

Information

European
Investment
Bank



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European Council welcomes proposed development of EIB operations

A line of action decided upon by the Board of Governors of the European Investment Bank for a development of the Bank's operations in response to some of the EEC's present economic problems — including measures to increase finance for investment in areas of severe unemployment and to assist certain critical industries which are now under exceptional pressure — was warmly welcomed at the meeting of the European Council in London on June 29-30.

The Council had called for Community action, at its March meeting in Rome, to help to reduce unemployment (particularly amongst the young and women), to encourage a higher level of investment in Member States and to promote a greater degree of convergence in their economic performance.

After this meeting a letter was sent to the Chairman of the EIB's Board of Governors by the then President of the Council, Mr James Callaghan, asking if the Bank considered that there was scope for a substantial increase in its activities in the next two or three years in furtherance of these aims and, if so, what would be the desirable extent and nature of the increased activity and the financial implications.

Before deciding on their reply, the EIB's Board of Governors (composed of the Finance Ministers of the nine Member States), meeting in Luxembourg on June 20, approved the Bank's annual report and balance sheet for 1976. This shows that for the first time annual financing operations within the Community passed 1 000 million units of account (u.a.)⁽¹⁾ to reach 1 086 million u.a., of which 820 million went to projects assisting regional development.

Since 1970 (338.5 million u.a.), and despite the recession which has hit industrial investment since 1974, the Bank's annual operations have thus risen more than threefold. Even

allowing for the effects of inflation, annual lending has nearly doubled in real terms.

Taking this experience into account, the Governors are positive that a continued increase in activities over the next few years can be achieved and that the Bank can make a meaningful contribution to the Council's objectives.

To this end they agreed to take the necessary decisions at their annual meeting in 1978 on the amount and timing of such further increase in the Bank's capital as may be needed to support a higher level of lending. By its Statute the size of the Bank's portfolio of loans and guarantees is limited to the equivalent of 250% of its subscribed capital, presently 3 543.75 million u.a.; the ceiling on outstanding loans and guarantees is thus about 8 860 million u.a. At 31 December 1976 the amount of loans and guarantees outstanding totalled 5 808.6 million u.a., or 164% of the subscribed capital.

⁽¹⁾ See back page for value of unit of account expressed in national currencies.

BEI-EIB

2 PLACE DE METZ - LUXEMBOURG

n° 10

AUGUST 1977

**Regional development:
main priority ...**

The EIB's main priority will be to develop yet further its principal role under the Treaty of Rome, that of providing finance for investments in the Community's more backward regions and for projects which help to regenerate areas suffering from industrial decline.

This already accounts for some three-quarters of Bank operations within Member Countries (over 2000 million u.a. provided for regional development projects in the last three years alone); in the present circumstances greater emphasis will be given to those areas of special difficulty, where structural unemployment is more severe or where special labour problems have arisen such as from the loss of markets or the decline of staple industries.

The Bank intends to increase support for investment in energy, since the Community's heavy and costly dependence on hydrocarbon imports is a root cause of its present economic malaise. The broad lines of the Bank's operations in this field are already well established; by the end of 1976 total financing for energy projects had amounted to 1 490 million u.a., of which 599 million was for nuclear installations, 433 million for gas and oil pipelines and 259 million for the development of European oil and natural gas deposits.

To enable the Bank to make a more important contribution towards large-scale projects the size of individual loans has been raised. Where appropriate they may in future be up to 50% of the capital cost of a project (against 40% previously), subject to a ceiling of 80 million u.a. (before about 40 million u.a.) although for very large projects of Community interest, mounted by several promoters, two or more loans totalling a greater sum could be granted.

For small and medium-scale ventures which, in general terms, create jobs most cheaply, in relation to the capital involved, the Bank would like to give more support by extending the practice of global loans to intermediary bodies at national or regional level, which then on-lend funds to their own clients (in 1976 there were 7 such global loans totalling 61.2 million u.a.).

Knud Heinesen, new Chairman of Governors

Following the annual meeting of the EIB's Board of Governors in Luxembourg on 20 June, the Governor for Denmark, Mr Knud Heinesen, Finance Minister, took over as Chairman of the Board for the period until the end of the next annual meeting.

