

Information

European
Investment
Bank



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Scotland's development and finance from the EIB

Since the United Kingdom's accession to the EEC almost four years ago, on January 1 1973, the European Investment Bank has provided loans in the U.K. totalling £463.2 million, in a steep annual progression as follows: £32.9 million in 1973, £79.9 million in 1974, £186.5 million in 1975 and, so far this year, a further £163.95 million. Of the total sum £200.6 million – or over 43 % – has been directed into investments benefiting Scotland, ranging in size and nature from a new nuclear power station to small-scale industrial ventures.

On October 20 the Bank's Board of Directors held a meeting at the Scottish Office in Edinburgh. This provided the opportunity for a further strengthening of links with Government, industry and the banking system which will help the EIB to continue its efforts to provide part of Scotland's development finance needs.

This article outlines some of the main factors influencing the economic development of Scotland and reviews the contribution so far made by the EIB.

A fundamental part of the work of the European Investment Bank is to help to finance projects which contribute towards the development of the less advanced regions or which help to solve the problems of old industrial areas already «developed» but where traditional activities are on the decline and new investments are needed.

Perhaps nowhere else in the Community do these two conditions exist so starkly side by side as in Scotland. Sparsely populated and often remote rural areas, difficult to develop economically, crossed by a central industrial belt, congested and too dependent on a few old and contracting heavy industries, present in effect the problem of «two Scotlands».

It was natural, therefore, that the Bank should endeavour to supplement the efforts undertaken at a national level to ensure the flow of finance for investments needed north of the border.

With 5.2 million people, about 9 % of the United Kingdom's population, Scotland occupies almost a third of

the UK's total land area. One fifth of its 79000 sq.km. comprises fresh water lakes and there are some 800 islands.

About three-quarters of the population and most of the industrial activity are concentrated in the central lowlands (covering only 15% of the Scottish land area) between the Firth of Clyde and the Firth of Forth, in which are situated the two main cities – Glasgow, the major commercial centre, and Edinburgh, the administrative and financial capital.

This region was one of the main centres of the industrial revolution in the early 19th century, with a prosperous economy based on coal, steel, heavy engineering and shipbuilding. But, already in difficulties after rapid expansion and an exhausting production effort in the 1st World War, these industries were hard-hit in the great depression of 1929-32 which brought considerable misery, with unemployment rates often exceeding a third of the working population. Many Scots emigrated and for most of those

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that remained times were bleak. Living conditions in the cities degenerated and large areas became slums.

Apart from a temporary resurgence during World War II, the decline of the heavy industries has been more or less continual and has not been offset by sufficient new industrial activities, despite considerable efforts by the UK Government to provide incentives for industrial conversion and development.

Either side of the central belt, most of Northern Scotland is mountainous, much of Southern Scotland is hilly and rugged and over large areas the population averages only 1 person per square kilometre.

While in certain zones the development of North Sea oil and gas resources have made an appreciable impact, agriculture and, in the north, fishing, handicrafts and tourism are still mainstays of the economy.

Thus Scotland's range of problems is highly complex, with a combination of concentrated and old-established zones of industrial activity and urban deprivation, vast, sparsely populated mountain and island areas heavily dependent on traditional activities and a peripheral location within the EEC. While North Sea oil has brought undoubted benefits to the economy, this has not been without problems related to the very rapid development, which have further complicated the situation.

Various Government measures to promote regional development have been in operation for some 40 years and since the early 60s action has become particularly vigorous, culminating in the Industry Act of 1972. Under this legislation all of Scotland is now covered by special development or development areas which are eligible for a whole range of incentives to encourage industry, including grants for new buildings and machinery, tax allowances on capital expenditure, employment premiums paid to manufacturers for each worker they employ and free training services.

Official strategy to counter Scottish economic problems has broadly aimed at:

- reducing Central Scotland's dependence on the heavy industries

by bringing in a wider range of light industry and associated services to diversify the structure of the local economy;

- relieving congestion in the central belt by diffusing economic activity to other parts of Scotland, where migration losses have been heavy.

To achieve this, different methods have been used, in addition to the incentives listed above.

Five new towns are being built at Cumbernauld, East Kilbride, Glenrothes, Irvine and Livingstone, which provide focuses for new industry and rehabilitate areas where traditional industries have run down and unemployment is high and also fulfil an important function in housing families from Glasgow's overspill population. They are strategically placed for ease of access to other industrial centres in Scotland and to ports, container terminals and airports. At present they house around a quarter of a million people and contain almost 2 million sq. metres of factory space representing employment for 100000 people.

