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REPORT

of the Committee on External Economic Relations

on the Commission proposal for a Council decision on the conclusion of the Articles of Agreement establishing a European Bank for Reconstruction and Development
(COM(90) 190 final - C3-0143/90)

Rapporteur: Mr Pol MARCK

A Series: Reports – B Series: Motions for Resolutions, Oral Questions – C Series: Documents received from other Institutions (e g Consultations)

*	= *Consultation procedure requiring a single reading*	**II	= *Cooperation procedure (second reading) which requires the votes of a majority of the current Members of Parliament for rejection or amendment*
**I	= *Cooperation procedure (first reading)*	***	= *Parliamentary assent which requires the votes of a majority of the current Members of Parliament*

CONTENTS

By letter of 6 June 1990 the Council consulted the European Parliament, pursuant to Article 235 of the EEC Treaty, on the Commission proposal for a Council decision on the conclusion of the Articles of Agreement establishing a European Bank for Reconstruction and Development.

At the sitting of 11 June 1990 the President of Parliament announced that he had referred this proposal to the Committee on External Economic Relations as the committee responsible and to the Political Affairs Committee, the Committee on Budgets, the Committee on Economic and Monetary Affairs and Industrial Policy and the Committee on Budgetary Control for their opinions.

At its meeting of 17 July 1990 the Committee on External Economic Relations appointed Mr Marck rapporteur.

At its meeting of 17 September 1990 it considered the Commission proposal and draft report.

At the latter meeting the committee decided unanimously to recommend that Parliament approve the Commission proposal for a Council decision on the conclusion of the Articles of Agreement establishing a European Bank for Reconstruction and Development.

The committee then adopted the draft legislative resolution unanimously.

The following took part in the vote: De Clercq, chairman; Marck, rapporteur; Aglietta, Da Cunha Oliveira (for Bettiza), Isquierdo Rojo (for Cano Pinto), Porto, Sainjon and Titley.

The opinion of the Committee on Economic and Monetary Affairs and Industrial Policy is attached. The opinions of the Committee on Budgets and the Committee on Budgetary Control will be published separately.

The report was tabled on 28 September 1990.

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

A

DRAFT LEGISLATIVE RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission to the Council for a decision on the conclusion of the Articles of Agreement establishing a European Bank for Reconstruction and Development (COM(90) 190 final)

The European Parliament,

- having regard to the proposal from the Commission to the Council (COM(90) 190 final)[1],

- having been consulted by the Council pursuant to Article 235 and under the procedure laid down in Article 228 of the EEC Treaty (Doc. C 3-143/90),

- having regard to its resolution of 5 April 1990 on the European Bank for Reconstruction and Development[2],

- having regard to the report by the Committee on External Economic Relations and the opinions of the Political Affairs Committee, the Committee on Budgets, the Committee on Economic and Monetary Affairs and Industrial Policy and the Committee on Budgetary Control (Doc. A 3-236/90),

1. Approves the conclusion and entry into force in international law and practice of the Articles of Agreement establishing a European Bank for Reconstruction and Development;

2. Instructs its President to forward this opinion to the Council, the European Investment Bank, the Commission and the governments of the Member States and the other contracting parties.

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[1] OJ No. C

[2] OJ No. C 113, 7.5.1990, p. 172

B

EXPLANATORY STATEMENT

I. INTRODUCTION

Central and Eastern Europe are at a turning point in history. Their peoples, after succeeding in liberating themselves from Stalinist totalitarian régimes, now have to make the transition to democratic structures, constitutionality, multi-party systems and the market economy. The burden of the processes of adjustment will have to be borne principally by the local population itself, but the countries of the western world have to help the countries of Central and Eastern Europe in their task, not simply out of solidarity but also in their perceived own interest.

The European Community, as the direct neighbour of Central and Eastern Europe, has a particular responsibility in this respect, which it has shouldered hitherto in the conclusion of trade and cooperation agreements opening the Community's markets to the countries of Central and Eastern Europe and the provision of funds from the Community budget and loans by the EIB under the PHARE programme of 24 western industrialized countries which the Commission is coordinating.