He directly succeeded Mr Gaston Geens, the Governor for Belgium, although most of the previous year's term of office had been filled by Mr Geens's predecessor as Minister of Finance of Belgium, Mr Willy De Clercq.

The Board of Governors is composed of one Minister (usually the Finance Minister) from each Member State.

The office of Chairman is for one year (more exactly, from the day following the annual meeting to the end of the day of the next annual meeting) and is held by each Member of the Board in rotation, according to the alphabetical order of the names of the Member States: last year, it was Belgium's turn, it is now Denmark's, next year it will be that of Germany (Deutschland).

With effect from 5 July the Governor for Ireland has been Mr George Colley, replacing Mr Richie Ryan, his predecessor as Minister for Finance.

Audit Committee

The Governors' annual meeting was also the occasion for changes on the EIB's Audit Committee.

Mr Patrick L. McDonnell, Secretary and Director of Audit at the Office of the Comptroller and Auditor General in Dublin, became Chairman of the Committee for the period until the next annual meeting. Mr Corneille Bruck, Directeur de l'Inspection Générale des Finances, Luxembourg, was appointed a Member of the Committee to succeed the immediate past Chairman, Mr Emile Raus, Honorary President of the Council of State, Luxembourg. The other Member of the Committee is Mr Jørgen Bredsdorff, Auditor General, Audit Department, Copenhagen.

Although not very much in the public eye, the Audit Committee has an important role under the Bank's Statute.

While the Board of Governors must approve the annual report and balance sheet submitted to it by the Board of Directors, it is the Audit Committee which has the duty of verifying that the operations of the Bank have been conducted and its books kept in a proper manner.

The three Members are appointed on the grounds of their competence by the Governors for terms of three years (renewable) and the office of Chairman is held in rotation for one year, from annual meeting to annual meeting.

To assist it in its task, the Committee is provided with audit reports of the accounts of the Bank drawn up by independent accountants, the internationally known firm of Price Waterhouse & Co.

Each annual report of the European Investment Bank carries the statement delivered by the Audit Committee certifying:

- that the Bank's operations during the financial year have been carried out in compliance with the formalities and procedures laid down by the Statute and the Rules of Procedure of the Bank;
- that the balance sheet and the profit and loss account correspond to the book entries and that they reflect exactly the situation of the Bank as regards both assets and liabilities.

The report of Price Waterhouse & Co. is also contained in the annual report.

However, the ability of the Bank to increase its operations in the Member Countries depends to a large extent on the demand for its financing assistance which is influenced not simply by the conditions it can offer but by the investment climate. Another factor is that the Bank's loans are wholly or mainly in foreign currencies. As such they constitute a valuable inflow of capital into Member States, principally those with the most severe economic problems, but by the same token they are subject to exchange rate fluctuations, which can present a problem for certain borrowers with no foreign exchange earnings of their own.

Addressing the Governors at their meeting in Luxembourg on behalf of the Board of Directors and the Management Committee, the President of the EIB, Mr Yves Le Portz, spoke of certain measures which would assist the development of Bank operations in critical sectors. As many industrial borrowers — particularly smaller ones — were placed

in a difficult position by currency fluctuations, the Member States might consider introducing appropriate measures for covering exchange risks on EIB loans, he said. Similarly, if the Bank was to lend for projects which are economically viable but which involve a greater element of risk, this would be facilitated by guarantees provided by the Member States.

Indeed, the Governors noted the increased effectiveness of the Bank's operations that could result from the introduction or extension of guarantees, particularly against the exchange risk, for Bank operations in appropriate cases. They felt that the Member States should be asked to examine the desirability of taking measures to this effect.

The President carried on to say that the EIB will adapt its operations as needed to support evolution of the Community's economic policy and that it will give top priority

to investments which fall within any specific Community action programmes which may be drawn up to help certain sectors.

Within each Member State, the Bank will liaise closely with the appropriate agencies to ensure that its financing operations dovetail in the most effective manner with measures undertaken at a national level.

«I have every confidence», he said, «that the European Investment Bank will be equal once again to the task of adapting itself to a new situation calling for the further expansion of its activity.

