

Maennig, Wolfgang

Article — Digitized Version

**SYSMIN: An evaluation**

Intereconomics

*Suggested Citation:* Maennig, Wolfgang (1988) : SYSMIN: An evaluation, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 23, Iss. 1, pp. 35-38, <https://doi.org/10.1007/BF02929966>

This Version is available at:

<https://hdl.handle.net/10419/140113>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

Wolfgang Maennig, Berlin\*

## SYSMIN: An Evaluation

*The Third Lomé Trade and Co-operation Convention between the European Community and the African, Caribbean and Pacific (ACP) countries was signed on 8th December 1984. It is valid for the period from 1. 3. 1985 to 28. 2. 1990 and incorporates an extension of SYSMIN, the special financing facility for mining products created five years earlier under Lomé II. Now that Lomé III has passed its mid-term it is time to take stock of what SYSMIN has achieved and to begin thinking about improvements to be negotiated for Lomé IV.*

**S**YSMIN is intended to help ACP states to cope with a decline in their capacity to export mining products to the European Community and the corresponding decline in their export earnings. SYSMIN funds are to be used in the case of temporary or unforeseeable disruptions in order to re-establish the viability of the affected mining sector or to alleviate deleterious effects on the respective economy (Article 176).

The list of raw materials covered by the facility includes copper, as well as the associated production of cobalt, phosphates, manganese, bauxite and alumina, tin and iron ore (ores, concentrates and roasted iron pyrites). The inclusion of other metal raw materials in the list depends on a decision by the EC Commission (Article 177).

SYSMIN's finances are under the control of the European Development Fund (EDF). A total of ECU 415 million have been allocated for the period 1985-1990. The overall amount is divided into five equal annual instalments; the EC's Council of Ministers can authorize the use of up to 50 % of the following year's instalment in order to finance current commitments (Article 178). No ACP state can be eligible for more than 35 % of an annual installment. For those states which only fulfil the following criteria by virtue of the exceptional cases quoted below the percentage is reduced to 15 % (Article 182). SYSMIN payments take the form of a "special loan" which must be repayed within 40 years. No repayment is required within the first ten years following receipt of the loan. The interest rate is set at 1 % (Articles 184 and 196).

The criteria under which SYSMIN can be invoked are fulfilled when a *substantial* reduction in productive or

export capacity or decline in export earnings affecting one of the raw materials covered by the agreement has occurred or is expected within the next few months. In such a case the profitability or export capacity of otherwise viable and economical lines of production must be endangered to such an extent that production plant or export capacity cannot be maintained and financial support for important development projects funded by export earnings is interrupted. "Substantial" in this instance is defined as at least 10 % (*trigger threshold*). Such reductions may be caused by accidents, technical mishaps, grave internal or external political events, as well as important technological and economic developments (Article 179).

In addition the ACP state must have derived 15% of its export earnings from a product covered by the convention in at least two of the previous four years (*dependency threshold*). In exceptional cases it is, however, sufficient for the state to have derived at least 20% of its export earnings from all its mining products (excluding precious metals, oil and gas) (Article 180).

The objective of SYSMIN aid is to provide financial backing for rehabilitation, maintenance and rationalization programmes. The ACP state and the EC Commission are to seek those programmes best suited to integration in the overall economic development programme. Financial aid for diversification projects can also be supplied. In determining the amount to be paid, the Commission is to take account of the extent of the reduction in production or export capacity, the loss of earnings and the relative importance of the mineral sector (Article 182).

A number of special rulings are also applicable: For the least developed countries (LLDCs) the interest rate

\* Technical University.

is set at 0.5% (Articles 184 and 196). For these LLDCs as well as for land-locked or island states (a total of 52 ACP states) the dependency threshold referred to above is reduced to 10% or 12% respectively.

### **SYSMIN Aid in the Past**

In 1980 and 1981 Zaire and Zambia received ECU 40 million and ECU 55 million respectively for their copper and cobalt industries. 1984 and 1985 saw SYSMIN payments to the value of ECU 3 million to Guyana for its bauxite industry and ECU 2.8 million to Rwanda for the tin industry. Zambia received another ECU 28 million in 1985, with an ECU 41 million payment for Zaire being approved in 1986. Another application to meet with approval came from Nigeria; in this instance the SYSMIN payment was intended for the diversification of the production and export range, rather than directly benefitting the mining sector. Recent applications have also been made by Mauritania, Surinam and Jamaica.

By way of illustration let us look at the two SYSMIN aid payments to Zambia in more detail. Both payments were intended to restore the viability of Zambian Consolidated Copper Mines Ltd. (ZCCM) in order for the concern to remain competitive in the face of current prices on the world market. Given that the ZCCM is Zambia's most important source of foreign exchange, the alternative would be the collapse of the country's development plans (restructuring and diversification of the economy) due to lack of finance. The SYSMIN payments are intended to finance the purchase of mining equipment, metallurgical processing and resource development, as well as investment in the infrastructure of the mining industry, and may only be used to these ends. ZCCM pays the difference between the SYSMIN's favourable interest rate and the market rate into a special fund which is used to finance social projects in the mining area (e.g. providing a water supply for the towns). In the course of the negotiations Zambia

was further obliged to concede the introduction of tax-free status for emigrants.<sup>1</sup>

In addition to the two SYSMIN payments ZCCM received US-\$ 75 million from the World Bank and US-\$ 27 million from the African Development Bank. This clearly demonstrates another key SYSMIN policy guideline, namely, giving co-financing preference over single-source financing.

