

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM (80) 670 final

Brussels, 30 October 1980

PROPOSAL FOR A COUNCIL DECISION empowering the  
Commission to contract loans for the purpose of promoting  
investment within the Community

(Presented by the Commission to the Council)

COM (80) 670 final



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## S U M M A R Y

Article 6 of the Council decision establishing the New Community Instrument (NCI) provided for a report by the Commission to the Council and to the Parliament on the experience gained during its operation.

This report fulfills this requirement by describing the loans raised and made up until 1.10.80.

Seventeen months' experience are then summarised and achievements highlighted - the diversification of Community borrowers the significant financial support given energy and infrastructure investment - together with the difficulties encountered. In the light of this information, it is proposed to continue the NCI operations by maintaining the tranche system and lifting the overall ceiling.

The attached draft Council decision incorporates the duly amended original decision (78/870/CEE).

Introduction

As required under Article 6 of the Council Decision establishing the New Community Instrument (NCI) <sup>(1)</sup>, the Commission hereby presents a report to the Council and to the Parliament on the experience gained during the operation of that Decision.

The report is accompanied by a proposal that the scheme should be renewed.

1. The origin of the NCI

The Commission proposed in June 1977 that the New Community Instrument for borrowing and lending be established as a means of backing up Community measures attacking unemployment, the low level of investment and the lack of convergence in Member States' economic performances.

The new mechanism was based on the idea that it is in the interests of the European Economic Community to use its creditworthiness on the international markets to raise capital, in addition to that provided from other Community sources of financing, for investment in certain key areas.

The Commission's proposal was endorsed by Parliament and the Economic and Social Committee, and the Council approved the principle of the New Community Instrument by empowering the Commission to borrow the equivalent of up to 1,000 million EUA in principle on behalf of the EEC. The loans were to be activated tranche by tranche and were to be used to finance investment projects which would serve the Community's priority objectives in the energy, industry and infrastructure sectors.

On 14 May 1979, the Council authorized a first tranche of borrowings for an amount not exceeding the equivalent of a capital sum of 500 million EUA to be used for investment projects in the infrastructure and energy sectors <sup>(2)</sup>.

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(1) Decision 78/870/EEC, 16 October 1978.

(2) Council Decision 79/486/EEC.

Infrastructure investment was to cover transport, telecommunications, agricultural improvements, water supply works and environmental protection.

Energy investment was to contribute to greater self-sufficiency, security and diversification of Community energy supplies, with particular attention being paid to energy conservation and to the development of alternative energy sources.

The Balance of 500 M of ECU was authorized by the Council on 22.7.80 <sup>(1)</sup> which has now also decided that it should be used for the same sectors and according to the same guidelines as for the first tranche but that exceptionally among certain infrastructure projects certain projects which concern housing and advance factories in priority regions can be considered for up to 20 % of the tranche.

2. The operations carried out - situation at 1 October 1980

Since the Council Decision of 14 May 1979, the NCI has been in operation for 17 months. During this period, despite the delays in approving the second tranche, which interrupted the course of operations, contracts for the granting of loans totalling 391.9 million EUA have been signed and projects involving an additional total of 336,1 million EUA are at an advanced stage of preparation. The operations carried out in 1979 (a total of 277 million EUA in contracts signed) are described in an annual report presented to the Council and Parliament in April <sup>(2)</sup>. Tables 1 and 2 appended hereto show all these operations together with those carried out between 1 January 1980 and 30 September 1980, giving a total of 391.9 million EUA in lending contracts signed. The sectors are shown below.

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(1) Council Decision 80/739/EEC.

(2) "First report on the borrowing and lending activities of the New Community Instrument (NCI) - financial year 1979", which the Commission transmitted to the Council and to Parliament on 16 April 1980 (Doc. COM(80) 192 final, 16 April 1980).