Decentralisation of Government offices and State corporations is another tactic. Offices previously situated in southern England and newly created services in the public sector have been moved north, such as the headquarters of the National Savings Bank, now in Glasgow, and the British National Oil Corporation which is also to set up its headquarters in the city.

Investment in infrastructure, either specialised, such as industrial sites, or more general, e.g. roads, ports, airports, railways and telecommunications, has been accorded high priority and the Government has encouraged special consideration for Scotland in the future plans of the shipbuilding, coal and steel industries. For example, the British Steel Corporation is to expand its Scottish investment programme by about £150 million more than originally envisaged in its 1973-1983 development strategy. This will considerably reduce the impact on employment of forthcoming closures of older plant.

Two purpose-created bodies, both responsible to the Secretary of State for Scotland, exist to encourage new industrial activity. The Scottish Development Agency, set

up in December last year with a five-year funding of £300 million, is empowered to make loans, take up equity, construct industrial estates and advance factories and provide advisory services to small business.

The Highlands and Islands Development Board was created just over a decade ago. While the SDA is concerned with the highly concentrated urban areas of West Central Scotland with their severe structural problems, the Highlands and Islands Development Board covers the rural, remote and sparsely populated areas of the North and concentrates, by means of grants, loans, equity participation and advisory services, on helping mainly smaller scale enterprises in all sectors, including farming, fishing and handicrafts.

This series of measures has had significant and encouraging results. Since the mid-sixties, per capita GDP and unemployment differentials between Scotland and the United Kingdom average have tended to narrow and emigration has recently begun to drop. Naturally this improvement has been helped by North Sea oil and the fact that as the older, heavy industries decline their importance in determining the broad trends of the Scottish economy diminishes.

North Sea oil

The contribution of North Sea oil development so far has been impressive, although it cannot be a panacea for Scottish problems. A wide variety of orders, e.g. for drilling equipment, boats, barges, platforms, engineering components and steel, have gone to existing Scottish industry or new firms have sprung up to meet demand. Service activities related to the platforms themselves have grown fast.

It is in the Highland region that most of the new manufacturing units have been set up specifically to serve the North Sea oil and gas industry.

All this has created much new employment (estimated at 35 000 - 40 000 new jobs in Autumn 1974, excluding construction) and has helped Scotland to ride the effects of the recent recession better than during any previous downswing.

Of course, the speed of the development has not been with-

out problems. Local firms are faced with manufacturing entirely new, specialised equipment and components, with many technical problems, and labour has had to learn quickly new skills and work disciplines. In certain areas local authorities' resources have been strained to the utmost by the need to plan and provide rapidly for infrastructure and public services and to protect the environment when threatened by oil projects.

Looking ahead, while many areas seem assured of permanent oil-related activities there is concern that at least part of the present North Sea oil «boom» in Scotland could be of a more transitory nature, linked to the first major spurt of oil-field development.

Evidently much hope in the future will rest on attracting associated activities, such as chemicals and other downstream industries using oil as feed-stock.

North Sea oil and gas have undoubtedly benefited the economy, but the costs involved are high and for years to come further capital investment will be needed, not only for the oil production facilities themselves but also to develop the required infrastructure and to meet the costs of setting up new industries or adapting existing ones.

In these circumstances oil and gas financing has already come to play a fairly important role in the lending activities of the European Investment Bank in Scotland. Almost half of the finance it has so far provided in Scotland – £ 99.1 million – has gone towards oil and gas – related projects.

A total of £ 67.8 million, provided in six separate loans to the British Gas Corporation, is helping to finance a 685 km pipeline system which will bring natural gas from the Frigg field in the North Sea to Scotland and connect up with the national distribution grid.

Gas from this field, which straddles the median line between the British and Norwegian sectors of the North Sea, will be landed at a coastal terminal at St. Fergus in the Grampian region. The British Gas Corporation has purchased gas from the whole of the field, including the Norwegian sector, and the first supplies are expected to flow ashore next year.

The system will cost over £ 200 million and involves two pipelines

running 280 km from St Fergus to the junction with the existing natural gas distribution system at Bathgate, near Glasgow. There are also extensions running into North West and North East England.

Supplies from Frigg will enable the British Gas Corporation to increase by about one-third the natural gas at present available for industrial, commercial and household consumption in the United Kingdom.

