european community
EUROPEAN COMMUNITY INFORMATION SERVICE 2100 M Street, N.W., Washington, D.C. 20037 Telephone: (202) 872-8350
277 Park Avenue, New York, N.Y. 10017 Telephone: (212) 371-3804

FOR EDITORS

newsfeature

The contents of this article may be freely quoted.

NF/5

November 8, 1974

PETRODOLLARS FOR EUROPE

Washington

While the rest of the world wades in a sea of words, seeking to avert oil-induced economic disaster, Europe has sprung into action to help its floundering economies. Petrodollars will be recycled back into European Community countries which have been hardest hit by deficit problems due to skyrocketing oil prices.

According to a plan adopted October 21, the Common Market will be able to borrow $3 billion either directly from third countries and financial institutions or on the capital markets. The raised monies will then be relent to EC member state central banks for the purpose of covering oil-induced payments deficits.

The loans will be jointly guaranteed by the nine Community countries (Belgium, Denmark, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, and the United Kingdom.)

Almost entirely dependent on imported oil, the Common Market is faced with colossal balance of payments and trade deficits. Its deficit on current account this year is now estimated at $20 billion, $2.5 billion higher than was forecast at the start of the year. The Market's 1974 trade deficit with the members of the Organization of Petroleum Exporting Countries (OPEC) could reach up to $25-30 billion, as compared to the 1973 $16 billion total. EC imports from the OPEC countries for the first five months totaled $16 billion, compared to $6 billion for the same period last year. EC exports to the OPEC states this year, on the other hand, should only reach $12 billion, up $4 billion from 1973.

The idea of a European petrodollar recycling operation was launched in January by the Commission, one of the Community's dual executives. The other, the Council of Ministers, studied the Commission's proposals over the summer and adopted the plan on October 21.

Although the $3 billion will not cover the Community's needs, it was designed as a stopgap measure to give the EC countries room to breathe in tackling their deficit problems. The Community also plans to join international recycling and fund-raising efforts. French Finance Minister Jean-Pierre Fourcade explained to the International Monetary Fund Governors' meeting this fall that the Common Market plan "should be regarded as a supplement to international efforts in the field, and not necessarily limiting their scope." If necessary, the Commission can come back to the Council next year to ask for a higher ceiling.

How the Plan Works

The EC loans will be made on a case-by-case basis. At the request of a member state, the Council will authorize the Commission to start raising the needed funds through delegated European financial institutions. The Council will determine the terms of the loan and the economic policy conditions to be met by the beneficiary country. Once raised, the funds will be relent to the member state's central bank. The loans will be paid back in the original currency and within an average time span of five years.

The EC countries will jointly guarantee the loans. Therefore, if the recipient country cannot meet the terms of the loan, the other member states will proportionally underwrite the repayment. Germany, the United Kingdom, and France will each allocate 22.02 per cent; Italy 14.68 per cent; Belgium/Luxembourg, and the Netherlands 7.34 per cent each; Denmark 3.30 per cent, and Ireland 1.28 per cent. When a country is temporarily exempted from the guarantee arrangements, the maximum percentage payable by each country has been set as follows: Germany, the United Kingdom, and France 44.04 each; Italy 29.36; Belgium/Luxembourg and the Netherlands 14.68; Denmark 6.60, and Ireland 2.56. Since the loan system involves national financial commitments, it will have to be ratified by several national legislatures (Germany, Belgium, the Netherlands, and Denmark).

Although the loan operation has not yet gone into effect, Italy will probably be the first to benefit from the plan.