
1 THE LOMÉ CONVENTION

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The Lomé Convention was signed on the 28th February 1975, at Lomé, capital of Togo. It is intended as an economic co-operation agreement between the European Economic Community (EEC) and 46 African, Caribbean and Pacific states, the "ACP countries". (There are now 53 states which are signatories to the Convention. See Appendix 1 for a list and map of countries involved).

The agreement was met with great euphoria in some quarters. Statements such as "a revolutionary agreement", "a turning point in history" and "one of the European Community's greatest achievements" revealed the hope that the Lomé Convention would in the longer term contribute towards the establishment of a 'new international economic order' between developed and low income countries (LICs)*. The purpose of this initial chapter is to outline the historical background to the Lomé Convention, to examine its main provisions, and to summarise some of the main themes in the current debate concerning the way it operates. The aim is to place the Convention in a general setting for the more detailed material on agricultural commodities covered in Part II.

A. Historical Perspective

The EEC's association policy was designed to compensate for the benefits lost by the former colonies of France, Italy, Belgium and the Netherlands (and eventually the UK) due to the removal of bilateral preferences when the Common Market was formed. This compensation was formally embodied under Part IV of the Treaty of Rome (see Appendix 4). It was renewed, after independence of mainly ex-French colonies in the early 1960s, under the Yaoundé Agreement (1963), and after this expired, under Yaoundé II which ran from 1969-1975. In addition, the concept of association itself was widened when three countries which were not ex-colonies of any of the six original Common Market countries - Kenya, Tanzania, and Uganda - signed the Arusha Convention (1969)**.

It is possible to detect a number of themes which underlie the Community's desire to develop links with low income countries***. Perhaps most important is what might be termed the historical role of some of the Nine Member States, in terms of their extensive colonial links over several hundred years. In a more immediate context, desire to formulate a 'common external relations policy', with the aim of greater Community unification has also been a strong influence. "Pangs of conscience", the moral issue of Third World poverty, although carrying different weight in diff-

* See Appendix 6 for a glossary of abbreviations used in this study.

** Several authors have attempted to evaluate these agreements, for example, Matthews, J.D., 1977; Twitchett, K.J., 1976; Coffey, P., 1976 and Henig, S., 1971. Details of these agreements, with particular reference to products coming under the EEC's Common Agricultural Policy, will be found in Ellis, Marsh and Ritson (1973).

*** This paragraph is based largely on Morgan, R.P., 1973.

erent Member States, has nevertheless created a considerable influence in its own right. "Hopes of profit", quite evidently, the extension of assistance towards LICs has not been purely altruistic, for considerable investment in these countries may have brought, in some cases, greater Community security in raw materials supply, markets for its exports, and a flow of revenue from its investments. Some Member State governments have also thought it necessary for the EEC to evolve "spheres of influence" through trade concessions and agreements, to gain both the acceptability of the Community amongst LIC governments and to combat a perceived economic and political threat from potential competitors, such as the USA, Japan, the Soviet bloc and China. Finally, and a more recent phenomenon, has been a "fear of retribution". Although it would be incorrect to depict this as a powerful influence in the past, certainly following the experience of the OPEC cartel, it may now be a more significant force in determining the character of the EEC's relations with LICs.

Many of these general forces were fundamental to the eventual outcome of Lomé, and indeed will also be so in the case of Lomé II. But in addition other factors constrained the final content of the Convention. The negotiations commenced during the latter part of 1973, and with the recent accession of the UK to the European Communities, the first hurdle to overcome was how to compensate the Commonwealth LICs for eventual loss of Commonwealth Preferences, whilst at the same time ensuring that benefits extended to Yaoundé associates were not diminished in a wider agreement covering more countries.

The grouping of Anglophone and Francophone ACPs, and their seeming (and perhaps surprising) solidarity in negotiating with the EEC, is seen by some* as an important spillover effect in the form of greater co-operation between these LICs themselves. A similar issue may ensue in the forthcoming negotiations, although to a lesser degree, should the question of enlargement of the EEC to include Portugal reach the stage which requires that her ex-colonial territories, Angola and Mozambique, be considered for inclusion under the Lomé Convention. Angola has however recently stated that it does not wish to sign Lomé, although it would like to develop good bilateral links with the Community**.

