



COMMISSION OF THE EUROPEAN COMMUNITIES

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Proposal for a

COUNCIL DECISION

granting a Community guarantee to the European Investment Bank against losses under loans for projects of mutual interest in Latin American and Asian countries with which the Community has concluded cooperation agreements

(Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Salvador, Uruguay and Venezuela; Bangladesh, Brunei, China, India, Indonesia, Macao, Malaysia, Pakistan, Philippines, Singapore, Sri Lanka, Thailand and Vietnam)

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. Introduction

The present communication concerns the renewal of the Community guarantee for EIB loans in respect of investment projects of mutual interest carried out in Latin American and Asian countries with which the Community has concluded cooperation agreements.

The Bank's current lending programme is governed by Council Decision 93/115/EEC of 15 February 1993 granting a full budget guarantee for EIB loans in the above region up to a maximum of ECU 250 million per year, for a period of three years.¹ The Decision stipulates that the ceiling will be reviewed at the end of the period.

2. The European Community's cooperation policy with Latin America and Asia

The European Community has an extensive network of relationships with a large number of countries in Latin America and Asia. The historical, cultural and economic ties with these countries are reflected in a cooperation policy established by the Community in 1976 with some countries and broadened over the years up to the Council Decision of February 1993 concerning EIB operations.

At its recent meetings in Corfu, Essen and Cannes, the European Council expressed its willingness to strengthen relations between the Community and the regional organizations and countries in Latin America and Asia. The financing provided by the EIB in the region is part of the Community's cooperation policy with non-member countries and constitutes an important element in the development of the overall strategy towards closer cooperation with these countries. The Bank's activities also serve to enhance the presence of the Community in the world.

The process of reinforcing and intensifying relations with countries in these two regions is gradually taking place.

The Council and the Commission signed a Solemn Joint Declaration with the Mercosur Member States² on 22 December 1994 and with Mexico³ on 2 May 1995. In both declarations, the parties expressed their wish to strengthen relations, committed themselves to initiating negotiations on new agreements and stressed their interest in continuing and strengthening EIB activities in the countries

¹ OJ No L 45, 23.2.1993.

² OJ No C 377, 31.12.1994.

³ OJ No

concerned. In the case of Mercosur, the Council entrusted the Commission on 12 June 1995 with a mandate to negotiate an interregional framework agreement covering economic and trade cooperation. This agreement has now been initialled and is due to be signed in December 1995.

On 5 May 1995 the Commission sent a communication to the Council and Parliament on the strengthening of relations between the European Community and Chile⁴.

On 17 July the European Community signed a cooperation Agreement with Vietnam,⁵ now a member of the Association of South-East Asian Nations (ASEAN).

The development of relations with Latin American countries was welcomed by the European Council at Cannes in June 1995. Likewise, the Council looked forward to the Euro-Asian Summit to be held in the first half of 1996.

3. EIB activities in Latin America and Asia

The EIB has been active in Latin America and Asia for just over two years. Their own special features apart, the two regions comprise countries where growth has been strong or where growth is expected to strengthen because of the pursuit of appropriate macroeconomic, trade and exchange-rate policies. The Bank has been able to reach the annual ceiling of ECU 250 million without difficulty. In fact, it reports that demand far exceeds the available funds and that European firms show an increasing interest in the Bank's activities in the area.

In accordance with the mandate given by the Council, the Bank has financed investment projects of interest to both the beneficiary countries and the Community. The projects chosen satisfy one or more of the following criteria: regional integration, improvement of the environment, transfer of European technology and joint ventures between European and local firms. The Bank has, as far as possible, maintained a fair distribution between the two regions and between the different countries. At the end of the second year of activity, the Bank had approved 6 operations for a total of ECU 277 million in Latin America and 7 operations for a total of ECU 223 million in Asia. In the distribution of loans, the Bank has favoured those countries where the financial situation lends itself to the type of resources proposed. A certain degree of priority has been given to countries which are in the process of strengthening their ties with the Community.

The terms and conditions of EIB lending are given in Annex 1 and details of the operations being carried out under the current mandate in Annex 2. Most of the projects listed concern the public sector. Nevertheless, the share of projects in support of the private sector has increased, accounting for 42% of the annual ceiling during the second year and expected to reach 60% during the third year of activity.