«In terms not only of the volume of funds it deploys, but also of the calibre of the projects it selects, the EIB will fully live up to its role as the Investment Bank of the Community and expand its financing activity in support of those specific lines of action to which priority has been given.»

Over 470 million u.a. lent by the EIB for water supplies and irrigation

Europe's growing need for water

Between 100 and 300 tons of water are needed to make one ton of steel. A ton of paper demands 200 tons. Europe's thirst grows with its population, industrialisation and the higher living standards associated with economic advancement.

The increase in demand for water may be measured by only a few percentage points per year, but this is deceptive: looked at from another angle, fresh water consumption within the European Economic Community is expected to rise by some 60% in the period between 1970 and 2000.

To ensure that the Community has adequate supplies over the years ahead will call for sustained high level

investment, particularly as most of the cheapest and more convenient sources of water are already tapped. A vigorous drive to eliminate or reduce pollution of water resources could make a major contribution but this would equally require heavy expenditure both on the part of water and sewerage authorities and by industry.

This article outlines some of the problems to be faced and the contribution so far made by the European Investment Bank, which has provided over 470 million u.a. for water supply schemes, irrigation and sewerage/anti-pollution projects within the Community, half of this sum since the beginning of 1975.

With the exception of some relatively dry zones, principally in the Italian Mezzogiorno and southern France, most of Europe, unlike vast regions of Africa and Asia, has always taken water supplies for granted.

However the few freak months of severe drought last year concentrated thought on Europe's long-term needs.

Following a preliminary study⁽¹⁾ on the development and protection of

water resources in the EEC, which it drew up earlier this year, the Commission of the European Communities has announced certain measures, including:

- the creation of a «Water Resources» working party made up of experts from each Member Country, including officials responsible for assuring supplies during the drought;
- the examination of a possible «European Water Plan» in which

there might be direct Community financial involvement in large-scale water management schemes of interest to several Member States;

- increased action aimed at reducing or eliminating pollution of surface and groundwater;
- an expansion of studies relating to water resource problems and

(¹) SEC (77) 1505.

perhaps the use of Community research facilities to this end.

A conclusion of fundamental importance in the report, although possibly the most difficult to act upon, is that the European consumer must be conditioned to an idea which for most is new, that water is a precious, increasingly expensive commodity, to be used wisely and not squandered.

And yet, in strict terms, taking the Community as a whole, there is no shortage of water as such, nor will there be, in the foreseeable future, at least.

While the EEC's fresh water resources are only a quarter of those in the United States or a sixth of those in the Soviet Union (both with roughly equivalent populations), the Community's combined rainfall is nonetheless equivalent to many times total needs.

Moreover, while we commonly speak of water consumption, this is largely incorrect. Water is not generally «consumed» in the same way as other raw materials. Most of it is returned after use, albeit polluted to a greater or lesser degree; many industries have developed recycling techniques so that they can use the same water repeatedly; power stations require very large volumes of water for cooling purposes but consume little, discharging the water after use, its temperature a little higher.

In fact, the problems lie not so much in the quantity of water in relation to our total needs but in the rather haphazard fashion, both in place and time, in which Nature distributes it. Ireland has some 10 times the water per head of population as Belgium, four times that of Italy and twice that of the Netherlands. Moreover, even within countries there are huge imbalances: in water resources, as in many other respects, the North of Italy is rich, the South is poor; in the United Kingdom rainfall is inverse to the population, with the heaviest inconveniently in the least inhabited areas; in France, water is abundant in the Alps, but not in the industrial North and in Provence there is a saying, in Provençal, «Eici, l'aigo es d'or» (Here water is gold), and not without reason.

Man, for his part, may not literally consume water as such but he can ruin it, and does so, in very large quantities. There is a strong and welcome public awakening to environmental protection, but this follows a century or so of fairly general disregard for the steady deterioration of water quality in lakes and rivers, caused primarily by industrial activities and use of fertilisers and pesticides.

Fortunately the process is not irreversible. The Thames in England is a celebrated example of what can be achieved by a vigorous anti-pollution drive and appropriate investment in new sewerage and treatment installations. A virtually dead river for much of its length some 20 years ago, its quality is now so far improved that many species of fish have recently returned to the centre of London. A concerted effort to reduce pollution would in itself release large fresh water supplies, currently lost, generally in those areas of greatest consumption, i.e. where there is a heavy concentration of industry and population.

