



European Communities

EUROPEAN PARLIAMENT

WORKING DOCUMENTS

English Edition

1985-86

21 October 1985

SERIES A

DOCUMENT A 2-123/85

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 (COM(85) 250 final - Doc. C 2-53/85) for a
Council decision empowering the Commission to borrow
under the New Community Instrument for the purpose of
promoting investment within the Community

Rapporteur: Mr V. CHIUSANO

WG(VS) 2703E
Fr.-pm/jb

PE 100.033/fin.



By letter of 20 June 1985, the President of the Council of the European Communities requested the European Parliament to deliver an opinion on the proposal from the Commission of the European Communities for a Council decision empowering the Commission to borrow under the New Community Instrument for the purpose of promoting investment within the Community.

On 8 July 1985, 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 Energy, Research and Technology and the Committee on Budgets for an opinion.

At its meeting of 25 September 1985, the Committee on Economic and Monetary Affairs and Industrial Policy appointed Mr V. Chiusano rapporteur.

The committee considered the Commission's proposal and the draft report at its meetings of 24-26 September 1985 and 15-16 October 1985.

At its 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 von BISMARCK, vice-chairman; Mr CHIUSANO, rapporteur; Mr CASSIDY, Mr HERMAN, Mrs OPPENHEIM, Mr PATTERSON, Mr RAFTERY, Mr STARITA, Mrs VAN HEMELDONCK, Mr VISSER (deputizing for Mr METTEN), Mr WEDEKIND and Mr von WOGAU.

The opinion of the Committee on Budgets is attached to the report. The Committee on Energy, Research and Technology has decided to present its opinion orally in plenary.

The report was tabled on 17 October 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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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:

A

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission to the Council for a decision empowering the Commission to borrow under the New Community Instrument (NCI) for the purpose of promoting investment within the Community

The European Parliament,

- having regard to the proposal from the Commission to the Council¹,
 - having been consulted by the Council (Doc. C 2-53/85),
 - having regard to its resolutions of 10 April 1981 and 17 May 1982,
 - having regard to the six-monthly report from the Commission to the Council and the European Parliament on the rate of utilization of the tranches of the New Community Instrument (NCI) (January-June 1985) (COM(85) 459 final),
 - having regard to the report of the Committee on Economic and Monetary Affairs and Industrial Policy and the opinions of the Committee on Energy, Research and Technology and the Committee on Budgets (Doc. A 2-123/85),
 - having regard to the result of the vote on the Commission's proposal,
- A. whereas the extensive use made of the funds available under the New Community Instrument serves to confirm its value for strengthening and developing productive activities in Europe with the result that the policy of granting and thus of contracting loans has become indispensable and must therefore be continued on a scale capable of meeting the growing increase in applications,
- B. whereas NCI 4 is designed specifically to assist SMU which are using new technologies and innovation and thus creating jobs,
- C. whereas the contracting and granting of loans by the Community plays an important role with regard to economic recovery by stimulating new investment and creating new jobs,