This represents an important contribution to the EEC's drive to maximise energy resources within the Community and reduce dependence on imports.

Significant regional benefits should ensue as the Frigg gas will be made available to industry in Scotland and also to development areas in northern England and further afield.










A more direct involvement has been taken in the exploitation of North Sea oil and gas resources. A loan of £ 10.4 million was granted for production installations in the Frigg field itself to the consortium of

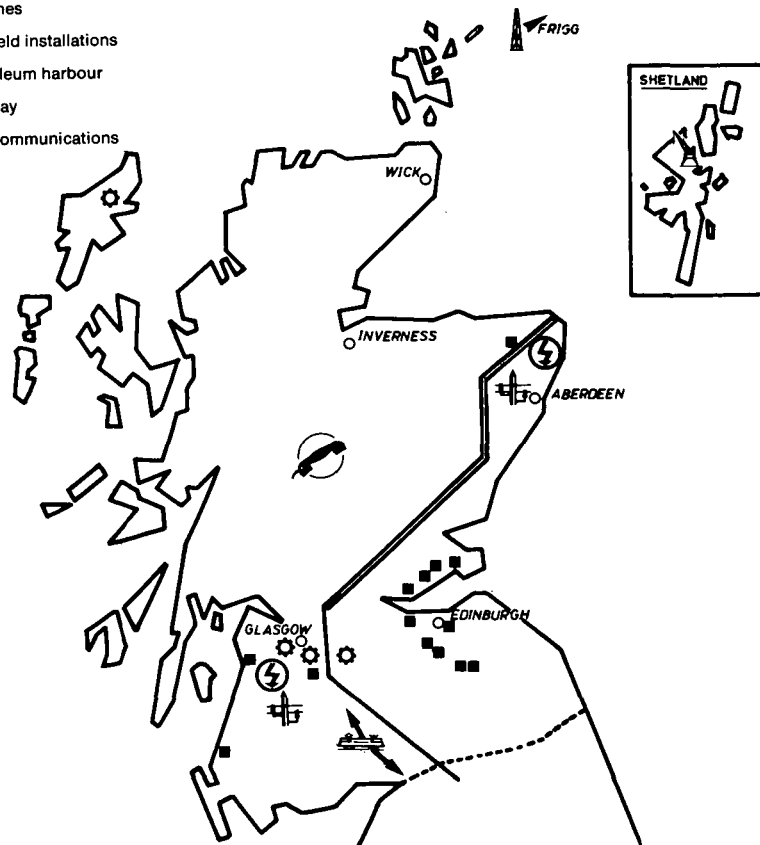
companies holding the British production licence, and £ 16.9 million was provided to the Shetland Islands Council to help to finance construction of an oil tanker harbour at Sullom Voe. By 1982 it is anticipated that a minimum of 65 million tons of North Sea oil (landed by submarine pipelines from various fields) will pass through Sullom Voe to be shipped to refineries in the United Kingdom and on the Continent. This flow of oil is equivalent to about 50 % of the UK's anticipated needs at that time and around 10 % of the EEC's likely consumption.

The harbour will help to provide employment in Shetland, one of the most remote and least industrially developed areas of the Community. A possible 1 000 jobs, directly or indirectly connected to the project, are being planned for.

In the same field of North Sea oil and gas was a loan of £ 4 million to Lewis Offshore Ltd. to help establish on the Isle of Lewis, in the Hebrides, a steel fabrication complex for offshore structures. This

EIB lending in Scotland

-  Industrial project (direct loan)
-  Global loan allocation
-  Power station
-  Transmission lines
-  Gaslines
-  Gasfield installations
-  Petroleum harbour
-  Railway
-  Telecommunications



project is geared very much to the speed of North Sea oil development and should, in the long term, provide a significant number of new jobs, easing some of the island's long-standing economic and social problems and obviating the need for many islanders to seek work on the mainland.

Electricity, telecommunications . . .

Apart from oil and gas, the EIB has also helped to finance a number of electricity supply projects in Scotland.

A loan of £10.4 million was made to the North of Scotland Hydro-Electric Board for construction of a new thermal power station at Peterhead, Aberdeenshire, which will help to supply the needs of this area, a major centre of the North Sea oil and gas industry.

Two loans totalling £23.4 million were provided for construction of the Hunterston «B» nuclear power station in Ayrshire, on the West Coast, by the South of Scotland Electricity Board. This is destined to play an important part in meeting industrial and domestic demand for electricity in the South of Scotland with about a fifth of its generating capacity going to feed the large aluminium smelting works at Invergordon.

