COMMISSION OF THE EUROPEAN COMMUNITIES

COM(86) 722 final

Brussels, 5 February 1987

FINANCING MAJOR COMMUNITY INFRASTRUCTURE PROJECTS

(Communication by the Commission)

PROPOSAL FOR A COUNCIL DECISION

on financing major Community infrastructure projects

(submitted to the Council by the Commission)

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FINANCING MAJOR COMMUNITY INFRASTRUCTURE PROJECTS

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FINANCING MAJOR COMMUNITY INFRASTRUCTURE PROJECTS

The advantages of large-scale infrastructure projects and the interest which they arouse have been stressed on many occasions in various forums.

Such projects are a powerful factor in the integration process within the Community. They help to unify the internal market and to strengthen cohesion, while at the same time improving industrial competitiveness. Building modern transport and telecommunications networks would make it possible to correct the fragmentation of the infrastructure system. Not only were these designed in a purely national context but the levels of saturation differ from country to country.

As part of the measures proposed in connection with its co-operative growth strategy for more employment (1), the Commission accordingly urged that special support should be given to carrying out large-scale infrastructure projects of European interest.

It recently once again affirmed its interest in such projects by adopting a medium-term transport infrastructure programme (2) which recognises the special importance of Community action in this sector and announces new moves to encourage the promotion and financing of large-scale projects of European interest.

Such moves are the subject of the proposal which the Commission is now putting forward, confident in the backing and interest shown to it by the Ministers of Transport of the Member States, the European Parliament and, most recently, the social partners at their meeting at Val Duchesse on 6 November 1986.

It thus intends to respond to the expressed needs an interests of all the operators involved in carrying out large-scale projects. Those working in the construction industry and in the public works sector, industrialists meeting within the context of the Roundtable, and the financial and banking community that has to accommodate their requirements have all pointed to a number of obstacles, notably financial obstacles, hampering the carrying out of large-scale infrastructure projects. They have expressed the wish (3) that a lead should be given by the Community to overcome such obstacles.

This communication sets out to describe what the Community can do to assist the financing of large-scale infrastructure projects of European interest in a changing environment.

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(1) Doc COM(85) 570 final, 17 october 1985.
(2) Doc COM(86) 340, 27 June 1986.
(3) "Missing Links" report for the Roundtable of European Industrialists. "Towards a European infrastructure programme", Standing Committee of the International European Construction Federation.

I. The new financial situation in Europe

1. A redistribution of roles, calling for new financial solutions

Large-scale infrastructure projects are generally very costly; they have a long construction period and a long life; their profitability is delayed into the future, and they involve many risks, mainly to do with technology, exploitation and the market.

This is why in Europe such projects have traditionally been financed by the public authorities.

To-day, governments are anxious to limit their financial involvement in such projects, whether directly in the form of grants or indirectly in the form of government guarantees. This new attitude is dictated by considerations which are sometimes political, but mainly budgetary. As the Annual Economic Report 1986-87 (1) points out, Member States' public debt burdens, expressed as a percentage of GDP, have continued to rise because of the persistence of large budget deficits. Reducing such deficits is unquestionably a priority for about half the Member States; for the others, the objective of medium-term consolidation must be maintained. In all of them, policies geared to domestic disindebtedness will be pursued, which, since Member States are determined not to increase taxation, will mean public expenditure cuts.

More than in the past therefore, the market will have to play a greater role in financing large-scale infrastructure projects. In terms of quantity, it can draw on sufficient resources from the abundance of savings and liquidity available.

Recourse to the market is not entirely new. It has long been used in the United States in conjunction with tax concessions. The Authorities which were created to build large-scale infrastructure projects, such as the Port Authority of New York and New Jersey, have relied exclusively on private finance.

Private funding has also been raised in Europe to exploit oil deposits and is being sought for the cross-Channel fixed link. The financial technique adopted is "project financing", in which the lenders base their repayment hopes solely on the cash flow which will be generated by the project, the loan guarantee being related to the project's, and not the promoter's, assets.

