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THE EUROPEAN COMMUNITY

AND THE

AFRICAN, CARIBBEAN AND PACIFIC STATES

(EC-ACP Aid and Trade Issues in
the Context of the European Single Market:
Implications for Export Promotion Strategies)

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MEMORANDUM

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SUBJECT: Research Paper on Trade and Aid Issues between the European Community and the Developing Countries

You may be interested in the attached paper prepared by Marlies Backhaus of my staff. The paper treats issues relating to possible effects of Europe 1992 on developing countries' trade with the European Community. I think the paper is well-written and informative about a subject that has received scant attention so far.

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CONTENT

Acknowledgment

My interest in the trade and aid relationship between the European Economic Community and the African, Caribbean and Pacific states (ACP) was first sparked by a chance meeting with British Member of Parliament, Mr. John Hume in the Spring of 1989. Mr. Hume, who concurrently served as Northern Ireland's Representative to the European Parliament in Strassbourg was leading the Euro-MP's Delegation to the ACP-EC Joint Assembly meeting in Bridgetown, Barbados. I was deeply impressed by Mr. Hume's concerns and commitment to help solve some of the intractable and overwhelming problems and challenges the ACP countries are facing with the emerging European Single Market of 1992.

Subsequent discussions with Roy Grohs, Economist with the Asia Near East and European Bureau's Development Planning Office, helped clarify and articulate some of the issues and concerns Mr. Hume had raised. Our questioning of how and why an expanded free West European trading area might impact on export trade from the developing countries in general and from the ACP states in particular, translated into writing a rough draft.

Roy Grohs, who has had first-hand experience with ACP export issues while assigned to Barbados clearly saw the adverse impact the EC trading area can potentially have on developing countries' exports. His guidance and comments on earlier drafts helped focus this paper on the interrelationship between aid and trade between the EC and ACP states, and on the implications the European Single Market hold for the respective USAID Missions' export promotion strategies. I am very grateful for his expert advice, unfailing encouragement and support in this endeavor. I am also grateful to Diane Ponasik, Chief of DP's Evaluation Division and to Peter Davis, Director of the Development Planning Office, for allowing me to devote time and effort to this research project.

EXECUTIVE SUMMARY

The emergence of the European Single Market after 1992 provides the context within which the two interrelated issues of aid and trade between the European Community (EC) and the African, Caribbean and Pacific (ACP) states are being analyzed and assessed. The opportunities for export promotion to the EC and the obstacles faced by the ACP states, in competing within an expanded European market are reflected in the differing perspectives expressed by EC and ACP representatives to the Lomé IV negotiations. Intra-EC trade creation also may be offset by trade diversion manifest in non-tariff barriers and discretionary trade interventions. Developing countries' export trade will be especially negatively affected by these non-tariff barriers.

Europe 1992 also has implications for USAID's development strategies, particularly export promotion strategies. It challenges old assumptions underlying ACP countries' export strategies to the European Community and necessitates rethinking that is based on realistic assessments of the changing conditions and export requirements. To take advantage of an enlarged, free trade zone of 320 million consumers export promotion strategies must incorporate product diversification, quality control, efficient marketing and distribution systems, and product adaptability to the standards of at least one European Community member's regulatory regime. These requirements are key to LDC's export expansion to the European Community in the future.

The recently concluded Lomé IV Convention indicates some modifications in important commodity protocols (banana, sugar), and signals that ACP states' reliance on trade preferences and guaranteed commodity export prices, may become EC concessions of the past. While Lomé IV continues to assure ACP nations commodity access to the European market, export expansion however is not guaranteed.

Recognizing the changes ahead, the ACP nations have mounted a vigorous campaign to change EC development policies and practices. The Lomé IV treaty partially reflects ACP states' success in reorienting the European Community development policy's sectoral focus (agriculture, food security) to one that supports ACP countries' macroeconomic reforms, structual adjustment, balance of payments, and debt relief. Lomé IV has established a new structural adjustment financing facility, provides risk capital, increases Stabex resources and product coverage, converts all Stabex funds into grants, and forgives ACP countries' debts on IDA-type loans.

Introduction

In less than two years, the developed and developing countries may be facing a new European economic entity of gigantic proportion and of enormous economic clout. While the European Single Market offers many advantages and benefits to West Europeans producers and consumers, "fears of fortress Europe" pervade the international community. Notwithstanding the Community's relative low Common External Tariff (CET) and the Community's need to further reduce tariffs (GATT), international trade flows will invariably be affected by increased non-tariff barriers and other import restrictions. The uniform technical standard for each product produced, distributed and consumed in the Community constitutes an additional impediment to outsiders' export trade.

Although the industrialized countries may have little to fear from the integrated European Common Market, many developing countries which now enjoy special trade preferences either through the System of General Preferences (GSP) or by association (Lomé), are concerned about losing their special trade status, and of being squeezed out of a market that is increasingly dominated by large corporations in competition for market shares.