These two electricity authorities have each received a further £10 million loan to help to finance 260 km of power transmission lines which will connect with the main transmission networks the Peterhead power station and another new power station being built at Inverkip on the Firth of Clyde, and also reinforce the supply system to Aberdeen.

Two other important infrastructure projects concerning telecommunications and railway services have been supported by the European Investment Bank.

The Post Office received a loan of £17.3 million for a major series of works to be carried out by the Scottish Telecommunications Board which will permit about 250 000 extra exchange connections to be made.

Apart from providing part of the essential infrastructure to attract new offices and factories to Central Scotland and to serve the needs of new industrial and commercial activities spurred on by North Sea oil, this project will also

benefit the Highlands and Islands, where improved telecommunications are essential to help overcome the development problems posed by sparse population and geographical isolation.

Perhaps not strictly speaking a Scottish project, but certainly benefiting Scotland, is the planned introduction by British Rail of the very fast «Advanced Passenger Trains» (1) on the London – Glasgow route.

The Bank has provided £11.6 million for the construction of the first three of these trains. Running initially at speeds of up to 200 kph. they will lop an hour off the present fastest journey time of 5 hours between the two cities. The improved communications should help to encourage the new industrial investments which the Glasgow region sorely needs to offset the loss of jobs caused by the decline of shipbuilding and heavy engineering.

It was for similar reasons of helping to reduce the levels of unemployment that the Bank provided £12 million to the Distillers Company Ltd. for construction of a Scotch whisky blending and bottling plant at Shieldhall near Glasgow.

Due for completion in the Autumn of 1978, this plant will have facilities for blending up to 12 1/2 million proof gallons of whisky per year and a bottling capacity of about 100 million standard-sized bottles per year.

The EIB's main interest was the 600 new jobs which will be created at the new location. The plant has been designed with the possibility of further expansion in mind: if this materialises, production capacity could be almost doubled and a further 300 jobs created.

Also in the Glasgow area, the Bank granted a loan of £1 million for conversion and expansion of the British Olivetti typewriter factory. The project will cost around £7 1/2 million and concerns production of portable electric typewriters, most of which will go for export.

Last month a loan of £3 1/2 million was made to the British Steel Corporation to help finance expansion of the plate mill at the Corporation's Dalzell works in Motherwell, near Glasgow. About 100 new jobs will be created, which will go some way towards absorbing workers displaced by discontinuance of steelmaking in elderly open hearth furnaces at the works, in favour of production at more modern installations nearby.

Apart from all the loans so far listed for relatively large projects, £2.3 million has been provided for 14 small and medium-scale industrial ventures in Scotland from credit made available by the Bank under its «global loans» system to Industrial and Commercial Finance Corporation (ICFC). The projects varied greatly, from a factory making sophisticated electronic equipment for medical uses, to another producing golf club heads.

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The £200 million in loans granted by the EIB for projects benefiting Scotland has contributed to new fixed investments totalling over £1200 million (2).

Most of the Bank's operations have taken place during a period which has been far from encouraging for industrial investment which explains the very heavy bias towards infrastructure projects. In the future the EIB would hope to widen its involvement in the financing of industrial development in Scotland, particularly in those areas where unemployment is most serious.

To date it can be estimated that the different projects which the EIB has supported may directly create up to about 5000 new jobs and safeguard a further 1200. Although obviously not possible to quantify, the infrastructure projects such as electricity supplies, gas pipelines and telecommunications will over the coming years assist the creation of more employment by providing the foundation needed for industrial growth.

(1) A more detailed review of this project was contained in Information Bulletin n°6.

(2) Figures concerning investments and creation of jobs are calculated from data used in establishing the promoters' financing plans at the date when the Bank's Board of Directors approved the relevant financing operations.

A brief guide to units of account

The concept of a unit of account has a long history dating back to the Middle Ages. The frequent debasing of coins in circulation led to the keeping of accounts and the settlement of transactions in terms of currencies which retained their stability or, in some instances, in terms of fictitious currency units of a fixed weight and purity of metal. Examples of units which were in use for several centuries were the ducato di banco in Venice, the florino in Genoa, the florin banco in Amster-

dam and the mark banco in Hamburg ⁽¹⁾. In general units of account were designed primarily to circumvent the difficulties arising from the uncertain value of currencies in circulation. On the other hand units of account tended to disappear when the widespread application of the gold standard during the greater part of the nineteenth century and in the present century up to the First World War rendered them less useful.