This technique is open to several variants : it may rely exclusively on bank finance or more generally, in view of the insufficient length of bank loans, provide for them to be refinanced through bond issues. It may involve private equity in varying proportions.

It may be used both for projects wholly financed by the private sector and for co-operative projects (including those which may involve leasing agreements) carried out with the participation of public enterprises.

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(1) Doc. COM(86) 530 final, 17 October 1986.

2. An environment to be improved in order to enable private sector involvement

As a general rule the private funds available although plentiful, will not be spontaneously invested in large-scale European infrastructure projects.

This is because the substantial socio-economic advantages of such projects for the Community as a whole do not entail any financial compensation through the prices or charges and hence revenue which they generate; because investment conditions are unattractive; and because banks and financial markets in Europe are not equipped to handle this type of project.

Investment conditions are not as favourable for infrastructure as in the past :

. the "market uncertainty" inherent in projects tends to be higher. Although some projects are intended to provide a missing link in the European network (e.g. the cross-Channel link) or to offer very substantially improved service (telecommunications, high-speed trains), more of them merely offer alternatives to services which already exist. For these projects, the traffic and hence the receipts are uncertain.

. the profitability of these projects, which is generally lower than in industry, has deteriorated as construction costs and interest rates have risen.

Capital markets in Europe are not able to finance large and risky projects. The fragmentation of capital markets, which stands in the way of the greatest use being made of private funding, is attributable to two main reasons :

. restrictions, mainly associated with exchange controls, on the free movement of capital.

This is a problem for risk capital in particular. The two Council Directives of 1960 and 1962 required certain categories of capital movements to be liberalized unconditionally : these included direct investments and operations in securities dealt in on a stock exchange. However, three Member States benefit from the safeguard clause provided for in Article 108(3) of the Treaty and are therefore authorized to impose temporary constraints on such operations, and in particular on their residents' portfolio investments in foreign securities (the requirement to make a non-interest-earning deposit, or even the prohibition of such investments unless they are authorized in advance). Similarly, under the Act of Accession, Spain and Portugal benefit from a transitional arrangement which partially exempts them from Community obligations in this area.

Conscious of the need for the internal market to assume its full financial dimension, the Commission on 23 May 1986 presented the Council with a programme for the liberalisation of capital movements in the Community (1).

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(1) Doc. COM(86) 292 final.

It advocates a liberalization process in two phases. The first phase has just been completed with the adoption of a Directive ending the exceptional arrangements derogating from the Community principle of the unconditional liberalization of certain capital movements and extending this principle to other categories of operations (the acquisition of financial securities not dealt in on a stock exchange, the admission of securities to the capital market). These measures will favour the financing of large-scale infrastructure projects by attracting savings from the entire territory of the Community.

. differences in tax treatment.

First, tax treatment differs according to whether the investment is in the form of equity or debt. Second, rates of tax on both shares and bonds vary from one Member State to another and differ according to the investor's resident or non-resident status. As a general rule, particularly where shares are concerned, the investor has a substantial tax advantage in investing in the country where he is resident.

In additon, transnational projects are by definition of common interest to several States, but rarely to the same degree for each of them. The coexistence of fragmented interests of varying magnitude does not assist the emergence of projects which are further complicated by the absence of a single negotiating partner who would act as a coordinating authority between the Member States. The lack of coordination, the multiplicity of decision-making centres, the large number of negotiating partners and the different taxation and legal systems prevent large-scale projects from getting off the ground.

All these factors create an environment which is not sufficiently favourable to large and repeated calls on the market to finance large-scale infrastructure projects.

This is why Community action is essential.

II. A role for the Community

The Community has already made a substantial contribution to financing large-scale infrastructure projects with its loans and grants.

However, the various roles involved in financing infrastructure projects are being redefined and this is resulting in a new sharing of the risks involved. So the Community has several tasks : to encourage seed capital, to act as a catalyst and multiplier for private finance and to coordinate and underpin the various measures taken at national level.

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The large number of protagonists and the lack of a single decision-making body mean that such a body must be set up or at least new decision-taking procedures established. Furthermore, three main ways of channelling private capital into large-scale projects are conceivable.

