

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(82) 601 final

Brussels, 15 October 1982

**Proposal for a Council decision empowering the Commission to
contract loans under the New Community Instrument for the
purpose of promoting investment within the Community**

COM(82) 601 final

Investment was at the centre of the European Council's deliberations in Brussels on 29 and 30 March 1982. The European Council impugned the low level of productive investment in Europe, re-affirmed the importance it attached to the strengthening of the Community's lending instruments and requested the Commission to make any proposals it deemed useful. In emphasizing the need for a co-ordinated policy to promote investment and combat unemployment, it endorsed the Commission's analyses, which had revealed that a sustained improvement in the economic situation was conditional on a substantial increase in the investment ratio in the Community.

The inadequate level of investment is attributable to a multiplicity of factors that were examined in a recent communication from the Commission to the Council*. Prominent among them is the inadequacy or unsuitability of the available forms of finance; the Commission has long been considering ways and means of rectifying this deficiency and as early as 1977 proposed to the Council the establishment of a New Community Borrowing and Lending Instrument (NCI) for promoting investment in the Community. The idea behind this proposal is the benefit to the Community of using its standing in the international capital markets so as to collect funds, add these to other funds, and finance investments in key areas of the economy. The NCI was launched in October 1978 and since then borrowings totalling 1 000 million ECU have been raised in tranches and on-lent to help finance investment projects serving the Community's priority objectives in the energy and infrastructure sectors. This new facility has proved its worth : its financial impact and follow-through effect far exceed the volume of funds raised. After consulting Parliament, the Council decided therefore to renew it, authorizing the Commission in March and April 1982 to contract new loans of up to 1 000 million ECU and to on-lend the proceeds to finance investment projects in the energy, infrastructure and small business sectors. There is a vigorous demand for this type of financing, and the amount authorized is being used so fast that it is likely soon to run out.

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* Commission Communication to the Council on the problem of investment, doc. COM(82) 365 final of 8 June 1982.

In view of prevailing and foreseeable economic circumstances, the Commission, in line with the conclusions reached by the European Council on 29 and 30 March 1982, considers it imperative that the facility should be renewed and reinforced and that it should at the same time be adapted in the light of experience and of present requirements.

The proposed adjustments, which concern the NCI's ceiling, scope, implementation and operational rules, would significantly enhance its effectiveness.

a) Ceiling

As announced in its Communication on the problem of investment, the Commission proposes to pursue and expand the action taken under the NCI to promote investment by seeking authorization to activate a further loan tranche of 3 000 million ECU. This amount, which had been mentioned at the European Council meeting in London in November 1981, would be released in the form of successive or simultaneous allocations that could be applied in some or all of the fields covered by the NCI.

b) Scope

Council Decision 78/870/EEC establishing the NCI provides that it is to be applied to investment projects in the energy, industry and infrastructure sectors. However, the subsequent implementing decisions failed to make any mention of industry. When the NCI was extended on 15 March 1982, the Council again singled out industry as a possible area of intervention, and the Decision of 26 April 1982, by explicitly including productive investment projects of small and medium-sized undertakings among the projects eligible for financing, in effect made the NCI accessible not only to

industry but also to any other sector such as the distributive trades, tourism and other services where small-scale investments are made.

The Commission considers that this avenue should be further explored, and it proposes that the NCI's coverage remain unchanged, in order, that is, to permit the financing of projects in the infrastructure and energy sectors and in all productive sectors; however, the size of the investor would no longer be a disqualifying factor. It will also reserve the right to propose that, within the coverage thus defined, a given allocation of an appropriate amount should be applied solely to one particular field or sector. The dissemination of new technologies and innovations without which the essential adaptation and modernization of production structures will be impossible, could be given special treatment.

c) Implementation of the new tranche

The Commission would stress the importance it attaches to the principle - first stated in its proposal of 12 June 1978* - that borrowing and lending operations should be included in the budget. This proposal was in fact reiterated for the fifth time in the Preliminary Draft General Budget of the European Communities for 1983. It is still before the Council. The Commission is convinced that a detailed consideration of this proposal is of the utmost urgency, and is anxious that the Council should rapidly reach a favourable conclusion. Meanwhile, the present consultation procedure continues to apply; pending the introduction of new arrangements, the Commission feels that, in order to associate Parliament as closely as possible with the development and use of the New Community Instrument, the amount and purpose of the allocations should be dealt with in the framework of the procedure before the Council takes its first decision on the allocations. Similarly, the Commission will inform Parliament at the same time as the Council of its intentions concerning the amount and purpose of a subsequent allocation by the time the loans signed under the current one account for two thirds of its total.

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* Proposal to amend the Financial Regulation of 21 December 1977, doc. COM(78) 263 final of 12 June 1978.

d) Operational rules

Experience has brought to light certain inflexibilities of operation in the system; some have been rectified under the co-operation agreement between the Commission and the European Investment Bank : witness the introduction of cash holdings. However, the articulation of the Commission's responsibilities with those of its agent could be clarified so as to make the NCI more effective and more flexible. Without fundamentally changing the present division of responsibilities, under which lending policy lies within its remit, the Commission proposes, in addition to its responsibility for deciding whether projects are eligible, that loan applications should be sent simultaneously to the Commission and to the Bank, more frequent regular consultations should take place between the two institutions, and the principle, already recognized, of joint signing of loan contracts should be specified by regulation.