The other major constraint on the form of the Lomé Convention was the problem of how the Community was in fact to offer meaningful preferential benefits to the ACPs. This difficulty seems to have arisen from two related factors, namely that a) it is presently thought that the AASM did not enjoy any real growth in their trade during the period of the concessions provided by Yaoundé I and II, and b) that by the time negotiations had commenced (1973), the margin of preference compared with the late 1950s had been greatly eroded.

Estimates of the trade impact of the EEC's association policy on the 19 AASM and 3 Arusha countries, although differing in detail, broadly confirm the view that, while there may have been some isolated sectoral trade gains as a result of forming a preferential trading arrangement,

* For example Morton, K., and Tulloch, P., 1977, Chp. 8.

** Reported in the Financial Times, "World Commodity Report - Soft Commodities", No. 122, 17/5/1978.

the overall impact on LICs as a whole was probably neutral in strictly trade terms*.

With respect to the erosion of preferential treatment for the ACP countries, a culmination of tariff concessions through the Kennedy and Tokyo Rounds of GATT; Common External Tariff reductions via UNCTAD's Generalised System of Preferences - introduced by the Community in 1971 and extended to all LICs; and also the extension of the EEC's trading agreements, e.g. with Latin America and Asian LICs, meant there was little scope in the tariff sphere for the EEC to offer many substantial preferential benefits to the ACPs.

B. Main Provisions

The Lomé Convention consists of seven titles and seven protocols,** but can conveniently be summarised into four activities:-

- i. trade co-operation;
- ii. the stabilisation of export earnings;
- iii. financial and technical aid;
- iv. industrial co-operation.

This chapter concentrates on the first two, but some mention is made of iii. and iv.

i. Trade Co-operation. The trading arrangements for EEC/ACP trade contain five elements:-

- (a) Tariff concessions. Approximately 99 per cent of total exports, and some 94 per cent of agricultural exports, from ACP countries are allowed entry into the EEC free of all duties and equivalent charges.
- (b) Reverse preferences. The EEC abandoned the principle of reverse preferences, that is, the granting of reciprocal treatment for Community exports to the ACP states.
- (c) Rules of origin. This is a long list of provisions which set out rules of originating status for ACP products exported to the EEC, and hence allowing free entry into the Community. However, the Nine did concede that products arising out of processing or manufacturing in several ACP countries would be allowed free entry, thus facilitating ACP inter-regional co-operation.
- (d) Trade promotion. A minor trade accord allowed ACPs to make direct application to the European Development Fund (EDF) to guide funds for trade promotion activities.
- (e) Trade arrangements for sugar, bananas and rum. This involved establishment of quotas and guaranteed minimum prices for ACP sugar sold to the EEC. In the case of rum, these arrangements include duty-free access on a quota basis for certain Caribbean ACPs and, for

* For some of the more important estimates of the EEC's trade impact on the Associated countries see Aitken, N.D., and Obutelewicz, R.S., 1976; Balassa, B., 1974; Quattara, M., 1973 and Young, C., 1972.

** See Courier, 1975, for a full text of Lomé.

bananas, that some of the ACPs would not be placed in a less favoured position than enjoyed before Lomé with respect to access to the Community's markets. (See Part II for a more detailed discussion of these special arrangements).

ii. The stabilisation of export earnings. This was the establishment of a fund - 375M ua over 5 years - to stabilise ACP export earnings, and now usually called the "STABEX" system. The scheme involves a transfer of funds from the EEC to ACP when specified declines in export earnings from certain commodities occur. Thus the system guarantees a minimum revenue from ACP exports of these commodities to the EEC. Originally twelve commodities and their products, making a total of 29 individual items, were covered by STABEX*.

iii. Financial and technical aid. The financial and technical aid offered to ACPs (the 4th European Development Fund (EDF)) is probably more significant in economic terms than the trade provisions, and amounts to about 3500M ua over the 5 years of the agreement. (More details of the allocation of this sum will be found in Chapter 8, Section D).

iv. Industrial co-operation. This does not involve operational provisions, but only outlines of desired objectives in this field. These include the recognition of the link between agriculture and industry and the need for co-operation in the industrialisation process. Since 1977 certain measures have been implemented through the Industrial Development Centre, mainly in the form of ensuring co-operation between the EEC/ACP industrialists to develop production opportunities.