Units of account began to reappear between the two world wars in a new period of currency uncertainty. The Bank for International Settlements, for example, has kept its accounts in gold (Swiss) francs since its inception in 1930, even though the Swiss franc was subsequently devalued. Most of the units in use today, however, originated after the Second World War. A number of new units were devised during the 1950s, many of them in connection with progress towards European unity, and they have tended to proliferate after the breakdown at the end of 1971 of the Bretton Woods system of stable exchange rates.

The units of account in use today fall into two main categories:

- i) those which provide a single medium of accounting for financial transactions and assets and liabilities of international organisations for which accounts drawn up in a national currency would be inappropriate,
- ii) those which seek to minimise the effect of variations in exchange rates on international investors and/or borrowers.

It is possible for a unit of account to fulfil both rôles, such as the Special Drawing Right (SDR) of the International Monetary Fund. Units in both these categories may be defined either by reference to a single standard of value such as a given quantity of gold or an individual national currency, or by reference to a basket of currencies containing a specific quantity of each.

The units of account in the first category are most commonly used by international organisations. Those established in the 1950s tended to be related to the U.S. dollar through

being assigned the same content of 0.88867088 grammes of fine gold. This was an obvious choice in view of the attributes and rôle of the U.S. dollar at that time. Thus the European Payments Union which was constituted in 1950 for clearing the mutual debts of its 17 member countries adopted a unit of account with the same gold content as the U.S. dollar, though this relationship could be changed by agreement between the participants. The European Communities and the European Investment Bank which were founded in the same decade also chose the same gold content for their various units of account. Even as late as 1969 the International Monetary Fund adopted the same gold parity for the SDR (but rounded in accordance with IMF accounting practice to 0.888671 grammes of fine gold) which it introduced not merely as an accounting unit but also as a reserve asset. The picture today, nearly five years after the devaluation of the U.S. dollar and a subsequent resort to floating exchange rates, has changed in many respects. The original gold parity of units of account is still used, it is true, as a basis for the conversion of amounts in national currencies in drawing up the general budget of the European Communities and in calculating common prices as in the customs tariff or in imposing fines as part of Community policy regarding competition. In other fields, however, the retention of the gold parity has been more a matter of formality. The agricultural unit of account, for example, still has its original gold content but representative exchange rates have been introduced progressively for the purpose of converting prices denominated in units of account into terms of the national

currencies of Member States. Similarly the gold content of the unit of account in the Statute of the European Investment Bank still stands as a legal definition but is not applied in practice. Conversion rates in the Bank's annual accounts since the end of 1974 have been derived from a new European Unit of Account (EUA) consisting of a basket of specific amounts of the national currencies of the nine Member States, valued at market rates of exchange.

The amounts of individual currencies in the EUA are as follows: Deutschemarks 0.828, French francs 1.15, pounds sterling 0.0885, Italian lire 109, Dutch guilders 0.286, Belgian francs 3.66, Danish Kroner 0.217, Irish pounds 0.00759 and Luxembourg francs 0.14. While these amounts remain constant over time, the conversion rates for the various currencies and hence their weighting in the value of the unit may change from day to day. The constitution of the EUA currency basket thus bears a family resemblance to the new formula which the International Monetary Fund adopted for the SDR in mid-1974 except that it contains nine currencies against the SDR's sixteen. A link between the two baskets of currencies was established by arranging the composition of the EUA in such a way that when calculated at market exchange rates at the end of June 1974 it was equal in value to the SDR. At that time the SDR was still recognised as being equivalent to 0.888671 grammes of fine gold but this definition in terms of

⁽¹⁾ «Towards a stable standard of value» by Professor F. Collin in *The Unit of Account in the European Capital Market*. Kredietbank 1970.

gold was abandoned in August 1975.

In addition to the adoption of its conversion rates in the EIB's accounts, the EUA is currently used as an accounting unit by the European Coal and Steel Community and by the European Development Fund. Under the terms of the Lomé Convention and of the assistance and co-operation plan signed with Portugal it has also figured in agreements to provide financial assistance to countries outside the Community but, unlike the SDR, it has not so far been employed in issue operations on capital markets.

