european community
BACKGROUND INFORMATION
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BACKGROUND NOTE

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EC TO TAP PETRODOLLARS

In 1975 the European Community will be able to float loans totaling up to $3 billion to help its member states finance oil-induced balance of payments deficits.

The regulation for the issue of Community loans was adopted by the EC finance ministers at a Council meeting in Luxembourg on October 21. The Council still has to approve (most likely at its next meeting, on November 18) the application regulations. Since the loan system involves financial engagements by member countries, it will have to be ratified by several national legislatures (Germany, Belgium, the Netherlands, and Denmark).

The Community thus gains a new instrument that allows it to appear on international markets as an entity, demonstrating its member states' solidarity. (Since the foundation of the first Community, for coal and steel in 1952, the Community has issued bonds to finance lending activities in the coal and steel sectors.)

The idea of active European participation in the recycling of petrodollars was launched for the first time by the European Commission in its January 30 report on the economic situation after the energy crisis. A system for financial solidarity was more precisely defined as one of the emergency measures suggested by the Commission to the Council in June. After discussing the idea at meetings in June, July, and September, the Council was able to agree, in October, on the technical details.

EC's overall balance of payments deficit on current account this year is now estimated at $20 billion instead of the $17.5 billion projected at the beginning of the year. Community loans will thus cover only part of EC needs. However, the Community also plans to join in international fund-raising efforts. (At the annual meeting of the International Monetary Fund in Washington this fall, French Finance Minister Jean-Pierre Fourcade declared that this European action "should be regarded as a supplement to international efforts in this field, and not necessarily as limiting their scope.")

The principle of fixing a $3 billion limit to the amount of the Community operations was accepted after some discussion, since certain countries considered it too restrictive. (Commission Vice President Wilhelm Haferkamp, in charge of economic and monetary affairs, has said that the Commission might ask next year, if necessary, to raise this ceiling). To do so, a unanimous Council decision would be necessary. Another important qualification on which all member states have agreed is that the Community will act either directly with third countries and financial institutions, or on the capital markets, with the sole aim of relending those funds to one or more member states in balance of payments difficulties caused by the increase in prices of petroleum products.

How the System Will Work

Loans will be made on a case-by-case basis. At the request of a member state, the Council will authorize the opening of negotiations to raise the funds. The Council will also determine the terms of the loan agreement to be concluded by the Commission, on behalf of the Community and on the economic policy conditions to be fulfilled by the beneficiary member state. The funds raised are then relent to member states i.e. transferred to their central banks. Repayment will be made in the same currency used for the loan. The regulation adopted by the Council also deals with the guarantees. To assure repayment of the loans, to be concluded for terms averaging five years, the regulation stipulates that, if a member state cannot cover its debt, the other countries will help, in the following proportions: Germany 22.02; United Kingdom 22.02; France 22.02; Italy 14.68; Belgium/Luxembourg 7.34; Netherlands 7.34; Denmark 3.30, and Ireland 1.28.

In case one or more member states were temporarily exempted, no country may be asked to provide for more that the following percentage of the total amount of the loan: Germany, United Kingdom, France 44.04; Italy 29.36: Belgium/Luxembourg and the Netherlands 14.68; Denmark 6.60, and Ireland 2.56.