It goes further than this. In certain areas industrial and agricultural development is hampered as much by pollution of water resources as by shortage of supplies; future economic growth depends on new sewerage and water treatment installations as well as reinforcing supply capacity.

Set beside the need for investment finance of the European water industry as a whole, the most that the EIB is able to do may not appear very striking. But within the areas of special concern to the Bank, its interventions have made a valuable contribution. The EIB's principal role under the Treaty of Rome is to channel finance into projects assisting regional development. In pursuit of this role it has lent substantial sums in particular areas where improved water supplies or sewerage infrastructure are preconditions for economic progress.

It has thus intervened to help to finance several major schemes serving industrial and agricultural needs in the Italian Mezzogiorno, in relatively arid parts of Southern France and in areas of England and Wales where further industrial expansion is needed to soak up structural unemployment.

The Bank also has another important role under the Treaty of Rome, that of assisting projects of common interest to several Member States or the Community as a whole. Most such investments have been in the energy and transport fields, but under this heading the Bank has made available finance for a major anti-pollution project concerning the Rhine, in view of the river's role as a European water resource of first importance.

Italy has benefited the most from EIB financing for water resource projects (230.77 million u.a.), not surprisingly given the huge investments needed to resolve the shortages that have long handicapped agriculture and industry in many regions in the south of the country. For the Mezzogiorno, with its hot climate, the provision of adequate and secure water supplies is basic for economic development and a levelling upwards of living standards. The Bank has contributed towards meeting the cost of several very large scale projects carried out by public authorities.

Two loans totalling 55.5 million u.a., provided in 1969 and 1975, went towards the construction of the 225 km. **Pertusillo aqueduct** which carries water from the Pertusillo dam on the River Agri in Basilicata to the far south of Apulia, and for a network of pipelines, total length 650 km., to supply numerous towns and villages.

This aqueduct is one of the key elements in a major programme of works, confided to the Cassa per il Mezzogiorno, which is designed to develop the water resources of Basilicata and Apulia to meet the long-term needs of industry and agriculture and domestic requirements in these two regions, where more than 4 million people live.

Within the same programme, the Bank has provided a further 60.34 million u.a., in loans granted in 1975 and 1976, for various works to tap the resources of the Sinni River, including the construction of a dam with a 450 million m³ reservoir at Monte Cotugno (Basilicata) and a 65 km pipeline, 3 metres in diameter, to boost supplies for industry in the Taranto and Brindisi areas. The finance is also going towards an irrigation scheme which will cover 18 700 hectares of the Alto Meta-ponto, an area of hills and plateaux

in southern Basilicata, where 900 km. of pipes are being laid down in the farmland covered by the project.

A total of 48 million u.a. was lent in 1965 and 1966 for irrigation of 53 000 hectares in the Metaponto coastal plain and in the area of Ogliastro, Sicily. Thanks to these schemes it is being made possible to reorient local agriculture towards different, more profitable crops, the resulting rise in farm incomes helping to stem a drift of population away from the land.

Also in Sicily, the Bank last year provided 21.61 million u.a. to improve water supplies to the industrial zone of Syracuse, the works including two aqueducts with a combined length of more than 50 km. More abundant water supplies will open the way for further industrial development of the area, prospects for which have been limited up to now as existing underground water resources have been fully committed.

Finally, in two loans granted during 1975 and 1976, 45.3 million u.a. was made available to the Cassa per il Mezzogiorno for a huge anti-pollution project in the Bay of Naples.

Almost 4 million people cluster around and back from the Bay (the density of population is about 10 times the average for Italy) together with considerable industrial development.

Protection of the environment poses very difficult problems as there has never been a satisfactory drainage and sewerage infrastructure. Most of the domestic and industrial effluent finds its way into the sea either directly or via water courses, virtually untreated. The capacity of the sea to deal with this constant discharge is limited by the enclosed nature of the Bay and both industry and agriculture are restricted by the pollution of water courses, which should be a precious asset in this dry region.

