COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION TO THE EUROPEAN COUNCIL

INVESTMENT AND BORROWING IN THE COMMUNITY

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INVESTMENT AND BORROWING IN THE COMMUNITY

1. The development of investment is a necessary precondition for any policy aimed at fighting unemployment on the basis of inflation-free growth.

- The Member States with balance of payments deficits must establish balance growth based on a combination of investment and exports. The Member States with surpluses must develop their domestic demand, and particularly investment, on a reasonable basis.

- Production structures in the Community must be modernized and adapted on an unprecedented scale to deal with changes in the world economy. Thus, in the field of energy alone, investment totalling more than EUA 250 000 million is anticipated between now and 1985.

2. However, the trend over recent years has not been favourable: the share of gross fixed capital formation in GDP fell from 23%, the average rate for 1970-1973, to 20.5% in 1977. In the productive sector, investors remain hesitant, even where profit margins are improving.

3. This situation calls for rapid improvement. It was for this reason that the European Council held on 25 March 1977 agreed to initiate Community action in order to achieve a higher level of investment in the Member States. For this purpose, the European Council invited on the one hand the Commission, particularly through more effective use of Community instruments, and on the other hand the European Investment Bank, to seek means of improving the effectiveness of their activities.

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4. Looked at from the broadest angle of perspective, this goal implies firstly that, by backing up policies to restore stability by fighting inflation and achieving a sufficient consensus, the Community must encourage the re-establishment of a climate of confidence and the creation of an environment which will favour investment. The Community must also help to improve understanding of the central role of investment within the context of a policy to improve employment through lasting and healthy growth.

These various aspects will be included in the work being pursued by the Council of Ministers for Financial Affairs.

5. From the angle of the Community's specific contribution to the development of investment, through better use of Community instruments:

- The Commission has taken the necessary measures to strengthen the consistency of intervention policies and to improve coordination of available resources, whether budgetary or obtained on the capital market. It will pursue this action with determination.

- It also believes that the Community can effectively contribute to the carrying out of investment projects which, without its intervention, would have been postponed or cancelled. It is this latter aspect which will be dealt with particularly in this memo.

6. Community action to support investment cannot take the place of action by industry or by governments. What the Community must do, in well defined areas, is to facilitate or advance the setting up of useful operations, to make possible the financing of priority programmes at Community level, and to act as a catalyst, with a real leadership and financial impact going well beyond the apparent volume of Community intervention involved.

7. This contribution to the recovery in investment must lead to increased recourse to borrowing, because of its objective and the limits of direct budget financing (despite the forthcoming application of the system of own resources).

The Community's contribution will be based on strengthening existing financial instruments (ECSC, EURATOM and the EIB). For this purpose, their development should be planned according to a jointly determined plan. This communication has, moreover, been drawn up in complete compatibility with the EIB's working hypotheses.

8. However:

- capital restrictions (EIB) and restrictions which limit their field of action (ECSC and EURATOM) do not allow the extension of commitments beyond certain thresholds. A further name on the markets could therefore contribute towards an enlargement of Community loan possibilities.

- the nature of the interventions envisaged, on the basis of programmes to support given policies, justifies recourse to a mechanism which is itself specific and adapted to this type of action.

9. Consequently, the Commission proposes the setting up of a new instrument designed to borrow on the financial markets and to grant loans on the same conditions, for the financing of structural investment projects in line with the Community's priority objectives.

This new instrument, which would be based on Article 235 of the EEC Treaty, should be developed gradually. This approach would take account of what the financial markets can provide, the timing of investment projects with a Community interest and, bearing in mind the expected development of operations by the ECSC, EURATOM and the EIB, the need to maintain the Community's credit-worthiness on the markets.

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10. In order to make the best possible use of Community credit:

- There must be coordination of the various financial interventions, both within the Commission and with the EIB (this coordination is already carried out with regard to the volume of loans envisaged each year and the timetable for issues).

- Account must be taken of what the markets can provide. In this respect, it may be estimated that the various European "names" could, gradually raise the total from $ 3-3.5 to $ 4.5 billion a year on the long-term fixed-interest market over the next three years. This does not allow much room for manoeuvre in the short term compared to the existing level of Community borrowing.

The Community could no doubt borrow considerably greater sums on the variable interest market, but this would lead to unforeseeable costs. For this reason the Community has not used floating rate loans except as an interim measure, for example to make possible the balance of payments financing programme.

11. In the light of this analysis and using the same kind of technique as was used in the Community loans for overcoming balance of payments problems, the Commission envisages a mechanism base on :

- standing borrowing powers up to a ceiling of EUA 1 000 million of capital
- the principle of only activating borrowing powers later with the approval of the Council tranche by tranche.

12. Each tranche would have a specified purpose, depending on the kind of programme undertaken. The first tranches would be applied giving priority to structural investment programmes having a Community interest in the fields of energy, industrial reconversion and infrastructure, taking account of the regional impact of the latter.

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13. The Commission would be responsible for raising the loans and would take the final decision on the eligibility of loan requests. For simplicity and efficiency, the Commission would give the EIB power to make the individual loans for eligible projects.

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14. In conclusion, the Commission asks the Council to approve the creation of a new Community loan instrument to finance priority Community structural investments.

The Commission will later define how the new instrument will operate and in due course make a formal proposal to the Council.