1. <u>Creating the right environment for the emergence and launching of major projects</u>

   This implies a more active role for the Commission in the preparatory phase, and therefore that the necessary organizational changes be made to enable it to take on this role. Three aspects are involved :

1.1. <u>Contributing to the preparatory phase</u>

The recourse to the markets involved in "project financing" means that the project's technical viability and its ability to generate sufficient income must be demonstrated in advance. This will determine whether or not the private sector becomes involved and is therefore essential to the success of the operation.

It is necessary for feasibility studies to evaluate the technical risks, the construction costs and the profitability of the investment on the basis of estimated traffic, revenues and operating costs, and possibly for a financing plan to be devised.

It is unlikely that the private sector will wish to pay for this phase, both because of the inherent uncertainties which may lead to the abandonment of the project, and because of the high cost. Because of the large number of interests involved, it is also unlikely that the public sector will wish to bear the cost.

By a grant, albeit small, the Community can play a seeding role and act as a lever for private finance.

For this purpose, the Commission will call not only on the specific budget appropriations provided for under the new activity of financial engineering, but also, depending on the type of project, on the appropriations relating to the various Community policies for which the projects are of substantial interest. The areas most likely to be concerned are regional, transport, energy and environment policy.

Such funds contributed by the Commission will be small and will take the form of advances, possibly repayable, depending on whether the preparatory studies conclude that the project should be implemented or abandoned.

All projects deemed to be of European interest would qualify, namely :

- large-scale projects involving more than one Member State, including projects which may interest non-Community countries;
- projects which are intended either to provide a link which does not exist, or to offer additional capacity for one which is saturated, so offering a substantial improvement in services (saving time, greater safety, use of advanced technologies, quality of life);
- projects which when realized will involve Community traffic, existing or potential.

The area of infrastructure concerned can be transport, telecommunications, energy or the environment.

Their favourable impact on Community policies (regional policy, tourism, environment) will be taken into consideration.

1.2. Publicly demonstrating their benefits : the declaration of European interest

The declaration of European interest would give the projects a special character and access to :

- a Community contribution to the financial launching of projects;
- an improved financial environment;
- specific assistance, particularly from the EIB.

This declaration, which the Commission would confer after examination, would be made after the project's viability had been demonstrated by preparatory studies and before work was started. In order to qualify for it, projects would be presented to the Commission either through the intermediary of one of the Member States concerned or directly by the public or private bodies wishing to promote its implementation.

In order to have such a declaration conferred on them, projects would have to draw to a large extent on private funds and comply with the objectives and criteria laid down by the Community programmes, approved or to be approved by the Council, on the sectors to which the projects relate, such as the medium-term in transport infrastrucutre programme (1), and the communication concerning European telecommunications policy (2).

If the projects are in a sector for which there is no Community programme, the declaration of European interest could be conferred by the Commission only after agreement by the Council, to which an appropriate proposal would be presented.

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(1) COM(86) 340
(2) COM(86) 525 final.

1.3. Contributing to the initial financing

Once a project's viability has been demonstrated, the decision to execute it means that the right financial package must be arranged before work is started.

There are many advantages in raising a large volume of equity capital. It limits the amount of bank debt necessary, which reduces interest charges in the construction period when the project is not generating revenue. It tailors the pay-back period more closely to the pace at which cash flow is generated. Lastly, it signals the project's viability to the banking and financial markets.

A contribution by the Community would act as a catalyst. It would be more selective than the Community's contribution to the various preparatory studies, being reserved for projects which had been declared of European interest, and would take the form of a repayable advance.

In handling the repayment of such advances, account will have to be taken of the special constraints of the first, financially most difficult, years of operation. The promoters will be offered three options as regards the pay-back period : repayment when the work begins; when the works are completed; or during the operating period, at a date to be agreed on the basis of the financing plan. In the latter case, profit-sharing clauses will be provided for.

2. Improving the environment for private investors

The Community contribution to large-scale infrastructure projects will only provide leverage if the private sector is encouraged to become involved by an environment which offers more incentives.