¹ OJ No. C 163, 3.7.1985, p. 4

1. Approves the proposal for a Council decision submitted by the Commission which empowers the Commission to borrow in accordance with the criteria laid down in the proposal;
2. Wishes, nevertheless, to stress the following points:
 - (a) the New Community Instrument should be made permanent and must be included in the Community budget, as advocated by the European Parliament since 1977;
 - (b) as advocated by the Commission in its proposal, the NCI should be able, in addition to the industrial activities of SMU, also to assist other productive activities (craft industries and services sector) which display potential for innovation and job creation and for which access to the capital market is generally difficult;
 - (c) there is a danger that the provisions for extending finance to cover intangible assets, together with the possibility in certain cases of deferring capital and interest payments, and the opportunity for financial intermediaries to participate in the risk capital, may be interpreted restrictively by these intermediaries in order to limit their own risks, particularly as in some Member States many financial intermediaries are unable under their own statutes to participate in capital accounts;
 - (d) it would be appropriate, in connection with point (c) above, for the Commission to widen the range of financial intermediaries able to carry out financing operations under NCI 4, with a view to implementing the procedures laid down in Article 4 of the proposal for a decision concerning participation in risk capital;
 - (e) the two modes of finance provided for - loans and participation in risk capital - should be used in combination to ensure that the funding is as effective as possible;
 - (f) again in connection with point (c), the Commission should study possible arrangements for monitoring and ensuring compliance with the new criteria introduced by NCI 4 for the granting of finance. In the same spirit, the Commission, in its six-monthly reports on the activities of the NCI, in addition to listing the overall loans to financial intermediaries, ought to specify which projects have been accepted for funding under the instrument, to enable Parliament to ascertain whether the criteria and priorities laid down in the Commission's proposal have been respected;
3. Whilst reiterating its opposition to the setting of a ceiling, reserves the right to open the conciliation procedure if the Council departs from Parliament's opinion, and, more specifically, if it seeks to reduce the sum of 1 500 m ECU stipulated in Article 1 of the proposal for a decision or modify either the categories of those eligible for loans or the new allocation criteria proposed by the Commission;
4. Instructs its President to forward to the Council and Commission, as Parliament's opinion, the Commission's proposal as voted by Parliament and the corresponding resolution.

EXPLANATORY STATEMENTI. Introduction

- (a) Before considering the proposal for a decision submitted to the Council by the Commission, we should mention briefly the views expressed by the European Parliament on the new Community instrument since 1978¹, seeing that essential points made several times in previous opinions have been disregarded¹.

II. Parliament's unchanging position

2. With reference to the last time that it was asked for its opinion on NCI 3, Parliament's position can be summarized as follows:
- (a) Parliament urged that the new instrument should be permanent both because available resources were rapidly running out, thus demonstrating the need for a Community loan policy and in order to facilitate proper planning of aid and prevent the functioning and granting of loans being interrupted;
- (b) it approved of extending interest rebates on loans to production sectors which might be the source of jobs and to small and medium-sized firms;
- (c) it reiterated its desire to see ceilings abolished, in order to ensure the continuity of financial aid and, once again, it expressed its preference for a system of partial decisions (by quotas) which would still allow the Council to determine, at any given time, the overall volume of loans contracted;

¹ Parliament expressed its opinion on the establishment of the NCI by the decision of 25 October 1978 on loans for promoting investment (OJ No. L 298 of 25.10.1978, p. 9). This first opinion was followed by the conciliation procedure. Subsequently, Parliament delivered opinions on the first and second decisions concerning the use of financial resources in 1979 and 1980 (OJ No. C 127 of 21.5.1979, p. 32 and OJ No. C 85 of 8.4.1980, p. 44).

It delivered an opinion on NCI 2 on 10 April 1981 (resolution of 10.4.1981, OJ No. C 101 of 4.5.1981). This opinion was followed by the conciliation procedure, the results of which were evaluated by Parliament in its resolution of 23 April 1982 (OJ No. C 125 of 17.5.1982).

Finally, Parliament delivered an opinion on NCI 3 on 19 May 1983 (OJ No. C 161 of 20.6.1983). In this case too, Parliament held a final vote on the provision only after the conciliation procedure on 10 March 1984 (OJ No. C 117 of 30.4.1984).

² See resolutions of 19 May 1983 and 29 March 1984.

- (d) Parliament considered as temporary the solution consisting in renewing ad hoc legislative provisions (the Council's decisions) - until the total funds available at any given time ran out - in order to give the Commission new authorization for loans;
- (e) it stressed the need to include the NCI in the Community budget, as it had requested since 1977, whenever amendments to the Community's financial arrangements were being considered.

3. A view shared by Parliament and the Commission on these principles had already been formally expressed in the amended proposal for a decision, which the Commission forwarded to the Council in January 1983, to replace the proposal of 19 October 1982 on the second NCI 2. The only thing that this new proposal, submitted in accordance with Article 149(2) of the Treaty, ignored was Parliament's request for changes in the organization of the EIB and the Commission's powers with regard to the functioning of the loan mechanism.