### **The Interests of the ACP States**

The interests of the ACP states should be seen in the context of their own desire for more extensive economic reforms in the raw materials sector. Their demands culminated in the "Integrated Programme for Raw Materials" (IRP), passed by UNCTAD in 1976. The IRP provides for worldwide stabilisation of prices and earnings, multilateral buying and delivery obligations, as well as support for further processing and diversification. Points in favour of the price stabilisation argument include reductive pressure on the worldwide rate of inflation as well as positive effects on the development of supply and demand of raw materials and on world economic welfare. The stabilisation in earnings was intended to facilitate development planning and thus stimulate economic growth in the developing countries. There have, however, only been isolated attempts to put the IRP into practice, and it does indeed look doubtful whether it will ever be realized.

Thus from the point of view of the original interests of the developing countries SYSMIN merely represents a compromise; their demands for price stabilisation, for example, have not been met. Even as a means of stabilising exchange earnings SYSMIN does not go far enough for the ACP states, who demand the alignment

<sup>1</sup> P. Daniel: Interpreting Mutual Interest: Non-fuel Minerals in the EEC-ACP Relationship, in: C. Stevens (ed.): EEC and the Third World: A Survey, London etc. 1984, p. 79.

## **WELTKONJUNKTUR DIENST**

Annual subscription rate  
DM 80,-  
ISSN 0342-6335

This quarterly report – compiled by the Department of Business Cycles and Statistics of the Hamburg Institute for International Economics – analyses and forecasts the economic development of the most important Western industrial nations and of the international raw materials markets.

**V E R L A G   W E L T A R C H I V   G M B H   –   H A M B U R G**

of the SYSMIN rules with the STABEX mechanism. This system was also negotiated between EC and ACP states and covers agricultural products.<sup>2</sup>

### The Interests of the EC States

The EEC Treaty provides for the special treatment of previously dependent overseas territories and colonies of the member states (Article 131). This takes the form of an association (i.e. the granting of a privileged special status distinct from full membership of the EC). The corresponding conventions of association, from the first Yaoundé Convention in 1964 to the currently valid Third Lomé Convention of 1984, are regarded as the cornerstone of EC development policy.

These conventions should not, however, merely be understood as development policy agreements, for they also cover trade agreements for example. In addition the EC guarantees itself political influence on a world scale, since the Lomé Convention affects almost half the member states of the United Nations, i.e. 76 states with a population of approximately 1.1 billion people.

SYSMIN itself still plays a relatively small role in the association convention. The SYSMIN of the Third Lomé Convention even has a relative reduction in its financial resources compared with Lomé II; it currently has only 4.9% of the total Lomé funds at its disposal (Lomé II: 5.1%). This is due to the fact that SYSMIN's financial resources under Lomé II were never fully utilized.

During the seventies, when the decisions concerning SYSMIN were still in the preparatory stage, there was widespread uncertainty over future supplies of raw materials for the world economy. This was exacerbated by the developing countries' sinking share in global investment and exploration expenditure. An explanation for this can partly be found in the fact that the risk of nationalisation and of unilateral changes to previously signed agreements made direct investment insufficiently attractive for mining companies from the industrialised countries. Thus it was suggested reducing the political risk of direct investments by means of economic policy treaties.

The EC's dependency in the field of raw materials caused a great deal of attention to be paid to these suggestions. Whilst the EC has extensively diversified

its sources of minerals and metals, the ACP states nonetheless supply a weighted average of over 20% of EC consumption of mining products.<sup>3</sup> Nevertheless SYSMIN should not be considered the mere product of the EC's import dependency, since the EC has a wide range of sources at its disposal. SYSMIN must also be seen as an instrument for development aid.

### Economic Evaluation

The primary and most important desired effect of the SYSMIN facility is that the countries favoured by the system re-establish their competitiveness on the world raw materials market, improve their earnings situation and thus continue their respective development processes. This is dependent on the fulfilment of the precondition that the SYSMIN projects are correctly implemented. As no technical or economic evaluations of the projects which have so far received support have yet been published, the following analysis is concentrated on SYSMIN's national and global economic effects.

Both the text of the treaty and the history of SYSMIN payments up till now make clear that the stabilisation of the export earnings of the ACP states is not one of SYSMIN's direct aims and that consequently it should not be included in the ranks of the Compensatory Financing Facility systems. Be that as it may, SYSMIN is often mentioned in the same breath as STABEX (as well as the IMF Compensatory Financing Facility). This has firstly to do with the fact that SYSMIN was partly created to compensate for the interests of those ACP states which failed to profit from STABEX. Secondly, the level of SYSMIN payments, as mentioned above, is dependent amongst other factors on the reduction in exchange earnings. Thirdly we may note a certain stabilising effect on export earnings: the payments achieve a short-term stabilisation because the ACP states receive the payments following a reduction in exchange earnings from mineral exports, which – given the significance of the mineral sector – can be said to be generally accompanied by a reduction in total exchange earnings. In addition the SYSMIN payments are intended to be utilized in such a way (e.g. in diversification programmes) that they also stabilise and improve the earnings situation in the medium or long term.