	Number of Loans	Amount
Energy:		
Alternative sources	6	163,9
Transportation	2	58,8
Exploitation of Community hydrocarb.	1	16,7
TOTAL	9	239,4
Infrastructure:		
Water	3	90,2
Roads	1	19,4
Telephones	2	30,4
Industrial estates	1	12,5
TOTAL	7	152,5

The geographical breakdown is as follows :

		Development regions	Other
Ireland	101,1	101,1	0
Italy	185,5	106,3	79,2
United Kingdom	105,3	105,3	0

The financing was provided out of borrowings amounting to a total of 399,7 million EUA.

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### 3. The experience gained

Experience of the operation of the NCI is obviously brief: but perhaps it is not too early to see what can be learnt from it.

#### The NCI on capital markets

Firstly, the introduction of the NCI as another means by which the Community raises money on the capital markets has proved a success. Community loans floated under the NCI label have been well received, notably by institutions required under their own regulations to observe ceilings on investments for each category of borrower. Thus, despite tension and rising interest rates on the national market in US dollars during the last quarter of last year, the first loan in that currency was placed on relatively favourable terms. The DM and HFL loans and the following US dollar loans were placed without any particular difficulty.

The placings of NCI loans has not impeded issues under other Community borrowing machinery. The volume and frequency of their issues, notably those of the ECSC and of the EIB have continued to increase rapidly.

In 1979, the various instruments borrowing in the name of the Community accounted for 12 % of the international capital market. Clearly, such borrowings, reinforced by placings, play an important role in recycling as a whole. The growth of the oil-producing countries' surpluses (which may be estimated at US\$ 115,000 million for 1980) and the efforts to adjust our energy and industrial structures underline the usefulness of all the financial mechanisms which can contribute to the orderly use of the capital available.

#### The NCI lendings

As regards loans granted, the effective or probable commitment of almost three quarters of the total in only 17 months is in itself sufficient indication that real demand exists.

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In practice, such demand has been met through the cofinancing by the NCI of projects already covered by the EIB. This reflects the fact that the fields covered by the NCI deliberately coincide with those covered by the EIB. In other words, by supporting a category of projects given priority status for the purposes of adjustment and employment within the framework of EIB activities, the NCI has increased the Community's contribution to such projects. This additional support may be quantified. The EIB financed an average of some 38 % of the total costs of all the projects which it assisted in 1979. The amount of financing which it provided for projects that were cofinanced slightly exceeds this average and amounted to 39 %. The NCI provided an additional 14 % : in other words, the Community's support represents 53 % of the total cost. In the case of individual projects, Community assistance may amount to as much as some 70 %.

This additional stimulus was particularly marked in the case of investment projects in Ireland and, in sectoral terms, in the case of loans granted in the energy sector. Thus, the NCI increased the flow of Community capital to countries, regions and sectors whose growth and development represent priority Community objectives.

#### Geographical breakdown

A total of 26 % of NCI financing went to six projects in Ireland, a large share in view of the size of the country. In the United Kingdom, a similar volume of financing was provided through two loans, one of which (for the hydro-electric power station at Dinorwic) alone accounted for 20 % of all NCI loans so far granted. The remainder of the financing went to the loans allocated to projects in Italy, which account for 47 % of the total. Since Italy and Ireland have been designated as less prosperous member countries effectively and fully participating in the European Monetary System, all but two of the loans granted to these countries carry a 3 % interest subsidy financed out of the General Budget of the Community. These subsidies have turned out to have such a stimulating effect, notably in Ireland, that the programme of work and the conclusion of the contracts have been speeded up.

### Sectoral breakdown

Assistance in the energy sector has been particularly conspicuous, accounting for 61 % of the total, and has thus been in line with the priority which the Community attaches to the objective of achieving greater self-sufficiency, security and diversification of energy supplies. Assistance in financing power stations fired by fuels other than oil, the exploitation of indigenous primary sources of energy such as peat and geothermal energy, diversification of external supply by both type and origin - all these involve investment that is essential if the present dependence on imported energy of most of the Community countries is to be overcome. After only a few months, the New Community Instrument has shown the impetus it can give to investment activity in a top priority area such as the energy sector. It is to be hoped and indeed expected that the momentum will continue in the future.

Since priority has so far been given to the infrastructure and energy sectors, no loans have yet gone to industry, although it is included in the basic Decision.

