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On the initiative of the international financial magazine, **EUROMONEY**, a two-day conference on the theme "The new global role of the ECU" was organised on 19 and 20 September in Luxembourg with partici-

ants from the spheres of finance and politics in the European Community. We reproduce below the speech delivered at this conference by Mr Ernst-Günther Bröder, President of the European Investment Bank.

The ECU in perspective

Mr. Chairman, Ladies and Gentlemen,

First of all, I should like to express my thanks to the organizers, **EUROMONEY**, as well as to the sponsoring banks for their continued efforts to stimulate discussion and develop new ideas regarding the role of the ECU.

The "ECU in Perspective" is for us in the EIB a real topic, since, as you are no doubt aware, the ECU is very important to the European Investment Bank. This is not only because the EIB's accounts are presented in ECUs, but also because a substantial proportion of its assets and liabilities are actually in ECUs. I am, therefore, pleased as well as honoured to have been given the opportunity to address you today.

There is a widespread feeling that the time has come for new initiatives in the field of European integration. Many centre their hopes on further development of the European Monetary System and the establishment of a common ECU currency.

The arguments for and against such a development are basically elements in the old dispute between "monetarist" and "economist" positions over the right way to achieve integration. The "monetarist" view is that convergence in the economic field is brought about by coordinated monetary policy action. From the "economist" point of view, however, such convergence is a condition for monetary integration.

I shall not analyse the arguments put forward in this dispute, but confine myself to pointing out that our present EMS is founded on the "monetarist" position. This does not, as we all know, mean that there is general agreement about the right way and the best steps to take. This conference, bringing together so much knowledgeable expertise in this field, is an excellent occasion to examine the matter further and, hopefully, bring us nearer to consensus on an issue which is — "monetarists" and "economists", I am sure, agree — of crucial importance for progress in European integration.

While exchanging views on the possibilities of a global use of the ECU and discussing ways and means to achieve this, we cannot forget that the long-term and lasting success of the ECU depends and will depend on the degree of consensus about basic options of a genuine political nature. Inventiveness and pragmatism in the field of financial techniques can help and give incentives in

the right direction by demonstrating what is possible in practical terms.

We as professionals, can make an important contribution to monetary integration and to the global use of the ECU by trying to bring about an understanding of the different positions and of the principles and convictions on which they are based.

It is no easy task to secure the general acceptance of a currency unit. The international capital market has seen a number of units appear in the post-war world, some of which have remained in use for a number of years but then their usefulness and their popularity have waned.

With the exception of the Special Drawing Right of the IMF, however, these currency units have not enjoyed the backing of an official institution or institutions. The ECU, therefore, differs from the great majority of currency units in having been adopted as the accounting unit of the European Monetary System and, consequently, in having the backing of the monetary authorities of the Member States of the European Community.

The official ECU

The ECU was also not a chance creation. The ECU had a pre-existence, a period of gestation if you like, as the European Unit of Account containing exactly the same amounts of the component curren-

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cies. The EUA had been developed by the Institutions of the European Community to serve as their accounting unit. It was, therefore, a simple matter to redesignate their accounts in ECU when it was created, although this did not confer fungibility with the ECU created within the European Monetary System itself.

The ECU created by and within the EMS, which has come to be called the "official" ECU to distinguish it from the "private" ECU circulating elsewhere, was assigned specific uses:

- as the denominator for the exchange rate mechanism;
- as the basis for a divergence indicator;
- as the denominator for operations in both the intervention and credit mechanisms;
- as a means of settlement between monetary authorities of the European Community.

To facilitate the use of the ECU for these purposes, the central banks of the Member States undertook to hold with the European Monetary Cooperation Fund, on a swap basis, 20% of their gold and dollar reserves.

These arrangements have resulted in the creation of a very substantial amount of ECUs which, however, have remained within the central bank/EMCF circuit. In this respect, progress in widening or globalizing the use of the ECU has been very slow, although in the spring of this year an important agreement was reached, between the Finance Ministers and the Central Bank Governors of the Member States of the European Community, on expanding the use and improving the attractiveness of official ECU holdings.

The package of measures which was agreed provides that part of a central bank's ECU holdings may be mobilized temporarily, if U.S. dollars or the currencies of EMS partners are needed for supporting the exchange rate within the margins laid down in the EMS arrangements. Furthermore, the interest rate payable on ECU balances held with the EMCF has been raised from the weighted average of the official discount rates of Member States to the more realistic weighted average of money market interest rates for the component currencies; and central

banks that have a net debtor position in ECUs and are simultaneously creditors under the short-term monetary support arrangements, must, under certain circumstances, accept 100 per cent of their net claims in ECUs as against 50 per cent previously.

