

EUROPEAN PARLIAMENT

Working Documents

1980 - 1981

7 January 1981

DOCUMENT 1-698/80

REPORT

drawn up on behalf of the Committee on
Development and Cooperation

on

- I. the communications from the Commission of the European Communities to the Council concerning the operation of STABEX in 1977 and 1978
- II. the special report by the Court of Auditors on the operation of STABEX
- III. the Commission's comments on the special report by the Court of Auditors on the operation of STABEX

Rapporteur: Mrs L. CASTELLINA

By letter of 7 January 1980 the Committee on Development and Cooperation requested authorization to draw up a report on the communications from the Commission to the Council concerning the operation of STABEX in 1977 and 1978 (COM(79)277 final, COM(79)278 final COM(80)212 final and COM(80)214 final), the special report by the Court of Auditors on the operation of STABEX (PE 60.800) and the Commission's comments on the special report by the Court of Auditors on the operation of STABEX (COM(80)211 final).

At the sitting of 11 March 1980 the President of the European Parliament authorized the Committee on Development and Cooperation to draw up a report on this matter. The Committee on Budgetary Control was asked for an opinion.

On 18 March 1980 the Committee on Development and Cooperation appointed Mrs Castellina rapporteur.

It considered the draft report at its meetings of 30 September, 24 November and 5 December 1980 and unanimously adopted the motion for a resolution on 5 December 1980.

Present: Mr Poiatowski, chairman, Mrs Castellina, rapporteur, Mrs Cassanmagnago Cerretti (deputizing for Mr Bersani), Mr Cohen, Mr Ferrero, Mr Fich (deputizing for Mr Kühn), Mr Flanagan (deputizing Mr Clement), Mrs Focke, Mr Haagerup (deputizing for Mr Sablé), Mr Jaquet, Mr Lezzi, Mr Michel, Mr Narducci, Mr Pearce, Mr Radoux (deputizing for Mr Glinne), Mrs Rabbethge, Mr Vergeer, Mr Wawrzik.

The opinion of the Committee on Budgetary Control is attached.

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A

The Committee on Development and Cooperation hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on

- I. the communications from the Commission of the European Communities to the Council concerning the operation of STABEX in 1977 and 1978,
- II. the special report by the Court of Auditors on the operation of STABEX
- III. the Commission's comments on the special report by the Court of Auditors on the operation of STABEX

The European Parliament,

- having regard to the communications from the Commission of the European Communities to the Council concerning the operation of STABEX in 1977 and 1978 (COM(79) 277 final, COM(79) 278 final, COM(80) 212 final and COM(80) 214 final),
 - having regard to the special report by the Court of Auditors on the operation of STABEX,
 - having regard to the Commission's comments on the special report by the Court of Auditors on the operation of STABEX (COM(80) 211 final),
 - having regard to the report by the Committee on Development and Cooperation and the opinion of the Committee on Budgetary Control (Doc. 1-698/80),
1. Notes, with regard to the operation of the STABEX system during the period covered by the documents under consideration,
 - that all the instruments and mechanisms necessary for the application of the STABEX system operated in a generally satisfactory manner under Lomé I;
 - that delays in transfers which occurred during the early period, with the result that any stabilizing effect was only a matter of chance, have successfully been eliminated;
 - that 67% of all transfers under Lomé I were paid to assist countries in the least developed category and considers this a satisfactory pattern;

- that cases where the fall in exports was attributable to local and for the most part natural circumstances (drought, hurricanes, etc.) accounted for almost 70% of the funds disbursed;
 - that the pattern of transfers has nevertheless tended to become rigid, reflecting a regrettable tendency for countries to become dependent upon regular revenues from STABEX for certain products;
2. Considers as far as the current and future administration of the STABEX system is concerned,
- that since a joint management procedure, though ideally desirable, would - owing to the absence of objective criteria for determining the statistics to be used and the limitations of the automatic operation of the STABEX system,
 - introduce excessive delays, a short discussion of the management of the STABEX system should always be included on the agenda of meetings of the Joint Committee if one or more ACP states so request;
 - that the use to which transfers are put should continue under Lomé II to be decided in practice by the recipient country, interpreting in the broadest terms the requirement that this be done in compliance with the objectives laid down;
3. Requests the Commission, in its management of the system and in proposals for changes,
- to take account of the overall pattern of the ACP countries' exports and also to consider authorizing STABEX transfers if a reduction in a country's exports to the Community is accompanied by an increase in its exports to other associated countries;
 - to envisage adapting the method of establishing reference-levels and calculating losses so that the system comes to allow for inflation and for foreseeable trends in the value of products;
 - to continue to favour the inclusion of new agricultural products at the request of ACP countries;
 - to take steps to extend the system to the products of agricultural processing industries, thus encouraging the establishment of such industries in the ACP countries;