The Commission considers that it would be desirable to extend the scheme to include industry, so as to facilitate the structural adjustments at present demanded of industry and in view of the scope for permanent job creation offered by such investment.

### Consequences on employment

Assistance in financing infrastructure and energy investment has an effect on employment that is significant but hard to quantify. The capital goods and the construction works create jobs over relatively long periods of between five and eight years. The short-run employment impact of the investment projects which the NCI and the EIB helped to finance in 1979 may be estimated at some 30,000 jobs during the first two years of the projects, decreasing thereafter.

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Administering the NIC

Experience so far has also revealed some lack of flexibility in administering the NIC, a failing which could be serious in the financing of industrial sector operations but is already damaging for a significant number of infrastructure and energy projects. The present practice - followed as a means of avoiding operational deficits or surpluses - is to provide finance either in the form of "back-to-back" operations for large scale projects or in grouping together several projects which are too small to be financed individually. In the second case the loan contracts are concluded before the funds are borrowed, the loan contracts fixing, within certain limits, the currencies, and basic conditions, including interest rates. The markets are then approached on the basis of these terms. This means that when the contract for the loan to be granted is signed, the borrower can be given no assurance as to the exact terms of the loans he will receive (although he does know the upper limits), or indeed as to whether he will be actually able to obtain the loans.

This operational problem has nothing to do with the basic Decision setting up the NIC, since the Decision does not rule out the possibility of borrowing the funds before inclusion of the contracts relating to the loans to be granted. The departments of the Commission and of the Bank are at present examining technical procedures for a solution that would operate more smoothly while remaining consistent with the basic Decision.

The loans have been granted under the mandate given to the European Investment Bank pursuant to Article 5 of the basic Decision. In accordance with this mandate, the Bank carries out transactions on behalf of, for and at the risk of the Community. Loan applications are addressed to the Bank either directly or through the Commission or a Member State. After a Commission decision on the eligibility of each project, the Bank, in accordance with the procedures laid down in its Statute and its usual criteria, examines these applications, decides whether and on what terms to grant the loans and administers them. The financial operations are verified both by the financial control bodies under the General Budget and by the auditing bodies of the EIB in their own fields.

The division of tasks has stood the test of experience and has not impaired the Commission's capacity to exercise its responsibilities in the policy guidance of the NIC.

4. The outlook

The NCI was set up to provide additional Community support for efforts being carried out to combat unemployment and raise the level of investment. The description of its operations given above shows how favourably this initiative has been received.

Unfortunately, the economic outlook in the short term and in the medium term suggests that investment, which is an essential driving force in restoring the health of the economy, must be encouraged. The process of adjusting to the new energy situation has begun, but needs to be pushed further and faster.

The Community cannot take upon itself the principal role in the task of carrying out the necessary investment. That is the responsibility of the private sector and of the national authorities, though in a number of areas the Community can contribute by acting as a coordinating agent or even by providing budgetary assistance .

However, the Community can and must mobilise its borrowing capacity to help in the financing of essential investment. The Community is able to obtain funds on extremely favourable terms and to pass these terms on to the final borrower, who thereby usually gains a considerable net advantage. While certain organisations within the Community are able to borrow on excellent terms, intervention by Community authorities often improves the overall balance of their financing plans.

Such action by the Community in fact serves two of its current priority objectives :

-- through an appropriate geographical distribution of the funds raised it can facilitate the convergence of the economic performances of the member states, and in particular help new members to comply with Community requirements.

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- through a judicious borrowing policy it can enable the Community to participate in recycling the oil-exporting countries' surpluses. In this context, the examination in particular of the possibility of denominating Community loans in ECUs, according to the proposals of the monetary committee which were approved by the Council, should be pursued.

These considerations demonstrate the need for the NCI action to be continued. It should nevertheless retain one of its main characteristics : the concentration on a relatively limited number of projects having a high economic priority. This is already exemplified by the concentration of NCI action in priority sectors, in accordance with the Decisions applying the first and second tranches. While it would be desirable for the NCI to have a role in the industrial sector too, where investment problems are considerable, this should not entail reducing its assistance to the sectors initially chosen (energy and infrastructure), notably by increasing its support for the Community's structural policies. For this purpose, the tranche mechanism should be strengthened by assigning a given volume of NCI activity more specifically to clearly defined functional objectives. If the precise field of intervention remains to be determined in the course of the discussions on each tranche, it would be appropriate also to lay down in the basic decision the possibility of opening simultaneous and successive tranches.