The new measures also provide that central banks of non-EEC countries with particularly close economic and financial links to the EEC and certain international monetary institutions are now to be permitted to hold ECUs.

These changes, which are the first to be made since the EMS was established six years earlier, may seem to be of a technical rather than a fundamental nature but they are nevertheless a step forward. The progress achieved so far in the EMS may disappoint those of you who recall the declaration of the European Council in December 1978 that the aim was to consolidate the proposed scheme into a final system within two years. This was to involve the creation of a European Monetary Fund and the full use of the ECU as a reserve asset and a means of payment.

Clearly, the European Council was over-optimistic about the speed at which the economic and financial convergence of Member States could be achieved. Not only are two Member States still not full participants in the EMS, but rates of inflation, of employment, of taxation and subsidy, and budgetary and balance of payments positions remain very divergent. Next year, moreover, the Community will have to absorb two new Member States which will pose further problems of adjustment. A great deal more progress towards convergence needs to be made to permit the successful establishment of a European Monetary Fund which, in turn, would improve chances of the formation of a European Monetary Union. But the prospects may, today, be considered as probably better than at any time since Mr Pierre Werner first put forward his proposals some sixteen years ago for the establishment of a European Monetary Union.

My remarks about the development of the use of the official ECU in the EMS being dependent on the economic and financial convergence of the Member States in no way exclude the possibility of a continuation of the parallel development of the private ECU.

The private ECU

The European Commission has been trying to improve the climate for the private use of the ECU by giving it increasing publicity. Here the Commission has been helped by commercial banks in a number of Member Countries which have not only contributed towards publicising the ECU but have actively created ECU on a substantial scale by constructing the unit out of its component currencies. The construction of ECU by commercial banks carries with it certain administrative costs but, to the extent that it consists of a bundling of existing currencies, would not appear to be inflationary.

It goes almost without saying that my own institution — the European Investment Bank — has actively participated in the development of the private ECU market. The Bank has received substantial amounts in ECUs from the Commission in the form of the capitalised interest rate subsidies which I have mentioned and has placed ECUs on short-term deposit, spread amongst several banks.

On the side of borrowing, the institutions of the European Community and certain Member States and their public institutions have borrowed heavily against ECU bond issues.

The EIB is itself a leading issuer of ECU bonds on the international capital market, having helped to open it as the second borrower to appear on the ECU market upon launching a public ECU bond issue in June 1981. Since then, 17 public issues and 4 private placements for a total of about 1 600 million ECUs have been launched, so that the ECU has become the third most important monetary unit in the treasury operations of the Bank. Of course, the EIB's purpose in raising ECU is for using the proceeds in lending operations — the first of which took place in July 1981 — and today more than 1 800 million ECUs have been disbursed under approximately 300 different loan agreements.

The amount of new ECU issues launched by all borrowers during the first half of this year already exceeds that of issues in the whole of 1984. Fixed interest rate issues have been dominant, but techniques have varied. Floating rate notes have been launched in addition to fixed rate issues with revisable coupons as well as bonds with low or zero

coupons. The latest issue of FRNs by Italy, amounting to 300 million ECUs, indicates the growth of the market's capacity. An issue of non-participating preference shares has also appeared as well as a bond issue convertible into shares. A first issue to which equity warrants have been attached has recently been launched.

For the non-dollar based investor, the ECU offers an alternative to dollar holdings subject to wide fluctuations in exchange and interest rates and, at the same time, offers more remunerative terms than the low interest rates on traditionally strong European currencies such as the Deutsche Mark and the Dutch guilder. Investment in ECUs has been gaining in popularity outside the Community in Japan, Switzerland and Scandinavia. The EEC launched the first ECU issue in the USA in 1984 and we, the EIB, the first in Japan only two weeks ago. This may be termed the spontaneous globalization of the ECU.

Outlook

Even more remarkable than the expansion of the bond market in ECU

has been the growth of inter-bank transactions in the ECU money market. The absence of a multilateral supranational clearing system for ECU transactions has been particularly felt in this respect. The growing number of transactions has begun to weigh heavily on the present multipolar bilateral system. A multilateral system has, however, been devised by a working party composed of the main banks involved and is to become operative next year with the Bank for International Settlements as clearing agent.

To complete the picture of the uses of the ECU, I should mention its increasing employment in the invoicing of imports and exports.

