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EUROPEAN PARLIAMENT

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Report

drawn up on behalf of the Committee on Economic and Monetary Affairs and Industrial Policy

on the proposal from the Commission of the European Communities to the Council (COM(84) 309 final - Doc. 1-345/84) for a regulation amending Regulation No. 682/81 concerning the Community loan mechanism designed to support the balance of payments of Community Member States

Rapporteur: Mr C. WOLFF

PE 93.661/fin.

nglish Edition

By letter of 18 June 1984, the President of the Council of the European Communities requested the European Parliament to deliver an opinion on the proposal for a regulation amending Regulation No. 682/81 concerning the Community loan mechanism designed to support the balance of payments of Community Member States.

On 24 July 1984, the President of the European Parliament referred this proposal to the Committee on Economic and Monetary Affairs and Industrial Policy as the committee responsible and to the Committee on Budgets for an opinion.

At its meeting of 19 September 1984, the Committee on Economic and Monetary Affairs and Industrial Policy appointed Mr C. WOLFF rapporteur.

The committee considered the Commission's proposal and the draft report at its meetings of 15 October 1984, 28 November 1984, 18 December 1984, 30 January 1985 and 27 February 1985.

At the last meeting, the committee decided unanimously to recommend to Parliament that it approve the Commission's proposal without amendment.

The committee then unanimously adopted the motion for a resolution as a whole.

The following took part in the vote: Mr Seal, chairman; Mr P. Beazley, vice-chairman; Mr Wolff, rapporteur; Mr Besse, Mr Bonaccini, Mr Carossino (deputizing for Mrs Trupia), Mr Cassidy, Mr Christodoulou (deputizing for Mr Ercini), Mr Cryer (deputizing for Mr Falconer), Mr Filinis, Mr Herman, Mr Kilby (deputizing for Mr de Ferranti), Mr Metten, Mr Muhlen (deputizing for Mr Abelin), Mr Novelli, Mrs Oppenheim, Mr Papoutsis (deputizing for Mr Mavros), Mr Patterson, Ms Quin, Mr Rogalla, Mrs Van Hemeldonck and Mr Wedekind.

The opinion of the Committee on Budgets is attached.

The report was tabled on 28 February 1985.

The deadline for tabling amendments to this report will be indicated in the draft agenda for the part-session at which it will be debated.

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A

The Committee on Economic and Monetary Affairs and Industrial Policy hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

closing the procedure for consultation of the European Parliament on the proposal from the Commission of the European Communities to the Council for a regulation amending Regulation (EEC) No. 682/81 concerning the Community loan mechanism designed to support the balance of payments of Community Member States

The European Parliament,

A. having regard to the proposal from the Commission to the Council[1],

B. having been consulted by the Council pursuant to Article 235 of the EEC Treaty (Doc. 1-345/84),

C. having regard to the report of the Committee on Economic and Monetary Affairs and Industrial Policy and the opinion of the Committee on Budgets (Doc 2-1775/84),

D. having regard to the result of the vote on the Commission's proposal,

1. Approves in principle the modifications contained in the proposal for a regulation amending Regulation No. 682/81 concerning the Community loan mechanism designed to support the balance of payments of Community Member States, the purpose of which is both to increase the resources of the mechanism and to amend the rules of access to the mechanism and broaden its scope;

2. Considers it to be now apparent that the balance of payments situation of the Community Member States has significantly changed since 1975, since the balance of payments of several Member States is in surplus and the deficits of the other Member States have been substantially reduced;

3. Points out once again that it would in future be unacceptable for the European Parliament, as one arm of the budgetary authority, not to be associated in good time in the task of determining the general terms and arrangements to be applied to the loans and in the task of determining the economic policy conditions to be fulfilled by the recipient Member State(s); deprecates the manner in which the European Parliament was consulted on the proposal in question, that is to say, after the Council reached an agreement of principle;

4. Takes the view, and requests, that a start should be made on the study concerning a comprehensive revision of the two existing mechanisms, namely, the Community loan mechanism and the medium-term financial aid mechanism, and that, in this connection, special consideration should be given to:

[1] OJ No. C 167, 27.6.1984, p. 8

- the Community's capacity for continuing to obtain loans on favourable terms, particularly from the point of view of increasing Community loans to 20,000 m ECU, in line with the European Parliament's resolution of 27 March 1984 on a programme for European economic recovery(1);