⁴ COM(95)232, 31.5.1995.

⁵ OJ No

The Bank cooperates and coordinates with the financial institutions operating in Latin America and Asia (International Bank for Reconstruction and Development - IBRD; Asian Development Bank - AsDB; Inter-American Development Bank - IDB). Together, they jointly finance the projects undertaken in the public sector (see Annex 2).

The Bank is currently examining many other proposals with a view to the approval of financing projects for the remaining ECU 250 million.

4. Renewal of EIB operations

EIB loans in Latin America and Asia are subject to the arrangements set out in Council Regulation (EC, Euratom) No 2728/94 establishing a Guarantee Fund for the Community's external actions.⁶ In this context, the Commission Communication to the Council entitled "Limits imposed by the Guarantee Fund mechanism on Community loans and loan guarantees in respect of third countries"⁷ shows that, under current rules, there is not enough margin within the reserve to consider the reinforcement or even the renewal of EIB multiannual packages while, at the same time, maintaining a minimum level of balance-of-payments loans. Current information indicates that difficulties will arise mainly in 1997 and 1998.

In these circumstances, it would seem appropriate for the renewal of all EIB multiannual packages in third countries to be scheduled to coincide with each other so that fair decisions can be taken on the sharing-out of existing margins within the reserve for loans and loan guarantees.

Given that the renewals of EIB operations in the Mediterranean and in central and eastern Europe are scheduled to take place at the end of 1996, the Commission suggests that the guarantee for multiannual loans in Latin America and Asia should be renewed at the same time. To this end, the Commission proposes that, in the meantime, EIB lending in Latin America and Asia be continued for one year only and that, in order to allow for possible Community loans during the same period, it be restricted to ECU 410 million.

It is proposed that the budget guarantee should cover 100% of all loans signed during the period.

Furthermore, in view of the recent cooperation agreement signed with Vietnam, the Commission also proposes that Vietnam be included among the beneficiary countries. This would bring the total number of countries benefiting from the loan programme to 30 (17 in Latin America and 13 in Asia).

⁶ OJ No L 293, 12.11.1994.

⁷ COM(95)404, 27.7.1995.

As under the previous mandate, the renewal will focus on projects of mutual interest the financing of which will be subject to the Bank's usual criteria. Decisions to finance a specific project will be taken on a case-by-case basis by the EIB Board of Directors.

The Commission and the EIB shall continue to work closely in the context of the strengthening of the cooperation agreements with Latin American and Asian countries and shall exchange any relevant information on financing that they envisage granting to ensure consistency of cooperation and to improve complementarity between the Bank's operations and the European Community Investment Partners (ECIP) facility.

5. Conclusion

The Commission proposes that the Council:

- call on the EIB to continue its lending operations, under its usual terms and conditions, to investment projects of mutual interest in the Latin American and Asian countries with which the Community has concluded cooperation agreements;
- include Vietnam among the beneficiary countries;
- grant a Community budget guarantee to the European Investment Bank in respect of 100% of all loans signed within a ceiling of ECU 410 million over an indicative period of one year;
- adopt the attached Decision.

CONDITIONS OF EIB LOANS

In general terms, the EIB operates in third countries as it does in the Community. The Bank issues bonds and makes loans, passing on to the borrower, following the customary rules, the conditions obtained by the Bank.

1. **Currencies:** *disbursements are made in one or several currencies, following the customer's requirements and the Bank's resources. In all cases, the credit is denominated in ECU.*
2. **Duration:** *this is a function of the type of projects and the nature of the borrowing. In general:*
 - *industrial projects: 8 to 10 years;*
 - *infrastructure projects: 12 to 20 years.*
3. **Interest rate:** *the rate of borrowing from the market incremented by a small margin to cover administrative expenses.*

The interest rate is conditioned by the currency requested for disbursement and is normally fixed for the duration of the contract; other formulae could be considered.
4. **Payment:** *in the same currency as the loan; usually in 6 month instalments (following a grace period determined according to the project characteristics).*
5. **Call for tender:** *international competition or similar procedures apply.*
6. **Guarantee:** *the guarantee of the State concerned is requested, although other first class guarantees could be envisaged.*

