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ANNEX

to the report by Mr G. DELEAU

drawn up on behalf of the Committee on Economic and Monetary Affairs

Opinion of the Committee on Budgets

English Edition

O P I N I O N

by the Committee on Budgets

Draftsman: Mrs C. SCRIVENER

On 21 September 1983 the Committee on Budgets appointed Mrs C. Scrivener draftsman.

At its meeting of 6 December 1983, the Committee considered the draft opinion and adopted it unanimously.

The following took part in the vote: Mr Lange, chairman; Mr Notenboom, Mrs Barbarella, vice-chairmen; Mrs Scrivener, draftsman; Mrs Boserup, Mr Lalumière, Mrs Nebout, Mrs Nikolaou, Mr Protopapadakis and Mr Konrad Schön.

1. The Commission is empowered to contract loans on behalf of the Community, within the framework of the New Community Instrument (NCI III), up to an amount not exceeding 3000 mECU[1], in order to promote investment in the Community.

An initial tranche of borrowings of 1500 mECU was authorized on 13 June 1983[2]. It is to be used to fund investment projects undertaken within the Community in the energy sector and infrastructure projects , as well as for investment, chiefly by small and medium-sized enterprises, in industry and other production sectors.

Parliament has approved these objectives. When the basic regulation for NCI III was being drawn up, it raised objections, in particular concerning the respective roles of the EIB and the Commission, which were met in part following the conciliation procedure of April 1983[3].

2. In its proposal of 7 June 1983 the Commission proposes that a second tranche of borrowings, amounting to 100 mECU, be authorized under the NCI III. This tranche is to be used to fund, under the name of 'European Innovation Loans', innovative projects by small and medium-sized undertakings in sectors which introduce new products, devise new processes or apply innovatory technologies.

This approach meets Parliament's desire for Community funding to be directed towards innovation, particularly where it is used by SMUs. From this point of view, the Committee on Budgets approves the Commission's proposal.

3. The machinery for granting European Innovation Loans differs markedly from the general arrangements governing NCI loans.

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[1] Council Decision 83/200/EEC of 19 April 1983 (OJ L 112 of 28.4.1983)

[2] Council Decision 83/308/EEC of 13 June 1983 (OJ L 164 of 23.6.1983)

[3] Doc. 1-236/83.

4. These loans involve appropriate financial intermediaries, who perform a liaison function between the undertaking and the Community, on the one hand by forwarding the loan applications and providing information on how the funds paid out are used and, on the other hand, by sharing in the financing of the project in one of two ways:

- the loan may be granted to the business directly. In such a case the financial intermediary undertakes to grant to the business, at the same time and at its own risk, an equivalent amount either as own funds or as finance with characteristics close to those of the European Innovation Loan;

- the loan may be granted to the financial intermediary itself, which shall use these funds in the form of capital to be injected into the SMU at its own risk; furthermore the intermediary must provide the same amount in the form of a shareholding or in equivalent form.

It is up to the Committee on Economic and Monetary Affairs to assess the effectiveness of the mechanism proposed. It should be stressed, firstly, that the undertaking will be doubly assisted by Community funding and, secondly, that the possibility of financing in the form of own funds is most useful.

5. Whereas NCI transactions to date have involved no cost to the Community budget[1], the consequences of the Commission's proposals for this new tranche of the NCI III are different.

The Commission is proposing that the Community should bear the cost of interest service during the first few years; nevertheless, the discounted cost of this interest moratorium may not exceed 20% of the principal. Thus,for a tranche of 100 mECU the cost to the budget may not exceed 20 mECU. This figure represents a little over 2 years' interest at 10%.

The undertaking is thus assisted in two ways:

- it borrows at a lower rate than it would obtain on the market;

- during the delicate starting-up stage of the operation it does not need to pay the corresponding interest.

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[1] Until 1983, NCI loans, like EIB loans, have been eligible for EMS interest rebates.

It will be noted that, in order for the proposed mechanism to function smoothly, a close and permanent link must be established between the amount of the loans - decided upon by the Council - and the appropriations earmarked for the interest moratorium - adopted by Parliament.

It is vital that the Commission ensure that the cost of the interest moratorium does not exceed the appropriations authorized by the Budget Authority.

During the 1984 budgetary procedure, the Council entered 12 m ECU against Chapter 100 for Item 7570. Parliament transferred this appropriation directly to the budget heading.

6. The division of powers between the Commission and the EIB is the same as under the general arrangements for the NCI. However, the Commission decides both upon the eligibility of the projects and the granting of the loans. Under the NCI III it was empowered to decide upon only the first of these operations. This constitutes a step forward, on paper, in the direction desired by Parliament.

7. Conclusions

The Committee on Budgets

(a) approves the purpose of this new tranche of the NCI, which is to help fund innovation by SMUs;

(b) calls expressly on the Commission to administer this instrument in such a way that the cost of the interest moratorium does not exceed the appropriations authorized by the Budget Authority.