While the issue over reduced export trade with the European Community (EC) after 1992 concerns all developing countries, this paper focuses on the interrelationship of aid and trade between the European Community and the African, Caribbean and Pacific states (ACP). This special relationship, anchored in the Lomé Convention, is increasingly being threatened by changes arising from the prospective European Single Market. The ACP states have recognized that preferential access to the Community's market cannot be taken for granted. In anticipation of the negative effects on their export trade, these countries seek changes in the terms of trade, guaranteed price supports for their commodities, and sovereign use of the Community's development resources. To understand the complexities of aid flows and trade arrangements between the EC and the ACP countries, the paper briefly highlights the main features of the Lomé III Convention, and then discusses the ACP states' concerns with respect to aid and trade issues within the changing context of the European Single Market.

In placing EC-ACP aid and trade issues within the European Single Market context, it is hoped that U.S. development planners become aware of these issues and of LDCs concerns, appreciate the complexities involved, stimulate thinking and discussions about the implications that the European Single Market of 1992 hold for their development strategies, particularly with respect to export promotion strategies that aim at the West European market. An understanding of these issues, changed conditions and requirements should lead to a more effective use of U.S. economic assistance, and to the design and implementation of export strategies that take account of a changing world.

The Changing Context for Aid and Trade between the EC and the Developing Countries

As the level of official development assistance (ODA) dwindles from OECD countries, many aid agencies, including A.I.D., are increasingly devoting time, effort and resources to strategies that promote host countries' domestic policy reforms conducive to more open and liberal trading practices. Product diversification and expansion strategies, export and investment promotion, and advocacy of realistic exchange rates have been on AID missions' agenda for quite some time. Increasingly, the capacity to expand and diversify exports has become synonymous with sustainable development and economic growth.

While many developing countries have moved away from import substitution and other protectionist policies in recent years, the least developed countries, particularly in Africa, continue to rely on their special status that accords them preferential treatment for many of their exports, particularly agricultural products. However, reliance on "special and differential" treatment through various instruments such as the General System of Preferences (GSP) and by means of the bilaterally concluded Lomé Convention between a number of former colonies and the European Community has become increasingly questionable if not untenable in the long run.

The emergence of the European Single Market after 1992 poses new obstacles to exports from the developing countries. The unimpeded access to this market now enjoyed by many developing countries in association with the European Community may be a thing of the past. Export promotion strategies that are based on old assumptions and conditions may have to be rethought and incorporate requirements of a new trading order.

Since the West European market has been a target market for many LDCs exports, especially from African and Maghreb countries, export promotion strategies adopted by many A.I.D. missions aimed at that market may have to be revised and adjusted. At a minimum, missions need to be aware of these changes, and develop alternative strategies based on realistic assessments of changed conditions and of export requirements applicable in the European Community.

Foremost to keep in mind is that trade creation and trade diversion may both result from a common market system as envisioned by the twelve EC member states. Few dispute that an expanded and unified European Common Market is conducive to internal trade expansion, but it is often ignored that a by-product of freer intra-EC trade is potentially increased discrimination in the world trading system as a whole. This trade diversion is manifest in non-tariff barriers and discretionary trade interventions, such as variable import levies, subsidies and selective import restrictions that apply to those outside of the new system. These non-tariff trade barriers, including "voluntary" export restraint agreements, specific export subsidies to problem sectors, antidumping duties linked to local content regulations and the export subsidy effect of undervalued currency play a much more important role in the future than import tariffs levied by the European Community. These non-tariff barriers will invariably adversely affect agricultural and manufacturing trade, and trade in services from most countries, but particularly exports from the developing countries. [1]

In general terms, trade flows between developing countries and the European Community are currently determined by bilateral agreements negotiated through a continuing series of administrative decisions. With respect to ACP countries, however, trade and aid are interwoven in the Lomé Convention, and are connected to the use of various aid instruments through which Community aid flows to them. For instance, when ACP export commodities experience a shortfall in foreign exchange earnings from trade with the Community they are compensated for with grant assistance through the European Development Fund (EDF), and through Stabex (Stabilization of Export Earnings Fund) which comes into force when commodity prices fall below an agreed-on level.*

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* The Stabex mechanism has provided more than $400 million in 1988. Several ANE countries in the Pacific received Stabex funds in 1987 as compensation for shortfalls in export earnings for several commodities. Kiribati - 819.475 ecu for copra; Tonga -79,601 ecu for coconuts and 837.275 ecu for copra oil; Tuvalu -13.437 ecu for copra; and Vanuatu -5,002,650 for copra.

The African, Caribbean and Pacific (ACP) states have been tied to the European Community by a series of aid and trade Agreements known as the Lomé Convention since 1975. The Lomé Agreement is the principal contractual agreement between the European Community for development aid and trade preferences and about 66 states signatory states, 80 percent of which are in Africa.* (see Annex II). The Lomé Convention accords these countries duty-and quota-free access to the Community for all industrial products and most farm products, and special quotas for sugar and bananas.