4. Likewise requests the Commission to undertake without delay an assessment of the impact of the STABEX system on the growth of the economies of the ACP States;
5. Instructs its President to forward this resolution and the report of its committee to the Council and the Commission of the European Communities and the presidency of the Joint Committee of the ACP-EEC Consultative Assembly

EXPLANATORY STATEMENTI. INTRODUCTION

1. For the third time this year our committee has been asked to give its opinion on the export earnings stabilization system for the ACP countries on the first occasion in preparation for the meeting of the Joint Committee in Arusha (25-28 February 1980)¹ and subsequently in connection with the discharge for 1978². At that time we made a brief assessment of STABEX, whereas this report will be devoted to examining STABEX as a system, thus giving Parliament an opportunity to comment on STABEX alone.

2. Parliament has always regarded STABEX as one of the key elements of the Lomé Convention. In its resolution of 17 February 1978³ it 'Recalls that it was the European Parliament in particular which helped to develop and decide the principles of STABEX, believing that the introduction of such a system would be of considerable political significance in that it establishes a precedent at international level and offers a practical solution, even if only partial, to the problems of the developing countries which produce raw materials'.

Our committee's task is to assess whether the hopes placed in this system are still justified.

3. The fact that Article 29 of the internal agreement on the financing and administration of Community aid requires the Commission to draw up an annual report⁴, provides us with a regular opportunity to examine the operation and achievements of STABEX.

Although this report was intended to cover only 1977, the report for 1978 () (which also contains a comparative table of the STABEX provisions in Lomé I and Lomé II) and information regarding transfers in 1979 (PE 66.913) are already to hand and have therefore been included.

¹ Introduction to Mrs Focke's draft report on 'an analysis of the results obtained under the First Lomé Convention in the light of the forthcoming entry into force of the Second Lomé Convention' (CA/CP/153)

² Mr IRMER's working document on the discharge for 1978 (PE 62.415/final) - Mrs FOCKE's opinion on behalf of the Committee on Development and Cooperation on the discharge for 1978 (PE 64.470)

³ See also Mr AIGNER's report on the operation of STABEX from 1975 to 1976 (Doc. 539/77)

⁴ Doc. COM(79) 277/final and COM(79) 278/final.

The Court of Auditors' special report on the operation of STABEX in the first three years¹ and the Commission's comments on this report² have, of course, also been taken into account in this document.

4. There is, then, a whole series of documents on STABEX but, unfortunately, they all stem from different Community bodies. If Parliament, and our committee in particular, were given more information in future by the ACP Group, they would undoubtedly be in a better position to give a more general and balanced opinion³. Your rapporteur therefore proposes that the Commission immediately approach the ACP Group officially in order to ascertain the ACP countries' views on STABEX.

In addition, the Committee on Development and Cooperation calls upon the Commission to provide it as soon as possible with a document outlining the views expressed by all the ACP countries on STABEX when the Convention was renegotiated.

5. Although no assessment of the impact of STABEX on the economic development of the ACP countries has yet been made, and while care must therefore be taken not to prejudge the conclusions of such a study, the criticisms levelled at STABEX must nevertheless be examined in this report. Furthermore, your rapporteur regrets that work has not yet begun on such an assessment.

¹ Comments on the operation of the export earnings stabilization system (STABEX), report adopted by the Court of Auditors on 19 July 1979.

² Commission's comments

³ The only document your rapporteur has been able to obtain from the secretariat of the ACP Group is one entitled 'STABEX: a preliminary balance sheet' dated December 1978.

II. IMPLEMENTING PROVISIONS

1. Closure of accounts for 1975

6. Our committee notes that three applications for transfers for 1975 were presented in 1977, outside the time-limit allowed. In line with the good offices procedure provided for in Article 81(2) of the Convention, the Commission was asked to consider these applications by way of exception in spite of the delay in presenting them. As a result, in two of the three cases transfers were actually made in 1979.