Moreover, to strengthen the role of the ECU on the financial markets while confirming its position as the Community's monetary identity, the Commission would like to develop its use in borrowing and lending operations. It intends to set an example by encouraging the use of the ECU in connection with the NCI to the utmost extent commensurate with its smooth introduction on financial markets.

The attached proposal respects the general economy of the existing mechanism, while improving the efficiency and flexibility of the NCI in the light of experience. The Commission wants to associate the Council and Parliament as closely as possible in the operation of the instrument, but it is determined to continue playing its own specific role in the management and definition of the Community's borrowing and lending policy.

COMMISSION

Proposal for a Council Decision empowering the Commission to contract loans under the New Community Instrument for the purpose of promoting investment within the Community

(Submitted by the Commission to the Council on 19 October 1982)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 235 thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament,

Having regard to the opinion of the Economic and Social Committee,

Whereas, given the vital role of investment in raising growth rates, adjusting production structures and providing a lasting solution to the unemployment problem, the Community's lending instruments should be strengthened to support investment, especially in the growth sectors of the future;

Whereas, in order to stimulate economic activity and support common policies, the financing facility established by Council Decisions 78/870/EEC ⁽¹⁾ and 82/169/EEC ⁽²⁾ empowering the Commission to contract loans for the purpose of promoting investment within the Community should be renewed and strengthened alongside existing Community financial institutions and bodies, whose scope should be widened;

Whereas this Community facility makes an additional contribution to investment promotion in the Community and has a real follow-through effect and financial impact far beyond its apparent size, thus promoting the convergence of Member States' economic trends;

Whereas plentiful finance can be found on the capital markets which could be tapped to finance investments within the Community;

Whereas the Community has creditworthiness in its own right which must be used to best advantage to reinforce European support for the said investments and to support policies decided on at Community level;

Whereas the European Investment Bank has stated that it is willing to contribute to the implementation of the facility,

HAS DECIDED AS FOLLOWS:

Article 1

The Commission is hereby empowered to contract on behalf of the European Economic Community a new tranche of loans under the New Community Instrument which shall not exceed the equivalent of 3 000 million ECU in principal.

The proceeds of these loans shall be lent to finance investment projects that contribute to greater convergence and integration of the economic policies of the Member States and, through the dissemination of technology and innovation or by other means, to reinforcing the competitiveness of the Community economy.

These projects shall be such that they serve the Community's priority objectives in the energy and infrastructure sectors, and in the productive sector, taking account *inter alia* of their regional impact and the need to combat unemployment.

This facility may be used on its own or in conjunction with other Community financing instruments.

Article 2

The loan tranche shall be released by way of allocations.

After consulting the European Parliament about the amount and purpose of each allocation for which loans may be contracted, the Council, acting on a proposal from the Commission, shall by qualified majority authorize each allocation and lay down guidelines for the eligibility of projects.

The Commission shall decide whether or not projects are eligible in accordance with the guidelines thus laid down.

The Commission shall borrow on the capital markets within the limits of the amounts authorized.

⁽¹⁾ OJ No L 298, 25. 10. 1978, p. 9.

⁽²⁾ OJ No L 78, 24. 3. 1982, p. 19.

Article 3

Associated borrowing and lending operations shall be expressed in the same currency units.

Lending terms as regards the reimbursement of the principal and the rate and payment of interest shall be fixed in such a way that, overall, they cover the costs and expenses incurred in concluding and performing both the borrowing and the lending sides of the operations.

Article 4

The terms of the borrowings shall be negotiated by the Commission in the best interests of the Community, having regard to the conditions on capital markets and in accordance with the constraints imposed by the duration and other financial aspects of the associated loans to be granted. Funds borrowed shall be deposited with the European Investment Bank, which shall invest them on a temporary basis if necessary.

Whereas the funds borrowed are expressed, payable or reimbursable in the currency of a Member State, they may be contracted only with the agreement of the competent authorities of that State.

Article 5

A mandate shall be given to the Bank to grant and administer loans in pursuance of this Decision. To this end, a cooperation agreement shall be drawn up between the Bank and the Commission. The Bank shall carry out operations under this mandate in the name of, for the account of and at the risk of the Community.

The Commission shall decide, in accordance with the provisions of Article 2, whether projects are eligible. Where the Commission gives a favourable decision, the Bank shall decide whether and on what terms to grant the loans, in accordance with its usual criteria and with the procedures laid down in its Statute.

Loan procedure shall be as follows:

- Loan applications shall be transmitted simultaneously to the Commission and to the Bank either direct or through a Member State.
- The Commission and the Bank shall sign the loan contracts.

Article 6

The Commission shall inform the Council and Parliament at regular intervals of the rate of utilization of the allocations and notify them, no later than the date on which total loans signed amount to two-thirds of the current allocation, of the purpose and amount it is intending to propose for the next allocation.

Article 7

The Commission shall inform the Council and Parliament annually of revenue and expenditure arising from borrowing and lending operations.

Article 8

Financial control and the audit of the Commission's accounts shall be carried out in accordance with the Financial Regulation applicable to the general budget of the European Communities.