

EUROPEAN COAL AND STEEL
COMMUNITY

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HIGH AUTHORITY

Information Service

FINANCE AND INVESTMENTS

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The USE of the
AMERICAN LOAN

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HIGH AUTHORITY LENDS \$75 MILLION

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THE HIGH AUTHORITY

LENDING \$75 MILLION

The High Authority's investment programme to increase productivity got underway in January and February with allocations totalling \$75 million to 41 Community firms. The loans resulted from the portioning out of the \$100 million borrowed from the United States Export-Import Bank in April, 1954. The capital investment loans went to enterprises proposing to modernize underground and surface installations in collieries and iron ore mines and to build thermal power stations. All loans were made in dollars and the necessary exchange for repayment due in dollars has been guaranteed by the governments of the member states.

Twenty-five million dollars already have been set aside for re-lending in the six member nations to private contractors for construction of miners' housing projects. An announcement of the disposition of the housing loans is expected in the next two months. It is likely that some of this money will be obtained from other sources than the American sum. Further industrial loans may therefore be expected out of the total hundred million dollars.

Loans Spur Private Investment

At the outset of the investment programme, the High Authority ruled that it would lend only a portion^{+) of the funds required for investment projects -- requiring firms to go elsewhere for the remaining capital. This policy, coupled with the High Authority's strong credit position and low interest rates, has facilitated among the borrowing firms a total investment more than four times as great as the direct loans made by the High Authority.}

A breakdown of financing for the initial \$60 million of projects is summarized as follows:

High Authority Loans	\$60 million
Auto-financing by firms	83 "
Various loans	102 "
Miscellaneous sources	22 "
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	\$267 million
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The total amount for all the projects is estimated at \$340 million - equivalent to about 65 per cent of one year's total investments in the coal industry at the rate of investment normal in Community countries since the war.

Loans already allocated and loans proposed for release in 1955 were in keeping with the High Authority's announced investment aims made in January, 1954. At that time, the High Authority gave priority to increasing productivity in the raw materials-extracting industries on the grounds that high production costs in this sector were a deterrent to the expansion of the common market. No allocations were made for steel plants.

The High Authority's loan was, in a sense, oversubscribed. Eighty-four requests by 57 firms were received for sums totalling 144 million dollars. The High Authority examined each case on its merits and, though forced by the lesser amount of funds at its disposal to reduce the sum of its loans, did not do so equally to all borrowers.

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- The maximum amount loaned by the High Authority for any single project was 30 per cent, the minimum 15, and the average 22 per cent.

Banks Reduce Interest Rates to Community Firms

The original loan of \$100 million negotiated with the United States Export-Import Bank was made on very much the same terms as those prevailing on the American capital market. The amount was repayable within 25 years at 3 7/8ths per cent interest. The High Authority's loans, in turn, were made at a rate of 4.1 per cent with a 25-year repayment period -- terms notably more favourable than those current in Western Europe. As a result, interest rates on market loans received by the 41 firms took a drop. For instance, Germany's Kreditanstalt bank lent to German firms participating in the Community investment programme amounts matching the High Authority allocation and at a rate, in most cases, of seven per cent with repayment in 25 years. This was in favourable contrast to terms usually offered by the same bank which started from 9 1/2 per cent for shorter period loans.

The High Authority, thus, could claim an indirect as well as direct influence in providing cheaper investment financing for Community firms.

This indirect influence on the capital market increased in January. The High Authority arranged with its German banks that they should use the extra credit facilities afforded them by their High Authority deposits to provide medium-term loans to Community enterprises on advantageous terms. The German banks have lent \$12 million at 4 7/8ths per cent for 5-year periods (the average rate for medium-term loans in Germany is 7 1/2 per cent). Talks are in progress in France so that this example may be followed there.

The High Authority's assets, which come from the proceeds of the levy on Community coal and steel production must, of course, remain liquid. Its least liquid assets are committed in deposits withdrawable at one year's notice. The banks are not lending the High Authority's money; they are merely making use in the classic manner of the credit facilities which the High Authority's funds give them. The new departure is that the High Authority has ensured that these credits are allocated to the coal and steel firms of the Community at rates lower than those normally offered on the European capital markets.