A persistent complaint of ACP states has been that access to the Community market for their products is circumscribed by various conditions and rules, such as the so-called "safeguard clause" and rules of origin, the application of which has underminded and diluted any trade preferences assured them by the Lomé agreement.**

The European Community's trend to liberalize trade both externally and internally is causing considerable anxieties in the ACP countries. Although the current Lomé Convention provides duty free access to the EEC for many of their exports, negotiations now underway for the Lomé IV convention seek to modify these trade preferences. The effects of these modifications are expected to further restrict market access of ACP exports. Reading between the lines of official EC pronouncements, it appears that the Community would like to put EC-ACP trade regime on a par with its trade with other developing countries. Notwithstanding EC assurances of maintaining the special relationship, the ACP countries anticipate an erosion of trade preferences after 1992. As illustrated in Annex III, their fears and concerns are amplified by declining exports to the EC, the EC's accelerated drive to abolish all internal trade barriers, and the Community's efforts to further liberalize its trade with all countries (Uruguay Round).

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* The current Lomé III agreement provides 8.5 billion European Currency Units or about $8.85 billion in aid and soft loans to ACP member states (Journal of Commerce, 2 June 1989).

** Rules of origin lay down the conditions to be met for ACP exports to be given preferential access to the Community market.

In anticipation of declining export revenues, the African, Caribbean, and Pacific nations are trying to change the Community's development policy. They want emergency food aid replaced with increased direct funding for support of structural adjustment, balance of payments, macro-economic policy reforms, and debt relief. They are also seeking a change in the volume and use of Stabex resources as compensation for reduction in export trade with the European Community.

What does the European Single Market Mean?

The European Single Market after 1992 abolishes all intra-European trade barriers and allows for the free movement of goods and services across the national boundaries of the 12 Community members. Within this large free trade zone, most marketed goods will have a common technical standard. The EC is in the process of harmonizing national standards into a single Community standard for each product. Harmonization of standards will also be complemented by mutual recognition of one EC country's rule by the others.

In abolishing the disparities between national quantitative import restrictions, and in establishing a unified import regime, the Community hopes to increase productivity substantially. It is also expected that the Single Market will give new thrust to expansion and diversification of exports to the Community. Projections show that foreign trade after 1992 will increase seven percent annually, GNP will rise by six percent, and unemployment will decline.

The Common External Tariff (CET) for most imports will remain. Although low by international standards, (average EC customs duty is now 5.5 percent compared to 5.7 percent for imports to the U.S.), the extent of levies on agricultural import remains unknown. However, various pronouncements by Community officials suggest that internal trade liberalization will also apply to external trade. In a 1988 speech, Willy de Clercq of the EC Commission for External Relations and Commercial Policy, declared that while the EC will make some concessions, give trade preferences and differentiate between and among LDCs, by and large, the Community will liberalize its trade relations with all countries in expectation of increasing consumer demand, lowering prices, and increasing competition. From the EC perspective, it is in the EC's interest to promote a more liberal world trade regime because the EC's share of world trade is high --about 20 percent-- and its share of GNP derived from external trade is about 14 percent. This compares with the U.S. share of world trade of 14 percent, and its GNP-derived share from export trade of about 6.8 percent.*

The EC also emphasizes reciprocity world-wide, that is, maintaining "approximate balance of perceived advantages among trading partners." [2] This reciprocity is particularly stressed for the services sector now regulated through various OECD agreements. However, within the Community the trade of services is governed by "mutual recognition" of regulatory regimes in the 12 Community countries, which means the EC will make mutual concessions to the individual country needs.

While trade in services, especially financial and banking services is predicated on reciprocity, especially with respect to American banks, the Community intents to make allowances to service-providing third world firms. However, it should be noted that the Lomé Agreement pays scant attention to the service industry in ACP countries.

The preceding discussion makes it clear that the Single Market poses enormous challenges not only to European countries but to the rest of the world as well. While the expanded Community offers opportunities for competition between European and industrialized countries

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* The EC is the largest single trading partner for the U.S. EC investments in the United States exceed $14.7 billion a year, while U.S. investment in the EC exceeds $12.7 billion a year. EC exports of manufactured goods represent 26% of those of the OECD countries compared with 14% for the U.S. and 17% for Japan. (Quoted in Dieter Frisch, "1992 and the Developing Countries")

and for companies with experience, expertise and economies of scale, producers from the developing countries will be at a serious disadvantage because of their product uncompetitiveness and because of various non-tariff trade restrictions that discriminate against their exports. An already serious situation of their commodity markets will be further aggravated by an existing heavy debt burden.

There is mounting evidence that modifications in the EC's banana, rum and sugar protocols with the ACP countries are forthcoming. In the case of bananas, the national arrangements of banana imports to the EC in which dollar bananas are competing with Caribbean bananas exported to Great Britain will be discontinued. Instead, it is expected that either a free duty quota will be set up or a common organization of the Banana Market will be developed.