It should be noted that other countries with close trade ties to the Community often link their currencies in various degrees to the ECU — or its components — so that the EMS may be said to be promoting a wider zone of currency stability than the EEC itself. In addition to minimizing the exchange risk, the ECU also offers an interest rate stability through what is, in effect, an averaging of interest rates in the various component currencies.

The more extensive acceptability of the ECU in commercial transactions, in invoicing, making payments, and its wider use in the accounts of international corporations will play an important part in the years to come. These as well as other possible developments will no doubt be discussed during the next two years. I am convinced that this conference will serve as a forum for highly constructive proposals and exchanges of views.

Without forgetting the part played by the Community institutions, a considerable extent of the globalization to date of the ECU can, I believe, be attributed to the initiative taken by the banking sector which we have to thank for sponsoring this conference. Representatives from a number of banking institutions will deliver speeches or take part in discussions today and tomorrow. It appears a promising idea to bring together, in a constructive dialogue, the financial institutions which have played a leading role in promoting the use of the ECU in international financial transactions, and representatives of entities that have been using the ECU as a financing vehicle. The resulting discussions will, I am sure, take stock of the present position of the ECU, identify problems and, hopefully, develop solutions.

It is not for me as an opening speaker to anticipate the conclusions of a conference with such important and expert participants as this. If I may, however, I should like to express my personal view that the globalization of the ECU is likely to proceed at the official level to the extent that economic and financial convergence within the European Community permits. In the meanwhile, the spontaneous globalization of the private ECU seems assured through its developing use on international financial and commercial markets.

The two approaches to the globalization of the ECU are very largely complementary and, as far as one can see, seem to be leading to the same end. Precisely what that end is and when it is likely to be reached are difficult to determine right now and, in looking to the distant horizon, we must not lose sight of the need for convergence in the economic and financial policies of the Member States whose currencies form the components of the ECU.

A Clearing System for the "Private" ECU

A clearing system to settle private ECU transactions amongst banks based in the European Community will come into operation early next year. Agent for the clearing system, which is being organised by a newly formed ECU Banking Association, will be the Bank for International Settlements (BIS) in Basel.

The European Investment Bank is a founder member of the Association and nominates a vice-president of the Association's Executive Committee. Both the EIB and the Commission of the European Communities have been closely associated with the discussion leading up to the establishment of the clearing system.

Members of the ECU Banking Association are 18 commercial banks and the EIB. An agreement covering the practical arrangements of the clearing system between the Association and the BIS is in preparation. The communication network and automatic computerized adjustment or netting procedure for transactions of the new clearing system is to be developed by Swift (Society for Worldwide International Financial Telecommunications).

As well as establishing an ECU clearing system for its members, under its Statute the Association's role is generally to promote and develop the use of the private ECU; to act as representative on behalf of its members in relation to the use of the ECU, with national, European Community and other international authorities; and to carry out studies and research on the development of the currency unit. The Association's Statute stipulates that its operations will always be in line with policies concerning the ECU established by the European Community, the Community's Central Banks and the European Monetary Co-operation Fund.

Rational use of energy: A pillar of the EIB's energy lending

The European Investment Bank is the most important Community source of finance for energy investments. Its lending in the energy field totalled close to 13 billion ECUs between 1973 and 1 October 1985, with last year's lending alone reaching almost 2 billion ECUs.

The development of the Community's energy market

For the last five years, the EC Member Countries have been working together on the basis of the 1990 objectives, which included, inter alia, commitments to:

- reduce the share of oil in the Community's total energy consumption to about 40% (compared with 62% in 1973);

- increase the share of coal and nuclear power in the fuels used for electricity generation to at least 70-75% (up from 53.5% in 1973);

- reduce the ratio between economic growth and growth in energy consumption to less than 0.7 (1.0 in 1973).

Total energy consumption in the European Community fell by over 6% between 1973 and 1983, although GDP grew by over 18% during the same period. The share of oil in total energy consumption had already been reduced to 48% in 1983. Imported oil accounted for only 32% of total energy needs in 1983, compared with 62% ten years earlier. Consumption of natural gas increased sharply during this period and there was a more than fourfold increase in nuclear electricity production. The overall consumption of solid fuels did not rise, but their use in the electricity sector increased.

In keeping with its 1990 energy policy objectives, therefore, the Community succeeded in weakening the link between energy consumption and economic growth, in increasing the role of solid fuels and nuclear power in electricity generation and in reducing the share of oil in the energy mix. North Sea oil production helped to cut dependence on oil imports substantially.