The works now being carried out, which will extend well into the 1980s, involve a total investment of around 1 100 million u.a. (at 1975 prices). They have three main aims:

— firstly to clean up the water courses of the area, secondly to reduce to tolerable limits the

amount and concentration of effluent discharged into the Bay, and thirdly, by planning for «recycling» of part of the used water, to recover large reserves of water which are currently wasted.

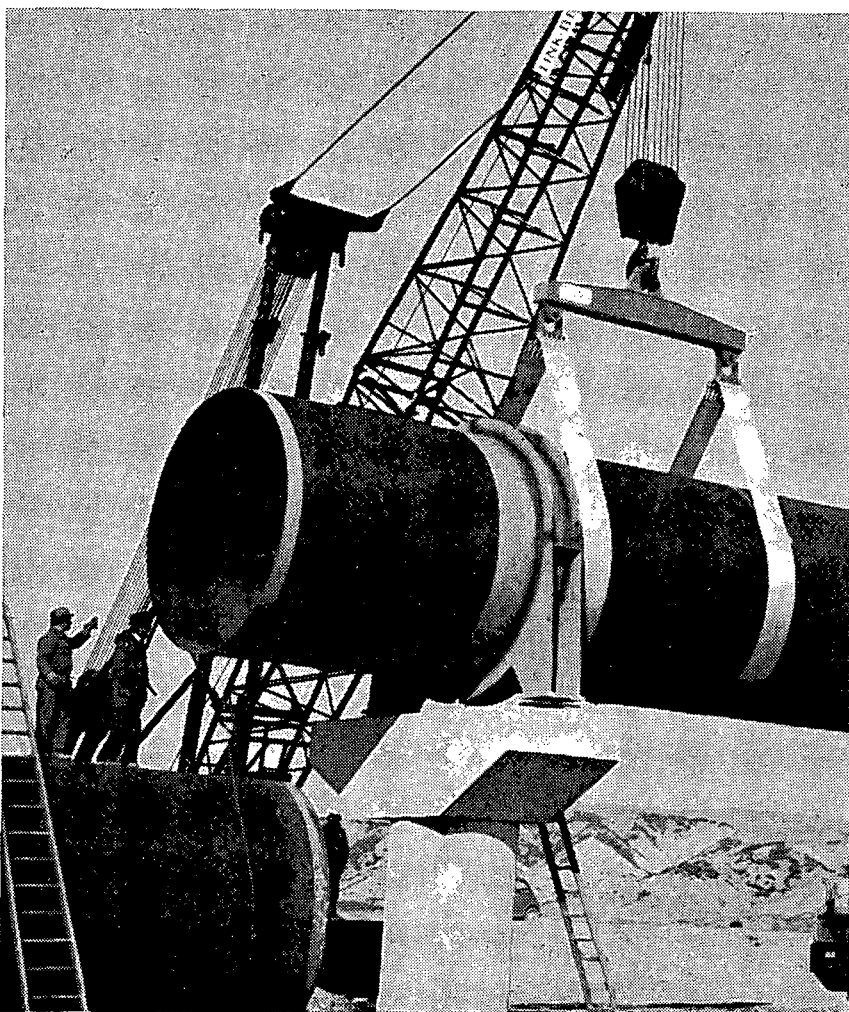
The financial support from the EIB for this project is the largest it has yet given for protection of the environment.

In France the Bank has provided a total of 85.78 million u.a. for irrigation and supply schemes in some of the drier parts of the country, principally in the South.

With three separate loans granted in 1964, 1969 and in April this year the EIB has made available 57.28 million u.a. to the Société du Canal de Provence to help to finance

projects forming part of a 20-year programme (estimated cost at current prices close to 500 million u.a.) to tap the resources of the River Verdon, in the south of the Alpes de Haute Provence to supply needs in the departments of Bouches-du-Rhône and Var.

The scheme involves a huge network of canals and distribution pipelines totalling some 3 000 km in length, of which 210 km are major canals (more than half in the form of tunnels pierced through mountains). Reservoirs have been constructed in certain sectors to compensate for daily and seasonal demand variations and an advanced telecontrol system regulates the flow of water, according to need. Those parts of the programme which the EIB has supported concern irrigation of more than



Some of the major public works carried out in the Italian Mezzogiorno in recent years are impressive both in size and technical complexity: this picture shows part of a pipeline, 65 km long and three metres in diameter, being laid to improve water supplies to the Taranto and Brindisi areas.