Economically, the main problems lie in the legacy of over 40 years of inefficient centrally planned economies. Completely obsolete plants, poor infrastructure, production arrangements insufficiently attuned to consumer needs, lack of experience with private sector management methods and lack of motivation are only some of them. A solution to these problems therefore seemed to lie in the provision of western capital to the countries of Central and Eastern Europe to modernize their industries and production-related infrastructures along the lines of the Marshall Plan.

The idea of creating a European Bank for Reconstruction and Development was first put forward by President Mitterand when addressing the European Parliament on 25 October 1989 as President-in-Office of the European Council.

The proposal was discussed at the informal Paris Summit held in November 1989 and endorsed by the European Council of 8 and 9 December in Strasbourg. The bank's purpose would be to promote productive and competitive investment in the Central and Eastern European countries, to facilitate the transition towards a market-based economy and to accelerate the required structural adjustments. The Bank's main task would be to develop the competitive productive sector. The European Council called for negotiations to open in January 1990.

II. COURSE OF NEGOTIATIONS

The first conference of the founder countries called by the French Government took place in Paris on 15 January 1990. In addition to the 24 western industrialized countries and the recipient countries in Central and Eastern Europe, other European and non-European countries expressed an interest in participation in the BERD. The European Council had also called upon the Community as such, represented by the Commission, and the EIB, to take part in the conference as future shareholders. The final number of participants was 42 countries.

Subsequent meetings on the basis of a draft statute for the BERD submitted by France were held in February and March 1990. Their purpose was to determine the size of the Bank's original capital stock, the shares to be held by the participant countries and the Bank's terms of reference, and to discuss the participation of the USSR as a shareholder and recipient state. The negotiations had largely been concluded on 9 April; the only outstanding question was the location of the principal office of the bank. On 29 May, when the agreement was signed, it was decided that this should be London.

In a resolution adopted on 5 April 1990 the European Parliament welcomed the establishment of the BERD as an important step in support of the process embarked on by the countries of Central and Eastern Europe of determining their own economic future. It also welcomed the participation of the USSR in the Bank and the fact that loans would be granted for the development of the USSR. It advocated that, in determining the criteria for allocating funds, account should be taken not only of private investment but also public infrastructure which should be given priority in the form of additional funds. Specific attention should also be paid to effective monitoring of the projects funded and the capacity of the economies of the recipient countries to absorb the investment.

III. CONTENT OF THE AGREEMENT

The agreement lays down the purpose, operation, conditions for participation and granting of loans, the amount of capital stock, the use of the ECU, participation by the Community and the organs of the BERD in detail.

Article 1 states that the purpose of the bank is to foster the transition towards market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multi-party democracy, pluralism and market economics.

Substantial funds are required for this transition. The BERD, according to Article 2, is to assist, via the granting of loans and participation in private and public sector enterprises, where they operate in market-oriented fashion or are to be privatized, in obtaining the necessary funds. Infrastructure projects necessary for private sector development may also be granted aid up to a maximum of 40% of the funds committed (Article 11).

Article 3 states that membership shall be open to European countries, to non-European countries which are members of the International Monetary Fund, to the EIB and to the European Community.

The recipient countries are all countries of Central and Eastern Europe proceeding towards market-oriented economies (Article 8). During the first three years, lending to the USSR is to be restricted to the amount of capital paid in by the USSR (30% of 600m ECU). After that, it will be for the Board of Governors to decide by a majority of three-quarters of the Governors representing at least 85% of the capital stock to decide on the future status of the USSR as a recipient country.

The bank has to distinguish between its ordinary and special lending operations (Article 9). Ordinary operations have to be financed out of its subscribed capital, reserves and surpluses and are thus limited to those amounts (Article 12). Article 13 lays down the bank's operating principles, which include the following: the bank shall apply sound banking principles, especially in respect of creditworthiness, it may not finance any undertaking in the territory of a member if that member objects, it shall keep resources allocated to recipient countries in proportion and may provide finance only where the investor is unable to obtain sufficient finance elsewhere. The Bank has to make its loans on market terms (Article 14), except in the case of special funds administered by it on behalf of third parties.