- appropriate measures to ensure equality of treatment for the borrowing Member States;

- the priority objectives to be adopted for the destination of the loans;

- the possibility of linking together the two existing mechanisms;

5. Takes note of the Council's decision of 10 December extending the period of validity of the medium-term financial aid mechanism; accepts this decision, but nevertheless demands that in future Parliament should be asked for its opinion;

6. Cannot accept any adjustment of the amount of medium-term financial aid before the study requested in paragraph 4 concerning a comprehensive revision of the two existing mechanisms - the Community loan mechanism and the medium-term financial aid mechanism - has been completed;

7. Has received a report from the press, unofficially confirmed by the Commission, that the Council apparently intends to reduce medium-term financial aid by 2,000 m ECU as soon as it is possible to reinforce the Community loan mechanism, on which Parliament's opinion is required; considers that Parliament should be officially notified of the Council's intention so that it is able to give an informed opinion on the Community loan mechanism; the Council's decision to extend the period of validity of the medium-term financial aid mechanism does, however, imply that the mechanism is to remain unchanged;

8. Cannot therefore accept a new Council decision on the amount of medium-term financial aid; considers, moreover, that the Commission would be guilty of inconsistency if, some months after its proposal for prolonging the mechanism, it came up with a new proposal for reducing the amount; believes that, if the Commission were to make such a proposal, it would be accepting a diktat from the Council and failing to act in the spirit of cooperation to which it pledged itself when introducing the new Commission to Parliament;

9. Reiterates its demand that borrowing and lending operations be budgetized;

10. Indicates its agreement to the raising of the ceiling to 8,000 m ECU;

11. Proposes that the new rule designed to restrict the Member States' loan entitlement to a maximum of 50% of the authorized ceiling should be adopted;

12. Instructs its President to forward to the Council and the Commission, as Parliament's opinion, the Commission's proposal as voted by Parliament and the corresponding resolution.

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[1] OJ C 117, 30.4.1984, p. 34

B

EXPLANATORY STATEMENT

1. INITIAL REGULATION

The purpose of the Community loan mechanism is different from that of the other borrowing and lending instruments discussed in this report in that the latter are intended for the financing of investment projects. Such operations must nevertheless be taken into account in any comprehensive analysis of the Community's borrowing activities on the capital market.

Set up in 1975[1], the Community's 'balance of payments' loan mechanism was adjusted to some extent in 1981[2], although no changes were made to the general criteria on which it is based. The principle remains that the Community should use its creditworthiness to borrow sums and subsequently lend them on the same terms to Member States experiencing balance of payments difficulties. The granting of a loan is subject to a commitment on the part of the recipient Member State to implement a programme of recovery designed to re-establish a tolerable balance of payments situation. This may prompt it to apply for Community financial aid without waiting for its external payments deficit to assume manifestly critical proportions. It is also subject to a unanimous decision by the Council, which determines the amount of the loan, the method of allocation (single payment or instalments) and the attendant economic policy conditions. The total amount of the borrowing authorized under the mechanism is at present limited to 6,000 million ECU in principal.

- Parliament's role is limited to authorizing the amount of the loans to be granted.
- The funds are raised either direct from third countries and financial institutions or on the capital market.
- The Member States to which the Community lends the capital sums raised are subject to identical conditions as regards repayment of the principal and payment of interest.
- The borrowing and lending operations are expressed in the same currency unit.
- The costs incurred must be borne by the recipient State.
- Any loan received by a Member State is guaranteed by the Member States as a whole.

Since 1981, the balance of payments problems caused by the increase in oil prices have become less severe. They may have either a direct or an indirect link with the rise in the prices of oil products.

- The security on loans, which was initially provided by the Member States themselves, is now provided by the Community.

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[1] OJ No. L 36 of 20.2.1975, p. 1

[2] Regulation (EEC) No. 682/81 of 16.3.1981

Such are the principal rules and procedures of the loan mechanism. Other factors might have to be studied and analysed, notably:

- the decision-making and management procedures,

- the question of prior repayment by applicant Member States,

- the period for which loans are granted, etc.

In the proposal under consideration, the Commission recommends only a few changes, and these are without prejudice to the results of the normal procedure for reviewing the mechanism laid down in Article 7 of the Regulation of 16 March 1981.