33 000 hectares; in addition supplies have been improved to the Toulon area, for both domestic and industrial requirements, and to meet the needs of tourism, a key factor in the region's economy. For other projects in the Bas-Rhône-Languedoc and Gascogne, the EIB has provided 15.26 million u.a., in loans made in 1961 and 1967.

To mention that a further 13.24 million has been made available by the Bank for water supply schemes in Brittany seems a little incongruous, given the region's mild and somewhat rainy climate.

However, for geological reasons, there exists a difficult supply problem. Most of the subsoil is sandy and shallow above a vast, watertight plateau of granite and shale, which means that groundwater is neither very deep nor very abundant. Reserves are soon exhausted whenever the slightest dry spell occurs.

This has been a severe handicap for agriculture, particularly dairy-farming, and has also restrained industrial development. Additional problems are presented by the huge influx of tourists during the summer months, which, in the most popular areas, can boost the population to anything up to 10 times the normal level.

To relieve these problems the Departments of Finistère, Morbihan, Ille-et-Villaine and Côtes-du-Nord have invested over the last few years considerable sums in improving water supplies, mainly in the rural areas. This has involved a large number of small, local projects — reservoirs, dams, river abstraction points and treatment plants, etc. — which, added together, are doing much to improve the situation.

United Kingdom borrowers have had access to EIB funds only since the beginning of 1973, on the country's joining the Community. Nonetheless, in this short period, 122.1 million u.a. has been provided to the National Water Council (NWC) for on-lending to help to finance works being carried out by certain regional water authorities in Northern and South-West England and South Wales.

The largest project to be supported is the Kielder Water Scheme,

designed to regulate the flow of the rivers Tyne, Wear and Tees in the North-East of England and by so doing to assure the region's fresh water needs until the beginning of the next century. Loans totalling 29.27 million u.a. were made to the NWC in 1975 and 1976 and passed on to the Northumbrian Water Authority.

The project involves construction of a dam and reservoir with a 190 million m³ storage capacity at Kielder on the North Tyne. Water released from this reservoir will flow into the River Tyne where a pumping station will push supplies up to a headpond to flow southwards by gravity, through tunnels and pipelines, to the other two rivers.

Abstraction points along the Tyne, Wear and Tees are the main sources of supply of 2.7 million people in an area comprising the counties of Durham, Northumberland, Tyne and Wear and Cleveland.

The main motivation for the EIB's support was the need to cater for future industrial activity in a region which has been hard hit by unemployment because of a rundown in coalmining and shipbuilding. There has been some degree of success in attracting new industry, but if further enterprises are to be encouraged to set up in the North-East and provide more job opportunities, a plentiful water supply is essential. The Bank has also provided 22.38 million u.a. for the construction of 75 km. of aqueduct by the Yorkshire Water Authority to bring supplies from the River Derwent to the Hull region and from the River Ure to the areas of Northallerton and Richmond, principally to meet growing industrial and agricultural needs.

Across the country, in the North-West, two loans totalling 28.13 million u.a. were granted in 1976 and February this year for a series of works being carried out by the North West Water Authority.

These include construction of an additional 22 km. aqueduct to reinforce supplies from the Lake District to the main centres of population and industry in the region. There is also what is known as the «Lancashire Conjunctive Use Scheme», the concept of which is to maximise combined yield from several different water sources by their conjunctive use, e.g. a diminution in water

supply from river sources can be offset by increased drawing from groundwater sources or storage reservoirs, or any other combination can be arranged. It involves an aqueduct linking two rivers together, the Lune and the Wyre, a treatment plant, additional boreholes to tap groundwater resources and reservoir modifications.

The combined effect of these works will be to release an extra 270 000 m³ of water per day to help to meet growing industrial and domestic requirements in the region, which includes Greater Manchester, Lancashire and Cumbria.

