

European Community borrowing and lending

European File

In 1980, the European Community and the European Investment Bank raised 3 874 million ECU¹ on the Community (64% of the funds), American, Swiss and international capital markets. These borrowings and various other reserves helped to finance loans to the value of 4 530.4 million ECU, 4 152.4 within the Community and 378 outside (mainly in Mediterranean countries and in the African, Caribbean and Pacific countries which have cooperation agreements).

Since 1954, loans within the Community have reached a level of 24.5 billion ECU and between 1979 and 1980 they increased by 23%. The essential objectives are: to increase energy independence in Europe; to encourage regional development through the introduction of production equipment and new infrastructure; to restructure European industries, to increase their productivity and to retrain workers released through restructuring. All member countries benefit from these loans but particular importance has been given to the regional dimension. In 1980, 69% of loans were concentrated in Community countries with the severest regional problems (Ireland, Italy, United Kingdom).

Community loans are distributed through various financial sources.

- The European Investment Bank (EIB) is the principal Community source of investment finance (14.4 billion ECU lent by the Community between 1958 and 1980, 8.7 billion between 1978 and 1980, showing a rapid growth in latter years). In line with the terms of the Treaty of Rome the Bank contributes to a balanced development of

¹ 1 ECU (European currency unit) = about £ 0.56 or Ir.£ 0.70 (at exchange rates current on 12 February 1982).

the Community by financing projects aimed at developing the least prosperous regions (almost two-thirds of the loans since the beginning). It also finances the modernization of companies and investments to reduce dependence on energy imports. This is of common interest to Community States and has been growing in importance in recent years. The EIB has its own management organization: a Board of Governors, a Board of Directors and a Management Committee. Decisions on granting loans are taken by the Board of Directors following extensive study of the projects concerned. On behalf of Member States, the European Commission appoints a director and an alternate to the Board of Directors. Before granting a loan, the State concerned and the European Commission must give their opinions. The EIB is backed by capital subscribed to by Member States which, in June 1981, was doubled to 14.4 billion ECU with more than 1.4 billion effectively paid in or to be paid in. Financed through EIB borrowing, loans at any one time may not exceed 250% of the subscribed capital. Investments supported by the Bank in 1980 created an estimated 50 000 jobs and saved 15 000 others; in addition, infrastructure works represented the equivalent of 600 000 jobs for one year.

- The ECSC, the European Coal and Steel Community (7 254 million ECU lent between 1954 and 1980), finances investments – similarly through borrowing – in the coal and steel industry. In addition, with the approval of the Council of Ministers, it finances projects aimed at improving marketing, transport, etc. of these products. It also supports construction and modernization programmes, housing for the workforce as well as industrial reconversion investments which, in 1980, helped to make 11 450 new jobs available to coal and steel workers in other sectors. ECSC loans are examined and granted by the European Commission.
- Euratom, the European Atomic Energy Community (502 million ECU lent between 1963 and 1980), finances up to 20% of the cost of projects in the nuclear energy field and nuclear fuel processing. The European Commission was authorized to raise funds of 1 billion ECU for Euratom in 1979. Raising this to 2 billion is currently being considered. Investment projects are selected by the Commission to ensure that they conform to the objectives of the Community's energy policy. The EIB manages the loans as Euratom's agent.
- The NCI, the New Community Instrument for borrowing and lending (475 million ECU lent in 1979 and 1980), finances investments which, like those of the EIB, stimulate the convergence of Member States' economic policies. They correspond to the Community's priority objectives mainly in the fields of energy and infrastructure projects and take into account impact in regional development and employment. The Community's Council of Ministers has authorized the Commission to raise funds in the name of the EEC. The borrowing ceiling of 1 billion ECU should soon be increased. The Commission decides whether each project is eligible for a loan under the terms of the Council directives. The EIB examines the requests according to the usual criteria and decides whether to grant the loans and their terms, as well as managing the operations.
- Community borrowing and lending is aimed at supporting Member States with balance-of-payments difficulties caused by oil price rises. 1 820 million ECU were lent

to help Italy and Ireland in 1976 and 1977. A new borrowing ceiling of 6 billion was set in 1981. These loans are granted by the Community's Council of Ministers and are subject to the terms of Community economic policy. They should not be confused with those mutually agreed by the Central Banks and Member States under the European Monetary System¹ which do not use the capital market but involve their own exchange reserves.

Rebates which reduce the interest rate on loans by three points also exist in certain circumstances; for example for EIB and NCI loans covering the areas of Italy and Greece devastated by recent earthquakes.² The European Monetary System will also allow for development loan interest rebates in Italy and Ireland until the end of 1983, as the two least prosperous countries fully involved in the System. The cost of this for the Community budget was 258 million ECU in 1980 (61 million from the ECSC budget). Similar interest rebates may also become possible for loans to Member State development areas.