Article 4 sets the capital stock at 10 thousand million ECU, divided into paid-in shares and callable shares. Article 5 provides that 30% of the capital stock shall be paid in, 50% in cash and 50% in non-negotiable, non-interest-bearing promissory notes. Payments shall be made in five equal annual instalments. Annex 1 shows the apportionment of the capital stock among the individual participant countries. This ensures that the Community, the EIB and the EEC Member States together hold a majority of 51% of the capital stock. The members of the Group of Seven (FRG, F, I, UK, USA, CAN, JAP) also have over 50% of the capital stock and hence of the votes.

The bank's capital stock is expressed in ECU (Article 6). As about 75% of the capital stock will be held by European countries, a correspondingly high proportion of payments in ECU is to be expected. The use of the ECU would, however, present budgetary difficulties for the USA as its President can request appropriations from Congress only in dollars. For that reason the US dollar and the yen are also permissible denominations for paying in to the capital stock, on the basis of the average exchange rates for the period from 30 September 1989 to 31 March 1990.

Article 22 provides that the Bank shall have a Board of Governors, a Board of Directors, a President and one or more Vice-Presidents. The Board of Governors is the highest decision-taking body. Each member appoints one Governor. The Commission appoints the Community's Governor. The members of the 23-strong Board of Directors are elected by the Board of Governors. Under Article 26, the Community, the EIB, and the Member States of the Community have 11 directors and the Central and Eastern European countries 4, as will the other European countries and the non-European countries.

The powers of the Board of Governors will include the admission of new members, increasing or decreasing the authorized capital stock, suspending members, the election of the President and Directors, the approval, after reviewing the Auditor's report, of the general balance sheet and the profit and loss account and determining the reserves and the allocation of the net profits of the bank.

Under Article 27 the Board of Directors is responsible for the direction of the general operations of the bank, establishes policy on loans, guarantees and investments, takes decisions on the use of resources, submits the audited accounts for each year and approves the Bank's annual budget.

The President, who is elected by a simple majority of the Board of Governors for a period of four years, conducts the current business of the bank under the direction of the Board of Governors (Article 30). He is the legal representative of the bank and the chief of its staff.

A Frenchman, Jacques Attali, was elected first President of the bank. His election revealed differences of opinion between the four largest and the other Community countries. With the USA, Canada and Japan within the Group of Seven, they had already decided on Attali as President and thus ignored the candidacy of Onno Ruding, the former Dutch Minister of Financial Affairs. Belgium and the Netherlands in particular regarded this as an affront and it highlighted the need for future coordination within the Community to ensure the smooth running of the BERD.

The principal office of the bank is in London (Article 33). It may also set up branches in all Member States. Until the end of the negotiations the seat was a bone of contention. The USA had initially favoured Prague.

Article 62 states that the agreement will enter into force when it has been ratified by signatories whose subscriptions represent not less than two-thirds of the total capital stock.

IV. THE COMMISSION PROPOSAL

The purpose of this Commission proposal is to create the legal framework for the accession by the Community as such to the agreement establishing the BERD. For this a decision to that effect by the Council is required, after it has consulted the European Parliament pursuant to Article 235 of the EEC Treaty.

Your rapporteur recommends that the Commission proposal be approved. The agreement meets the general requirements set forth by Parliament in its resolution of 5 April 1990. At its meeting of 17 July 1990 the Committee on External Economic Relations was also told by the appropriate member of the Commission, Vice-President Christophersen of the progress and outcome of the negotiations in which the Community was only one of 42 taking part.

He pointed out that the USSR was not to be marginalized in the BERD. It had, however, had to agree to having its borrowing limited to the amount of its capital share. The 40% limit on production-related infrastructure projects was not too low in present circumstances. Financing the training of business managers was not one of the Bank's tasks. There were other programmes for this purpose (TEMPUS, European Foundation for vocational training). To ensure the most efficient allocation and use of funds the Bank would set up branches in all Central and Eastern European countries.

V. FINANCIAL IMPLICATIONS

The financial implications of the establishment and operations of the BERD are not dealt with in the Commission proposal. They are however of great importance to the EP's attitude and should therefore be outlined here.

First of all the Community has to establish the budgetary basis for subscribing its share of the capital stock. Out of the 10 000 m ECU initial capital stock the Community has to contribute 3%, or 300 m ECU. 30% of this amount (90 m ECU) will be paid in five equal annual instalments of 18 m ECU between 1991 and 1995. The appropriations will taken from the Community budget, Section III (Commission), Part B (Operating appropriations), Sub-Section 7 (Cooperation with developing and third countries), Article 610. This will be compulsory expenditure.