SYSMIN payments represent a real transfer of income to the ACP states, since the interest rate is set far below the currently valid rate for developing countries, quite apart from the fact that no repayment is required for the first ten years. Whether the first repayments will actually start flowing in the early

<sup>2</sup> In the case of STABEX exchange earnings are stabilised directly. Allocation of credits occurs largely automatically; no conditions are attached to the utilisation of credits which, under certain conditions, do not have to be repaid. Moreover, the dependency and trigger thresholds are set significantly lower.

<sup>3</sup> P. C rawson : Minerals Handbook 1982-83, London 1982.

nineties remains to be seen. Should these be cancelled, the income transfer is increased to the full amount of the SYSMIN payment.

The EC's costs are, however, greater than the difference between the yield on the 1% or 0.5% interest rate under SYSMIN and the market rate: the interest yields from SYSMIN credits are of a purely arithmetical nature, since there will be few, if any, SYSMIN repayments to the EC in the foreseeable future. Indeed, it is safe to assume that any repayments which developing countries do undertake will be exclusively utilized to finance future SYSMIN projects. The cost of the system can thus be seen as the sum total of SYSMIN payments, i.e. a maximum of ECU 415 million in the period 1985-1989.

In addition to the global redistribution from "North" to "South", a similar redistribution process is also taking place within the developing countries themselves. Only the ACP states are eligible to apply for SYSMIN payments, and the special aid for non-associated countries in no way compensates for this form of discrimination against the non-ACP states. Moreover, only a few of the ACP states are actually able to receive SYSMIN aid. As illustrated by the list of beneficiaries named above, the system is distorted in favour of the large, traditional, mineral-exporting countries such as Zambia and Zaire. SYSMIN does not apply to fossil fuels, precious metals, strategic raw materials or associated products other than cobalt. Nickel, lead, zinc and aluminium are excluded. The dependency and trigger thresholds cited above are relatively high, or at least significantly higher than in the STABEX system. For this reason a mere dozen of the 66 ACP states are eligible for SYSMIN aid. Up till now only five of these have actually received payments.

### Allocation and Efficiency

SYSMIN has two possible effects to be noted under these aspects. Firstly, agreements of this sort between groups of states inherently tend towards the danger of trade links being redirected or cemented. In the case of SYSMIN it could come to a situation analogous to the experiences made with STABEX, in which the ACP states redirect their exports towards the EC. Whilst there is no clause in the treaty which would directly favour such behaviour, the preamble does however state that SYSMIN is intended to help the ACP states "to cope with a decline in their capacity to export mining products to the Community" (our emphasis).

Secondly, SYSMIN reduces the risks for mining investment in the ACP states. This reduction in the risk

factor alone is enough to make investments more attractive.<sup>4</sup> In addition, SYSMIN in its present form could lead to a rise in earnings, inducing additional investment and increasing the existing surplus capacity on the world market.

### Alternative to a Price Stabilisation Agreement?

SYSMIN and STABEX regularly become objects of interest whenever raw materials agreements with arrangements for price stabilisation get into difficulties. The fact that compensatory financing does not directly affect the functioning of the market is seen as the greatest advantage of such systems. Can SYSMIN offer an alternative to agreements on raw materials? Given SYSMIN's present form the answer has to be in the negative. The reasons are clear: only ACP states are eligible to participate in SYSMIN and the list of raw materials favoured by the system is so short that only a handful of states can take advantage of it. The developing countries' exchange earnings are in the main only indirectly stabilised. SYMIN's financial resources are too limited for it to have any effective influence on events on the world raw materials markets. And lastly, the EC cannot be expected to be the sole financial backer of a future worldwide regulation; on the contrary, all the industrialised countries, as well as other producer states, ought to make a contribution.

The concentration of SYSMIN's advantages on a few ACP states ought to be counteracted by including other raw materials such as lead, nickel, aluminium and zinc in the list of favoured products and by reducing the dependency thresholds. This would mean that instead of the five states which have so far benefitted from the system up to 20 countries would be able to take advantage of the SYSMIN facility. If this were the case SYSMIN's financial resources would have to be extended.

Furthermore, the conditions attached to SYSMIN payments should not be forced up any further, since credits could otherwise become unattractive for the ACP states. Credits must be allocated in a flexible way, and should be aimed to further encourage structural changes in the ACP states. Increased utilization of SYSMIN finance in diversification projects appears desirable for the development of the ACP states.

The EC ought to demand a system of worldwide regulation modelled on the SYSMIN facility, in order to prevent any further discrimination of non-ACP states.

<sup>4</sup> H. Siebert: Price Risk and Large-Scale Ventures, revised and unpublished manuscript, Constance 1987.