Although product standardization will have a negative effect on third world exports, the concessions granted to individual EC member states and the Community's recognition of national regulatory regimes, especially with respect to services, processed goods and manufacturing, may be windows of opportunity for exports from some developing countries. An export promotion strategy that aims at adapting its export products to the standards and requirements of one EC country to which it is the closest has a good chance of overcoming this non-tariff barrier and penetrating the entire Community with its 320 million consumers.

For instance, Francophone African states and the Maghreb countries with their traditional ties to France and familiarity with the French market should be in a good position to take advantage of these opportunities.

Morocco is a case in point. The USAID mission has initiated a new $10 million agribusiness promotion project which supports the entire agricultural production chain from harvesting, processing to marketing processed food products. To ensure final sale, and preferably, a large export market, this promotion strategy should include a careful analysis of product adaptability to the Community's standards with reference to the standards applicable in the French market. It is access and acceptance in the French market that constitute Morocco's unique export advantages over comparable exports from Egypt and elsewhere because of its cultural and linguistic affinities and prior trade relations with France. Since processed food represents 35 percent of Morocco's agricultural export, it would make eminent sense to aim at the enlarged, unified European market. The development of a sophisticated agroprocessing industry for Morocco would provide the needed comparative advantage and ensure long-term economic development and growth.

The Lomé III Convention

European Community development aid to ACP countries is governed by a series of Conventions signed in Lomé, Togo. Through the Lomé Convention, the EC administers programmed aid, trade preferences, and provides other forms of development assistance to the ACP countries. The Lomé III program focuses on two principal objectives: (1) rural development and (2) food security. EC resources support agricultural production, rural infrastructure development, food security policies, and other welfare-oriented programs.

The European Development Fund (EDF) and the European Investment Bank (EIB) provide the mechanisms for EC's resource transfers to the ACP countries. In 1988, over 1 billion European Currency Units (ECU) was paid by the EDF. These vast resources are channeled primarily through two instruments, or import support programs, depending on the state of the countries' exchange rate regime. For instance, under the SIP (or Sectoral Import Program) either imported goods or direct foreign exchange are being provided to enable imports needed in a particular development sector. The GIP (General Import Program), a foreign exchange facility is being used to finance all types of imports, except those that are on the "negative list."* Both SIPs and GIPs are being used in countries which have favorable exchange rates, while only SIPs are being employed in those countries which have insufficient exchange facilities.

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* Items on the "negative list" are of strategic importance to the exporting country.

Under Lomé III, programming focuses primarily on sectoral policies in an effort to harmonize the Community's operations with ACP countries' sectoral objectives. The goal is to maximize the resources' sectoral economic impact. The Lomé program focuses on: (1) limited number of sectors; (2) attaining specific objectives; and (3) on project/program complementarity. In terms of resource allocation, integrated programs account for 36.6%, transportation for 11.9%, and Stabex emergency aid for 21.9%.

Project implementation has slowed considerably over the past few years. Only 20.2% of approved aid has been committed after three years, compared to over 47.5% of commitment under the previous Lomé II Convention. The implementation slow-down is blamed on the time-consuming approval process for the import support and food security programs, both of which are linked to sectoral reforms.

The Lomé IV Convention in the Making

Lomé IV appears to assume new dimensions, and challenges accepted attitudes of cooperation between the European Community and the ACP countries. At issue is whether or not Community aid should continue to support specific sectoral programs which are closely tied to an integrated rural development strategy, or whether EC aid should support member states' structural adjustment policies in an effort to assist macroeconomic reforms, and debt relief.

While the EC believes that the various aid instruments, such as Stabex, SIPs, GIPs and Food Aid already have a structural scope, ACP countries feel constrained by the narrow sectoral emphasis and scope of these aid programs. They argue that the import support programs, especially the SIPs, have only a short-term focus, and don't create wealth, but merely assist in overcoming the lack of foreign exchange by financing EC imports of farm inputs, consumer goods and raw materials. Although Stabex "provides non-repayable transfers of financial resources to help overcome shortfalls in export earnings in a specific sector,"[3] these resources are not enough to make up for shortfalls in foreign exchange due to falling world prices.*

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* At present, the Stabex transfers go into effect when it becomes obvious that export earnings have dropped substantially. The Stabex scheme is financed out of the EDF and represents about 13% of the present 6th EDF.

The ACP-EC Commission has recently put forth a proposal that would "transform the financial transfers under Stabex into subsidies which would be conditioned on pursuing structural objectives." However, most EC members are against such subsidy payments which they feel would not be paid back, and most of all, would not guarantee needed structural changes in ACP countries. [4]

Article 147 (1) of the Lomé III Agreement expresses the intent of Stabex to "help safeguard the purchasing power of the local people." Paragraph 2 of this article, however, does not oblige the recipient of these funds to channel the resources into the sector(s) affected by the drop in export earnings. In fact, it has been documented that most of the funds have been used in sectors other than those on which requests for Stabex resources were made. [5] From the Community's perspective, therefore, Stabex does not ensure sectoral stability or agricultural diversification or benefit the agricultural producers. As one astute observer remarked, "as an insurance against drops in export earnings, Stabex has no corrective functions, and cannot redress the structural imbalances of ACP states trade anymore than a health insurance can cure a disease." [6]

The disagreement over strategic approaches of Community aid is compounded by a divergence of views among EC members. Britain and the Netherlands favor a "World Bank" approach, France prefers a sectoral approach, and Germany, contributing 25% to EDF resources, prefers no change. [7] The EC is not much interested in changing the system, prefering instead to build on Lomé III, as outlined in the Convention, and to avoid the difficult debt problems. The EC prefers a strategy that closely adheres to rural development and to self-sufficiency in food production.