As a shareholder the Community will be responsible for losses incurred in the operations of the Bank only up to the amount of its share in the capital. The Community can therefore incur no further commitments apart from the callable part of its subscription (270 m ECU). As the Bank can call for it only when it is unable to meet its commitments otherwise, and as the amount and timing of any such call cannot be predicted, a separate token entry has been made for this item (Article 611).

In technical budgetary terms this is of course appropriate, but your rapporteur would point out that this raises the potential liability to the Community budget arising from aid to Central and Eastern Europe, when added to the existing 2000 m ECU (guarantees for EIB loans to Poland and Hungary under the PHARE programme and for a medium-term stand-by credit for Hungary, each of 1000 m ECU) to a total of 2270 m ECU. These figures underline the urgent need for an overall view, as the European Parliament has repeatedly called for. The Commission has promised to produce this by October 1990.

VI. CONCLUSIONS

1. The BERD, which will probably begin operations in spring 1991, is a further link in the rapidly developing relationship between the Community and the countries of Central and Eastern Europe. Its task will be to help meet the enormous needs for capital for the restructuring and modernization of the economies of Central and Eastern Europe. It should not be forgotten that most of the funds will have to come from private and local sources. The 40%-60% breakdown (between the public and private sectors) reflects the philosophy of the BERD, which, according to a statement it issued recently, proposes to pursue a client-oriented policy. Both firms and government bodies will be clients. The BERD wishes to be a preferential partner for the private sector and will therefore act as a body that is part and parcel of the Eastern European private sector rather than simply a bystander. It is a moot point, however, whether the projected 40% limit will be sufficient to finance major infrastructure projects (roads, railways, telecommunications, etc.) coordinated cooperation with other multilateral organizations (the EIB and World Bank) would therefore appear unnecessary.

2. Comparisons are often made between the BERD and the US-financed programme for the reconstruction of Europe, the Marshall plan. While illuminating, such comparisons also reveal major differences, which reside less in the scale than in the nature of the problems. Then, it was a question of restoring industries and infrastructures destroyed by the war, where considerable increases in productivity could be achieved by repairs without great capital investment, while today it is a question of converting and modernizing economies from top to bottom, which were cut off from the international division of labour for decades, and subject to the inefficiencies of central economic planning.

Nor should it be forgotten that the provision of capital is a necessary, but not the only, factor in the successful conversion of the economies of Central and Eastern Europe. The provision of the required technical and organizational knowledge, i.e. human capital, is also most important. This is frequently at least as problematic and time-consuming as physical capital resources, but is a task that will have to be handled chiefly by the Commission.

3. The EP has also called for effective control over funds placed by the BERD. The proposal by the Committee on Budgetary Control in this regard should be acted on. Since present checks on the EIB are unsatisfactory, and different arrangements must therefore be found for the BERD. The requisite guarantees must be obtained from the EIB and the European Community, since they are BERD partners.

4. Why is it that the BERD cannot issue export credit guarantees? This is an approach that has proven successful in a number of Member States. The fact that no international organization does so would not appear to be a satisfactory argument.

5. The rapporteur believes that cooperation between the EIB and the BERD on a sound and permanent basis is extremely important: not only to prevent duplication of efforts, but also because the resources available must be put to the best possible use. In its capacity as an BERD partner, the EIB would have to take the necessary measures and keep the EP regularly informed on these collaborative arrangements. The European Community must therefore do everything in its power to promote interregional cooperation between the recipient countries. This could substantially enhance the effectiveness of the funds provided by the BERD.

6. The association agreements being sought by the Community could provide the starting point. As well as strengthening cooperation between the individual countries of Central and Eastern Europe with the Community, they should therefore also be seeking to strengthen cooperation between those countries. Other possibilities might be membership of individual Central and Eastern European countries of EFTA and even the Community in the medium and longer term. Since the EIB will have to handle any financial-cooperation agreements between the European Community and the countries of Eastern Europe by financing loans, effective coordination and cooperation between the BERD and the EIB would appear to be called for in this instance too.