The European Investment Bank plays a key role in implementing the Community's energy policy. The tasks of the EIB are defined by the Treaty of Rome but leave room for adaptation to developments and permit the Bank to respond to changing economic circumstances and Community priorities. Nowhere is this more evident than in the

since the first oil crisis of 1973 has shown that firm and consistent energy policies have been effective in reducing dependence on imported oil. If no major disruptions occur on the world energy market, key objectives, formulated in 1974 and 1980 (and elaborated in 1984) with 1990 as the target date, are likely to be met.

energy field in which, following the 1973 oil crisis, the EIB has financed hundreds of projects located throughout the Community. Success on the energy front, after all, not only requires political commitment, research and technological progress, but also the mobilisation and efficient allocation of financial resources.

The relative easing of prices and improvement of supplies on the international oil market must not lead to a loss of momentum in efforts to improve energy efficiency. Notwithstanding the achievements of the past ten years, the European Community is still the world's largest oil importer. Even though there is no basic shortage of oil reserves, there is little or no safety margin to deal with adverse developments. It is, therefore, essential that the European Community and its Member States continue with effective policies. The EIB's commitment to reducing the Community's dependence on oil imports is not expected to slacken in the years to come.

Focus on energy investment

To help achieve the general aim of reducing the Community's dependence on imported oil, the Council of the European Communities has defined three main objectives:

- development of the Community's internal energy resources, both conventional and renewable;

- diversification of its imports of energy to replace oil imports;

- more rational use of energy.

The EIB finances projects contributing to the realisation of these objectives. Energy projects, as with all other projects the Bank helps to finance, must be technically proven, economically useful, financially sound, and comply with national and Community environmental requirements.

Since 1973, the European Investment Bank's lending in the energy

field has totalled close to 13 billion ECUs, of which just over 1 billion ECUs was from the New Community Instrument⁽¹⁾ since it became operational in 1979. In practice, most of the Bank's loans have gone towards developing Community resources (over 7.6 billion ECUs), with finance to stimulate rational use of energy an important second in volume (more than 3.2 billion ECUs), and import diversification in third place (1.9 billion ECUs).

EIB-finance for the rationalisation of energy use, a pillar of the EC energy strategy, has increased steadily, accounting for one third of the EIB's loans for energy projects in 1983 and 1984. Projects range from investments promoting a more efficient use of energy in industry and in electricity generation, to loans for energy savings in infrastructure.

In industry, conventional energy saving technologies are by now being widely applied, but there remains scope for further economic improvements. The introduction of new technologies, a field to which the European Investment Bank is particularly attentive (see "EIB says Eureka!" elsewhere in this issue) will further broaden the range of possibilities. Moreover, energy efficiency in industry is linked directly with the broader concern of improving competitiveness. Industries which invest in the means to cut or limit their energy costs will have an edge on their competitors in the future.

With the existing potential in energy savings, increasing rational use of energy is bound to play a key role in the continued strengthening of the Community's position in the energy field.

(1) The Commission of the European Communities has been authorised by the Council of the European Communities to contract borrowing in the name of the EEC, within limits set by the Council, for the purpose of promoting investment in the Community. The Commission decides on the eligibility of projects for a loan within guidelines laid down by the Council of the European Communities. The EIB examines the loan applications in accordance with its customary criteria, decides on the loans to be granted and the terms, and administers the loans.

Energy efficiency in industry

In industry, the EIB provides loans for investment in plant and equipment making for greater energy efficiency and for investment replacing oil by other forms of energy, mainly coal, but also by new or renewable energy sources. What follows is not a full list of projects financed, but rather an indication of the existing possibilities and the way in which the Bank helps to exploit them.

The production of cement is an industrial process involving a high consumption of energy, some 100 kilograms equivalent of oil per ton of cement. Since the fifties, the industry has largely used oil or natural gas in its rotary kilns for reasons of convenience. After the 1973 oil crisis, however, investments to diversify energy sources away from oil towards coal have become an important means of cutting energy costs. In the case of projects financed by the Bank, cement factories were able to switch to the burning of industrial wastes as well. The adaptations in Italian and Greek factories involved the construction of storage facilities, silos and conveyor belts for coal and modifications to the feeder systems and burners to use both coal and industrial waste.

A good example of the potential for reducing energy consumption in chemical plants are a series of investments financed in one of Europe's largest chemical plants in Tuscany. Modifications at the plant resulted in a 20% reduction of energy consumption and, in addition, had a very positive impact on the environment.