Among other units of account employed in the European Community, the European Monetary Unit of Account (EMUA) has retained a definition of 0.88867088 grammes of fine gold. Its market value is determined through the central exchange rates declared to the International Monetary Fund of the currencies participating in the European currency «snake». This unit is used within the framework of the European Monetary Co-operation Fund in transactions between the central banks which are engaged in maintaining their respective currencies within the 2.25% margin of fluctuation prescribed in the currency «snake» arrangements. Because of this specific function the value of the EMUA is only expressed in terms of the participating currencies and the U.S. dollar and of no other currencies.

Using the same principle of working through central rates, the Statistical Office of the European Communities has developed a statistical unit referred to as the EUR. As the Statistical Office covers a much wider field than simply the currencies determining the value of the EMUA, it has extended the EUR to cover all currencies, establishing conversion rates as necessary on the basis of market quotations.

In the second main category of units of account, which seek to minimise the effect of variations in exchange rates on international investors and/or borrowers, a unit based originally on that of the European Payments Union was introduced in 1961. It was called a European unit of account but to distinguish it from the EUA currency basket described earlier, it will be abbreviated to e.u.a. in this article. This unit of account had the same gold content as the U.S. dollar at that time and its value was also expressed in terms of 17 reference cur-

rencies (the nine currencies of the present members of the European Community together with those of Austria, Greece, Iceland, Norway, Portugal, Sweden, Switzerland and Turkey) calculated through their respective gold parities. A currency which ceased to have a gold parity would also have ceased to be a reference currency. Apart from this, provision was made for the value of the e.u.a. to be revised if the values of all the reference currencies were changed and two thirds of them in the same direction (either through revaluation or devaluation).

In these circumstances the value of the e.u.a. would be changed after a lapse of two years, which was termed a «period of adjustment», in the same direction as the majority of reference currencies but only to the extent of the one which had moved the least.

The progressive resort to floating exchange rates from the end of 1971 onwards put an end to the e.u.a. based on 17 currencies but in the ten years from its introduction no fewer than 41 public issues were launched. The evident appeal of the e.u.a. to investors because of its stability in terms of the U.S. dollar despite changes in the values of its reference currencies, encouraged a new formulation of the unit at the beginning of 1973, based on the currencies of the enlarged European Community. Although the new e.u.a. was also declared to have a gold content it was envisaged that, if gold was abandoned as a means of establishing exchange parities, the new e.u.a. would be defined in terms of its replacement, whatever that might be. Provision has similarly been made for revising the value of the new e.u.a. if all the reference currencies change their value. The old formula was, however, modified to the extent that all that is now required is a simple majority to determine the direction of the change in value and there is no longer an interval, or «period of adjustment», before the change is made. If, however, a reference currency ceases to keep within the prescribed margins of the European currency «snake», it also ceases to be a reference currency. Illustrating the popularity of its relative stability with investors, some 30 public issues denominated in the new e.u.a. have been made between its introduction in 1973 and September 1976.

Another form of unit of account making use of the currencies of the six original Member States of the EEC was launched in Dec. 1970

as the European currency unit (ECU or simply £), the European Coal and Steel Community being the borrower. Under this formula investors are permitted to subscribe to capital issues denominated in ECU (which has no gold content) in any of the six currencies. The conversion rates applied to subscriptions at the time of issue are retained for the entire life of a loan. As investors are able to choose the currency of reimbursement, they obtain protection from a depreciation of their own currency and at the same time are able to benefit from the appreciation of any of the currencies. Borrowers on the other hand are correspondingly at a disadvantage and only 7 public issues in ECU have been floated so far.

The remaining units of account that have been used on capital markets all consist of baskets of currencies, namely the EURCO (European Composite Unit), the ARCRU (Arab Related Currency Unit) and the SDR. They are thus of a different nature from the foregoing units whose value is fixed in terms of a currency or currencies for the life of a loan or until changed under special rules. The basket units on the other hand contain fixed amounts of component currencies whose exchange value may fluctuate from day to day and thus alter the value of the total basket in terms of its constituent parts as well as of other currencies. The EURCO for example contains specific amounts of the currencies of the nine Member States of the EEC to which market exchange rates are applied in determining its value. It thus resembles the EUA basket but the amounts of individual currencies differ. Subscriptions to EURCO issues have been paid in U.S. dollars. Reimbursements to bondholders are however payable in a freely convertible component currency nominated in advance by the borrower with the proviso that a bondholder may choose another component currency, giving due notice of his choice. As fluctuations in the exchange values of individual currencies only affect the value of the EURCO in proportion to their weight in the basket, investors and borrowers are protected from the full extent of variations in exchange rates.