The present analysis will be more or less confined to the modifications currently proposed.

2. RAISING OF THE LOAN CEILING

The ceiling originally fixed in 1975 was equivalent, in units of account, to 3,000 million dollars, inclusive of interest.

Italy and Ireland benefited as follows from the 1975 Regulation:

- in 1976, the Community borrowed for Italy (10/13ths) and Ireland (3/13ths).................................. \$1,100 million and DM 500 million;
- in 1977, a second loan was raised for Italy amounting to .... \$ 500 million.

According to information received orally from the Commission, these loans will have been repaid in full by the end of the current year. Italy made its final repayment on 1 May 1984.

After the ceiling had been raised in 1981 to 6,000 million ECU, exclusive of interest, the Council decided,in May 1983, to grant the French Republic a loan equivalent to .... 4,000 million ECU. (See details of this operation at Annex 1.)

Finally, bearing in mind that the balance of the loans granted earlier to Italy and Ireland will be repaid in 1984, it should be noted that:

- 2,000 million ECU are still available since, out of the maximum authorized in 1981 (6,000 million ECU, exclusive of interest), only 4,000 million ECU were lent to France;

- By raising the ceiling to 8,000 million ECU, it would be possible to finance loans totalling 4,000 million ECU.

The increase in the volume of the loans can be accurately assessed only if:

(a) it is borne in mind that the loans originally included both capital and interest, and

(b) it is established whether the guarantee provided by the Member States also covers the payment of interest.

3. ACCESS TO THE LOAN MECHANISM

Rules need to be established to ensure equality of treatment between the Member States.

As a result of the granting of a loan of 4,000 million ECU to the French Republic, two-thirds of the maximum amount have been utilized, and the balance of 2,000 million ECU available to meet possible applications from other Member States is somewhat meagre. In other words, there is a serious imbalance between the amount of the loan already granted and the amount remaining for other contingencies.

The proposal to raise the ceiling from 6,000 million ECU to 8,000 million ECU, which was prompted by the need to try to ensure equality of treatment between Member States wishing to resort to the mechanism, would thus seem quite reasonable.

The Commission further proposes that, by analogy with the rule on access to medium-term financial assistance, no Member State should be entitled to more than 50% of the amount available under the new ceiling.

This calls for the following observations:

(a) If two Member States requested loans of an identical amount while remaining within the 50% ceiling, nothing would be left to meet further applications.

(b) Would it not be advisable to restrict access to the loan mechanism by giving priority to Member States which have repaid a previous loan?

(c) Assuming an increase in the number of applications, would it not be advisable to restrict access not only by adopting the 50% criterion, but also by introducing a rule requiring proportionality between the applications submitted and the 8,000 million ECU ceiling currently proposed?

4. DISTINCTION BETWEEN THE COMMUNITY LOAN MECHANISM TO SUPPORT MEMBER STATES' BALANCE OF PAYMENTS AND THE MEDIUM-TERM FINANCIAL AID MECHANISM

It was originally stipulated that the loan mechanism could be used to alleviate balance of payments difficulties only if they were caused by increases in the price of oil products. The 1981 Regulation adopts a less rigid approach in that it also allows access to the mechanism where balance of payments difficulties arise from energy crises. The current proposal recommends that the reference to increases in the price of oil products should be deleted altogether.

The only difference between the loan mechanism under consideration and the medium-term financial aid mechanism is the method of financing: in the one case the Community borrows on the financial market and in the other case assistance is granted by the Member States, which mobilize their exchange reserves to that end.

Since the difference between the two instruments is simply a matter of method of financing, it is legitimate to ask whether the changes proposed are in fact necessary.

Compared with the balance of payments problems which each Member State encountered as a result of the oil crisis, the present difficulties are of a more general nature. For 1984 as a whole, the balance of payments of the Community is expected to be in balance or perhaps even in surplus.

Several Member States now enjoy a surplus on their balance of payments and those States which are still in deficit have been able substantially to reduce their deficits in recent years.

In these circumstances, it ought to be possible for the balance of payments difficulties which could still affect certain Member States to be provisionally remedied through a combination of medium-term financial assistance and use of the balance still available under the Community loan mechanism.