Lowering Costs

The effect of the loans in lowering production costs may be gauged from the following passage in the report dated February 1955, made to the Assembly by its Investment Commission:

"In the Ruhr coalfield an average saving of slightly more than \$0.25 a ton is expected from investments affecting 26 million tons. In the coalfields of the Nord and Pas-de-Calais in France, the concentration of production will result in a saving of \$1 a ton on nearly 900,000 tons a year; the extension of a shaft will lead to an economy of \$1.30 a ton on 600,000 tons a year. . Savings will result also from the modernising and expansion of thermal power stations... In the Saar, the better use of lowgrade products expected in one power station will lead to an increase of \$0.25 a ton in the market value of the whole output of the Saar mines (16,000,000 tons a year)."

Loans Mark New Stage in Community Growth

The first loans by the High Authority mark an important stage in the history of the Coal and Steel Community: it has now taken its place as an institution actively assisting in the financing of investments in the coal-mining and iron industries.

The basis for this policy is set forth in Articles 49 to 56 of the Treaty establishing the Community. Under the terms of these Articles, the High Authority may facilitate investment programmes by granting loans to enterprises or by giving its guarantee to other loans which they may contract. It is, however, precluded from actually engaging in the banking operations required to carry out its financial obligations. Outside banking machinery is, therefore, employed for both loans the High Authority itself contracts for and those granted to industries. The latter are allotted by the High Authority out of funds which it has borrowed in its own name.

Special attention has been paid, in the American loan, to the question of securities, with a view toward applying the same procedure later on to any further loans which the High Authority might contract on the capital markets of the United States or of Europe. In all this the Bank of International Settlements in Basle, Switzerland, takes a leading rôle.

Summary of Legal Aspects

The High Authority is empowered to grant loans to the private firms in the Community. These enterprises furnish promissory notes, together with mortgage deeds and other securities. In its decisions, the High Authority is guided by recommendations from special committees, consisting of industry specialists and of government and trade union representatives. The promissory notes are given in pledge to the Bank of International Settlements, for the benefit of all lenders to the High Authority, present and future. The B.I.S. entrusts the administration of the obligations, and of the securities, to banking institutions in the various Community countries with which it has concluded agreements to that effect.

The special feature of this procedure is that it places all lenders to the High Authority, present and future, on the same footing. The more loans the High Authority contracts, and the more it grants, the broader will be the basis of security for the lenders.

The U.S. Government with its dollar claims will thus be on equal footing with European holders of bonds issued by the High Authority in European currencies.

The common portfolio of obligations and securities administered by the B.I.S. constitute a sound basis for the High Authority's credit. Securities offered by borrowers from the High Authority are considered as first class. First, in accordance with the provisions of the U.S. loan contract, all loans are covered by mortgages or negative pledges. Second, there are, in a large number of cases, supplementary securities, such as State guarantees, bankers' sureties (e.g. from the Kreditanstalt für Wiederaufbau, a public institution), and sureties from important industrial groups.

Although these securities are more than adequate, there is, in addition, a "second line of defence" for lenders. This is the High Authority's guarantee fund, set up by means of its annual tax levy. The High Authority is permitted by the Treaty to levy up to one per cent on the total value of the Community's coal and steel production. In the first half of 1953, levies imposed by the High Authority amounted to 0.5 per cent and were increased to 0.9 per cent for the last half of 1953 and for 1954. The value of the annual product today stands at more than \$5 billion. The annual levy represents an amount of some \$50 million.

With the undertaking of its investment programme, the High Authority has set out to help coal, iron and steel industries in the Community meet long-term financial needs by acting both as mediator between capital markets and the enterprises and by encouraging "cheaper" money for capital investment.

DISTRIBUTION OF INVESTMENT LOANS

(in thousand dollars)

Project	Total	Ruhr	Aachen	Salz- gitter	S. Belgium	Nord	Lorraine	Acqui- taine	Saar	N. Italy	Luxembourg
Colliery Install- ations	23,310	12,310	3,500	-	-	2,430	3,300	0,570	1,200	-	-
Thermal Power Stations	36,890	15,390	-	-	10,000	3,850	3,850	-	3,800	-	-
Iron Ore	14,000	-	-	2,100	-	-	7,000	-	-	4,100	1,000
Total	74,400	27,700	3,500	2,100	10,000	6,280	14,150	0,570	5,000	4,100	1,000