7. Our committee agrees with the Court of Auditors and the Commission that it would be purely by chance if transfers effected at such a late date produced any stabilizing effect.

Your rapporteur also wonders whether the circumstance mentioned above reflects a difference of views between the ACP states and the Commission regarding the objectives of STABEX.

2. Six-monthly advances

8. The Commission received requests for advances under Article 19(6) of the Convention for the first time in 1978, the fourth year of operation.

9. In its special report the Court of Auditors regretted that the Commission had not laid down practical rules fixing the amounts to be paid by way of advances as a percentage of final transfers. The Commission has pointed out that its staff is introducing a rather complicated procedure for calculating advances designed to ensure that advance payments do not exceed the amount of a transfer on the basis of the statistics for the full year.

It would be very interesting to hear more from the Commission on the effect of this 'rather complicated calculation procedure' on the volume of advances which the Commission feels the ACP states have been requesting increasingly since 1978.

3. Requests refused

10. The ACP Group claims in its preliminary balance sheet that the Commission may possibly not have been as consistent as it should have been in interpreting the threshold criteria:

'In some cases it refused or reduced the financial transfers under it considered that exports to the rest of the world had increased at the expense of exports to the Community or that exports of a certain product had fallen because of an increase in exports of a similar product. While this view is not without some justification, there needs to be some measure of consistency and, as a result, transfers should also be authorized if the opposite situation occurs - i.e. if exports to the Community have increased at the expense of exports to the rest of the world or if the ACP states have reason to believe that transfers are being refused because the criteria governing the dependence threshold are being applied too strictly'.

Our committee fully shares this concern for consistency in interpreting the threshold criteria and hopes that in future the Commission will adopt the approach advocated by the ACP group.

4. Application of Article 17(1)

11. In its annual report on the 1977 financial year and its special report on STABEX, the Court raises a number of problems regarding the figures presented by the ACP states and the cross-checking provided for in Article 17(1) of the Convention. In particular, the Court regrets that the Commission has not laid down general rules for cross-checking.

In general, the Court considers that stricter rules governing the compilation of the 'statistics applied' could lead to stricter implementation of STABEX.

12. In its comments to the Court, the Commission indicates that there are limits to making the system more automatic: 'after four years of applying the system, the Commission now realizes that every application for a transfer has individual features the Commission has come to the conclusion that it is impossible to meet the requirements of each individual case on the basis of detailed rules valid for all cases and designed to eliminate the discontinuities in the automatic process of dealing with an application for a transfer'.

13. Your rapporteur feels that the question of 'limits to making the system more automatic' raises the problem of management as such, which for the moment is the sole responsibility of the Commission and not of a joint ACP-Community body.

Given these limits to making the system more automatic, it is perhaps worth considering whether a joint management body might not help generate a climate of increased confidence and understanding and lead to better management of the system.

It would be very interesting for our committee to learn the positions adopted by the ACP states and the Community during the Lomé II negotiations on the question of a joint management body.

III. RESULTS

14. The following transfers were made under Lomé I:

1975 :	80 million EUA
1976 :	37 million EUA
1977 :	34 million EUA
1978 :	164 million EUA
1979 :	60 million EUA

The figure for 1978 may give reasonable cause for doubt as to whether sufficient resources are available for the system. Indeed, in its special report the Court notes that 'there is a relatively high risk of a temporary shortage of funds The present Convention does not lay down any criteria for distribution when the sums to be transferred exceed the allocation or the annual instalment available'.

The Commission claims in reply that the allocation is determined on the basis of normal transfer risks, excluding exceptional risks, and that, if the resources proved inadequate at any time, transfers would naturally have to be reduced.

Your rapporteur feels that the Commission has not answered the criticism that there are no criteria for reallocating the annual instalment where necessary. There is no procedure for determining the basis for a reduction of transfers.

Our committee is pleased that 67% of the transfers effected under Lomé I were paid to countries classified as being among the least developed.

It also notes with interest that in the case of almost 70% of the funds paid, it was local and predominantly natural phenomena (drought, hurricanes, etc.) which led to a fall in exports. This is confirmation of the STABEX system's primary roles as a form of 'sickness insurance'.