7. Your rapporteur would also refer, lastly, to the need for close coordination between the Member States of the Community in their activities within the BERD. We must ensure that in this as in other international bodies the Member States speak with one voice. If the 'big four' with the US, Canada and Japan are to play a dominating role this can only be detrimental to the Community in the long term. Incidents such as those which recently, and regrettably, occurred in connection with designating the seat and appointing the President of the BERD must be avoided at all costs. The Member States should therefore consider giving the Commission further powers of coordination in addition to its role as a shareholder.

LIST OF MEMBER STATES

Initial subscriptions to the authorized capital stock for prospective(*) members which may become members in accordance with Article 61

	NUMBER OF SHARES	CAPITAL SUBSCRIPTION in million ECU
A - European Communities		
(a)		
Belgium	22800	228.00
Denmark	12000	120.00
France	85175	851.75
Germany, Federal Republic of	85175	851.75
Greece	6500	65.00
Ireland	3000	30.00
Italy	85175	851.75
Luxembourg	2000	20.00
Netherlands	24800	248.00
Portugal	4200	42.00
Spain	34000	340.00
United Kingdom	85175	851.75
(b)		
European Economic Community	30000	300.00
European Investment Bank	30000	300.00
B - Other European countries		
Austria	22800	228.00
Cyprus	1000	10.00
Finland	12500	125.00
Iceland	1000	10.00
Israel	6500	65.00
Liechtenstein	200	2.00
Malta	100	1.00
Norway	12500	125.00
Sweden	22800	228.00
Switzerland	22800	228.00
Turkey	11500	115.00

C - Recipient countries

Bulgaria	7900	79.00
Czechoslovakia	12800	128.00
German Democratic Republic	15500	155.00
Hungary	7900	79.00
Poland	12800	128.00
Romania	4800	48.00
Union of Soviet Socialist Republics	60000	600.00
Yugoslavia	12800	128.00

D - Non-European countries

Australia	10000	100.00
Canada	34000	340.00
Egypt	1000	10.00
Japan	85175	851.00
Korea, Republic of	6500	65.00
Mexico	3000	30.00
Morocco	1000	10.00
New Zealand	1000	10.00
United States of America	100000	1,000.00

E - Non allocated shares

	125	1.25
TOTAL	1000000	10,000.00

(*) Prospective members are listed under the above categories only for the purpose of this Agreement. Recipient countries are referred to elsewhere in this Agreement as Central and Eastern European countries

O P I N I O N

(Rule 120 of the Rules of Procedure)

of the Committee on Economic and Monetary Affairs and Industrial Policy

for the Committee on External Economic Relations

Draftsman: Mr John STEVENS

At its meeting of 11 June 1990 the Committee on Economic and Monetary Affairs and Industrial Policy appointed Mr Stevens draftsman.

At its meeting of 25, 26 and 27 September 1990 it considered the draft opinion. It adopted the conclusions thereof on 26 September 1990.

The following took part in the vote: Beumer, chairman; Stevens, rapporteur; Peter Beazley, Bernard-Raymond, David (for Barton), Glinne (for Metten), Herman, Hoppenstedt, Porto (for de Donnea), Read, Siso Cruellas, Tongue and von Wogau.

I. SUBSTANCE OF THE PROPOSAL FOR A DECISION

1. Purpose

The purpose of the European Bank for Reconstruction and Development (BERD) is to promote productive and competitive investments in the countries of Central and Eastern Europe and, by so doing, to facilitate their transition to a market economy. Following approval of this European initiative by the European Council in Strasbourg on 8 and 9 December 1989, a constituent Intergovernmental Conference was held on 15 January 1990. Negotiations were concluded on 9 April 1990, and forty countries as well as the EEC and the EIB have stated their intention to become members of the Bank. The instruments of ratification of the agreement must be deposited at the latest by 31 March 1991.

2. Capital

The Bank's capital has been set at 10 bn ECU, and is to be contributed in the following proportions: 75% from Europe as a whole, and the remainder from non-European countries, mainly the USA (10%) and Japan (8.5%). Of the 75% contributed by Europe, 51% is to come from the EEC countries (including 3% contributed by the EEC in its own right and 3% by the EIB), 12% from the countries of Central and Eastern Europe, and 12% from other European countries. Contributions will be made in ECUs, dollars, or yen. The amount of capital may be reviewed after five years. Thirty per cent of the initial capital of 10 bn ECU will be released over the first five years.