Energy economies may also result from the manufacture of certain products. For example, the EIB has given loans for the production of reflective glass in a plant in Abruzzi introducing a new thermal insulating technique adapted to Italian climatic conditions. One square meter of this glass, used for office windows, saves an estimated 35 litres of fuel oil a year.

There is also scope for reducing the use of energy in oil refineries. In Italy and in Greece, investments in modernisation of plant have led to energy savings, at the same time improving the product mix by increasing octane number and yields of light and middle distillates, and reducing the environmental impact by the in-

stallation of additional water purification and desulphurisation facilities.

The automobile sector constitutes an important field for energy savings. The FIAT Group, for example, carried out a comprehensive programme of such investments. EIB loans have gone to investment in FIAT's industrial vehicles plants for improvements to the heat distribution systems, electricity grids and insulation of buildings and to its iron and steel industry subsidiary in Turin where, along with other improvements, the heat treatment furnaces were restructured.

In Lombardy, the production of paper products and matches, requiring an intense utilisation of steam, was made more economical by modernising the thermal power generation plant in such a way that the steam could be used twice. The installation of a back-pressure turbine made it possible to use high pressure steam to generate electric power, and the emergent low pressure steam being subsequently used to cover the thermal requirements of the factory. The total electricity requirements of the factory are thus covered up to some 60% by internal production, compared with 25% before the modernisation, and the heat produced is fully absorbed in the factory.

There is a great potential for energy savings through similar investments in small and medium-sized industrial projects. These are financed through the EIB's global loans for rational use of energy which, in recent years, have gone to financial intermediaries in Italy, France, the United Kingdom and Denmark. Over 400 small and medium-sized ventures, helping to save 2.5 million tonnes of oil equivalent per annum, have in this way contributed to energy efficiency in the Community.

Electricity generation

In electricity generation, oil consumption has been reduced by switching to coal. More important, however, has been increasing the use of renewable sources of energy, such as hydroelectricity and geothermal power.

Conversions away from oil to coal-fired power plant have been backed by the EIB, principally in Italy and in Denmark. Such conversions require extensive investment in coal hand-

ling and storage facilities at the plant, coal burners, crushing plant, ventilators, fly ash separation facilities and ancillary equipment.

To a greater extent than conversion to solid fuels, the Bank has helped to increase the use of renewable energy sources. **Hydroelectric** investments generally involve the exploitation of direct waterpower. Some 100 small-scale hydroelectric power stations have been financed via global loans. Most of these are located in France, but many of them are in Italy, and some in Denmark.

Another way to utilise the hydroelectric generating power of is through pumped storage. Electricity cannot be stored as such, but water may be pumped during off-peak periods to an elevated reservoir and can then be passed back through a turbo-generator to provide electricity. Pumped storage power is normally tapped during peak periods, but it can also serve to offset failures of other units or to improve frequency regulation of the electricity grid. Even allowing for the energy consumed in pumping, the pumped storage schemes, financed by the Bank in Italy, Germany, the United Kingdom, France and Luxembourg, generate considerable savings in fuel costs and indirectly permit substitution of oil as an energy source.

Whereas the technology employed in these projects is well established, electricity generation using **geothermal resources** is in the forefront of technological advance. In Tuscany, the EIB has provided loans for the construction of five geothermal power stations with a combined capacity of 75 MW, reducing oil consumption by almost 140 000 tonnes of oil equivalent per annum. These projects also contribute towards developing and improving technologies, while the net costs of electricity generated compares favourably with other types of power stations. Thus, in Meaux, France, geothermal resources have been used for a district heating system, providing almost 80% of the heating and hot water needed for some 7 000 dwellings at around 40% of the cost of the oil-fired heating plant which had been in use before.

Advanced technological processes also form the basis of a sewage treatment plant in Lombardy constructed with EIB support. Here, while purifying effluent, **biogas** is produced for combined steam and electricity generation. About two kilometers of pipe distribute the heat

to neighbouring industrial and domestic premises and energy savings amount to an estimated 13 000 tonnes of oil equivalent per year.

District heating systems are an example of the rational use of energy and the European Investment Bank has helped to finance many of these in Denmark, Italy, France and Germany. Some of these use industrial waste heat, others heat stemming from power stations, or, as is the case in France mentioned above, geothermal resources.