However, certain changes that will take place will be in the area of ACP-EC trade cooperation, particularly with respect to the sugar, banana, and rum arrangements. These arrangements will most likely be modified following the completion of the European Single Market. [8] On the financial front, the 7th EDF will probably no longer be capitalized by voluntary national contributions, and the Stabex system will continue <u>only</u> for agricultural commodities.

The European Community Council of Ministers has recently proposed some limited innovations for the Lomé IV Convention. It does support ACP structural adjustment strategies to solve their foreign debt problems. The EC Council of Ministers also favors the establishment of a Special Financing Facility to (1) promote private sector investment by offering specific incentives for European investors in Africa; and (2) to promote human rights projects at the request of ACP countries.

EC-ACP Trade Issues

The trade issue is the most sensitive issue between the EC and the ACP countries. Concerned about the adverse effects on their commodity exports due to further liberalization of the European Common Market, ACP countries are reminding the Community of the commitment the EC has made in Annex 38 of the Lomé III Convention. The article states that "the Community is conscious of the need to ensure, in the overall application of the Convention, the maintenance of the competitive position of the ACP states when their trade advantages in the Community market are affected by measures relating to general trade liberalization." [9]

Their insistence stems from the fact that EC-ACP trade has been declining both in volume and value over the past several years. Both ACP and EC have different views about the underlying causes of this decline, and correspondingly offer different solutions. The ACP countries blame the rules of origin, safeguard clauses, and non-tariff barriers as the main reasons for their export decline. The EC, on the other hand, maintains that the economic and sectoral structures of the ACP countries and the non-competitiveness of their products are behind this decline. The EC contends that the European common market is the most accessible in the world and no changes in arrangements would significantly alter ACP export trade.

The ACP countries, however, argue that their exports are declining because of market saturation for certain products, substitution, and fluctuating world prices. They are looking for a special arrangement which would give their commodities profitable prices that are guaranteed by the Community. The EC, on the other hand, stresses that ACP states diversify products, both horizontally (variety), and vertically (industrial processing) and to find new product outlets. For example, in 1986, nine commodities accounted for 70% of ACP export trade,* and their trade figures show that ACP-processed products declined from 30 to 10 percent between 1979 and 1988. [10] The Community points out that these figures illustrate the importance of ACP product diversification, especially into industrial processing, and to the need to increase competition. While some ACP countries accept the diversification argument, others are wary about diversifying horizontally for products where no outlets exist.

The commodity issue is a particularly sticky one that without the necessary political will of the EC and ACP states is not likely to be solved. Because under Lomé III commodity problems are linked to Stabex, ACP countries want increases in Stabex resources, more product coverage, and greater flexibility in resource use according to each state's priorities. However, the EC is disinclined to increase and diversify the use of the Stabex system, prefering to continue Stabex linkage to the agricultural sector only. Since the Stabex system compensates for unstable export earnings and to improve the production structure of the affected sector, the EC is not willing to let the Stabex system become a "support for the balance of payments of the recipient countries."

Conclusion

The European Community's policy to further liberalize trade with all countries undermines the trade preferences accorded to the ACP countries under the Lomé agreement. The decline in trade preferences is already reflected in the downward trend of ACP countries' exports to the Community, exports which now constitute only one third of their total exports. (see Annex IV). Multilateral trade negotiations (GATT) within the Uruguay Round are also threatening ACP states' trade preferences with the EC. The ACP countries argue that the loss of trade preferences should be compensated for with increased direct aid.

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* The main agricultural commodities are coffee, cocoa, cotton, sugar and vegetable oil; the main mineral commodities are copper, bauxite, iron and manganese. (The Courier, March/April, 1989, p. 6.)

Although ACP states want continuity with past practices, they do not want to be tied to the past. Instead, they want European Community aid to be used to build their industrial processing, marketing, distribution and transport capacities to double their world-wide percentage share of industrial output by the year 2000. [11] The Community agrees with the desirability of these targets but is disinclined to accept an actual figure because actual improvements in these sectors depend on ACP states' economic policies which encourage and attract private investments.