It is necessary, by means of an annual report, to continue to provide the Parliament and the Council with regular and full information on the activity and the financial management of the instrument. Furthermore, the NCI is obviously one of the borrowing/lending instruments fully covered by the Commission's proposals that such activities should be included in the Budget.

In any case, its activities are subject to the usual financial control of the budgetary authority and of the Court of Auditors, not to mention the separate audits carried out on EIB operations.

#### Proposal

In the light of experience and given the outlook regarding the New Community Instrument, the Commission proposes that the basic Decision of

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16 October 1978 be renewed in accordance with the draft Council Decision annexed to this report. As drafted, the Decision would ensure that the action already initiated is pursued, expanded and given greater operational flexibility. This is the object of the draft Decision attached.

It is based on the initial Decision, with the following significant changes :

- (a) there is no longer any overall ceiling on the loans which the Commission is empowered to raise;
- (b) the system of borrowing in tranches is made slightly more flexible so as to allow eventually simultaneous tranches.

N C I - Tranche I: BORROWINGS

(situation at 30.9.80)

No	Date	Nature	Maturity (years)	Nominal interest rate %	Issue price	Millions ECU			
						Currency (mio.)	of which USD	of which DM	of which HFL
1.	22.10.79	public issue	15	7 7/8	DM 225	90,4		90,4	
2.	15.11.79	public issue	20	11,60	US\$ 125	89,4	89,4		
3.	6.2.80	private issue	15	8,30	DM 41	16,2		16,2	
4.	20.2.80	private issue	15	10 3/8	Hfl 40	14,4			14,4
5.	21.2.80	public issue	15	11,75	US\$ 20	15,4	15,4		
6.	21.4.80	public issue	10	9,45	DM 279	11,-		11,-	
7.	14.5.80	public issue	15	11,00	US\$ 75	57,6	57,6		
8.	15.5.80	private issue	10	14,00	US\$ 8	6,1	6,1		
9.	3.6.80	private issue	15	11 7/8	Hfl 40	14,4			14,4
10.	22.7.80	public issue	15	11,0	US\$ 70	48,9	48,9		
11.	15.9.80	private issue	10	8,3/8	DM 22	8,7		8,7	
12.	15.9.80	private issue	15	8,3/8	DM 33	13,-		13,-	
13.	18.9.80	private issue	15	13,00	US\$ 20	14,2	14,2		
TOTAL		-		-	-	399,7	231,6	139,3	23,8
						100 %	57,9	34,8	7,3

TABLE 2

NCI - Tranche I: Breakdown of lending contracts signed  
(situation at 30.9.80)