Heating systems play a particularly important role in Denmark where they form an integral part of the country's large-scale investment programme to reduce dependence on imported oil. Apart from meeting national and Community energy objectives, Danish heating systems burning household waste also benefit the environment in a double sense as they not only dispose of waste but also often replace oil-fired plants and reduce air pollution.

Energy saving infrastructure

The primary advantage of establishing interconnections between national electricity grids is the enhanced security of individual countries' supply systems. But integrating electricity grids also results in a more rational use of energy and reduces operating costs. The composition of generating plant within the Community varies from one country to the next. Some Member States rely to a greater extent on hydroelectric power stations, others on oil or coal-fired plant and others still on nuclear power. It is also often the case that neighbouring coun-

tries do not share the same peak periods. It is precisely in circumstances such as these, when the marginal production cost of one country is higher at a given moment than that in an adjoining country, that the latter can be called on to make available electricity at a lower cost. Transfers of this kind make an important contribution to overall fuel savings and the European Investment Bank, therefore, has contributed to the construction of the cross-Channel power link between the UK and French power grids, thereby opening up scope for exchanges with the entire West European system. A similar EIB-financed project is that connecting the French and Italian networks. Rationalisation of electricity distribution is also possible on a national scale. Inside Italy, investments in a computer based control centre to make the best economic use of the national electricity production and transmission facilities also received EIB support.

An example of another kind of infrastructure investment promoting both energy efficiency and conversion from oil is the electrification of railways. In Denmark, the Danske Statsbaner's plan to electrify all main railway lines by 1999 will produce a substantial reduction in the country's dependence on crude oil imports. The part of the project which the EIB helps to finance will result in lower operating costs, lower energy consumption, increased operating reliability, and better customer service, while simultaneously reducing pollution by replacing some 200 diesel locomotives. In France, the electrification of the Chambéry-Mondane railway line will

have the same effects. Being the main railway link between France and Italy, the electrification allows for a smoother flow of traffic between these two countries (a quarter of the passengers on the line cross the border).

Coal-fired power stations and industries investing in conversion to coal to reduce dependence on oil-impacts need the supporting coal handling infrastructure, for example harbour installations. Increasing the capacity of coal handling and storage facilities is of particular importance. In Marseilles and in other French harbours, in the United Kingdom and in Italy, EIB loans have helped to increase coal handling capacity, thereby reducing the cost of transport and offloading of coal, — so promoting greater use of this fuel in industry.

Small and medium-sized infrastructural projects represent an important part of the energy saving potential in infrastructure. Through global loans in France, Italy, the United Kingdom and Denmark, the European Investment Bank has been able to finance some 500 of these projects, mainly investments in insulating public buildings and local natural gas distribution grids, so contributing to more rational use of energy and a saving close to 1.5 million tonnes of oil equivalent per annum.

Exploiting the possibilities to rationalise energy use in industry, electricity generation and infrastructure, the European Investment Bank, through its support of investments of all sizes, estimates that the projects financed once completed help to save up to 20 million tonnes of oil equivalent per year.

The EIB and Integrated Mediterranean Programmes

On 23 July 1985, the Council of the European Communities adopted a programme of specific action for the Community's Mediterranean regions, modelled on the guidelines handed down by the European Council at its March 1985 meeting. The object of this initiative is to improve the socio-economic structures of these regions, in particular Greece, in order to facilitate their adjustment, in the best possible conditions, to the new situation created by the Community's enlargement to include Spain and Portugal. Entitled "Integrated Mediterranean Programmes" (IMPs), these operations will cover: all of Greece; in Italy, the

Mezzogiorno, Liguria, Tuscany, Umbria, the Marches, the side of the Apennines administered by Emilia-Romagna and the lagoons of the northern Adriatic between the Comacchio and Marano Lagunara zones; in France, the regions of Languedoc-Roussillon, Corsica, Provence-Alpes-Côte d'Azur, Aquitaine and Midi-Pyrénées and the departments of Drôme and Ardèche. The conurbations of Marseilles, Bordeaux, Toulouse, Rome, Naples, Palermo, Florence and Genoa and built-up coastal areas with all-year-round tourist activity are, however, excluded from assistance under the programmes. The IMPs are targeted

towards three objectives: development, adjustment and support for employment and incomes. They will run for a maximum of seven years and be aimed at all sectors of economic activity. They must be concerned in particular with the development of small and medium-sized industrial and commercial enterprises and the promotion of new service activities that could help reduce the unemployment problem, take account of the contribution made by new technologies and promote improvement of the facilities for energy production, communications, training and environmental protection and of infrastructure in general.