The thrust and tone of the EC-ACP negotiation for the Lomé IV Convention suggest that the European Community is seeking to distance itself from the ACP countries, and to discourage their dependence and reliance on the European Community for economic aid and trade preferences beyond what the Community is willing to grant other developing countries through General Trade Preferences accords. The attitude of the EC negotiators appears to be that while Lomé offers access to the Community market, it does not guarantee trade expansion, a point sorely missed by the ACP states. What the Lomé Convention offers is the potential for increasing exports. This potential for ACPs export expansion should be seized and exploited by taking advantage of existing ties with the European Economic Community --cultural, linguistic, trade-- and by attracting foreign investments to build-up competitive advantage either in manufacturing, processed agricultural goods or services (tourism). An encouraging trend recently is the growth of exports of 'new' products consisting mainly of processed natural resources such as wood and leather products, cotton yarns, canned tuna, flowers, and out of season vegetables. Product diversification, quality control and the development of a sophisticated marketing and delivery system that meet the stringent expectations of consumers are key requirements for raising ACP states' export competitiveness within an enlarged, accessible but also highly sophisticated and competitive West European Single Market.

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Postscript

The Lomé IV Convention was concluded and signed on December 15, 1989 in Lomé, Togo. The treaty between the European Community and the ACP states is now in the process of being ratified. Although there are some changes, modifications and innovations, Lomé IV continues the modalities of aid transfers and of trade relations between the European Community and the ACP states.

Following are major modifications of the Lomé IV Convention*

Membership: Two new members, Haiti and the Dominican Republic, have joined the ACP countries. Nambia was to join after independence.

Resources: Total resources for Lomé IV was increased from 8.5 billion Ecu to 12 billion Ecu, an increase of 40 percent in nominal terms and over 20 percent in real terms.

Duration: The Lomé IV treaty provisions and protocols are extended over a 10-year period instead of five years, with a renewable protocol after five years.

Financing "windows" of Lomé IV: In addition to the Indicative Fund, and the Stabex mechanism, Lomé IV has established a Structural Adjustment Facility which provides funds for balance of payment supports and for debt relief.

A. The Indicative Fund

The European Commission allocates specific amounts to each ACP state for a period of five years. In cooperation with the EC Commission the amounts can be programmed by each state, preferably within one year. This advance funding ensures availability of funds and enables the ACP states to set their priorities.

B. Stabex

The Stabex system was by and large preserved. Stabex resources have been increased from 8.50 million Ecu to 1.5 billion Ecu; however, distribution of Stabex funds is very uneven. An innovation of Stabex is the conversion of all special loans and Stabex transfers (as well as of Sysmin) into grants to ease ACP debt burden. Also, the EC is forgiving old ACP countries' debts on IDA-type loans.

Stabex product coverage has slightly increased, covering now about 49 agricultural products. Three new products have been added: (a) cattlefish; (b) primary cocoa products; and (c) all essential oils. Although most Stabex resources are earmarked for use in the agricultural sector, Article 188 of the treaty offers some latitude for coverage of products other than from agriculture. Stabex also provides technical assistance tied to export performance.

C. Structural Adjustment Facility

This new financing window provides quick disbursing funds to ACP states for balance of payments support. Access to this facility is not automatic though ACP countries that are undertaking reform programs, and are supported by at least one multilateral donor, e.g., World Bank, are automatically qualified to draw from this financing facility. Support for adjustment assistance takes the form of: (a) technical assistance primarily for debt management; and (b) sectoral and general import programs. Countries that carry-out macroeconomic reforms qualify for GIPs (General Import Programs), whereas those that are undertaking sectoral reforms qualify for SIPs (Sector Import Programs) either in kind or in foreign currency. Both GIPs and SIPs provide commodities from a "positive list." The EC pays the European suppliers for the commodities which are provided to eligible ACP states.

Development Financing

EIB Loans

Resources provided under Lomé IV are all grants, except those provided by the European Investment Bank (EIB). EIB loans are targeted for private sector development, and for promoting, protecting, and supporting private investments. Interest rates on EIB loans are subsidized and are considered highly favorable.

Risk Capital

Lomé IV has introduced a new category of "risk capital" which is available either on a loan basis with interest rates of less than three percent, or in the form of equity participation.

Trade Cooperation

Under Lomé IV, trade arrangements have been improved slightly. The rules of origin have been relaxed and access of agricultural and fisheries products to the European Community has been improved. However, Article 161 of the Convention states: "If the community modifies the organization of the market in a particular product ... as a result of the implementation of the Common Agricultural Policy (CAP), the EC shall reserve the right to modify the arrangement laid down for products originating in ACP countries. .... In such cases, the EC will ensure that the product originating in the ACP states continue to enjoy an advantage comparable (underlined by author) to that previously enjoyed in relation to products originating in third countries benefiting from the most-favoured-nation clause."

Sugar, Bananas and Rum

Sugar has been included under the Stabex system thereby ensuring that export earnings are not reduced from year to year. The sugar protocol provides for purchases and imports of specific quantities of cane sugar, raw or white, at guaranteed prices from sugar exporting ACP countries. The safeguard clause does not apply. Although the EC guarantees the price of sugar, sugar-exporting ACP states fear that the price of sugar, already frozen for three consecutive years, may be too low and not earn them enough foreign exchange to cover the cost of production.