C. Commentary

Comment on the Lomé Convention can be only tentative at present, as much of the trade data is yet to be published**. Writers have considered the scheme at two interconnected levels, appraisal of the actual provisions of Lomé and an assessment of Lomé's role in the context of international economic relations.

The STABEX scheme*** has probably provoked the greatest attention in the literature, and reactions to its introduction have been mixed. On the positive side, STABEX has been variously described as "unique and interesting", "revolutionary", "ground breaking" and a "potentially significant" agreement. In general the scheme has been recognised as the first serious attempt at stabilising export receipts of LICs and, unlike the IMF export compensatory credits (the only other compensatory finance scheme) where repayments have to be on schedule, under certain conditions STABEX allows non-repayable transfers. Indeed, in the first two years of the scheme, 1975/76, 63 per cent of transfers were non-repayable.

Despite the fact that the scheme does represent a significant innovation in the Community's development strategy, many writers believe it suffers from deficiencies.

* For a full list of STABEX products see Appendix 2.

** Some preliminary statistical investigations are however to be found. For example, see Love, J., and Disney, R., 1976, who examine Lomé's impact on Fthionia, and Parris, K., and Ritson, C., 1977, on Lomé's role in vegetable oilseed products trade.

*** For useful articles regarding STABEX see Hasse, R., 1975; and Wall, D., 1976, and Treydte, K.P., 1977.

Probably the most frequent criticism of STABEX is that the funds provided for the scheme are inadequate. To date payments for 1975 and 1976, amount to 72M ua and 36M ua respectively (see Appendix 2). This compares with a total value of exports covered by the scheme from the ACP to the EEC in 1973 of 1985M ua. Love and Disney, (1976) comment that, "as a least developed state, Ethiopia might anticipate favourable treatment in any rationing process but there is little doubt that the pressures on STABEX resources will not permit the EEC to fulfil its guarantee to stabilise earnings". In defence of the scheme, quite clearly in its first two years, STABEX has made a significant contribution for a few ACPs in improving foreign exchange earnings.

Other criticisms of STABEX include concern over the restrictive conditions needed before a transfer can be granted; technical problems concerning repayment and reference period difficulties: limited product coverage, in particular the exclusion of minerals, e.g. copper; the allegation that STABEX could encourage solidification of export structures in ACP economies; and the seemingly unfair distribution of transfers. Finally, and perhaps most important, there is criticism over the fact that the STABEX system does not allow any compensation for inflation of ACP import prices.

After being somewhat hesitant at the onset, many of the Lomé countries do now appear to take the view that the stabilisation of export earnings would represent a very real benefit - although changes in the existing arrangements are clearly felt necessary by some ACP governments.

Gruhn, (1976), summarises the STABEX by commenting: "in some senses a point of no return has been reached. While future LDC's demands will no doubt improve on STABEX, it is hard to imagine future industrial LDC economic negotiations in which a STABEX type scheme stabilising raw material prices will not be included".

The real impact of the trade co-operation provisions is very difficult to assess until adequate trade data have been published which will reveal the shares in Community imports of both preferred and non-preferred regions. Figures for 1972 to 1977 (see Table 1.1) do not yet indicate any significant trend, with Lomé not being signed until 1975. In any case, the 1973/74 Commodity boom probably distorts the figures. Nevertheless, the European Commission claims that "imports from the ACP states are growing more rapidly than those from other developing countries".* The acceptance of the non-reciprocity principle by the EEC was a welcomed part of the trade co-operation provisions. Concern was again expressed, as it had been under the Yaoundé agreements, about the creation of 'regionalist' approach towards LICs by offering selective preferential arrangements. This has been ameliorated somewhat by widening the number of states involved in Lomé, and by Community tariff erosion through the GSP, GATT, Mediterranean Association, etc. The rules of origin, which establish conditions of free entry into the EEC for ACP exports, are also considered restrictive. Finally, although about 99 per cent of total ACP exports are claimed to be able to enter the EEC free of all restrictions, liberalisation is far from complete in connection with CAP products and important non-tariff barriers remain.