The number of sources of Community finance is not a handicap and actually permits the Community to use its financial capacities more effectively. It can turn to institutional investors, banks, etc. under different labels and get guarantees appropriate to the nature of the loan together with the necessary funds (other lending organizations are often limited to lending ceilings for each borrower). At the financing stage, investments can be designed to meet the specific needs of sectors and regions both flexibly and efficiently.

In addition, the activities of the different sources of finance are closely coordinated:

- the dates, the place of issue and the terms of the borrowing are coordinated to meet global needs and market developments;
- companies, public bodies, banks and other intermediary organizations wanting finance must apply to the EIB in Luxembourg for loans from its resources or those of the NCI. With the exception of ECSC reconversion loans which are handled through national ministries, applications for loans can be addressed to one single Commission service: the Directorate-General for Credit and Investment, also located in Luxembourg, which coordinates operations;
- financing arrangements involve close cooperation between the EIB and the European Commission. Euratom and NCI loans are granted to investment projects which also get EIB support. Moreover, lending activities are coordinated with those of the services responsible for managing the Community's non-repayable aids, in line with Community policy. These include the European Regional Development Fund, the European Social Fund and the Guidance Section of the European Agricultural Guidance and Guarantee Fund.³ In certain problem areas such as Naples and

¹ See *European file* No 7/79: 'The European Monetary System'.

² A specific ceiling of 1 080 million ECU was fixed in 1981 for these loans which aim to rebuild the means of production and the economic and social infrastructure.

³ On these different Funds, see *European file*, Nos 8/81 'Regional development and the European Community', 19/79 'The European Social Fund', 4/81 'Europe's common agricultural policy'.

Belfast, coordination has led to integrated operations which mobilize a range of Community and national resources to help regional development.

Community aid – Why?

What, it may be asked, is the value of these activities? What do they do which is not already done by Member States or the traditional financial institutions (for which the Community is not a substitute)?

- First of all, there's the Community's reputation, its capacity to raise funds and the guarantees that it offers. Its own budget and strict administration of borrowed funds enable it to raise large sums on the capital markets at advantageous rates. In this respect, the Community plays a growing (though still too limited) role in recycling capital from countries with surplus funds, particularly the oil-producing countries: its borrowing amounts to less than 1% of the capital raised on national markets but more than 10% of that raised on the international market. These resources can be lent on favourable terms since the Community's aim is not to make a profit, and interest rates can often be lowered through interest rebate facilities. On the other hand, the borrower must provide adequate guarantees, his project must be economically viable and it must contribute in some way to the realization of Community objectives.

- Of course, lending activities can bring about some of the Community's priority objectives. Since the onset of the economic crisis, it has become apparent that there are structural disequilibria both between Member States and between regions. A new international division of labour, following the explosion of energy costs, is creating numerous global and sectoral adaptation problems. We need to reduce the economic divergences between member countries, deal with the energy challenge and create new jobs through increased investment. In this respect, the Community's financial operations help unify the European partners. Whilst all Community loans and non-repayable structural aid only represent, *in toto*, about 0.3% of GDP (gross domestic product) in the Ten, its concentration gives it considerable weight in certain sectors (steel, coal, energy). It also has considerable impact in the poorest regions such as Italy's Mezzogiorno and Ireland, a country where it represents 5.3% of the GDP and 17% of total investment. In addition, Community operations bring in additional resources, which although relatively modest may nevertheless act as accelerators and multipliers to stimulate regional economies.

The financial role of the Community is increasing all the time. Between 1970 and 1980, the real volume of loans - adjusted to take account of inflation - has more than quadrupled. The increases are, however, unevenly distributed between sectors. In current terms, European loans have increased 40 times in the energy sector (where it encourages the development of domestic resources) and tenfold in infrastructure projects (which help to develop the least prosperous regions). But the manufacturing sector loans have only increased sixfold, despite an attempt in 1980 to redirect investment into industry to combat unemployment.

Sectoral distribution of loans in 1980 (in million ECU)

	Total	ECSC	EIB	Euratom	NCI
Production	1 277.8	692.5	585.3	—	—
Infrastructure	1 204.8	4.6	1 110.6	—	89.6
Energy	1 669.8	323.2	1 057.3	181.3	108.0
	4 152.4	1 020.3	2 753.2	181.3	197.6

Distribution by country, 1975-80¹ (in %)

Belgium	3.6	Italy	31.7
Denmark	1.95	Luxembourg	1.0
Germany	7.5	Netherlands	0.9
France	15.1	United Kingdom	31.2
Ireland	6.2	Non-EEC	0.9

¹ Not including loans to support balance of payments.