Appropriate measures could be taken at national level. The Community would encourage and accelerate their implementation in respect of securities issued by the promoters of infrastructure projects declared to be of "European interest".

When the agencies carrying out large-scale infrastructure projects declared to be of European interest raise funds by issuing equity,- they must be able to do so on all Community financial markets without restriction. This is essential if large amounts of private capital are to be raised. Under the Directive adopted by the Council on 17 November 1986, such transactions are now subject to mandatary unconditional liberalization.

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Measures relating to taxation may also be considered. The investor will see a better net return on his investment as a powerful incentive. Two proposals might be suggested, one of which would fit in with existing tax arrangements, while the other would be innovatory in the Community. The first proposal is that securities issued by the promoters of large-scale projects of European interest should benefit from the most favourable tax treatment given by each country to acquisitions of securities, and the second, that bond income should benefit from certain tax exemptions. Both would have to be implemented in accordance with the relevant Community provisions and with the development of tax integration in the Community.

The Commission would, after consulting the Economic Policy Committee, present the relevant provisions on a case-by-case basis to the Council for approval.

2.1. <u>"Most favoured security" status</u>

The securities issued by the promoting company could be taxed at the most favourable rates and on the most favourable terms applied by the State in which the investors are resident. This would mean that in certain countries, securities would qualify for existing tax reliefs. Such tax reliefs, governed by varying conditions, generally involve a reduction of income tax when shares are purchased.

There would not therefore be any question of introducing new tax reliefs specific to securities issued by infrastructure companies, but simply of allowing them to benefit from existing reliefs.

Governments could go further by introducing specific incentives for such securities in the form of tax exemptions. The intention here is not to propose the introduction of such measures, but simply to stimulate discussion of the advantages to the Community of provisions widely applied in the United States.

2.2. <u>Tax-exempt bond income</u>

The method used in the United States to finance large-scale infrastructure projects is a variant of the project financing technique. It combines exclusive recourse to the private sector, through the issue of bonds payable from revenues of the project, with a public authority contribution in the form of exemption from taxation. Bondholders pay neither Federal nor State income tax on interest received.

These bonds have been extremely successful. They reduce the cost of borrowing, which critically improves the profitability of the project. They are well perceived by investors, thus enabling large amounts of funds to be raised from individuals who would not otherwise consider investing in infrastructure projects.

The advantage of transposing this technique to the Community, in compliance with Community provisions in this area, would be a reduction in guarantee costs. It is, however, likely to meet with objections because of the problem of the cost, in terms of lost tax, to the public authorities.

In considering the cost in terms of lost tax, however, the following points must be borne in mind :

. the tax cost would be limited, since it would be confined solely to infrastructure projects declared to be of European interest, whereas in the United States operations in all kinds of sectors are eligible, e.g. hospitals, education, housing etc.

. there is a resultant "gain" in terms of grants and guarantees, which until recently were borne by the European governments;

. there are beneficial effects, including the taxation effects deriving from the exectuion of major projects which, without the right incentives, would not be realized at all or would be a charge on the public purse.

3. <u>Mobilizing the market by giving the Community new ways of intervening</u>

The Community loan instruments must be backed up by first-class security, which, in certain cases, neither Member States nor promoters are willing or able to provide.

In order to fill this gap, it seems advisable to give the Community new ways of providing back-up for projects declared to be of European interests.

3.1. <u>Granting a Community budget guarantee for specific EIB loans</u>

The difficulties which large-scale infrastructure project promoters will encounter in raising sufficient security for obtaining EIB loans mean that consideration should be given to new ways of providing assistance.