In the meantime, it might be useful to embark on a comprehensive review of the two mechanisms, especially since the authorities are under obligation to review the medium-term financial aid mechanism at the end of this year and the Community loan mechanism must also be re-examined before March 1986 in accordance with the provisions of the 1981 Regulation.

A general appraisal of the aid to be provided in the event of balance of payments problems would be more appropriate, and we may reasonably ask whether there is not a convenient way of linking together the two mechanisms concerned so that the choice of method of financing would then depend on the resources of the Member States and the situation on the capital market.

It is obvious that if sums are borrowed on the financial market, the Community guarantees the repayment of loans through their entry in the Community budget. Parliament must then participate in the decision-making process as one arm of the bugetary authority.

5. BUDGETIZATION OF COMMUNITY LOANS

To enable the European Parliament to exercise legitimate control over the use of the funds, it is essential that the question of budgetization should again be raised. The consequences of this must, of course, be studied seriously and exhaustively. It is particularly important that the European Parliament should be able to verify that the loans in question do in fact improve the balance of payments situation of the Member States, having regard to the need for greater convergence of their economies.

6. CRITERIA APPLICABLE TO LOANS OBTAINED ON THE FINANCIAL MARKET

One of the arguments put forward in support of the thesis that the Community should borrow on the financial market rather than the Member State experiencing balance of payments difficulties is that the Community enjoys more credibility and is thus in a position to secure better terms.

In order to demonstrate the truth of this assertion, the Commission should submit an analysis of the terms it obtained for the loans it contracted and show how these compare with the normal terms applied at the relevant times.

It is of paramount importance to establish whether the terms obtained by the Community are significantly more advantageous in order to provide guidance for the taking of future decisions involving changes to the mechanism. If it is satisfactorily demonstrated that the terms are more favourable when loans are contracted in the name of the Community and it is consequently decided that it is for the Community to borrow and to make over the sums borrowed to the Member States, it is obvious that it will be necessary to raise the ceiling to a level far above that currently proposed.

It could also be suggested that a proportion of the financial benefits resulting from the difference in the borrowing terms obtainable should be incorporated into the Community's own resources.

A significant strengthening of the Community's role as borrower is liable, however, to meet with reservations from Member States with a balance of payments surplus since, at the end of the day, these would then have to guarantee the loans obtained by Member States in deficit.

Furthermore, the more favourable terms secured by the Community would continue only if its interventions on the capital market were conducted in a restrained manner.

Indeed, if operators on the financial market were to feel that the Community's recourse to the capital market was excessive, the Community would cease to obtain more advantageous borrowing terms.

It is therefore important to establish the margin for manoeuvre, within which the Community can be sure of obtaining loans on favourable terms.

To the extent that the terms of the loans contracted on the initiative of the Community proved far more advantageous than those which could be obtained by individual Member States on the capital markets, it would not be unreasonable to propose that the Member States should pay financial compensation equivalent to half the difference between the interest rates applied (depending on whether the borrower was the Community or the Member State) within the authorized ceiling; the purpose of this would be to ensure that Member States finding it difficult to gain access to the capital market would not be disadvantaged.

In 1983, borrowers from the Community countries accounted for 35% of international issues of bonds, 9.9% of this being the share of Community organizations. (See Annex II.)

It is essential, therefore, to determine the margin for manoeuvre needed by the Community in order to secure advantageous terms on the capital market.

Within that margin, the Council and Parliament should establish an order of priority for the objectives for which the loans would be used, having regard to:

- the NCI loans which are channelled towards productive activities,
- balance of payments difficulties,
- the activities of the European Investment Bank, etc.

It should be borne in mind that Parliament's resolution of 27 March 1984 on a programme for European economic recovery proposes that Community loans should be increased within 3 years to a total of 20,000 million ECU. As for the allocation of these loans, Parliament points out that priority should be given to productive investments in the energy and advanced technology sectors, in small and medium-sized undertakings, including cooperatives, and in telecommunications and transport infrastructure projects.

In the light of these proposals, it is reasonable to ask whether it would not be more appropriate to undertake a more detailed and more comprehensive study of the Community's borrowing and lending policy rather than to take an immediate decision to broaden the scope of the existing instrument without there being any apparent urgency.