III. Analysis of the new proposal

- 4. The resources of NCI 3 are running out and a new legislative provision must be drawn up (2.2 thousand million ECU of the resources available have already been allocated and loans worth 2.8 thousand million ECU have been granted).
- 5. Since two thirds of the resources available have been granted to small and medium-sized undertakings, the Commission now proposes reserving 1 500 m ECU of lending exclusively for such undertakings, special priority being given to small and medium-sized undertakings investing in new technologies.
- 6. Financing for infrastructure projects and the energy sectors is excluded from the present arrangements, one of the reasons being that the EIB will be able to make larger contributions to these sectors once its capital is doubled.
- 7. One of the two fundamental innovations in the arrangement is that financing will be extended to cover not only tangible assets but 'such intangible assets as patents, licences, know-how, computer-software and research and development expenditure directly related to industrialization' (page 5 of the Explanatory Memorandum on the proposal for a Council decision).
- 8. The other new element is the fact that financial intermediaries, made responsible for granting loans at national level, will be able to transform the loans into shares in the the capital of small undertakings.
- 9. Greater use will be made of 'global loans', making it possible to transfer the available funds to intermediaries.
- 10. Although in general we approve of the Commission's proposal, we have the following comments and reservations to make regarding its new features and general structure:
 - (a) In contrast with what was always its position in the past, the Commission no longer mentions the need to include the whole of the loan policy in the budget or the need to specify the scale and nature of these operations in the framework of the budget;

- (b) The total sum of 1 500 m ECU, set aside for granting loans to SMUs, may be considered of importance only if it can be used in a relatively short period (this is confirmed by the large number of applications for financing made so far). It is therefore essential for the Council at least not to reduce the total figure proposed by the Commission, since the whole amount was intended for loans to SMUs with innovative capacity and for investment in technologies. However, it should also be made possible to extend this financing to cover craft industries and the tertiary sector, since access to the capital market is usually more difficult for these economic activities which create a large number of jobs;
- (c) Although Parliament asked the Commission for a more precise definition of its own and the EIB's role in the mechanism for granting loans, the Commission continues to disregard this request and furthermore does not lay down specific rules to indicate how the financial institutes will be required to abide by the Community criteria for granting such loans. There is therefore a danger that the unstable links with these bodies will lead to a restrictive interpretation of the aims of the financing by the financial intermediaries and may distort these aims. One particularly positive new feature is the financing in the form of capital contributions by financing intermediaries, since any risk is borne by these intermediaries. The only drawback is that under the conditions envisaged, financing in the form of capital contributions may not be fully implemented in practice.

In order to ensure that the provision regarding the possible underwriting of capital is fully effective, financial intermediaries in all Member States must have wider scope, since in certain countries the organizations through which the Community at present operates are not allowed by law to provide financial support in the form of capital contributions. In order to guarantee this, the Commission should devise and put into practice procedures to ensure that the new criteria for granting financial aid introduced in NCI 4 are adhered to;

- (d) The Council and the Commission must lay down clearly understandable provisions making it possible to use both types of financing together - loans and capital contributions - since this will make any aid for the benefit of SMU's more effective;
- (e) The proposal does not specify, even in general terms, how the link is to be made between the NCI and the other forms of Community aid, which is a particularly disturbing omission, since the loans are granted in connection with both regional policy in general and the implementation of the integrated Mediterranean programmes;
- (f) No one of the provisions ensures the permanent nature of the NCI, which even when it has a specific function, as in the case of aid to the SMUs, must now be considered as an essential instrument of Community aid.

IV. GENERAL COMMENTS

11. One of the major problems affecting SMUs is their restricted access to the capital market. By making it possible for financial intermediaries to transform loans into capital contributions, NCI 4 may help to supply risk capital.