European loans in 1980

What purpose do European loans serve in concrete terms? Let's take the example of 1980.

Infrastructure

- **Hydraulic infrastructure:** the EIB granted loans for irrigating and draining 160 000 hectares of agricultural land in Italy and 58 000 hectares in Ireland. In the counties of Meath, Limerick and Mayo the Bank also gave support to the reafforestation of 44 000 hectares. Water piping systems, waste water collection and purification systems have been financed in half a dozen regions of Italy's Mezzogiorno, in some 15 British regions (Grimsby, Sheffield, Humberside, East and West Midlands, Devon, Cornwall, Wales, the North-West, Tyneside, Strathclyde, Fife, Tayside, Grampian, Shetland) and in some 20 Irish counties (Cavan, Clare, Cork, Donegal, Dublin, Kerry, Kildare, Kilkenny, Laois, Leitrim, Limerick, Longford, Louth, Mayo, Meath, Offaly, Roscommon, Sligo, Tipperary, Waterford, Westmeath, Wexford and Wicklow).
- **Communications:** the EIB finances the extension of airports in Narssarsuaq (Greenland) and Dundee (Scotland), terminal facilities at the port of Ramsgate (UK-Continent link), the purchase of a ship to link Ireland and the United Kingdom, the purchase of eight Airbus planes for Alitalia and 22 high-speed trains for British Rail and the construction of motorway sections in the UK (Calder Valley, Monkland) and in France. The Bank supported other road works on the Fréjus tunnel (Italy), in Scotland (Dumfries and Galloway, Fife, Grampian, Tayside, Shetland), and in the west of France where the regional development zones have benefited from credits for loans totalling 39 million ECU. These were used mainly for small and medium-sized infrastructure projects (roads, ports, rural electrification). An NCI loan helped to finance a section of the Friuli motorway linking Italy to Austria.

- **Telecommunications:** the EIB and the NCI joined forces to extend and modernize the telephone systems in Ireland (80 000 new lines) and in Apulia in Italy. The EIB financed similar projects in Campania, elsewhere in the Mezzogiorno and in Northern Ireland (100 000 lines); it has also financed undersea cables between the United Kingdom and the Continent, as well as funding the European satellite launcher, Ariane.
- **Accommodation for steel and coal workers:** the ECSC has made numerous loans in Germany, France, Ireland (Cork, Leitrim, Roscommon, Sligo), Italy, the Netherlands, and the United Kingdom (notably in and around Sheffield, Sheerness, Blaenau and Gwent).

□ Energy

- **Nuclear:** the EIB has supported the development of nuclear energy in Germany (Gudremmingen power station), in the United Kingdom (Torness Point power station, Capenhurst enrichment plant), in Belgium (Doel, Tihange) and in France (Dampierre-en-Bruly, Greys-Malville). The last three power stations mentioned also benefit from Euratom loans.
- **Coal:** the ECSC has allocated almost one-third of its loans to supporting coal extraction and use of coal in electricity-generating power stations. This has helped open and extend mines in the United Kingdom (Selby in Yorkshire, Castlebridge and Kinneil in Scotland), to provide support equipment (Germany and the UK), to renovate mining schools in Germany, and to convert or construct coal-fired power stations in Germany and France. The EIB has supported similar operations in the UK (Lerwick in Scotland), in Ireland (Moneypoint), in Italy and, both from its own resources and those of the NCI, in Denmark. In Italy, the Bank has also financed the conversion to coal of several cement plants and the extension of the Savona coal terminal.
- **Other resources:** the EIB has made loans for the use of gas condensates (by-products of oil extraction) in the UK (Peterhead power station), and the use of lignite in France and peat in Ireland: projects include the extension of peat bogs (co-financed with the NCI) and of power stations (Shannonbridge and Lanesborough). It has financed – often in parallel to NCI loans – the extraction of Italian oil and gas resources. It provided funds for the Sullom Voe oil terminal in Scotland and the Donges oil refinery in France. Gas pipelines have been financed in Belgium and in Italy to carry Soviet and Algerian gas (the latter with NCI assistance). The EIB has also funded the laying of an undersea electricity cable between Sweden and the Danish island of Bornholm, together with the Austrian Zillertal hydroelectric scheme (which will sell half of the energy it generates to Germany) and Italian hydroelectric installations.
- **Energy saving:** the EIB and the NCI have combined their resources to help develop a powerful integrated management system for producing and transporting electricity in Italy. In addition, the EIB has financed the improvement of

electricity networks in Latium and Sardinia. Several district heating networks have been given support in Italy and Denmark. More than 21 million ECU have also been lent to finance small industrial energy-saving projects in Ireland and in central and northern Italy. Other loans have been granted for the same reasons to companies in Italy, to a British aluminium factory (Fort William), and to insulation material factories in the UK (Bridgend) and in France (with the assistance, in the latter case, of ECSC reconversion loans).