The idea is to allow the Community to intervene using a technique related to project financing by asking the EIB to offer non-recourse or limited recourse loans to the promoters of projects declared to be of European interest : repayment of the loans would be backed solely by the revenues of the project. An appropriate guarantee under the Community's general budget - which already guarantees certain loans granted by the EIB from its own resources (1) - would allow these new loan arrangements to be put into effect. The guarantee could be granted if the projects in question cannot raise the security considered sufficient under the usual banking criteria or if the security is unable to cover all the project's risks. It could, for example, cover only the

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(1) Loans granted under the Community's financial agreements with countries in the Mediterranean basin.

construction phase. In accordance with the principle behind project finance, which aims to spread the risks between the parties to the financial package, the budget guarantee would be limited and conditional. Since it would not in any way be automatic, it could be tailored to the type of project concerned and to its financial package so as to encourage risk-taking by promoters and financial institutions and banks. Such a guarantee could not be granted free of charge. In return, recipients could, for example, be required to pay a contribution.

It would be granted case by case by the Commission up to a global ceiling set by the Council, which would decide to raise it on a proposal from the Commission.

The principle and procedures decided on by the Commission with regard to the budget guarantee would be laid down in agreements concluded with the EIB.

3.2. <u>Using funds borrowed by the Commission</u>

If the number of projects were to increase substantially, the Commission could in addition, acting under authorizations given to it by the Council, itself offer non-recourse or limited-recourse loans out of its borrowed funds. The Commission would thus involve the Community in project financing techniques. In order to do this, a call could be made on the Community's borrowing capacity. The Commission would obtain the necessary funds on the capital markets, and the EIB, acting under mandate, would evaluate the technical and financial aspects of the project, decide whether or not the loans should be granted and then administer them.

III. <u>A "European Infrastructure Agency"</u>

If all the above measures were adopted, the promoter of a large-scale infrastructure project would more easily be able to solve the problems of financing which he has to face, but he would still be left with some of the difficulties of coordinating the various parties involved, difficulties which are particularly acute when a project concerns more than one State. The redistribution of roles which has just been outlined would have to be completed by the establishment of Infrastructure Agencies, modelled on the United States "Authorities" (1); these organizations would be responsible for joint decision-making, and for owning and financing major projects.

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(1) The "New York and New Jersey Port Authority", set up in 1921, is an example. It has seen remarkable development and diversification of its activities, which were originally based on tunnels and bridges, but subsequently extended to include airports and ports. It is now responsible for various other items such as rail transport and the World Trade Center.

Several variants are conceivable, from the Agency created for a specific large-scale project, to the single Agency which could be responsible for all large-scale European infrastructure projects (European Infrastructure Agency), or the compromise solution of specialist agencies for particular sectors and/or areas.

A European Infrastructure Agency would meet the wishes (1) of the parties that would be involved in carrying out large-scale projects, as expressed during the consultations conducted by the Commission in preparing the ground for this initiative; It would have to be given the necessary decision-making powers and the resources, notably the financial resources, to perform an active role at each stage in the life of an infrastructure project. Each of the partners which it brings together would be required to make its financial contribution and provide its expertise to the Agency.

The purpose of this communication is not to propose as of now that the necessary steps and measures be taken to transpose this type of agency to Europe. The aim in presenting the idea of a European Agency or agencies is to generate wide-ranging discussion among the parties concerned on its feasibility and desirability. Only once such discussion has been concluded and in the light of experience gained through its involvement in a number of large-scale projects will the Commission present, if appropriate, operational implementing proposals.

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(1) "Pour un programme d'infrastructures communautaires", standing committee of the International European Construction Federation.

Proposal for a

COUNCIL DECISION

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on financing major Community infrastructure projects

(presented to the Council)

EXPLANATORY MEMORANDUM

There are many difficulties hampering the emergence, launching and carrying out of large-scale infrastructure projects, which offer Europe advantages in terms of integration, cohesion and competitiveness. Such difficulties result both from the diversity and fragmentation of the interests involved and from more strictly financial aspects relating to the considerable amount of capital required by such projects and the high degree of risk entail.

In view of the new financial context in Europe, which calls for a redistribution of roles in the promotion, financing and management of large-scale infrastructure projects and greater commitment of private capital, the Commission has presented a communication on the financing of large-scale infrastructure projects of European interest. The communication sets out the new role which the Community could play. The purpose of this proposal for a Decision is to allow the introduction of new Community assistance procedures to facilitate and encourage private-capital participation in the various development stages of large-scale infrastructure projects.