In some recent projects the Bank has helped to finance not simply the provision of water but also new investments in sewerage infrastructure. To a certain extent the two are interlinked. The greater the volume of water supplied for public, industrial and agricultural use, the greater will be the volume of effluent returned. To abstract more water from certain rivers becomes impossible without more efficient sewerage/water treatment systems to reduce the concentration of effluent discharged into them.

In the Teesside area the Bank provided two loans totalling 22.3 million u.a. which were passed on by the NWC to the Northumbrian Water Authority to finance the cost of two new abstraction points on the River Tees to provide additional quantities of raw water to industrial users plus a series of sewers on both sides of the river and new treatment installations.

In Cornwall two loans worth 9.86 million u.a. were provided in December 1976 and June this year for mixed water supply/sewerage works being carried out by the South West Water Authority. These loans supported a number of projects including a reservoir, treatment works and mains to supply the Bude district, the first phase of construction of a «spine» main which will run almost the full length of the county, and the construction of sewage treatment works and the laying of main sewers in the Hayle, Bodmin and Redruth areas. The inadequacy of water supplies and sewerage provision has hindered not only industry but also the development of tourism, a mainstay of the county's economy.

In South Wales, 9.5 million u.a. was also made available in June this year for supply and sewerage schemes being carried out by the Welsh National Water Authority in Gwent, Mid and South-Glamorgan. All are situated in areas where new industrial activities are required to soak up unemployment. At present the lack of sufficient water supplies and effluent disposal facilities are major constraints to industrial growth.

The Bank has helped to finance water supply projects in two other Member Countries. In **Luxembourg** 4 million u.a. was provided in 1968 to lay 60 km. of pipelines and other works to exploit the resources created by throwing a barrage across the river Sûre (50% of the water was destined for industry) and in **Ireland** 15.3 million u.a. was made available in June this year for a water supply scheme in the area of Cork harbour, which will see much industrial expansion over the next few years.

All the projects so far mentioned have been supported by the EIB because of their impact on regional development; however, as mentioned earlier, the Bank has another important role under the Treaty of Rome, which is to finance projects deemed to be of common interest to several Member States or the Community as a whole.

Limiting the level of pollution in the Rhine is certainly an aim of European importance as the river is not only a first rank communications route but also a major water resource. With the growth of population and industry along its banks, the quality of the Rhine's water has deteriorated considerably as has the river's capacity to purify itself.

To support both national and international efforts which are being made to *minimise the effects*, the Bank provided a 15.6 million u.a. loan in 1974 to help to finance a large water purification plant downstream from the BASF factory at Ludwigshafen.

This has been designed to deal with the factory's effluent and also sewerage from the towns of Ludwigshafen and Frankenthal (combined population about 220 000).

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The finance made available by the EIB can necessarily be only a con-

tribution towards the massive investments required. For massive they will be. As mentioned before most of the cheapest and more convenient sources of water supply have long been tapped.

Many other possibilities for increasing supplies remain but they are likely, in general, to be more expensive than in the past.

In this context, the relationship between water supply costs and tariffs is an aspect which the EIB has not been able to ignore. The situation varies according to the purpose for which water is used, differing also from country to country and, within each country, according to area, type of supplier, age of installations, etc.

It is a fact that large-scale irrigation schemes — within the European Community only in southern Italy and France — attract substantial Government backing, as is also the case, although to a lesser extent, where water is needed for other agricultural purposes.

As regards industry, however, which often enjoys private supply sources, it is generally accepted that it has to bear the net cost of water provisions itself. An exception to this principle is southern Italy, where various types of incentives are provided to promote the establishment of industry, in particular the financing, by the Cassa per Il Mezzogiorno, virtually in the form of outright grants, of water supply facilities for industry.

However, tariffs for drinking water supplies to homes and small industries, where distribution is the main cost factor, could normally be expected to follow a uniform pattern. Yet this is not the case. In Great Britain, no subsidies have been provided since the creation of the National Water Council, irrespective of the tariff applied, with industries and households being treated alike.

In Italy, not only do investment projects attract substantial grants, but operating bodies, often in deficit, are subsidised by the commune or local authorities. The cost of water to the private consumer is consequently very low, especially in the south.