□ Manufacturing investments

- **Steel:** this sector absorbs 41% of ECSC loans. In 1980, loans were made to the Belgian and British (Brymbo, Wales) steel industries. No other British requests have been received following the considerable loans granted up to 1977. Considerably larger loans have been made for the rationalization and restructuring of the steel industries in Germany, France, Italy and Luxembourg. Electric furnaces, rolling mills, hot-rolled strip and continuous casting installations, have been financed in Germany, France and Italy. In Italy the shipyard at Ancona has also received a loan as a steel consumer.
- **Coal and steel reconversion:** for the first time, the ECSC has allocated a quarter of its loans - 266 million ECU - for redeploying unemployed workers from the coal and steel industry. The ECSC has financed numerous small and medium-sized companies in Germany, France, Ireland (Kilkenny), the UK and Luxembourg. In addition, the ECSC has given assistance to a car-tooling plant in Luxembourg and to factories making car components, oil engineering equipment and plastic bags in France. In the United Kingdom, the ECSC has financed companies in sectors as varied as car components (in Sheffield and in Blaenavon in Gwent), brakes, car fittings, electric welding (Ebbw Vale and Tafarnaubach in Gwent), plastic components (Ashington, Northumberland), the production of copying paper (Ely near Cardiff), TV sets (Bridgend, Mid-Glamorgan), beer (Hartlepool, Cleveland), cigarettes (Spennymoor, Durham), and sodium sulphate and vitamin C (Dalry, Ayrshire).
- **Other sectors:** the EIB has financed numerous manufacturing projects including a Danish milk derivatives plant, a scheme to extend three Irish fishing ports (Killybegs, Greencastle and Howth), a dozen industrial projects in Italy and some 20 projects in the UK. These include in Scotland: the Gorgie abattoir, whisky distilleries in Dumbarton and Kilmalid, an activated carbon plant in Glasgow and a factory producing construction panels in Cowie. In the north of England: the production of metal frames in Darlington, nuclear equipment in Darlington and Middlesborough and packaging machines in Gateshead. In the North-West: a glass works in Wigan, and electric cable plants on Merseyside, in Cheshire and in Manchester. In Wales: a household appliances factory in Rhyl. And in Northern Ireland, tyre factories in Belfast and Ballymena.

The EIB also makes 'global' loans which are re-lent via intermediary national or regional financial organizations for small or medium-sized industrial investments

in less-developed areas. In 1980, more than 6 million ECU were lent in this way in Denmark and in Belgium, 39 million in the UK, 70 million in Ireland and 122 million in Italy. In Ireland and Italy, some of these loans have gone to agricultural projects. The EIB in 1980 helped finance 518 small and medium-sized projects compared to 415 in 1979.

In addition, the EIB has helped finance the construction of some 500 prefabricated buildings for industries setting up in Ireland. Industrial zones have been financed by the Bank in Scotland, in Dumfries and Galloway. In Italy a dozen zones have been created including one in Syracuse in Sicily which has a flood prevention scheme financed from NCI funds.



All these above-mentioned examples only concern 1980. There are many other examples of Community lending and borrowing activities. The European Commission intends to extend its operations to improve the recycling of oil capital, to reduce regional disparities and to stimulate economic growth and employment through major European investment programmes particularly in the industrial, energy and transport infrastructure sectors ■



The contents of this publication do not necessarily reflect the official views of the institutions of the Community.

Commission of the European Communities

Information offices (countries fully or partially English speaking*)

- Ireland** 39 Molesworth Street, Dublin 2 – Tel. 71 22 44
- United Kingdom** 20 Kensington Palace Gardens, London W8 4QQ – Tel. 727 80 90
 - 4 Cathedral Road, Cardiff CF1 9SG – Tel. 37 16 31
 - 7 Alva Street, Edinburgh EH2 4PH – Tel. 225 20 58
 - Windsor House, 9/15 Bedford Street, Belfast BT2 7 EG – Tel. 40 708
- Australia** Capitol Centre, Franklin Street, P.O. Box 609, Manuka 2603, Canberra A.C.T. – Tel. 95-50 00
- Canada** Association House (suite 1110), 350 Sparks Street, Ottawa Ont. K1R 7S8 – Tel. 238 64 64
- USA** 2100 M. Street, N.W. Suite 707, Washington D.C. 20037 - USA – Tel. 202-862-9500
 - 245 East 47th Street, 1 Dag Hammarskjöld Plaza, New York, N.Y. 10017 - USA – Tel. 212-371-3804

* Offices also exist in other countries including all Member States.