Project	Date of contract	Cost of project Million EUA	Loans signed		EMS interest subsidy	Breakdown by country			Contribution to cost in %		
			national currency	million EUA		Italy	United Kingdom	Ireland	NCI	EIB	NCI + EIB
1. Aqueduct, Pertusillo III (CASSA)	17.9.79	266	Lit 45 000	39,6	x	39,6			15	42	57
2. Lothian Water	17.9.79	116	E 16,3	25,9			25,9		22	44	66
3. Dublin Water	17.9.79	99	EIr 16,5	24,7				24,7	25	45	70
4. Irish Telephones	17.9.79	67	EIr 12,-	17,9	x			17,9	27	41	68
5. Irish Roads	17.9.79	100	EIr 13,-	19,4	x			19,4	19	49	68
6. Industrial estate, Syracuse IV (CASSA)	18.7.80	61	Lit 15 000	12,5	x	12,5			21	29	50
7. SIP, Apulia	19.9.80	175	Lit 15 000	12,5		12,5			7	49	56
A. Infrastructure		884		152,5		64,6	25,9	62,0			
8. Dinorwic hydroelectric power station (CEGB)	17.9.79	669	E 50,-	79,4			79,4		12	27	39
9. Aghada power station (ESB)	17.9.79	100	EIr 16,5	24,7				24,7	25	45	70
10. Alto Gesso hydroelectric power station (ENEL)	14.12.79	336	Lit 40 000	34,9	x	34,9			10	41	51
11. Geothermal power stations (ENEL)	14.12.79	58	Lit 12 000	10,5	x	10,5			18	50	68
12. Peat production (BORD NA MONA I)	28.4.80	71	EIr 3,7	5,5	x			5,5	8	27	35
13. Peat briquettes (BORD NA MONA II)	28.4.80	28	EIr 6,-	8,9	x			8,9	32	32	64
14. System for monitoring the production and transmission of electricity (ENEL)	29.4.80	149	Lit 20 000	17,1	x	17,1			11	46	57
15. Algeria-Italy gas pipeline, Sicily and Calabria section (ENI)	18.7.80	445	Lit 50 000	41,7	x	41,7			9	38	47
16. AGIP Hydrocarbons	19.9.80	90	Lit 20 000	16,7	x	16,7			19	50	69
B. Energy		1.946		239,4		120,9	79,4	39,1			
Totals A + B		2.830		391,9		185,5	105,3	101,1	14	39	53



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Proposal for a  
COUNCIL DECISION

empowering the Commission to contract loans for the purpose  
of promoting investment with the Community

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<sup>1</sup>,

Having regard to the Opinion of the Economic  
and Social Committee<sup>2</sup>,

Whereas economic activity, employment and  
investment in the Community are unevenly  
distributed and are all too low;

Whereas, in order to stimulate economic  
activity and support common policies,  
the financing scheme set up under Council  
Decision 78/870/EEC with a view to making  
an additional contribution to investment  
promotion in the Community should be  
pursued and strengthened, alongside existing  
Community financial institutions and bodies,  
whose scope should be widened;

Whereas Community action to this end would  
have a real spill-over impact and

financial impact far beyond its appa-  
rent size, thus promoting the conver-  
gence of member countries' 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 a credi-  
worthiness in its own right which must  
be used to best advantage to reinforce  
European support for the said invest-  
ments 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  
this scheme,

HAS DECIDED AS FOLLOWS :

Article 1

The Commission is hereby empowered

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to contract, on behalf of the European Economic Community, loans whose proceeds shall be lent to finance investment projects which contribute to the greater convergence and integration of the economic policies of the Member States.

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

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

Article 2

Loans shall be activated in tranches

The Council, acting by qualified majority on a proposal from the Commission, and after consulting European Parliament, shall lay down the 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 tranches authorized.

A single borrowing may be used to finance loans for different objectives.

Article 3

Connected borrowing and lending transactions shall be denominated in the currencies of the borrowing transactions.

Lending terms as regards the reimbursement of the principal and the rate and payment of interest shall be so fixed as to cover the costs and expenses incurred in concluding and performing both the borrowing and lending side of the transactions.

Article 4

The terms of loans to be raised 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 requirements as to duration and other financial aspects set out in the loans applications for loans to be granted. Funds borrowed shall be deposited with the European Investment Bank to be invested on a temporary basis if necessary

Article 5

A mandate shall be given to the Bank to grant loans in pursuance of this Decision. The Bank shall carry out transactions under this mandate on behalf of, for and at the risk of the Community. Loan requests shall be forwarded to the Bank either directly or through the Commission or a Member State. After a Commission decision on the eligibility of each project pursuant to Article 2 the Bank shall, in accordance with the procedures laid down in its Statute and its usual criteria, examine these requests, decide whether and on what terms to grant the loans, and administer them.

The mandate given to the Bank shall be embodied in a cooperation agreement between the Commission and the Bank.

Article 6

The Commission shall annually inform the Council and Parliament of receipts and expenses resulting from borrowing and lending transactions.

In the light of this information, the Council may carry out an assessment of the general operation of the mechanism set up by this Decision.

Article 7

The financial control and 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.

Done at .....

For the Council  
The President