The means of action proposed are intended essentially to meet two objectives :

1. To provide the conditions necessary for the emergence and launching of large-scale projects.

   Community support here can take three forms :
   - a budget contribution towards the cost of the studies and preparatory work necessary to demonstrate the viability of projects, which would play a seeding role;
   - a "declaration of European interest" by means of which the Commission would publicly give its backing to certain projects complying with the objectives and criteria laid down in the Community programmes on the sectors to which they belong. The declaration could also allow such projects to qualify for a budget contribution to their launching and for specific loans;
   - a budget contribution, in the form of a repayable advance, to the financial launching of projects declared to be of European interest, the aim being to provide leverage and facilitate the raising of the necessary volume of equity.

2. To mobilize the market by giving the Community new ways of providing back-up.

   The granting of a budget guarantee, in a form appropriate to the nature of the risks entailed, for specific loans granted by the EIB would involve the Community in project financing techniques. The aim of such techniques, which have enabled a number of large-scale projects to be carried out, is to share the risks between the parties to the financial package.

By thus providing itself with new means of lending assistance, the Community will give a lead in carrying out large-scale infrastructure projects complying with Community objectives.

Proposal for a

COUNCIL DECISION
of 1986
on financing major Community infrastructure projects

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 235 thereof,
Having regard to the proposal from the Commission,
Having regard to the opinion of the European Parliament,
Having regard to the opinion of the Economic and Social Committee,

Whereas large-scale infrastructure projects are a powerful factor for integration and help to unify the internal market, thereby making European industry more competitive;

Whereas the emergence and launching of such projects encounter a variety of obstacles, including financial obstacles, that stem from their characteristics and from the different types of risk associated with them;

Whereas their financing will, from now on, have to rely more than in the past on private capital, which is not necessarily attracted by this type of project;

Whereas the interest and European dimension of such projects justify assistance being provided by the Community;

Whereas the purpose of such assistance must be to mobilize private capital and channel it towards large-scale projects of European interest;

Whereas specific Community action is, therefore, needed to promote the emergence and financial launching of infrastructure projects of European interest;

Whereas the European Investment Bank has stated its willingness to participate in such action;

HAS DECIDED AS FOLLOWS :

Article 1

Provision shall be made for Community action to assist large-scale infrastructure projects of European interest located in whole or in part in the Community. The purpose of such action shall be to facilitate the emergence and launching of such projects by mobilizing new sources of capital and channelling the proceeds towards them.

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Article 2

1. Large-scale infrastructure projects of European interest shall aim either to provide a link which does not exist, to offer substantially improved services or to provide new services.

2. They may concern various sectors of activity, focusing primarily on transport, telecommunications, energy and the environment.

3. The projects and their implementation shall comply with the provisions of the Treaty and of secondary legislation, notably in competition matters, and with Community rules and policies applicable in the fields concerned.

Article 3

In order to facilitate the emergence and launching of large-scale infrastucture projects of European interest, the following means of financing may be drawn on :

- specific budgetary resources;
- resources available under Community policies and measures whose objectives the projects are designed to achieve;
- specific loans from the own resources of the European Investment Bank (EIB) and, should the need arise, from resources raised by the European Economic Community (EEC) on capital markets.

Article 4

1. The preparatory work and studies necessary to demonstrate the technical, financial and economic viability of projects may qualify for a contribution from the Community in the form of a grant or repayable advance.

2. Such expenditure shall be financed under Article 581 of the budget in the case of transport infrastructure and under Article 709 in the case of energy infrastructure. In other cases, it shall be financed under a specific budget heading (Article 798) entitled "Preparatory studies and measures in connection with large-scale European infrastructure projects" in the Chapter relating to financial engineering operations. An amount of differentiated appropriations shall be entered under the specific budget heading in the annual budget procedure.

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Article 5

1. The large-scale projects referred to in Article 2 may be declared to be of European interest. In order to have such a declaration conferred on them, the projects shall be submitted to the Commission either directly or through the intermediary of a Member State.

