
9 WIDER ISSUES AFFECTING THE OPERATION OF THE LOME CONVENTION

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A. Enlargement of the Community (Eric Tollens)

Greece, Portugal and Spain have applied to join the Community; the dates of application were June 1975, March 1977 and July 1977, respectively. The Council of Ministers approved the application of Greece in mid-1976 and the negotiations for admission are underway (EC, 1976 B). The Commission has stated its opinion on Portugal's application to join the Communities and is also working on an opinion on Spain's application. Presently, an association treaty with Greece exists and trade agreements are in effect with Portugal and Spain. An association treaty between Turkey and the Community was enacted in 1962 and full membership of Turkey is expected for 1995.

The solution found for the accession of Greece will necessarily appear as a precedent for the accession of the other Mediterranean countries. What has only a minor importance when one of the Mediterranean countries joins the Community may well be of a totally different weight in the case of a 12 member Community (Ries, 1978). But it seems clear that admission of the three countries, despite the serious difficulties involved, will go ahead for political reasons.

The general economic development of Greece, Portugal and Spain is far below the average of that found in the EC (9). Greece and Spain are about at the level of Ireland and Italy, and many still consider Portugal a "developing" country.

The industrial sector of the three countries is dualistic in nature. On the one hand, there are capital-intensive modern enterprises, usually the result of foreign investment, and on the other hand, a multitude of small local firms, with low productivity. Greece has the smallest firms, though Spain is one of the top ten Western industrial nations. The most developed industries in those countries: steel, ship-building, textiles, clothing and shoes are just the ones for which an overcapacity exists in the EEC and where imports from third countries hurt most. It is doubtful to what extent the candidates for admission will be able to cope with increased competition resulting from admission in the Community. Painful adjustments will be necessary for numerous small, less productive enterprises. However, it is also expected that enlargement will encourage new foreign investment and thus stimulate industrial development (Edwards and Wallace, 1976). Closer cooperation and trade with North African and Middle East countries is also expected with the entry of Greece (Zolotas, X., 1976).

Negotiations between the EEC and the three candidates will focus mainly on agricultural problems. It is expected that enlargement from nine to twelve Member States will increase the agricultural population in the Community by more than 55%; the agricultural area by about 49%; and agricultural production by 24%. Admission will be favourable for their agricultural sectors. All three countries have an agricultural production of Mediterranean nature. The most important products are vegetables and fruit, particularly citrus fruit, olive oil, tobacco and wine. The CAP will bring an increase in price for these commodities and thus will stimulate production. Wine lakes and surpluses of citrus, tomatoes, peaches, olive oil and tobacco can be expected. The three

countries are almost self-sufficient in grains (except feed grains), potatoes, pigmeat, eggs, poultry and fish. Generally speaking, they import at present only 10 to 15% of their total agricultural imports from the Community, mainly milk and dairy products. The main agricultural imports are feed grains and oilseeds, primarily from North and South American countries.

The accession of Portugal, Greece and Spain will aggravate the present problem of a North/South disequilibrium for the CAP as well as for the regional development policy (Ries, 1978). The CAP is a fragile political compromise and enlargement will call for a modification of certain provisions such as price supports for Mediterranean products, production aids for certain crops, intervention, etc. Italian farmers and, to a lesser extent, French Mediterranean farmers expect stiff competition from the new candidates after enlargement and insist on an overhaul of the CAP as a condition for admission. A continuation of present CAP policies, with enlargement, would mean a probably unacceptable inflation in the Community budget. (House of Lords, 1978).

As most farms in the three countries are small fragmented and under capitalised, and as agricultural infrastructure is deficient in many areas, the CAP and the regional development policy would be particularly helpful in financing structural improvements.