* Quoted from Press Conference given by Commissioner Cheysson, see EC(1978C).

Table 1.1
Trends in EEC-ACP Trade 1972/77

| Region | Imports of the EEC (million European Units of Account (EUA)) | | | | | |
|------------------------|--|-------|--------|--------|--------------------|--------------------|
| | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 |
| Extra EC | 65573 | 84306 | 130802 | 125451 | 159354 | 171230 |
| Total ACP ¹ | 4814 | 6159 | 10491 | 8697 | 10474 | 12496 |
| % of Extra EC imports | 7.3 | 7.3 | 8.0 | 6.9 | 6.6 | 7.3 |
| Other LICs | 24451 | 31927 | 61379 | 54976 | 69865 ² | 75137 ² |
| % of Extra EC imports | 37.3 | 37.8 | 46.9 | 43.8 | 43.8 | 43.9 |

1 Excluding Djibouti

2 Cuba not included

Source: EC (Eurostat) "EC-ACP Trade in 1977" Statistical telegram - External Trade Statistics No. 2, 1978.

The other area where operational provisions of the Convention exist, financial and technical aid, was probably the major area of disappointment to the ACPs, for the amount allocated to the 4th EDF fell considerably short in per capita terms of the 3rd EDF. Disappointment was also felt in that control of the EDF still rests with the EEC instead of forming a joint management effort as the ACPs had proposed. It is this role of the EEC to manage exclusively the Funds' resources, by establishing a Community delegate in each ACP state, that Wall (1976) claims, "is redolent of that of a resident Governor sent by an imperial power to a self-governing colony".*

Assessment of Lomé in an international context,** appears to have polarised into two schools of thought. There are those who are firmly committed to the belief that Lomé is a new model in relations between developed and LIC economies and as such is consistent with the aspirations of the international community in moving towards a "new international economic order". At the other extreme, Lomé is taken as a continuation of the 'old order', based on the Community's "historical role" of neo-colonialism, encouraging and fostering the dominant-dependent relationship based on "hopes of profit" and creating "spheres of influence".

* However, the Treaty of Rome does specify that control of Community funds must be administered by EEC approved officials. Details of some EDF projects affecting agricultural commodities are given in Part II.

** For example, see Galtung, J., 1976; Goodwin, G., 1977 and Green, R., 1976

A common and fundamental supposition to both these schools has been the Community's attitude in evolving a clearly 'regionalist', (even though it has been widened under Lomé), rather than a multilateral, development policy. The proponents of this approach argue that the Community, by concentrating its efforts regionally can provide a more positive impact for LICs than by spreading its resources more widely. Anyway, by providing an example to other developed countries, it is hoped they might play a similar role. This implies the US and Japan developing an analogous strategy with respect to Latin America and South East Asia.

The protagonists of the 'Centre - periphery' thesis contest this view by arguing that 'regionalist' agreements such as Lomé continue colonial tendencies. Through restrictive institutional arrangements, most of the important operational decisions of the Convention are made in Brussels. Also the majority of ACPs have ex-colonial links emphasising that the "Euro-African dream" has now come true, with nearly the whole of Africa affiliated with the EEC in some form. Lomé also contains a divisive element as far as LICs are concerned, it has been argued, for UNCTAD has attempted to co-ordinate LICs activities through the Group of 77 (which cover most LICs in Latin America, Africa and Asia). The Group of 77 seek improvements collectively in their relations with developed countries on a multilateral basis, but are hindered when one region of LICs is treated more favourably by certain developed countries, such countries being reluctant to risk losing their own benefits through multilateral action.

Whether Lomé II can improve upon Lomé I as a model for creating a 'new international economic order' on the part of developed countries, or aim to satisfy the demands of LIC groups, such as the Group of 77, would appear dependent on two related questions. First, will the EEC view, either knowingly or subconsciously, the existing Lomé arrangements as a point of arrival and provide only marginal improvements in ensuing agreement? Second, for the ACPs, and indeed LICs outside Lomé, does the Convention spell increased dependence on the centre and division amongst their equals, or does it represent genuinely improved inter-regional LIC co-operation, greater self-reliance and clear improvements in standards of living?