   Such projects must draw to a large extent on private savings and comply with the objectives and criteria laid down by the Community programmes relating to the sectors to which they belong. The Commission shall :
   - determine whether or not they comply with this Decision;
   - identify the advantages they bring in the light of not only technical and financial but also socio-economic criteria. Account shall be taken among other things of the impact the projects have on Community competitiveness and of their effects, including in terms of employment and incomes, on the countries and regions most directly concerned.

2. The declaration of European interest shall be made by the Commission after agreement has been reached with the Member States directly concerned by the projects. The Commission shall inform the Council and Parliament thereof.
   However, in the case of projects relating to sectors not covered by Community programmes, the declaration of European interest may be conferred only after agreement by the Council.
   The Commission's decision declaring projects to be of European interest shall be published in the Official Journal of the European Communities.

3. Large-scale infrastructure projects declared to be of European interest may :
   - depending on their nature, be covered by provisions designed to facilitate the raising of private funds, provisions which shall be submitted on a case-by-case basis by the Commission to the Council, after consulting the Economic Policy Committee;
   - receive a grant from the Community budget and qualify for specific loans as referred to in Article 3.

Article 6

1. The financial packaging necessary for the start-up of the work involved in projects declared to be of European interest may qualify for Community assistance in the form of repayable advances.

2. In the annual budget procedure, an amount of differentiated appropriations shall be entered under a specific budget heading entitled "Contribution to large-scale European infrastructure projects" in the Chapter relating to financial engineering operations.

3. The repayment date of any repayable advance shall be agreed between the Commission and the beneficiary :
   - either when the work is started;
   - or on completion of the work;
   - or during the operational phase provided a profit-sharing clause is included.

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Article 7

1. Loans made by the EIB out of its own resources for projects declared to be of European interest may be covered by a guarantee under the Community budget.

The budget guarantee may be granted in respect of EIB loans that are not likely to qualify either for a guarantee from the Member State or States involved in the project or for any other adequate guarantees.

2. The guarantee under the Community budget shall be conditional and partial. The Commission shall decide on a case-by-case basis whether to grant it and on the operational arrangements. Its decision shall be laid down in an agreement concluded with the EIB.

3. Decisions to grant guarantees taken by the Commission shall be subject to an overall ceiling fixed at 1 000 million ECU. If necessary, the Council, acting by a qualified majority on a proposal from the Commission and after consulting Parliament, shall raise the ceiling.

Done at

For the Council,

The President

FINANCIAL STATEMENT

1. Budget headings

Article 792 : Grants for major European infrastructure projects

Article 798 : Analyses and preparatory operations for major European infrastructure projects

Article 799 : EEC guarantee for Community borrowings and for EIB loans to finance major European infrastructure projects.

2. Legal basis

Communication from the Commission to the Council of ..., "Financing major Community infrastructure projects".

Proposal for a Council Decision, presented by the Commission to the Council on ..., on financing major Community infrastructure projects.

3. Proposal for classification as compulsory/non-compulsory expenditure

Non-compulsory expenditure.

4. Description of and justification for the operation

4.1. Objectives

Three types of measure are planned to facilitate the emergence, launching and financing of large-scale infrastructure projects of European interest :

- a contribution to financing the analyses and preparatory operations required to demonstrate the technical and financial viability of projects (Article 798);
- a contribution in the form of equity capital to the financial launching of projects declared to be of European interest (Article 792);
- grant of the Community budget guarantee for specific EIB loans to finance major infrastructure projects declared to be of European interest (Article 799). This conditional and partial guarantee will be granted for EIB loans which cannot be guaranteed by the Member State or States concerned by the project, nor for which other sufficient guarantees can be provided. It will enable the Community to assist by using "project financing" techniques.

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COMMISSION OF THE EUROPEAN COMMUNITIES

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Brussels, 13 February 1987

FINANCING MAJOR COMMUNITY INFRASTRUCTURE PROJECTS

(Communication by the Commission)

PROPOSAL FOR A COUNCIL DECISION

on financing major Community infrastructure projects

(submitted to the Council by the Commission)

4.2. Persons concerned

Promoters of and agencies carrying out large-scale infrastructure projects.

