Account (EUA); this total was raised later to EUA 3,447.7 mn to allow for the accession of seven additional members. Together with the funds for overseas territories the volume of funds reached a total of EUA 3,550 mn and 3,607.7 respectively. Their management is mainly in the hands of the EDF (see Table 2).

Table 3

Appropriation of the Financial Means of the 4th European Development Fund as of March 31, 1978

(in EUA mn, rounded off)

	Grants from the EDF							Special loans	Total	STA-BEX	Grants from the EIB		Risk capital	Total
	Investments	Small-scale projects	Tied technical co-operation	General technical co-operation	Trade promotion	Industrial co-operation	Administration costs				Special aid	Interest subsidies		
I. Applied funds	610.2	6.4	24.9	70.7	12.0	8.7	41.8	156.6	931.4	114.2	63.1	20.3	40.2	1,169.1
II. Total funds	n. a.	20.0	n. a.	n. a.	n. a.	n. a.	n. a.	430.0	2,100.0	375.0	150.0	100.0	97.0	3,447.7
III. I in % of II	n. a.	32.0	n. a.	n. a.	n. a.	n. a.	n. a.	36.4	44.4	30.5	42.1	20.3	41.4	33.9

Source: The Courier, No. 50, July/August 1978, p. 31 ff. (own calculations).

The contracting parties will find it easy to agree on amended executive orders for the EDF and the amplification of the financial resources by an adequate margin. When the executive orders of the Treaty of Rome were adapted to the Conventions of Yaounde and finally of Lomé, the allocations were raised sufficiently not only to offset the loss of real value due to inflation prior to the conclusion of the conventions but to make adequate provision for anticipated inflationary developments while the new conventions were in force.

Difficulties have actually arisen in the appropriation of the funds. At the end of March 1978, when Lomé I had run more than half its course, no more than 34% of the earmarked funds had in fact been distributed (see Table 3). The responsibility for the tardy apportionment rests according to the Commission mainly with the ACP states because they delayed ratifying the Convention, were slow in incorporating their projects under the Convention in their national development plans, took too long over answering requests for information on aid project data, etc. The Commission must however bear part of the blame because it formulated the executive orders as if they were intended for states with a highly developed bureaucracy. It is understandable in the circumstances that the ACP states want less red tape and a say in the management of the EDF.

STABEX

About the further development of STABEX the negotiating parties hold quite opposite views. The EC states want the system to be tightened through control over the use of the compensatory payments while the ACP states want to lessen

the discretionary character and the revolving elements of STABEX and to have more commodities covered and larger funds to be provided.

Lomé I set a ceiling of EUA 375 mn for STABEX funds; this sum was divided into five annual tranches of EUA 75 mn to match the duration of the agreement. Fears that these funds might prove inadequate have so far proved unwarranted because the commodity prices have stayed at a high level. No more than EUA 109.1 mn was needed for compensatory payments in the first two allocation periods – 1975 and 1976 – when such payments were made to 22 ACP states for 19 products. The earmarked funds were thus not used up but in part carried forward (see Table 4).

The causes of the earnings shortfall ("economic" or "domestic" ⁴) are in principle of no relevance to the entitlement to compensatory payments. A claim to compensatory payments arises even if the shortfall is due to strikes or political disturbances. A division of the compensatory payments between the two causal complexes shows that "domestic causes", in particular natural disasters, have greatly impaired the export earnings (see Table 4).

The compensatory payments take in principle the form of interest-free foreign currency loans. The revolving element is however often infringed, not only by the modalities of the repayments calculation but in particular by the exemption from obligatory redemption of the 27 least developed countries. Over 60% of the compensatory payments were remitted as non-redeemable transfers (see Table 4). Only one instance of a loan repayment has so far become known. STABEX is thus in actual fact neither a solidarity fund nor a revolving fund. Most of the finance for it is provided from EC budgetary funds. Any further tempering of its loan character and enlargement of the entitlement to compensatory payments will therefore increase the reserve liability devolving on the EC states.

When STABEX was started, it covered 29 staple and by-products. The number has risen since to 36, and the ACP states are now urging that mineral raw materials should also be included. The EC states on the other hand refused in the negotiations for Lomé I already to include any mineral raw materials except iron ore in the STABEX list. That Zambia is interested in having copper put on the list of compensatable products is understandable but the EC will be well advised to keep to its previous position; otherwise it could hardly prevent the gradual extension of STABEX until it

⁴ Demand and price fluctuations are "economic causes". "Domestic causes" are blight infection, drought, cyclones, frost, disruptions of production, political causes. The earnings shortfalls in Benin and Uganda in 1977 were attributed to political causes and those in Sierra Leone in the same year to disruption of production.