7. ECONOMIC POLICY CONDITIONS

The Council is required to adopt a unanimous decision granting or refusing a loan only after the applicant Member State has accepted a number of economic policy conditions designed to redress its balance of payments. The Commission must ensure that the economic policy pursued by the recipient Member State remains consistent with the conditions laid down by the Council. The Parliament has no role in this procedure and is not consulted at any stage. The economic policy conditions are decided upon by the Council alone, while the loan granted to the Member State is guaranteed by the Community by means of its entry in the Community budget.

Thus, if a recipient Member State is not in a position to repay the loan it has received, the Community budget must ensure repayment and the European Parliament, in its capacity as one arm of the budgetary authority, must give its approval.

However, Parliament is required to do this without ever having been actively consulted on the nature of the economic policy conditions that have to be met; such a situation is quite unacceptable.

It is thus essential for Parliament to have a more active part to play in determining the appropriate economic policy conditions. Economic policy conditions are imposed whether the aid is forthcoming under the medium-term financial assistance mechanism or under the Community loan mechanism designed to support the balance of payments of Member States. In the case of the medium-term financial aid mechanism, the Member States providing the loan mobilize their own reserves and are therefore directly implicated should repayment difficulties arise. In these circumstances, we may well wonder whether the economic policy conditions imposed on the recipient State are not more stringent than in the case of the Community loan mechanism, under which only the guarantee provided by the Community budget is of importance.

8. CONSULTATION OF PARLIAMENT ON THE CHANGES CURRENTLY PROPOSED

It is once again legitimate to ask why the changes currently proposed to the loan mechanism were thought to be of such urgency, bearing in mind that there are still 2,000 million ECU available and that the balance of payments situation of the Member States is such as to discount the possibility of a further request in the short term.

Furthermore, there are some Member States which would like to see the review of the Community loan mechanism linked to the adjustment of the medium-term aid mechanism, which is due to take place between now and the end of the year.

Certain delegations within the Council have requested that medium-term financial aid should be reduced by the amount of any increase decided for the Community loan mechanism.

In view of the lack of urgency and of the interdependence of the two mechanisms, it is astonishing that the Council should have progressed so rapidly in its examination of the proposal for a regulation under consideration. The Commission's proposal dates only from 29 May 1984 and the Council's consultation of Parliament from 13 June 1984. Even so, on 4 July 1984, the Council reached an agreement and proposes to adopt the proposal as an 'A' item at a forthcoming session, after Parliament has delivered its opinion.

The question inevitably arises as to what impact Parliament's opinion may now have. Must Parliament accept the fact that the Council has already discussed and even decided on the substance of the proposal, without awaiting Parliament's opinion, even though there has never been any question of urgency?

ANNEX I

OPERATIONS UNDER THE COMMUNITY LOAN MECHANISM DESIGNED TO SUPPORT MEMBERS STATES' BALANCE OF PAYMENTS

In the context of this mechanism, the Council decided on 16 May 1983[1], on a proposal from the Commission and after consulting the Monetary Committee, to grant to the French Republic a loan of an amount equivalent to 4,000 million ECU. The loan was granted on the basis of the decision taken by the French authorities to implement an economic policy programme aimed at restoring an acceptable balance of payments situation, reducing the rate of inflation and ensuring a better convergence of economic policies within the Community.

Because of the scale of the operation, the relatively short period allowed for its successful completion without disturbing the markets and the time-scale agreed for the loan (less than 6 years), it was necessary to resort to specific borrowing sources and methods; of these, recourse to the Eurodollar market and use of the variable rates mechanism inevitably played a prominent part.

The financing of the loan involved four operations:

- a public issue of notes at variable rates of interest (Libor + 1/8% per annum) for a period of 7 years and for an amount of US$ 1,800 million,

- a public issue of bearer notes at a fixed rate of interest (11% per annum) for a period of 4 years and for an amount of US$ 350 million,

- a public issue of bonds denominated in ECUs, at fixed rates of interest and for a total amount of 150 million ECU, in three instalments:

  - 80 million ECU for a period of 4 years at 11-1/8% per annum,
  - 40 million ECU for a period of 7 years at 11-1/4% per annum,
  - 30 million ECU for a period of 10 years at 11-1/2% per annum,

- a syndicated bank loan at a variable rate of interest (Libor + 3/8% per annum) for a period of 7 years and for a total amount of US$ 1,240 million.

All these borrowing operations were completed in August 1983. The speed with which they were executed and the terms obtained on the markets gave proof of the Community's creditworthiness and of the effectiveness of the procedures to be followed under the mechanism.