According to information available to the EIB, the general principle in other Member Countries is that water tariffs must cover the real

cost, at least in towns. Substantial variations in tariffs can be ascribed both to economic factors — availability of supply sources, consumption per km of network — and to historical considerations — older supply and distribution networks which have been paid off and maintained in good order, supply networks which have attracted subsidies in the past or loans on favourable conditions.

On the environmental side, there is a growing trend in the industrial sector towards making those who pollute pay the bill for cleaning up, although this movement has not extended to households and in the majority of Member Countries sizeable grants are made available for constructing and extending the sewer network and water purification plant.

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While the provision of secure water supplies and the extension of irrigation or sewerage infrastructure may pose problems within the Community, it should not be overlooked that these are also felt, and generally more acutely, in many of the countries which are linked to the EEC by association or cooperation agreements.

Under the terms of these agreements, some 116 million u.a. has been provided by and through the Bank in development finance for water resource projects in Greece and Turkey (56.31 and 36 million u.a. respectively) and in Portugal, Zaire, Senegal, the Ivory Coast and Réunion.

What problems there are in the Community are still minimal set beside the very real water shortages which make the conditions of life severe in some other regions.

Indeed, the provision of adequate fresh water resources is a major problem of the modern world.

By selecting carefully the projects it supports and concentrating on the most needed to assist industrial and agricultural development, and hence to increase the prosperity of the areas concerned, the EIB is able to make a solid, worthwhile contribution, albeit modest in relation to the sheer scale of investment required.

European Unit of Account

Below are the values in national currencies of the European Unit of Account used by the Bank, as at 30 June 1977; 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	2.65019	Bfrs	40.8534
£	0.659032	Lfrs	40.8534
Ffrs	5.57627	Dkr	6.83713
Lit	1003.07	£ Ir	0.659032
Fl	2.80384	US \$	1.13371

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.

Interest rates

The European Investment Bank finances its loans mainly by borrowing on the capital markets inside and outside the Community. Because it operates on a non-profit-making basis, its lending rates approximate closely to its own borrowing costs; they are fixed periodically by the Bank for each of the currencies in which it makes disbursements to its borrowers.

The Bank's rates take no account of the type of project financed, its location or the status of the borrower.

As a general rule, the rate applied to each loan is determined at the date of signature of the contract and is not subject to revision.

Loans are paid out at par, such that the borrower receives the entire nominal amount of the loan.

They are usually disbursed in several currencies (those of the Member States of the European Economic Community and various others, in particular the US dollar).

The Bank selects its currencies of disbursement on the basis of its holdings and after consulting borrowers as to their preferences.

Actual currencies of disbursement are agreed prior to the signature of the contract, provided the credit is taken up shortly thereafter.

Borrowers must repay to the Bank in each currency those amounts of that currency with which they have been credited.

Loans may be granted in a single currency: US dollars, Swiss francs or Japanese yen.

Disbursement and repayment are both made in the currency selected.

Loans disbursed in several currencies

The rate of interest applying to loans disbursed in several currencies is equal to the average rate fixed by the Bank for each of the currencies of disbursement, weighted to take account of the proportion of each payment made in each currency and also, where appropriate, of differences in the time allotted for repayment of each currency.

Sample combinations (1st August 1977):

term	composition	interest rate	term	composition	interest rate
8 years	50% US \$	7.55%	12 years	50% US \$	8.15%
	50% DM			30% DM	
10 years	50% US \$	8.05%	15 years	10% FI	8.75%
	30% DM			70% US \$	
	10% FI			30% DM	
	10% Yen				

The proportion of each currency in these combinations or cocktails may be modified according to the wishes of the borrower or as dictated by the currencies the Bank has at its disposal at the material time: in either event, the rates applied are modified accordingly.

Single currency loans (1st August 1977):

Term/years	5	6	7	8	9	10	11
US \$	8.25 %	8.25 %	8.375%	8.50 %	8.625%	8.625%	8.75%
Swiss francs	5.875%	6.00 %	6.125%	6.25 %	—	—	—
Japanese yen	—	—	7.50 %	7.50 %	7.50 %	7.75 %	7.75%
Term/years	12	13	14	15	16	18	20
US \$	8.875%	9.125%	9.25 %	9.375%	9.375%	9.50 %	9.50%
Japanese yen	7.75 %	—	—	—	—	—	—

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