The relatively high proportion in its make-up of currencies which have depreciated has nevertheless reduced the value of the EURCO significantly in terms of the stronger European currencies and, over the past twelve months, of the U.S. dol-

lar. This has naturally discouraged investors and since its introduction in 1973 only three public issues denominated in EURCO have been launched, of which two were on behalf of the EIB.

The SDR basket with its wider range of sixteen component currencies was also used in June and July 1975, in making 3 public issues. The composition of the SDR will remain unchanged as far as these issues are concerned even though it may otherwise be changed at the option of the International Monetary Fund. The SDR suffered almost immediately upon its introduction as a means of denominating bond issues from a rapid appreciation of the U.S. dollar, its most important component, in terms of other currencies.

The Arab Related Currency Unit has been even less successful than other basket units in that only one private issue has been made. It was hoped that the unit would appeal to Arab investors and serve as a means of recycling surplus oil revenues. The ARCRU which was declared to be equivalent to the U.S. dollar on 28 June 1974 is based on the currencies of twelve Arab countries (Algeria, Bahrain, Egypt, Iraq, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Syria and the United Arab Emirates). The two strongest and the two weakest currencies are eliminated from the group in making up the basket for an issue. The value of the resulting ARCRU is an unweighted average of those of the remaining currencies. The possibility of varying the composition of the unit from one issue to another seems likely to be a source of confusion for investors.

Two units of account which have not yet been used in issues but which have important backing are the International Financial Unit (IFU) devised by the Crédit Lyonnais and the B-Unit promoted by Barclays Bank. The IFU which was declared to be equal to the U.S. dollar on 1 April 1974 contains specific amounts of the currencies of the Group of Ten countries (U.S.A., Germany, France, the United Kingdom, Italy, the Netherlands, Belgium, Japan, Canada and Sweden). Only one of these currencies however, the U.S. dollar, is designated as the currency of payment.

The B-Unit which also dates from 1974 is much simpler than the others in consisting of specific amounts of only five currencies (the U.S. dollar, the Deutschmark, the French franc, the pound sterling and the Swiss

franc). The narrow range of components would tend to accentuate the different characteristics of the currencies more than in, for example, the SDR and the EUA, in which they have already proved to be a source of difficulty.

In the light of the agreement reached in the Interim Committee of the International Monetary Fund in January 1976 that, while the IMF could decide on an 85% majority to return to a system of fixed but adjustable exchange rates, the system of floating exchange rates be made legal, uncertainty over exchange values of currencies seems likely to persist for a number of years. The validity of the remarks at the beginning of this article on the usefulness of units of account in periods of uncertainty may therefore continue to be tested in the years ahead.

As far as capital markets are concerned, the search for formulae which provide an acceptable compromise between the conflicting interests of lenders and borrowers will go on. This may mean the introduction of new units of account or the improvement of existing units. If the rapidity of changes in conditions experienced over the past few years by the international capital market is any guide to the future, a continuing process of adaptation may well be required.

As far as units of account used by international organisations are concerned, the European Community has a special interest in harmonising as far as possible its various accounting concepts. The technical difficulties of, for example, applying exchange rates which fluctuate daily to an agricultural unit of account, which preferably should remain stable during a crop season, are considerable. The European Commission is nevertheless studying the possibility of applying the EUA in the field of the common agricultural policy as part of its general aim to achieve the progressive adoption of a basket type unit of account. A positive step in this direction was the European Council's request of 5 April 1976 that the Commission prepare as a matter of urgency proposals and recommendations for using the EUA basket in the budget of the Community for 1978. On 30 September 1976 the Commission accordingly proposed that the Council immediately adopt a resolution expressing political willingness to use the EUA for the budget as from 1978.

European Unit of Account

Below are the values in national currencies of the European Unit of Account used by the Bank, as at 30 September 1976; these rates are applied for the following quarter in preparing financial statements and operational statistics of the Bank (see Information Bulletin N° 4 for a more detailed description of the application by the EIB of this unit of account):

DM	2.70755	Bfrs	41.8478
£	0.662883	Lfrs	41.8478
Ffrs	5.49043	Dkr	6.51988
Lit	957.268	£Ir	0.662673
Fl	2.86030	US \$	1.11268

Statistics summarising Bank activities in terms of units of account have been based on several different conversion rates applied since 1958. This, coupled with the effects of price trends, would suggest prudence in interpreting the significance of figures which relate to operations extending over many years.