With respect to bananas and rum exports to the European Community, the Lomé IV Convention states that no ACP state shall be treated less favorably than in the past or present; the means by which this will be achieved, however, are not clear. The special quotas of banana exports to the United Kingdom will not be retained, and all rum quotas will eventually be abolished (Protocol 6, Article 2). Overall, preferential access of ACP exports to the European Community market has lost some ground in the still-ongoing debate, and commodity agreements are apparently heading the same way.

*

Information derived from interview with E.C. Counsellor for Development Affairs, Mr. Jürgen Köppen, Delegation of the European Economic Community, Washington, D.C. (see questionnaire) on September 27, 1990; and the official text of "The Lomé IV Convention," The Courier, #120, March April, 1990.

ANNEX I

Lomé's Institutional Structures

1. ACP-EEC Council of Ministers
2. The Joint Assembly
3. Community Council of Ministers
4. European Parliament
5. European Development Fund (EDF)
6. European Investment Bank

At the conclusion of each Convention, ACP Heads of State are notified by the European Commission of the amount of aid allotted to them. After the preparatory work, ACP and the Commission examine the chosen sectors, apply Community guidelines and decide on the appropriate modalities of implementing the program. Flexibility in implementation is key to linking programs directly to sectoral objectives.

The Joint Assembly periodically issues resolutions which have implications for the European Development Fund's disbursements of aid with respect to ACP countries' debt problems.

The Arusha debt resolution of February 1987, for instance, called for action to help solve debt problems, encourage private investments and debt write-offs, and softer interest terms. It also proposed the creation of a special debt relief fund to be financed by the sale of part of member states' gold reserves and greater coordination with other donors, principally the World Bank.

The Lisbon resolution in September of 1987 stressed greater cooperation in the transport and communication sectors, intensified South/South trade, development of internal markets, and increased assistance for technical, financial, and administrative sectors and to regional organizations that seek to develop financial and monetary cooperation.

The Madrid resolution, September 1988, called for structural adjustments, regional cooperation, promotion of science and technology, industrial development, and debt relief. The resolution also proposed the establishment of an ACP-EEC equivalent of the World Bank's International Finance Corporation.

The Madrid resolution recognized the importance of quick disbursing of the financial resources of the European Development Fund, particularly with respect to the SIPs. The resolution also called for the Community to exert its influence in coordinating the efforts of different donors, and the need for ACP governments to participate in sectoral and macroeconomic reforms.

The European Parliament more recently has passed several resolutions in support of (1) new initiatives for a North/South dialogue; (2) trade in primary products; (3) long-term recycling of debt; (4) debt write-offs and reduced interest rates.

The Parliament has also requested the EC Commission to assess programs regularly to ensure practical feedback of evaluation results. At the Parliament's initiative, all projects financed under Lomé III must include evaluations that provide evidence of program sustainability using the following criteria:

(1) Priority accorded to projects by the national authority;
(2) Compatibility with natural resources and environmental factors/constraints;
(3) Compatibility with the socio-cultural milieu;
(4) Adequacy of technology;
(5) Management and institutional support;
(6) Financial and economic soundness of projects and programs;
(7) Degree of resistance to uncontrollable external factors (political or natural events).

ANNEX II

THE 66 AFRICAN, CARIBBEAN AND PACIFIC STATES

ANGOLA	GAMBIA	ST. VINCENT & THE GRENADINES
ANTIGUA & BARBUDA	GHANA	SAO TOME & PRINCIPE
BAHAMAS	GRENADA	SENEGAL
BARBADOS	GUINEA	SEYCHELLES
BELIZE	GUINEA BISSAU	SIERRA LEONE
BENIN	GUYANA	SOLOMON ISLANDS
BOTSWANA	JAMAICA	SOMALIA
BURKINA FASO	KENYA	SUDAN
BURUNDI	KIRIBATI	SURINAME
CAMEROON	LESOTHO	SWAZILAND
CAPE VERDE	LIBERIA	TANZANIA
CENTRAL AFRICAN REPUBLIC	MADAGASCAR	TOGO
CHAD	MALAWI	TONGA
COMOROS	MALI	TRINIDAD & TOBAGO
CONGO	MAURITANIA	TUVALU
COTE D'IVOIRE	MAURITIUS	UGANDA
DJIBOUTI	MOZAMBIQUE	WESTERN SAMOA
DOMINICA	NIGER	VANUATU
EQUATORIAL GUINEA	NIGERIA	ZAIRE
ETHIOPIA	PAPUA NEW GUINEA	ZAMBIA
FIJI	RWANDA	ZIMBABWE
GABON	ST. CHRISTOPHER & NEVIS	
	ST. LUCIA	

ANNEX III

World Price Indices for the
ACPs major export commodities

	1980	1981	1982	1983	1984	1985	1986	1987
Coffee	100	83.1	90.6	85.4	93.5	94.4	125.0	72.8
Cocoa	100	79.8	66.9	81.4	92.0	86.6	79.5	76.7
Copper	100	79.8	67.8	72.9	63.0	64.9	62.7	81.5
Wood	100	80.0	77.0	72.1	80.5	70.4	--	--
Iron	100	90.3	96.2	87.9	84.8	83.2	80.3	81.6