3. Operations

The Bank will be managed by a 42-member Board of Governors and a Board of Directors (23 in number, of whom 11 will be appointed by the Governors representing the EEC and 12 by the Governors representing the other member countries). The members of the two boards will have voting rights weighted in accordance with the amount of capital subscribed.

The Bank will be called upon to grant or to guarantee loans and to make equity participations into private-sector enterprises, to state-owned enterprises being privatised and operating competitively and also for infrastructure. Only up to the 40% limit stated in Article 11 may be used to finance state-owned enterprises. As a prudential limit equity investments and underwriting securities issued by any enterprise for purposes consistent with the purpose and functions of the Bank are limited to the level of capital paid in (30%).

The Bank will also specialize in giving financial advice and assistance with privatization, mergers, acquisitions and the setting up of joint ventures, and will be able to grant loans based on funds provided by the financial market.

The Soviet Union holds 6% of the capital but, during a three-year transitional period, will not be able to borrow more than 30% of its actual contribution on account of the sheer scale of its needs and the continuing uncertainty regarding its political and economic development.

It is intended that the EIB should play a leading role in the Bank's transitional phase of operation between now and March 1991[3].

4. The role of the Community as such

The Community's share will represent 3% of the Bank's total capital, i.e. 300 m ECU. Thirty per cent of this amount (i.e. 90 m ECU) will be released from 1991 onwards in five annual payments, each of 18 m ECU.

The EEC Governor of the Bank and his Alternate will be designated by the Commission (Article 2).

II. ASSESSMENT OF THE PROPOSAL

It is difficult to give these proposals for the BERD a very enthusiastic welcome. As planned, the new institution is unlikely to make more than a minor contribution to solving the problems of Eastern Europe, and there is already some evidence that its genesis has distracted the attention of the Community and Member States, and indeed of international investors generally, from facing up to the real requirements of the economic development of the newly liberated parts of our continent.

These may be summarised as follows:

1. A complete overhaul of most of the infrastructure.
2. Arresting and reversing environmental degradation.
3. Creating a sound monetary system.
4. Creating an effective system of business law.
5. Granting the maximum access to the Community market to Eastern European products.
6. Ensuring the most rapid possible privatisation of economic assets and the introduction of a free market in goods and services.

It is generally recognized that objectives 1 and 2 will require large sums of public money at least in the initial stages, and it is difficult to see how the BERD's total proposed capital of 10 billion ECU, of which just 30% is to be paid in, can be regarded as adequate to even a small portion of the task. Rather than pretend in its wide terms of reference to have some role to play in this regard, the BERD might benefit from being restricted to the more specific Objective 5 of facilitating the emergence of an efficient private sector.

However, it must be made clear that lending foreign exchange, without government guarantees, to private borrowers located in countries with unconvertible currencies, and severe restrictions on their ability to earn hard currency through competitive exports, is a prospect likely to make any

[3] By giving technical assistance (operational guidance; selection of consultants) and, possibly, financial assistance. This will be dealt with in an exchange of letters between the two institutions.

banker and his shareholders blanch. In other words, for the BERD to fly the Community must, as a matter of urgency, face the problem of opening its markets to Eastern European products. This will mean hard decisions, especially in the field of agriculture, but they cannot be evaded. It will also most likely accelerate the pace of Community monetary union, as only by this boost to the integration and efficiency of our economy will we be able to afford to be generous in granting both aid and market access to our Eastern brothers.

On this latter point, it is unfortunate that the ECU does not have a privileged status as the denominating currency of the BERD's investments. Moreover, since its transactions in dollars and yen are to be calculated on the basis of the average exchange rate prevailing over the previous six months, this could leave the BERD with an open exchange risk.

Even if the general pre-conditions of Objectives 3 and 4 are addressed, one can question if there is any real need for public funding for private sector development such as the BERD might promote. If a project is sound and likely to be profitable, private investment ought naturally to be available. If a project is not sound, it should not be undertaken in the first place. The disappointing record of economic aid programmes of every kind has not been reassuring for tax payers. Perhaps the BERD, while being too under-funded for infrastructure and environmental projects, will be too bureaucratic to foster entrepreneurial developments? 23 Directors for an institution with a turnover of only 2 billion ECU a year seems very top heavy.