The Commission calculated that admission of Greece, with unchanged Community policies, would increase expenditures of the Community by 450 million ua., after a transitional period (EC, 1976 B). Of these expenses, 62% would be for the CAP (280 million ua. of which 220 million for guarantee and 60 million for guidance), 9% for social policy and 22% for regional policy. Allowing for Greece's contribution to the Community budget, this would result in a net transfer of 300 million ua per year. If one applies a similar net transfer per capita of the population to Spain and Portugal, enlargement from (9) to (12) would induce an additional net transfer of 1,500 million ua., about 20% of the EEC budget for 1976. In addition, Portugal will need special financial help before and after admission.

The budgetary implications of enlargement will impose a serious burden on the EEC (9) as the Community budget is already stretched to the limit, mainly because of the dairy sector. As the three new Member States would have to contribute to the development aid budget for ACP countries and abide by the Lomé Convention, enlargement would be beneficial for ACP countries on that score. However, former Portuguese colonies and maybe some Spanish ones will probably also aspire to join the ranks of the ACPs (see next section). If that is the case, the net result is difficult to estimate.

The accession of three Mediterranean countries will bring the number of voices for decision making by consensus in the Council of Ministers from 9 to 12. This will not facilitate the decision-making process. Structural differences between Northern and Southern Europe are pronounced and financial transfers from the North to the South will be necessary for many years to come. Enlargement will also probably arrest progress to economic and monetary union in the EEC for some considerable time as the three candidates have a chronic tendency to balance of payments deficit, particularly Portugal, and experience higher rates of inflation than the EEC (9).

Predicted difficulties in industrial development and in modifying and adapting to the CAP call for a long period of

transition. A five to ten year transitional period seems reasonable for Greece and Portugal, a shorter period could be negotiated for Spain - though for Spain the EEC itself may require a long transitional period because of the problems likely to be caused by the competition of Spanish agricultural exports.

With enlargement, there will be a shift in the centre of gravity of EEC policymaking in the direction of the Mediterranean region. The actual preference given to Community producers will in all likelihood increase, particularly for those products typical of the Mediterranean such as olive oil, wine, tomatoes, peaches, citrus fruit, fruit preserves, tobacco, sheep and goats, certain oilseeds and rice. Levels of self-sufficiency under CAP policy for these products will increase. This will seriously handicap exports of these products to the Community from other Mediterranean countries such as Morocco, Tunisia, Algeria, Israel, Turkey and the state trading countries of South-east Europe. ACP States will have great difficulties obtaining further trade concessions for these products. Even maintaining the present ones might in the end prove difficult.

B. Enlargement
Of the ACP
(Eric Tollens)

The former Portuguese Colonies of Angola and Mozambique, independent nations since 1975, and the trust territory of Namibia, on gaining independence, are possible candidates for joining the ranks of ACP States at some time in the future. This section looks briefly at what such membership would involve, mainly in relation to agricultural exports.

Sugar, coffee, sisal, tea and coconut products are the principal exports for Angola and Mozambique. Livestock, apart from mineral exports, constitutes the principal export of Namibia. Fish products have begun to play an important role in the economic life of all three countries.

i. Angola

Angola's economic potential is high. Mineral production is relatively unimportant, apart from diamonds, oil and iron ore production. Copper, manganese, coal, mica and gold are also being exploited and deposits of phosphates, asphalt and chrome have not yet been mined.

Angola's agricultural sector accounts for an annual average of more than 60 per cent of the export proceeds. By far the most important agricultural export crop of Angola is coffee (Table 9.1), accounting for almost 50 per cent of the value of exports. Before Angola gained independence, it was the fourth producer of coffee in the world, after Brazil, Colombia and the Ivory Coast. Sisal, cotton lint, bananas, oilseeds and cake, and pulses are other main export crops. Instability, civil disorders and the departure of most Portuguese following independence explain the large fall in exports of most agricultural products. This is particularly true for sisal, cotton, tobacco and maize where exports dropped to less than half their 1974 level.