At the official conversion rate for the ECU at 31 December 1983, the funds borrowed under the mechanism totalled 4,247.3 million ECU. Previous borrowings under the mechanism amounted to 1,249 million ECU in 1976 and 571 million ECU in 1977 for Italy and Ireland.

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[1] Council Decision 83/298/EEC

A N N E X II

INTERNATIONAL ISSUES OF BONDS[1] BY COUNTRY OF DEBTOR

(in m ECU)

BORROWERS	1982	%	1983	%
1. Industrialized countries	50,765	83.6	57,952	85.7
EEC countries	15,037	24.8	23,660	35.0
(inc. EEC organizations)	(2,779)	(4.6)	(6,658.1)	(9.9)
Other industrialized countries	35,728	58.8	34,292	50.7
2. Developing countries	3,077	5.0	1,940	2.9
OPEC countries	317	0.5	378	0.6
Other developing countries	2,760	4.5	1,562	2.3
3. East European countries (inc. COMECON)	-	-	-	-
4. Other international organizations[2]	6,907	11.4	7,700	11.4
T O T A L	60,749	100.0	67,592	100.0

[1] Since the table takes no account of public issues, the figures include only part of the loans from Community issuers (see tables 1 and 2 attached).

[2] African Development Bank, Asiatic Development Bank, Council of Europe, Eurofima, Interamerican Development Bank, Nordic Investment Bank and the World Bank.

Source: EIB

A N N E X III

DOLLAR, ECU AND DEUTSCHE MARK RATES FOR 1975, 1977, 1981 AND 1984

Annual Average Ratio

	1975	1977	1981	1984 (1.1 to 30.9)
1 ECU	US$ 1.24077	US$ 1.14112	US$ 1.11645	US$ 0.807924
1 ECU	DM 3.04939	DM 2.64831	DM 2.51390	DM 2.24006
1 US dollar	DM 2.4576	DM 2.3207	DM 2.2516	DM 2.7726

CONVERSION OF THE VARIOUS LOANS INTO ECU

	1975	1977	1981
CEILING	$ 3,000 million		
Value in ECU	2,417,000,000	1,368,000,000	6,000 million
Loans	$1,100,000,000	$500,000,000	
	DM 1,500,000,000		
Value in ECU	886,000,000	438,000,000	4,000 million
	163,000,000		
	1,049,000,000		
Amount still available	1,368,000,000	930,000,000[1]	2,000 million

[1] To cover interest

O P I N I O N

(Rule 101 of the Rules of Procedure)

of the Committee on Budgets

Draftsman: Mr CHRISTODOULOU

At its meeting of 16 October 1984, the Committee on Budgets appointed Mr CHRISTODOULOU draftsman of the opinion.

At its meeting of 28 November 1984, the committee adopted the draft opinion unanimously with 29 votes in favour and no abstentions.

The following took part in the vote: Mr COT, chairman; Mr RYAN, Mr CURRY and Mrs BARBARELLA, vice-chairmen; Mr CHRISTODOULOU, draftsman; Mr ABENS, Mr ADAM (deputizing for Mr FICH), Mr ARNDT, Mr BARDONG, Mr CHIUSANO, Mr CORNELISSEN, Mr DI BARTOLOMEI, Mr d'ORMESSON, Lord DOURO, Mr J. ELLES, Mrs HOFF, Mr LALOR, Mr B. NIELSEN (deputizing for Mr LOUWES), Mr NORMANTON, Mr PASTY, Mr PFENNIG, Mr PITT, Mr PORDEA (deputizing for Mr COLLINOT), Mr PRICE (deputizing for Sir Fred CATHERWOOD), Mr RIGO, Mr SCHON, Mr TOMLINSON, Mr VARFIS and Mr VON DER VRING.

INTRODUCTION

In accordance with the proposal of the Council of Ministers for Economic and Financial Affairs and on the basis of its own research and conclusions, the Commission considered that Regulation (EEC) No. 682/81 concerning the Community loan mechanism should be adjusted in three ways.

The Commission's view is that the proposed amendments should come into effect before the loan mechanism is reconsidered as already provided for in Article 7 of the above regulation.

The following analysis reveals that Parliament's Committee on Budgets should, with certain reservations, deliver a favourable opinion on the proposed amendments to the regulation.