Table 4
Causes, Types and Amounts of Compensatory Payments under STABEX

(in EUA mn and %)

	1975		1976		Total	
	Amount	%	Amount	%	Amount	%
I. Causes of compensatory payments						
1. Economic factors	49.267	67.7	7.478	20.6	56.745	52.0
2. "Domestic" factors	23.519	32.3	28.809	79.4	52.328	48.0
II. Type of transfer						
1. Donation	41.031	56.4	27.444	75.6	68.475	62.8
2. Credit	31.755	43.4	8.843	24.4	40.598	37.2
III. Annual statement						
1. Annual quota	75.000	100.0	75.000	100.0	150.000	100.0
2. Disbursements	72.786	97.1	36.287	48.4	109.073	72.7
3. Remainder	2.214	2.9	38.713	51.6	40.927	27.3

Source: The Courler, No. 50, July/August 1978, p. 29.

becomes an instrument for universal earnings stabilisation. The financial burden of the STABEX system would be considerably increased by an enlargement of the commodity list and possibly even of the stabilization targets. If copper had been on the list of STABEX commodities in 1976 and 1977, the bulk of the annual tranches of EUA 75 mn would have had to be spent in its support, so wide were the price fluctuations and so much of the metal is produced in ACP countries.

Conflicting Results

The EC demand for control over the use of the compensatory payments will encounter fierce opposition. Under Lomé I the recipient countries need not do more than notify the Community each year where they have deployed these moneys. These reports reveal that 12 countries which received 30.7% of all compensatory payments invested the funds entirely in the raw material sector concerned. The other 60.9% of compensatory payments were used for other purposes including transfers to the general state budgets. The EC states now intend to hasten the diversification of the goods production and exports through control of the uses of the compensatory payments. This aim is to be welcomed but it has to be borne in mind that the provision which the EC states wish to have incorporated in Lomé II is one which the ACP states resisted vigorously and successfully in the negotiations for Lomé I.

STABEX has given rise to conflicting results. The overall result is satisfactory from the EC countries' point of view in that the funds have proved adequate and no conflicts have burst upon the scene. But this was due to the "fortuitously" favourable trend of the commodity prices. Many of the criticisms of and objections to STABEX have however already proved their validity: Art. 19 para 4b (denial of compensatory payments if the earnings shortfall is a consequence of government intervention on grounds of trade policy) has been given too wide an interpretation. So has the term "domestic causes". The revolving element in STABEX has been severely eroded. A relatively large part of the compensatory payments has been reinvested in the raw material sectors in respect of which they had been made⁵. The demands of the ACP states for STABEX in Lomé II are all liable to reinforce these tendencies and impose additional burdens.

As for the Sugar Agreement, all the forecast difficulties have in fact shown up. The EC had undertaken to purchase 1,495 mn tons of raw sugar

⁵ Such investments can serve a good purpose. An appraisal of the use of the funds in the raw material sector requires a careful analysis of the causes in the individual case (irrigation measures can be appropriate in cases of drought) and a longer-term forecast of market trends and earnings prospects.

(equivalent to 1,304.7 mn tons of white sugar) from 17 countries and territories at an agreed minimum price in each crop year (July-June) until 1982. This guarantee covers about 60% of their sugar exports.

Although far above the world market level, the minimum price was nevertheless raised year after year, even for 1978/79 when the sugar prices inside the EC were actually lowered. The guarantee applies to a commodity of which the EC has itself a growing production and surplus. Its total production and production surplus were 9.6 and 1.6 mn tons respectively in 1975/76, 10 and 1.9 mn tons in 1976/77 and about 11 mn and 2.9-3.0 mn tons in 1977/78. Moreover, the EC exports to ACP states almost as much processed sugar as it imports from them. Nevertheless it is obliged to store the overall surplus of sugar or dispose of it in the world market by means of export subsidies. The consequences of this policy are:

- The purchasing guarantee imposes a very heavy financial burden. Its size depends upon the import value of the ACP sugar and, additionally, upon the export subsidies required to dispose of such a quantity of sugar in the world market;
- The re-sales in the world market tend to depress the world market price and thus the earnings from the other 40% of sugar exports from the favoured ACP states and territories;
- The export subsidies have led to the pursuit of dumping charges in the USA;
- The re-sales of surplus sugar in the world market have rendered the conclusion of an international sugar agreement more difficult.

Any extension of the sugar protocol with the ACP states is bound to add to the costs and problems.

Disputed Human Rights Clause

A human rights clause providing for sanctions in the event of serious infringements as demanded by Great Britain would introduce a highly contentious issue into the negotiations for Lomé II. Initial enquiries among the ACP states have shown that while they affirm the global validity of such a clause in principle, they are in actual fact very reluctant to subscribe to it. The demand for such a clause raises the fundamental question to what extent the international trade and development aid ought to be used as instruments for the enforcement of basic moral and ethical values. The first tentative steps in this field, which were directed at Uganda under Lomé I, were expectedly unsuccessful or not heeded at all⁶.

⁶ Cf. (without indication of author) An EEC aid package with a conscience, in: *The Economist*, June 10, 1978, p. 68 f.; EC Commission, Group of Spokesmen, Written enquiry by Herr Glinne, Brussels, April 9, 1976.