The contribution of agriculture to the foreign trade balance of Angola is significant, with a net agricultural trade surplus of between 150 and 200 million \$ per year for the 1971-1976 period (Table 9.3).

The Lomé Convention could have particular importance for Angola in the case of its exports of bananas and oilseed products to the Community. Before independence, Angola was nearly self-sufficient in sugar. It became a net importer after independence; the 1976 imports of raw sugar equivalent amounted to over 40,000 mt., or about 18.5 million \$.

The first four agricultural export crops of Angola are included under STABEX (coffee, sisal, cotton, bananas).

Hence STABEX could play a major role in stabilising Angola's export earnings.

ii. Mozambique The dominant sectors in the economy of Mozambique are agriculture and transportation services.

Transportation consists of the highly developed railway and port facilities which serve the lucrative transit trade of Mozambique's landlocked neighbours, including Zimbabwe, Zambia, Malawi and Swaziland. Mining plays only a minor role in the economy. The principal minerals are coal, beryl, columbium, tantalite, iron ore, diamonds, manganese and asbestos.

The main agricultural exports (Table 9.2), are sugar, cotton lint, tea, sisal, cashewnuts, copra and coconut products. Exports of sugar and copra have fallen to about one-third of their pre-independence level, cotton lint to half and tea to two thirds. But exports of sisal and pulses increased after independence.

Imports of agricultural products increased from about 35-50 million US \$ in 1971-1974 to 75-85 million US \$ following independence (Table 9.3). Exports increased from about 125 million US \$ in 1971 to 230 million US \$ in 1974 to fall back on their 1971 level in 1976.

Of the first six agricultural export products of Mozambique, four are included in STABEX. Moreover, on signing the Lomé Convention, Mozambique could possibly benefit from the sugar protocol. In fact, since sugar is the main agricultural export of Mozambique, the sugar protocol is probably one of the main attractions of becoming an ACP State,* together with EDF aid.

iii. Namibia

The mining industry (diamonds, lead, but also manganese, tungsten, copper, vanadium and zinc), contributes most of the export earnings. The chief agricultural exports are cattle, sheeps and goats, karakul (Persian lamb) pelts, dairy and fish products. In 1976, 460,000 head of cattle for about US \$52 million were exported. In the same year, 331,600 sheep and goats were exported for a value of US \$6.5 million. Namibia has a large surplus of agricultural exports over imports, from US\$40 to US \$55 million per year since 1971 (Table 9.3).

From an agricultural viewpoint, Namibia has a similarity with Botswana as regards its dependency on cattle or meat exports. It is to be expected that Namibia, on joining the ACP ranks, would bargain for an export quota of beef, similar to the arrangement Botswana, Kenya, Madagascar and Swaziland have with the Community under Lomé I. (See Chapter 6). Namibia could look towards STABEX for stabilisation of export earnings of raw hides, skins, leather and wool.

C. Food Aid
(Eric Tollens)

Between 1968 and 1975 the Community and Member States granted about 1,400 million ua worth of food aid to Third World countries. EEC aid was first given in the form of cereals as part of the Food Aid Convention, which was concluded in 1967 at the close of the Kennedy Round and entered into force in 1968. At that time, the Community undertook to supply 1,035,000 tonnes of cereals a year as food aid, 23 per cent of the total, as against 42 per cent for the US. Because of the enlargement of the Community, this contribution rose to 1,287,000 tonnes during 1973/74. The total value of this cereal aid amounted to 965 million ua. Subsequently, the Community extended the range of its

* Provided, of course, the Community would agree to extending the number of ACP States with sugar quotas.

aid to include other agricultural products: milk products (skimmed milk powder, butter oil), egg products and sugar, totalling 435 million ua (Table 9.4). (EC, 1977 L).