12. In the Explanatory Memorandum, the Commission mentions the development programme for major infrastructure projects of Community interest in the fields of transport, telecommunications and environmental protection, which it had announced in its work programme for 1985. The Commission states that it is ready to submit proposals for financing a programme of this kind. Likewise it expects to submit proposals for financing technological research cooperation and will do so as soon as the Council gives its approval in principle. These projects are of such great importance for the revival of the economy that every effort should be made to finalize them as soon as possible. To this end, the Council must be called upon not to delay any longer giving its approval in principle and the Commission should submit the promised proposals at an early date.

13. According to the Commission, the NCI has become increasingly specific in its function and instances of one and the same project being co-financed by the EIB and the NCI have become rare. This is in accordance with the wishes of the European Parliament. In its report on the second tranche of NCI 3, Parliament asked the Commission to give it more precise information on this subject in its half-yearly report.

V. CONCLUSIONS

14. What has been said above clearly shows that in approving the new provisions, which increase the Community's capacity to assist economic recovery, Parliament must reiterate the reservations expressed previously whilst allowing the new decision to be adopted as soon as possible, because of the urgent needs of the sectors which are to receive aid. However, it must not fail to consider once again whether the new arrangements suit the purpose for which they are intended, in the broader framework of assessing the Community's whole policy of contracting and granting loans, which will be of even greater importance after enlargement.

EUROPEAN PARLIAMENT
Committee on Budgets
The chairman

Strasbourg,

(posted 9.10.1985)

Mr Barry SEAL
Chairman of the Committee on Economic
and Monetary Affairs and Industrial Policy
Palais de l'Europe
STRASBOURG

Subject: Opinion of the Committee on Budgets on the proposal for a Council decision empowering the Commission to borrow under the New Community Instrument for the purpose of promoting investment within the Community (NCI IV) (COM(85) 250 - Doc. C 2-53/85)

Dear Mr Seal,

At its meeting of 7 October 1985 the Committee on Budgets approved the proposal from the Commission to the Council for an NCI IV for small and medium-sized businesses. It did, however, express the following reservations:

- (a) It is to be regretted that the Commission has not included in its proposal the demand repeatedly made by Parliament for all the resources of the Community's borrowing and lending policy to be entered in the budget. This means that the budgetary authority, i.e. Parliament and the Council, is not fully responsible for deciding either the amount or the allocation of these financial resources, which are borrowed from lenders and on-lent with the guarantee of the Community budget.
- (b) The ceiling on the amount of the loans laid down by the Commission in Article 1 of the proposal for a decision does not comply with the opinions expressed by Parliament on the first three NCIs, since these sums should normally also be determined as part of the budgetary procedure. As for NCI IV, the Committee on Budgets is prepared to accept the 1 500 million ECU ceiling only because the loans in question are for small and medium-sized businesses and because the Commission has declared its intention to introduce other proposals covering all areas of NCI activity.
- (c) In view of the role given to national financial intermediaries in the granting of loans, the Committee on Budgets insists that the Commission should decide in advance all the action and supervision required to ensure full and correct application of the Community principles and objectives set out in the decision on NCI IV.

Yours sincerely,

(sgd) Jean-Pierre COT

P.S. In view of the importance of the proposal for a decision establishing NCI IV, the Committee on Budgets suggests that the Economic Affairs Committee, as the committee responsible, should prepare Parliament's opinion by submitting a report to plenary.

The following took part in the vote: Mr Cot, chairman; Sir James Scott-Hopkins, second vice-chairman; Mrs Barbarella, third vice-chairman; Mr Adam (deputizing for Mr Abens), Mr Bardong, Sir Fred Catherwood, Mrs Chiusano, Mr Christodoulou, Mr Cornelissen, Mr Curry, Mr Dankert, Mr Elles, Mr Fich, Mr Lalor, Mr Mizzau, Mr Normanton, Mr d'Ormesson, Mr Pasty, Mr Pfennig, Mr Pitt, Mr Schreiber (deputizing for Mrs Hoff), Mrs Scrivener, Mr Sutra (deputizing for Mr Arndt), Mr Tomlinson, Mr von der Vring and Mr van der Waal (deputizing for Mr Cicciomessere)