The programmes will be linked to the measures already taken under the socio-structural policies, in particular the Community's regional development policy and the specific sectoral policies, which will continue to cover these regions in the normal way. The new measures envisaged will boost or complement those already covered by the existing structural funds.

The overall funding package earmarked for IMPs, to cover the period 1986-1992, amounts to 6.6 billion ECUs, split up as follows:

— 4.1 billion ECUs from budgetary funds, of which 2.5 billion from existing Community structural funds and 1.6 billion in the form of an additional budgetary allocation. Two billion of this total is reserved for operations in Greece.

— 2.5 billion ECUs in loans from the Bank, from EIB own and/or New Community Instrument resources, for projects selected in line with the EIB's customary criteria and procedures.

Projects and programmes to be financed will be formulated by national or regional authorities, for subsequent referral to an advisory committee composed of representatives of the Member States and chaired by the Commission. Although the EIB will be represented on this committee, loans granted by the Bank will, nevertheless, still be subject to its habitual appraisal, approval and monitoring procedures.

The regulations provide for the possibility of joint financing under the various types of Community funding, up to a maximum of 70% of the total cost irrespective of the form such assistance may take. In Greece, however, an exception to this ceiling is made for infrastructure projects of special interest and partly financed by loans.

The loans would, of course, be deployed alongside other financing operations attracting EIB support in the countries concerned, either for projects located in other regions or for investment schemes in the regions eligible which are not in a category to fall within the ambit of IMPs.

Having financed projects in Spain and Portugal to help pave the way for these two countries' accession to the Community, the EIB is now lending its support to the efforts being made to promote smoother and more balanced development of the enlarged Community's economy.

European and Japanese Banks Meet

In July a meeting took place in Tokyo between Members of the Club of Institutions of the European Community specialising in Long-Term Credit and six major Japanese Banks.

The "Club" was established in 1973. It is composed of government-affiliated long-term financing institutions, one in each EC Member-State. Spain and Portugal, scheduled to become Members of the European Community on 1 January 1986, are also represented in the Club by a long-term credit institution from each country. In keeping with the objective of strengthening economic and financial links in the Community, Club-members seek opportunities for joint financing operations. To this end, regular meetings are held at a presidential level. At an executive level common operational and legal problems are discussed and studies carried out. The EIB acts as the secretariat of the Club and acts as coordinator. Its formal status is that of an observer as is that of the Commission of the European Communities.

The Japanese participants in the Tokyo conference were government-affiliated and private long-term credit banks as well as foreign exchange and development banks. (See box for full list of participants and observers)

The 4-day conference, organised in cooperation with the European Investment Bank, focused on the con-

ditions for the establishment of industrial enterprises in Japan and Europe. Its main purpose was to enable the participating banks to further mutual understanding through an exchange of information regarding the functions and characteristics of each financial institution as well as the investment environment in both Europe and Japan, thereby contributing to increasing the pace of two-way investment in the two areas.

In 1984, direct investments by Japanese corporations in Europe amounted to approximately two billion US dollars, representing a year-to-year increase of 95.7%. In particular, investments by manufacturing industries registered a substantial growth. Although both the number of ventures and the amount invested by Europeans in Japan are increasing and reached about one billion US dollars last year, they are no match by comparison.

This investment gap has been widening over the years, but in a joint statement the participants underlined their intention to help remedy the existing imbalances and eliminate trade friction between Japan and Europe. By establishing contacts and being more extensively informed on the conditions for investment in Japan and the Community, the participating banks will be better placed to encourage direct overseas investment, joint ventures or business cooperation.

The Tokyo Conference on the Conditions of Establishment for Industrial Enterprises in Japan and Europe (8-11 July, 1985)

Club Members and Observers:

Crédit National (C.N.) — France; Investors in Industry Group plc (3i) — United Kingdom; Finansieringsinstituttet for Industrie og Handvaerk (FIH) — Denmark; Hellenic Industrial Development Bank (ETBA) — Greece; Industrial Credit Corporation plc (ICC) — Ireland; Istituto Mobiliare Italiano (IMI) — Italy; Kreditanstalt für Wiederaufbau (KfW) — West Germany; Nationale Investeringsbank (NIB) — Netherlands (not present in Tokyo); Société Nationale de Crédit à l'Industrie (SNCI-B) — Belgium; Société Nationale de Crédit et d'Investissement (SNCI-L) — Luxembourg; Banco de Credito Industrial (BCI) — Spain; Banco de Fomento Nacional (BFN) — Portugal.