Community food aid is usually given directly to the States or bodies concerned and comprises three types of action:-

- a) emergency aid to relieve famine caused by natural disasters or by internal or international conflicts, e.g. aid to Sahel Countries, Bangladesh, Vietnam, etc. Emergency aid usually covers transport and distribution costs in addition to the supply of products themselves;
- b) nutritional aid to alleviate serious food deficiencies for children, refugees, etc. Donations are in the form of products and cash;
- c) development aid, the most frequent form of aid, granted to those countries which lack foreign exchange to import the food their population need. In such cases, the governments of the recipient countries must sell the products received on their national markets and use the proceeds to finance development projects chosen by them and approved by the Community. In the course of the next five to ten years, there could be an enormous increase in the amount of food the developing countries need to import. The FAO estimates that import requirements will increase from approximately 4,000 million ua in 1970 to nearly 7,000 million ua in 1980.

The Community's food aid policy has often been criticised for being insufficient; for using aid as a means of disposing of surpluses in certain farm sectors (dairy sector); for its slow moving procedure; and for the absence of any long term plan of commitments. Indeed, some experts believe that virtually all food aid can be counter-productive - by distorting dietary patterns and removing incentives for domestic producers.

The proposals drawn up by the European Commission for a more ambitious and coherent food aid policy would involve:-

- a) ensuring continuity of supply from one year to the next by means of a triennial indicative programme based on firm annual commitments;
- b) providing aid tailored to meet the nutritional needs of the developing countries and which takes account of available stocks in the Community;
- c) increasing the present volume of aid and supply a variety of products, primarily processed cereals and powdered egg;
- d) simplify the decision making process.

The various EEC governments have not yet reached agreement on these proposals, particularly on the size and continuity of future EEC commitments. The main characteristics of the 1978 programmes are concentration of aid on the poorest countries and privileged treatment for specific development projects in the allocation of quantities.

In 1975, food aid represented almost 50 per cent of Community financial aid, but only 5.5 per cent of the net payments the Member States themselves made to the Third World.

The Member States do not all accord the same importance to aid of this type. Those that export food products, cereals and milk products, are in favour, but the net importers

prefer financial and technical aid that is geared to developing agricultural production in the third world.

Furthermore, certain other Member States display particular reluctance because of the financial burden that food aid imposes. Opinions also vary as to how aid should be shared between the Sahel, India, Pakistan, Bangladesh and so on. The last bone of contention is what stress to lay on multi-lateral schemes. The United Kingdom, the Netherlands and Denmark put more emphasis that their partners on the role of international organisations, like the World Food Programme.

Many factors have to be borne in mind when assessing the importance of food aid, the most important being that the normal pattern of trade should not be upset. Food aid must also fit in with the efforts made by the Third World to develop its own production. Obviously, free delivery of cereals or milk powder is not, and cannot, be an end in itself. It is part of the overall strategy of cooperation.

Food aid is only a temporary means of speeding up the economic modernisation of the Third World, but this process could itself increase the external outlets of the EEC later on. This might be seen as one advantage for some EEC Member States supporting food aid programmes. In this sense, food aid is also part of a trade policy aimed at developing regular trade and, hence, increasing future possibilities of sales of Community agricultural products.

D. Other International Negotiations (Simon Harris) The ACP States negotiate with the Community in many international fora as participants in wider groupings of countries. The important point about such negotiations is that they provide alternative means for achieving some ACP objectives, apart from re-negotiating the Lomé Convention. Deciding which objectives can most appropriately be sought in which forum is, of course, difficult. Further there are no exclusive answers in the sense that one objective may only be sought in one forum; rather the decisions required are to use the various international fora in a complementary fashion so that actions in each contribute to the achievements of overall ACP objectives.

The Lomé Convention re-negotiation is the most appropriate forum to seek increased aid flows from the Community and help in exploiting Community trade concessions through assistance in developing the sales potential for ACP goods in internal Community markets. A re-negotiated Lomé Convention may be an appropriate place to include food security provisions whereby the Community agrees to make food available on a long-term contractual basis, as well as some agreement for help in food emergency situations. But this latter theme is also part of the work being undertaken by the UN through the World Food Programme and the agreements on emergency food relief.