Unfortunately the private sector has shown a very great reluctance to really get involved in Eastern European investments. This is principally due to the following failures by Eastern European governments:

1. To clarify property rights for foreign investors.

2. To allow sufficient capacity to repatriate profits.

3. To permit realistic manning levels in many joint ventures.

But there have also been failures of imagination and enterprise by international investors, and there seems to be a pervasive and growing perception in financial circles that Eastern Europe will be another South America, the graveyard of ambitious bankers' balance sheets.

The critical task which the BERD should be addressing is to use its particular status as a publicly-funded banking institution seeking for finance under commercial criteria an emergent private sector, to bridge this gap of understanding between Western private investors and the Eastern European governments. For this a capital of 10 billion ECU, if it is used largely in the form of risk-reducing guarantees for private investment by way of loans or equity participation in Eastern European ventures, rather than by investments on its own book, should be easily adequate, because of the pace of change in capital markets, in particular securitisation and derivative instruments. This would mean repealing the restriction against the BERD providing insurance services under Article 12.4 of the decision.

There is no need now to re-draw the Commission proposals to give the BERD this specific focus. Getting the participating States through their governors to set such a strategy for the President and the Directors should be sufficient.

There is however a need for a good deal more clarity with regard to the distribution of funding for aid programmes between the various recipient states, and how account can be taken of what may be very different speeds of development towards free market regimes in the various Eastern European states. There should also be a more coherent statement in the proposals as to how the BERD's activities will be coordinated with other aid programmes conducted by other institutions. The Commission will have to take a lead in forming an overall strategy for public funding of Eastern European projects, not least because some of these may involve state subsidies with implications for Community competition policy. It is not at all clear that with Community participation in the BERD capital of only 51% such a leadership role will be fully effective.

We understand the reason for not making the BERD an exclusively European institution but we hope its present structure will not serve as a barrier to the eventual full membership in the Community of the ex-COMECON countries. If the Commission is to gain such a competence, this can only be with an obligation to consult the Parliament in its execution. For the purposes of the BERD, this procedure could be best secured by amending the Decision to grant us a right to summon the President to report to the relevant Parliamentary committees.

As regards the organizational structure of the BERD, M. Attali is probably right to insist on a clear-cut decision making process. Without this, it will be difficult for the BERD to be credible in dealing with the private sector investors. On the other hand, it is not immediately apparent that, to be effective, it will need a costly branch network throughout Eastern Europe. Direct experience of the ex-COMECON infrastructure inadequacies could provide a powerful additional motivation for the BERD's staff.

III. CONCLUSIONS

The BERD should be approved by the Parliament on the following conditions:

1. Its lending should be denominated exclusively in ECUs.

2. It should give priority to the task to provide a bridge of understanding between the West and private investors and the Eastern European authorities so that the appropriate context can be created for private enterprise to flourish in those countries.

3. Its funds should be provided wherever possible in the form of risk-reducing guarantees to Western private sector investment in Eastern projects rather than own book investments, thus making the BERD's role that of a catalyst to investment rather than a principal. The restriction against it providing insurance under Article 12.4 should be removed so that the Bank may be flexible in the face of further evolution of capital market practice.

4. Its Board of Governors should clarify in a Memorandum to the Commission and the Parliament the operating principles of its lending policy to ensure balance of treatment between states in receipt of funds.

5. The BERD President should report on a regular basis to the Commission and the appropriate committees of the European Parliament as to the progress of its activities.

6. The President and the Board of Directors should ensure the most streamlined possible administrative and decision making structure.

7. The Commission and the Council should be reminded that the BERD is merely a small part of the response required to ensure the economic development of Eastern Europe, and urges them to give the highest priority to open the Community's markets to the products of Eastern European countries and to take such further measures for the integration of the Community's own economy so that we will have sufficient growth to provide the resources necessary for this great task.

8. It is to be regretted that the participation of the EEC Member States in the capital and the administrative bodies of the BERD has been decided on without regard for Community procedures and Parliament's wishes.

9. It is also to be regretted that the role of Community institutions such as the Commission and the EIB in the operation of the BERD is a marginal one and that the voting power of the smaller countries and of these institutions has been reduced to a minimum.