16. It is particularly interesting to note that, under Lomé I, almost 40% of the transfers were for groundnut products. In general, just a few products accounted for the largest transfers. It would be very interesting to hear the Commission's explanation of this phenomenon.

IV. CRITICISMS OF THE STABEX SYSTEM

1. Failure to take inflation and current prices into account

17. The increase in prices, imports and production costs due primarily to inflation is one of the major problems facing the developing countries and raises the question of their purchasing power.

18. Losses of export earnings are measured at the current fob prices of each of the STABEX products: these losses are defined in terms of the relationship between the fob earnings for a given year (the year of application) and the average of the four previous years (known as the reference level).

The method of calculating losses and the reference level clearly demonstrates that the STABEX system does not take account of inflation or of the trend value of the STABEX product concerned. This shows that STABEX is not intended to stabilize 'real' earnings from exports.

19. If a world export earnings stabilization system were to be established, inflation and the current prices of the products concerned would ideally need to be taken into account in any system of compensation for loss of export earnings.

2. How transfers are used

20. There is still some ambiguity on this aspect of the STABEX system, as appears notably in the Commission's comments on the Court's special report. The Commission's initial view was that there was a close link between the object to be stabilized (export earnings from individual products) and the need to direct the resources transferred to the sector concerned, i.e. the producers (farmers, timber concessionaires ...) in order to support production. However, this link was not maintained during the negotiations in Kingston in 1974, when it was agreed, at the request of the ACP countries, that transfers would be made to the relevant governments and there would be no requirement to use them for the product concerned.

21. In the light of the outcome of these negotiations, the Court's statement in its special report is highly significant: 'The main purpose of the system is to effect transfers to help stabilize the balance of payments and information on the use to which payments are made remains a purely token gesture'.

The new convention specifies that the ACP state concerned shall decide how the transfers are used 'subject to compliance with the objectives' of the system, but this does not change at all the significance of this basic feature of the STABEX system.

22. While admitting that some ACP states could probably have used the transfers in a more appropriate manner to guarantee the economic and social advancement of their peoples, your rapporteur feels that the transfers can provide the ACP states with an instrument to bring about qualitative changes on the road to the kind of development they themselves have chosen.

3. Effects on the economies of the ACP states

23. The Court is cautious in its conclusions on this subject:

'Nonetheless, apart from the ten or so special cases observed during a specific year, the final impact on the economies of the recipient ACP states was probably slight. Sporadic transfers cannot have lasting effect, and the amount of financial resources involved is usually too small'.

24. In its opinion for the Committee on Budgetary Control concerning the discharge for 1978, our committee stressed that before a balanced overall judgment could be made of the operation of STABEX under Lomé II, the Commission would have to provide Parliament with a report assessing the impact of the system on the economic development of the ACP states.

25. In this report, our committee would simply reaffirm its request to the Commission to present this assessment. The committee is also anxious to receive the summary report on STABEX under Lomé I (fact-finding report) which the Commission has promised for October or November 1980.

26. Given the importance of this assessment for an overall appreciation of the system, your rapporteur would also suggest that this detailed study be carried out by private consultants selected in conjunction with the ACP states, as was done in the case of the study on the method of calculating the cif and fob factors.

4. Adverse effects on the development of production structures

27. Although we must wait for the results of the above assessment, there is reason to wonder in certain cases to what extent the transfer actually perpetuates excessively monolithic production structures by sheltering the national authorities from the warning signals given by the movement of prices on the international market.

The Commission adopts a very cautious approach: 'The Commission must examine the theoretical possibility of STABEX transfers artificially maintaining outdated production structures On this problem, the Commission would therefore advise caution.'

28. Your rapporteur does not wish to comment at this stage, but would stress the potential seriousness of this criticism if it is borne out by later studies.

5. Failure to develop processing industries

29. Trade between the Community and the ACP is characterized by an overwhelming preponderance of non-manufactured products over manufactured goods in imports from the ACP to Europe (96.4% as against 3.6% in 1977).

30. The products covered by STABEX are either raw materials or have undergone an initial processing stage. Is it possible that the system discourages the ACP states from processing their raw materials further? Does STABEX not tend to perpetuate the present system under which the industrialized countries retain the 'added value' by processing the Third World's natural resources?

31. While it is true that the ACP states have other incentives to establish processing industries, which are far more substantial than possible income from STABEX, it can justifiably be claimed that the system runs counter to one of the major development priorities of the ACP states, namely on-the-spot processing local products.