Other issues, however, such as the increasing use of non-tariff measures, (e.g. 'voluntary' export restraints), and issues of world commodity market stabilisation are better handled in a wider arena, rather than attempting solutions to these world problems in the limited context of re-negotiating the Lomé Convention. Problems relating to the spread of 'voluntary' export restraints and the new protectionism are already being covered in the Multilateral Trade Negotiations in GATT.

Given the wide extent of these problems, there is little the ACP States can do in a purely EEC context. So far, however, the ACP States have escaped the impact of such

measures by the Community because of the Lomé Convention. The aim for Lomé re-negotiation must be to continue to exclude such developments.

The issues involved in stabilising world commodity markets are already addressed as part of the Integrated Programme for Commodities which, together with the Common Fund, are being developed under UNCTAD's auspices. But one feature of the instability of world markets is the behaviour of the Community in exporting its problems of agricultural adjustment to third countries; the ACP States are not only affected by whether they can gain access to the Community's Markets. They are also affected by the Community policy of subsidising the export of its surpluses to the rest of the world.

In the case of sugar this has tended to undermine the establishment of an effective International Sugar Agreement. In the case of oilseeds, the Community's insistence in maintaining large scale domestic oilseed processing industries slows the switch by the ACP States from just being raw material producers, to developing processing industries of their own. For beef, part of the problem lies in the Community's refusal to allow Australia and Argentina a share of its market consonant with their historical performance. They may suit the ACP States while they are building up their own beef industries through exports to the Community. But when the ACP States want to expand sales to other parts of the world they will find the depressed market prices, in part caused by the Community's internal beef policies, a substantial impediment.

The problem here is one of making the Community become more internationally responsible so that what it gives the ACP States with one hand, through the Lomé Convention, is not taken away with the other through its actions on world markets. This is mainly a problem for negotiations in UNCTAD and the various international commodity agreements. It is also a problem, however, which should be borne in mind in the context of Lomé re-negotiation.

TABLE 9.1

PRINCIPAL AGRICULTURAL EXPORTS OF ANGOLA: 1974-76

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	Quantity (m.t)			Value (US\$)		
	1974	1975	1976	1974	1975	1976
Coffee, green and roasted	217,546	163,000	120,000	247,360	170,000	240,000
Bananas	65,699	35,000	45,000	11,439	7,500	9,500
Sisal and other agaves	67,228	30,000	18,000	50,157	16,000	6,000
Cotton lint	14,447	3,000	3,000	19,660	5,000	5,000
Tobacco, unmanufactured	4,393	2,000	2,000	7,718	4,000	4,000
Pulses	13,586	8,000	8,000	4,771	3,100	3,100
Palm Oil	4,410	2,600	2,600	1,737	730	735
Oilseed Cake meal	9,293	4,000	4,650	826	330	417
Castor beans	1,200	1,400	1,400	371	400	400
Cottonseed cake	6,957	3,000	3,000	562	230	232
Cottonseed	5,900	4,000	1,000	593	600	150
Sesame seed	715	400	400	282	180	182
Groundnut cake	1,328	1,000	1,000	156	100	100
Sugar, total, raw equivalent	6,138	.	.	1,009	.	.
Maize	65,119	1,500	1,500	7,445	210	215

Source: FAO - Trade Yearbook, Rome, Vol.30, 1976.

TABLE 9.2.