5. Nature of expenditure and method of calculation

Appropriations under Article 798 are intended to cover the financing of analyses, preparatory operations and services provided by experts relating in particular to the technical risks, including possible geological risks, of the proejcts, construction costs, and estimated traffic and revenues necessary to evaluate their profitability, the end-result being a financing plan. This type of assistance could concern telecommunications and environmental projects (broadband telecommunications network, removal of pollution from the Rhine, etc.). Assistance of the same type relating to transport and energy will be financed under Articles 581 and 709 respectively.

Assistance under Article 792 will be made in the form of contributions to equity capital before the work begins. This method of financing is particularly suited to projects whose profitability is deferred because of the long construction periods involved. The technique used will be that of repayable advances, with provision for profit-sharing clauses where the payback period exceeds the period for completing the works. Two or three operations a year of this kind, with a small unit value, will be carried out to assist projects whose viability has been demonstrated by preparatory studies and which have been declared to be of European interest. The Paris-Cologne high-speed train could be the first project to benefit.

Article 799 accommodates the Community's guarantee of proper implementation. This conditional and partial guarantee will be granted on a case-by-case basis for specific loans out of the EIB's own resources. The loans concerned are those intended to finance large-scale infrastructure projects declared to be of European interest which cannot be guaranteed by the Member State or States concerned, nor for which other sufficient guarantees can be provided.

Decisions to grant guarantees will be subject to an overall initial ceiling of one thousand million ECU which may be raised. Given the cost of the projects now under consideration, this ceiling should be sufficient to guarantee the loans granted, (at the beginning of the construction phase, for example) so that two or three large-scale projects can be carried out.

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6. Financial impact of the measure on appropriations for intervention

In its preliminary draft budget for 1987, the Commission requested the following appropriations to be entered under the Articles concerned :

		million ECU	
		commitment appropriations	payment appropriations
Article 792	Grants for major European infrastructure projects	5,0 (1)	5,0 (1)
Article 798	Analyses and preparatory operations for major Community infrastructure projects	5,0	5,0
Article 799	EEC guarantee for Community borrowings and for European Investment Bank loans to finance major Community infrastructure projects	p.m.	p.m.
	TOTAL	10,0	10,0

(1) entered in Chapter 100.

At the present stage of the procedure, the scale of the new operations initiated under these headings cannot be defined with precision. The Commission is chiefly concerned to see that real impetus can be given to the dynamics of financial engineering. The Commission hopes that the budgetary procedure will provide it with the funds necessary to launch this activity.

Observations

7. The completion of large-scale infrastructure projects - transport, telecommunications, energy and environment - is in line with the Community objectives of unifying the internal market, strengthening cohesion, and improving competitiveness. The large number of interests involved and the high cost are obstacles to such projects being conceived and carried out. In view of the present budgetary constraints, most of their funding must come from private capital. The purpose of the proposed measure is to use small amounts of Community assistance to channel the private capital available into these projects by acting as a catalyst and exerting a leverage effect.

IMPACT ON COMPETITIVENESS AND EMPLOYMENT

I. What is the chief justification for the measures ?
To facilitate the financing of large-scale infrastructure projects of European interest.

II. Characteristics of the enterprises concerned
In particular :

- Are many SME involved ?
  Many SMEs are indirectly involved as a result of the sub-contracting procedure used for these projects.

- Are there any concentrations in the regions ?
  Not applicable.

III. What are the obligations imposed directly on enterprises ?
None.

IV. What obligations may be imposed indirectly on enterprises by the local authorities ?
Not applicable.

V. Do special measures apply for SMEs ?
None.
- If so, which ?

VI. What is the foreseeable effect ?

On company competitiveness ? Favourable.

On employment ? Favourable.

VII. Have the two sides of industry been consulted ?

- Opinion of the two sides of industry.

  No, but at their last meeting at Val-Duchesse, the two sides of industry pressed for everything be done to make it easier for such projects to be realized.