Source: IMF International Financial Statistics

ANNEX IV

EXPORTS/IMPORTS FROM AND TO THE EUROPEAN COMMUNITY

(Selected Countries)
(Millions of U.S. Dollars)

	1982	1983	1984	1985	1986	1987	1988
1. **FIJI**							
Exports	72	70	75	71	96	86	107
Imports	38	40	41	49	36	26	59
2. **VANUATU**							
Exports	9	14	23	14	6	7	10
Imports	6	8	10	21	18	28	128
3. **KIRIBATI**							
Exports	-	1	6	1	-	-	7
Imports	4	2	2	3	1	2	2

	1982	1983	1984	1985	1986	1987	1988
4. **BARBADOS**							
Exports	10	3	1	2	3	7	21
Imports	24	20	36	47	72	83	65
5. **BELIZE**							
Exports	21	19	20	20	26	32	39
Imports	26	18	21	23	20	24	37

ANNEX IV (cont)

EXPORTS/IMPORTS FROM AND TO THE EUROPEAN COMMUNITY
(Selected Countries)
(Millions of U.S. Dollars)

	1982	1983	1984	1985	1986	1987	1988
6. MOROCCO							
Exports	1,276	1,237	1,288	1,277	1,408	1,720	1,395
Imports	2,146	1,662	1,672	1,840	2,009	2,221	1,822
7. TUNISIA							
Exports	1,156	1,094	1,056	1,181	1,268	1,682	1,784
Imports	2,317	2,163	2,058	1,864	1,951	2,036	2,466

	1982	1983	1984	1985	1986	1987	1988
8. CAMEROON							
Exports	470	660	753	1,813	563	571	1,186
Imports	813	844	727	1,105	1,067	1,216	882
9. SENEGAL							
Exports	261	288	258	219	271	322	418
Imports	491	530	441	426	490	720	713

Source: Direction of Trade Statistics, Yearbook, 1989, IMF.

ANNEX V

TERMS OF TRADE
(percentage change from previous year)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Industrial Countries	-1.1	2.7	-3.3	-6.9	-1.3	1.8	1.8	--	.8	9.7	.1
Developing Countries Africa	4.1	-6.4	7.7	15.6	3.3	1.2	-6.4	2.0	-.6	-15.6	--
Non-Oil Developing Countries	6.2	-4.3	-3.6	-4.9	-6.9	-1.3	--	4.1	-4.4	1.4	--

Source: International Financial Statistics, Yearbook, IMF 1988.

ANNEX VI

Interview Questionnaire

Topics of interest for interview with Mr. Jürgen Köppen, Counsellor for Development Affairs, European Economic Community Delegation, Washington, D.C. in September, 1990.

1. General discussion of most likely impacts on ACP export trade with the EC after 1992. In light of internal liberalization, and ACP countries export uncompetitiveness, does EC consider compensating shortfalls in export earnings with increased direct aid? How much ? What concessions does EC contemplate to grant ACP states to increase their export capacity?

2. EC official position on the use of Stabex funds and other resource transfer instruments, (SIPs, GIPs) under Lomé IV. How is the EDF capitalized (voluntary contribution or national allocation, other,) under Lomé IV? Are Stabex resources tied to the agricultural sector or are alternative uses contemplated? EC position on ACP states interest in using EC aid resources for alleviating structural adjustment, balance of payments problems, and for debt relief?

3. What kind of changes can be anticipated for the rum, sugar, and banana arrangements after completion of the Single Market? Are these changes reflected in the Lomé IV Convention?

4. General discussion on how ACP states and other developing countries could benefit from the unified Single European Market. What type of export strategies would most likely be successful in promoting LDCs exports to the European Community. Any ideas?

5. Extent of progress made in harmonizing 12 national standards into one single European Community standard for each product. Percentage of products and type of products covered?

Notes

[1] "1992: The External Dimensions," David Henderson, Occasional Papers, No. 25, Paper presented at the Group of Thirty in Frankfurt, September 1988.

[2] "1992 and the Developing Countries," Address given by Dieter Frisch, Director General for Development, Commission of the European Community, Bonn, Germany, 25 October 1988.

[3] "What to Expect from Lomé? Neither the Best nor the Worst!" Paul Bouvier, The Courier, January/February, 1989.

[4] "Lomé IV Fails to Settle on Negotiating," EC Fact Sheet # 1435, October, 1989.

[5] op cit., Bouvier, p. 8.

[6] ibid.

[7] "A Possible ACP Development Model," EC Fact Sheet # 1378, January, 1988.

[8] "The EC Strategy of Building on Achievements," EC Fact Sheet, # 1432, September, 1988.

[9] op. cit., Bouvier.

[10] "EEC-ACP Negotiation for Lomé IV - Hoping to do Better," News Round-Up, The Courier, March/April, 1989, p. 5.

[11] ibid.

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