PRINCIPAL AGRICULTURAL EXPORTS OF MOZAMBIQUE: 1974-76

'000

	Quantity (m.t)			Value (US\$)		
	1974	1975	1976	1974	1975	1976
Sugar, total, raw equivalent	159,330	51,516	55,000	60,285	22,563	19,000
Cotton lint	31,321	17,788	17,000	33,142	17,232	17,500
Tea	18,640	11,036	12,300	11,149	6,946	8,000
Sisal and other agaves	8,289	11,817	21,000	6,090	4,553	6,000
Pulses	9,957	11,718	12,000	3,995	3,331	3,300
Copra	41,879	30,540	14,000	21,037	6,417	3,000
Oranges, tangerines, clementines	13,045	15,330	16,000	1,357	2,332	2,900
Oilseed cake meal	36,786	34,705	25,500	4,468	3,127	2,400
Coconut oil	8,185	7,203	7,000	7,719	2,798	2,400
Groundnuts, shelled	2,011		5,000	773		1,750
Cottonseed cake	22,825	18,373	13,000	3,015	1,737	1,200
Other citrus fruit	11,577	12,000	12,000	983	1,100	1,100
Groundnut cake	2,148	8,243	6,500	479	854	700
Tobacco, unmanufactured	1,532	375	400	2,231	638	640
Sesame seed	2,167	1,412	1,400	767	620	620
Bananas	6,637	4,275	5,000	818	448	550
Sunflower seed	3,910	959	1,000	1,040	349	360

Source: FAO - Trade Yearbook, Rome, Vol.30, 1976.

TABLE 9.3.

IMPORTS AND EXPORTS OF AGRICULTURAL PRODUCTS: ANGOLA, MOZAMBIQUE AND NAMIBIA (IN 10,000 US \$): 1971-1976

	1971	1972	1973	1974	1975	1976
<u>IMPORTS OF:</u>						
Angola	5,431	4,488	6,605	8,700	8,408	9,431
Mozambique	3,500	3,630	5,161	4,666	7,405	8,476
Namibia	145	150	180	300	400	400
<u>EXPORTS FROM:</u>						
Angola	20,711	20,200	31,187	36,815	21,870	27,932
Mozambique	12,463	14,072	17,975	23,029	13,238	12,785
Namibia	4,040	4,836	5,130	5,850	5,870	5,890

Source: FAO - Trade Yearbook, Rome, Vol.30, 1976.

TABLE 9.4

BREAKDOWN OF FOOD AID COMMITMENTS BY PROGRAMME,
PRODUCT, QUANTITY AND VALUE (estimated at world
price)

Cereals programme (commitments)

	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76
<u>Quantity(t)</u>								
Community schemes	30100	337000	353000	414000	464400	580000	643500	708000
National schemes	734000	698000	682000	621000	696600	707000	643500	579000
	1035000	1035000	1035000	1035000	1161000	1287000	1287000	1287000
<u>Value (million EUA)</u>								
Community schemes	19.6	21.9	30.7	29.4	71.0	110.2	86.87	97.9
National schemes ¹	47.7	45.4	59.3	44.1	106.0	134.3	86.87	80.1
	67.3	67.3	90.0	73.5	177.6	244.5	173.74	178.0

Other products (commitments)

	1970	1971	1972	1973	1974	1975	1976
<u>Quantity (t)</u>							
Milk	127,000	-	60,000	13,000	55,000	55,000	150,000
Butteroil	37,000	-	15,000	-	45,000	45,000	45,000
Eggs	-	-	500	-	-	-	-
Sugar	-	-	6,150	6,062	6,094	6,100	6,094
<u>Value (million EUA)</u>							
Milk	73.4	-	39.1	8.9	46.0	30.2	76.98
Butteroil	57.9	-	19.6	-	61.1	64.1	68.95
Eggs	-	-	1.2	-	-	-	-
Sugar	-	-	1.6	1.9	3.7	2.3	2.33
Financial contribution	-	-	1.6	1.6	3.8	2.6	1,00
	131.3	-	63.1	12.4	114.6	99.2	149.26

¹ Calculated at the same average per tonne as for Community schemes.

Source: "Food Aid: Progress, Problems, Projects", Brussels, Commission of the European Communities, Information Directorate-General, Information: Development Cooperation, 1965/77E, September 1977.