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First EIB financing operations under the Lomé Convention

The first financing operations to be carried out by the European Investment Bank under the Lomé Convention have been in favour of the Republic of Upper Volta.

Acting as agent for the European Community the Bank has provided two loans, totalling the equivalent of 4 428 000 units of account (CFA F 1 155m) for extensions to a sugar complex at Banfora in the South-West of the country.

The loans have been made available from the 95m u.a. of European Development Fund (EDF) resources set aside under the Lomé Convention for risk capital operations to be managed by the EIB.

A conditional loan of 1 428 000 u.a. has been granted to the Republic of Upper Volta for a term of 20 years, including a 6-year grace period, with a rate of interest of 2 % per annum. It will go towards financing an increase in the capital of Société Sucrière Voltaïque (SOSUHV), the project sponsor, in which the State has a majority shareholding.

This company has also received a subordinated loan worth 3 000 000 u.a. for a term of 13 years, including a 9-year grace period. The interest rate is 2 % for the first 7 years and 5 1/2 % thereafter.

The funds advanced will be used for extending the area of sugar cane plantations from 2 250 to 3 500 hectares and for increasing the sugar mill capacity to raise annual output from 20 000 to 31 500 tons.

As a result of this capital investment Upper Volta will be in a position to meet all its sugar requirements

until about 1985 without having to import supplies, which will have a favourable effect on the country's balance of payments.

The total fixed investments involved are put at CFA F 4 248m and they will mean 500 new jobs for Upper Volta nationals. The Caisse Centrale de Coopération Economique (France) is co-financing the project through the Banque Nationale de Développement.

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The Lomé Convention was concluded with almost all the states of tropical Africa together with a number of developing countries in the Caribbean and the Pacific (46 countries). It provides for the Community to grant financial aid of 3 390m u.a. between now and 1980. The EIB will be responsible for making available 585m u.a. made up as follows: 390m u.a. in loans from its own resources, normally to be provided with an interest rebate of 3 %, for which 100 million u.a. is set aside from the resources of the European Development Fund. The remaining 95m u.a., also to come from EDF resources, is earmarked for risk capital operations. This assistance may be used either as a direct contribution towards increasing the equity capital of an enterprise or to provide quasi-capital assistance in the form of subordinated loans (repayable only after senior loans have been paid off) or conditional loans (repayable only after fulfilment of certain conditions, indicating that a project has overcome teething problems and has reached a certain level of profitability).

New Appointments

The Board of Governors of the European Investment Bank has appointed as Vice-President of the Bank and Member of the Management Committee, Mr Maurits Esselens, formerly Director-General of the Treasury at the Belgian Ministry of Finance and a Director of the Bank.

He took up office on 1 October 1976, replacing Mr Sjoerd Boomstra who had been obliged to relinquish his post at the end of September for personal reasons. Having served on the EIB's Board of Directors since 1958, when the Bank was created, Mr Boomstra was appointed Vice-President in 1970. In June 1976 when the statutory term of office of the Bank's Management Committee came up for renewal, he announced that he would continue to occupy his post for a limited period only.

Mr Esselens is aged 60 and has had a distinguished career at the Ministry of Finance, culminating in his appointment as Director-General of the Treasury in July 1975.

In this capacity he has held the posts of Government Commissioner to the Banque Nationale de Belgique and



Institut de Réescapte et de Garantie, Chairman of the Comité du Fonds des Rentes, Director of the Caisse Autonome des Dommages de

Guerre and of the Institut Belgo-Luxembourgeois du Change, and Member of the Conseil Supérieur des Finances and of the Conseil des Institutions de Crédit-Public.

His term of office as Vice-President will expire in 1982 at the same time as that of the other Members of the Management Committee, the composition of which is now as follows: President, Mr Yves Le Portz; Vice-Presidents, Dr Horst-Otto Steffe, Sir Raymond Bell, Dr Giorgio Bombassei Frascani de Vettor and Mr Maurits Esselens.

Also with effect from 1 October 1976, Mr Ludovicus Meulemans has been appointed a Director of the Bank to replace Mr Esselens. Mr Meulemans is Inspector General (Treasury Administration) at the Ministry of Finance, Belgium. Finally, on the nomination of the Benelux countries, Baron B.F. van Ittersum, Director (Domestic Finance) at the Netherlands Ministry of Finance, has been appointed an Alternate Director of the EIB.