The Commission of the European Communities; European Investment Bank.

Japanese banks and observers

The Bank of Tokyo, Ltd.; The Export-Import Bank of Japan; The Industrial Bank of Japan, Limited; The Japan Development Bank; The Long-Term Credit Bank of Japan, Limited; The Nippon Credit Bank, Ltd.

The Ministry of Foreign Affairs "MOFA"; The Ministry of Finance "MOF"; The Ministry of International Trade and Industry "MITI"; The Federation of Economic Organizations "Keidanren"; Japan External Trade Organization "JETRO".

European Investment Bank says Eureka!

The European Investment Bank has, in addition to the objectives it traditionally gives priority (regional development, energy, industry and infrastructure of Community interest), stepped up efforts to finance projects fostering important **advanced technology developments** in the Community. To this end the Board of Governors, at its annual meeting in June 1984, acting on the basis of recommendations made by a working party of the EIB's Board of Directors, endorsed specific guidelines for the Bank's lending policy in this field. Thus, advanced technology projects to be eligible for EIB-finance should involve the manufacture of technologically advanced products not yet widely diffused throughout the Community, or they should bring about the development of new technology production processes. Particular attention, the Board of Governors stipulated, should be given to industrial cooperation projects between firms in different Member States.

An important step to master new technologies in a Community context was taken at the **Milan meeting** of the European Council on 28-29 June 1985. On this occasion the Heads of State and Government of the Community Member States approved proposals by the Commission of the European Communities for strengthening technological cooperation. They also gave their support to the Eureka programme.

As the outlines of Eureka become more clearly defined, it seems obvious that the programme should be seen as supplementary to existing Community efforts in the field of new technologies. The Programme also has much in common with an indicative list, annexed to the guidelines of the EIB's Board of Governors, of sectors and products the Bank might finance investment projects in. This list covers:

- Office systems; data-processing, telematics;
- Electronic circuits; micro-processors, opto-electronics;
- Advanced machine-tool industries (robotics; automation, etc.);
- Biological engineering;
- Space technology;
- Advanced energy technology;
- Aeronautics;
- Biomedical engineering;
- New materials, composite materials;
- Equipment for environmental protection and recycling purposes;

— Aquaculture.

These areas are characterised by their potential industrial and socio-economic impact.

An important aspect of Eureka is the emphasis on the development and eventual manufacture of **marketable products**. It is in this context that the European Council recommended that the Community dimension should be exploited, inter alia by having recourse to the financing facilities of the European Investment Bank.

The development and manufacturing of marketable advanced technology is fully in line with the recent guidelines laid down by its Board of Governors. Given the information available at the moment, it seems likely that once specific Eureka projects have been decided on, they may meet one or several of the Bank's **eligibility criteria**. First, industrial cooperation between firms in different Member States is very much in the forefront of the Eureka programme. The initiative has attracted the broad support of all Member States of the Community and Spain and Portugal, scheduled to become Members on 1 January 1986, as well as the support of Austria, Finland, Norway, Sweden and Switzerland. Second, the overall aim of Eureka is to provide a framework to meet Europe's high-tech challenge and to boost European competitiveness in this field. Both close technical and economic cooperation between enterprises in different Member States and increasing the competitiveness of Community industry fall under the general heading of EIB-financing for projects of Community interest; a task the Treaty of Rome specifically charged the European Investment Bank with.

EIB funding for advanced technology projects is by no means new. Over the last decade the Bank has financed a wide range of high-tech investments from satellite systems, to advanced telecommunications, modern means of transportation, biomedical projects, and recycling equipment. Among its borrowers are well-known international corporations as well as smaller firms. The Bank's involvement has further increased in recent years. In 1983 and again in 1984 loans for advanced technology projects reached over 200 million ECUs. Lending this year already totalled over 250 million ECUs on 1 September. This figure

includes for the first time funds made available in France for technological innovations by **small and medium-sized** enterprises. At present the Bank is considering making this type of loan available in other countries as well.

ECU

Below are the ECU's values in national currencies, as at 30 September 1985; these rates are applied to the present quarter in preparing financial statements and operational statistics of the Bank:

DM	2.21245	Bfrs	44.8803
£	0.589526	Lfrs	44.8803
Ffrs	6.79146	Dkr	8.04946
Lit	1 494.63	Dr	108.590
Fl	2.49411	IR£	0.715963
		US\$	0.826221

N.B.: ECU/national currency conversions given in this issue are based on different exchange rates, applicable at the time of each contract signature.

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