V. CONCLUSIONS

32. In this report, which is an element in the European Parliament's monitoring role, we have examined the Commission's reports on the application of the STABEX system in 1977 and 1978.

The committee finds that on the whole STABEX has functioned in a satisfactory manner during these two years. Furthermore, the procedures used to resolve the inevitable difficulties involved in implementing the system comply with the spirit of the Convention and no longer appear to pose any problems with regard to its operation.

33. This report could not be exhaustive. It covers only two years of application and what is more, we are still awaiting the summary report on STABEX covering the entire period of Lomé I and the assessment of the effects of STABEX on the economic and trading situation of the recipient countries. Our committee cannot make a more detailed analysis or give a more general appraisal until it receives these two documents.

We shall though have an opportunity to comment on any improvements to the system under the new Convention in the context of Mr Warwzick's report on Lomé II.

34. However, even at this stage, it can be said that the experience gained so far in operating STABEX does appear extremely valuable and could prove very useful in establishing a world price stabilization system, notably for raw materials. It goes without saying that, without such a system at world level, STABEX must remain an inadequate palliative for all the problems connected with balance of payments and raw materials.

35. Subject to the comments made in this report, the Committee on Development and Cooperation supports the Commission's communications to the Council concerning the third and fourth years of operation of the STABEX system set up by the Lomé Convention and the decision on the association of the OCT with the EEC.

OPINION OF THE COMMITTEE ON BUDGETARY CONTROL

Letter from the chairman of the committee to Mr Michel PONIATOWSKI,
chairman of the Committee on Development and Cooperation

10 October 1980

Dear Mr Chairman,

At its meeting of 29 and 30 September 1980, the Committee on Budgetary Control adopted an opinion for the Committee on Development and Cooperation on the operation of STABEX.

The Committee on Budgetary Control considered that the own-initiative report on the operation of STABEX was particularly well-timed since practically all the information relating to the operation of the system under the first Lomé Convention is now available, thus making an initial evaluation possible.

The Committee on Budgetary Control wished to emphasize the exemplary nature of this system originated by the Community. For this precise reason, the Committee considered it necessary to recall the results of the various assessments carried out during the first four years of the system's operation:

- the provisions of the Lomé Convention have sometimes given rise to difficulties of interpretation, particularly with regard to the criteria for the allocation of transfers;

- the Commission is allowed considerable latitude in determining the amounts to be transferred because of the uncertainty of the statistical bases;
- because sufficient use is still not made of the system of advances, there are sometimes long delays between a loss of income and the payment of a transfer;
- the use made of the transferred funds by beneficiary ACP countries is not - and cannot be - subject to effective Community supervision.

With regard to the effectiveness of the financing provided under STABEX, and its economic impact, the Committee on Budgetary Control observed that the aim specified in Article 16 of the Lomé Convention of 'guaranteeing the stabilization of earnings from exports by the ACP States to the Community of certain products on which their economies are dependent and which are affected by fluctuations in price and/or quantity' has been achieved only in a very small part.

In fact, for various reasons - lack of any direct link between the product affected and the sector receiving the transfer, payment to States and not to producers, etc. - the STABEX system under Lomé I has not really acted as an instrument for compensating losses in income brought about by short-term economic fluctuations.

On the other hand, because of the importance of the transfers for certain products and certain countries, particularly the poorest, STABEX may be regarded as an extremely useful instrument to the Community in its policy on aid to deal with economic disasters.

The Committee on Budgetary Control therefore invites the Committee on Development and Cooperation to prepare for Parliament a definition of the political and economic objectives of STABEX, taking account of these observations.

In addition, the Committee on Budgetary Control will continue to carry out annual checks, on the basis of the reports by the Commission and the Court of Auditors, as part of the discharge procedure.

Yours faithfully,

(sgd) Heinrich AIGNER

Present : Mr Aigner, chairman; Mrs Boserup, vice-chairman;
 Mr Price, vice-chairman; Mr Früh (deputizing for Mr Ryan),
 Mr Gabert, Mr Gouthier, Mr Hamilius, Mr Irmer,
 Mr Kellett-Bowman, Mr Brøndlund Nielsen, Mr Notenboom,
 Mr d'Ormesson and Mr J. M. Taylor