In view of the importance of the loan mechanism for the EMS and for accelerating the integration process for the Member States of the Community, which is a constant long-term goal of the European Parliament, this paper aims to inform the committee:

(a) on the existing regulations and the reasons justifying the relevant amendments,

(b) on the Council's proposals for a regulation,
(c) on the basic conclusions and the Committee on Budgets' motion for a resolution.

(a) Existing regulations

With a view to easing Member States' balance of payments problems created by the first oil crisis, the Community, created a loan mechanism under Regulation (EEC) No. 397/75.

The main characteristics of this mechanism are:

(a) the fixing of a global ceiling on loans of $US 3,000 million (in their equivalent in ECU),

(b) the speeding up of the process of granting loans by giving the Council a decisive role and cutting out the involvement of other institutions,

(c) in contrast to the parallel mechanism of medium-term financial aid (MTFA), Community loans are granted by the Community and not the Member States.

When the second oil crisis occurred, the reappearance of the same problems made it necessary for the Commission to amend Regulation (EEC) No. 397/75. Its new Regulation (EEC) No. 682/81 increased the global ceiling on loans to 6,000 million ECU and simplified the procedures for granting Community loans so that the Council could decide to grant them at a single meeting.

From an analysis of the characteristics of the regulations it can be seen that:

(a) in the Community today there are two financial aid mechanisms available to Member States for medium-term balance-of-payments problems,

(b) both mechanisms provide medium-term aid subject to the condition that the Member State introduces a stabilizing programme,

(c) although the two mechanisms are parallel, since the circumstances which gave rise to MTFA and Community loans were different - the former being introduced within the framework of the monetary organization of Europe and as an intermediate stage in the process of creating the EMS, and the latter being introduced to deal with special situations such as oil crises - for the present, at least, each mechanism has its own distinct character, which makes it impossible to discard one of them or to combine them, or to increase one while reducing the other proportionately.

THE COUNCIL'S PROPOSAL FOR A REGULATION

The Council's proposal for a regulation under discussion amends Regulation (EEC) No. 682/81, as already mentioned, in three ways so as to raise the ceiling from 6,000 million ECU to 8,000 million ECU, restrict a Member State's borrowing capacity to 50% of the approved ceiling and delete explicit reference in the regulation linking the granting of Community loans to the increase in petroleum product prices.

There should be no doubt that the Council's proposal for a regulation will facilitate harmonization efforts within the Community whose aim is the convergence of Member States' economies and will impose a suitable discipline on the way in which available credits are distributed, particularly once the connection between Community loan mechanisms and the price of oil has been done away with.

However, this problem, which is at the centre of the Commission's argumentation, brings us to the following conclusions:

CONCLUSIONS

First, it is proposed that the Committee on Budgets deliver a favourable opinion on the Commission's proposed amendments to Regulation (EEC) No. 682/81. This proposal is justified on the grounds that the further development of the Community loan mechanism, together with MTFA, will help achieve a more rapid equilibrium in EEC Member States' balance of payments, which, in the present conjuncture, will make an important contribution to creating a genuine EMS that can support a truly united Europe.

Parliament's favourable opinion should, however, be qualified by certain reservations on the following points:

1. Despite the amendment raising the ceiling of the amount which Member States are entitled to borrow, the existing mechanism still fails to safeguard the principle of equal treatment between the members of the Community because the figure of 50% does not guarantee that the mechanism will be able to cope in situations where aid is required by two or three countries at the same time. Perhaps the figure should be 40%?

2. Although we appreciate the need for a mechanism that can grant loans quickly to Member States, we are of the opinion that, in the light of the joint responsibility of the institutions, Parliament's agreement should be required when Community loans are in the final stage of ratification, particularly in view of the repercussions that the amendments to the Community loan mechanisms are likely to have on future Community budgets. Perhaps the solution would be to set up a flexible parliamentary body composed of a few Members to participate on an ad hoc basis in the decisions to be taken.

Finally, the Committee on Budgets ought to consider whether to call for a serious study to be initiated on the ways and means of establishing an effective and strong body to implement Community monetary and exchange policy. It is clear, having regard to all the economic and monetary phenomena with which we have to contend, that without such a body we shall be limited to discussions which, despite the good intentions of all parties, will to a large extent be very limited in their application and results.