SUMMARY TABLE

ANNEX 2

OF DECISIONS TAKEN BY THE EIB BOARD OF DIRECTORS BETWEEN 23 FEBRUARY 1993 AND 22 FEBRUARY 1995

Country	Project title	Sector	Amount committed (ECU million) (approved by the Board of Directors)		Amount signed (ECU million)	Remarks
			2/93 - 2/94	2/94 - 2/95		
Costa Rica	ICE Costa Rica	Energy (public)	44		44	Joint financing with the Inter-American Development Bank (IDB)
Argentina	Mercosur highway	Transport (public)	45			Joint financing with the IDB
Argentina	BAN (Buenos Aires Norte) natural gas	Distribution of natural gas (private)	46		46	Private project - public service concession
Chile	CTC (Compañía de Teléfonos de Chile)	Telecommunications (private)		75	75	Private project - public service concession
Peru	Pan American Highway	Transport (public)		27		Joint financing with the IDB
Brazil	CESAN	Sanitation (public)		40		Joint financing with the World Bank
TOTAL LATIN AMERICA			135 (54%)	142 (57%)	165 (52%)	
India	Powergrid	Energy (public)	55		55	Joint financing with the World Bank
Thailand	Erawan gas pipeline	Natural gas transmission (public)	40		40	Joint financing with the World Bank and the Asian Development Bank (AsDB)
ALA	Global authorization	Industry in the private sector	20			Used in 1994 for a project in the private financial sector in Indonesia (ECU 8 million). The available balance is to be used in 1995 for a private project in Pakistan
Pakistan	KESC	Energy (public)		36	36	Joint financing with the AsDB
Philippines	Davao airport	Transport (public)		25		Joint financing with the AsDB
Philippines	DUCC cement	Industry (private)		23	23	Private project - industrial joint venture
Indonesia	Gas transmission (Sumatra)	Gas transmission (public)		24		Joint financing with the AsDB EIB loan for the project: ECU 46 million, of which 24 million allocated under the 1994 budget and 22 million under 1995
TOTAL ASIA			115 (46%)	108 (43%)	154 (48%)	
TOTAL			250 (100%)	250 (100%)	319 (64%)	
GRAND TOTAL				500	319	

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard of the Treaty establishing the European Community, and in particular Article 235 thereof,

Having regard to the proposal from the Commission,⁸

Having regard to the opinion of the European Parliament,⁹

Whereas on 13 and 14 May 1991 the Council decided, on the basis of a communication from the Commission, on a limited extension of European Investment Bank (EIB) operations in those third countries with which the Community has concluded cooperation agreements;

Whereas on 8 July 1991 the Council confirmed these guidelines;

Whereas on 19 May 1992 the Council decided on the guidelines to be applied for loans from the EIB granted in third countries with which the Community has concluded cooperation agreements;

Whereas the EIB is completing an initial three-year loan programme for these countries pursuant to Council Decision 93/115/EEC,¹⁰ with encouraging results according to the Bank's report on this first phase;

Whereas, pursuant to Council Decision 93/115/EEC,¹⁰ this programme should be renewed;

Whereas the European Council, in Corfu in June 1994 and in Essen in December 1994, confirmed the intention of strengthening cooperation with countries in Asia and the wish to establish a new and extended partnership between the European Community and the Latin American countries;

⁸ OJ No C

⁹ OJ No C

¹⁰ OJ No L 45, 23.2.1993.

Whereas the Council and the Commission signed a Solemn Joint Declaration with the Mercosur Member States ¹¹ on 22 December 1994 and with Mexico ¹² on 2 May 1995 in which the parties expressed their wish to strengthen their relations, committed themselves to initiate negotiations for new agreements and stress their interest in continuing and strengthening EIB activities in the region; whereas the Council entrusted the Commission on 12 June 1995 with a mandate to negotiate an interregional framework agreement covering economic and trade cooperation with Mercosur;

Whereas the European Community and Vietnam signed a cooperation agreement on 17 July 1995; ¹³

Whereas the Council is calling on the Bank to continue its operations in support of investment projects of mutual interest carried out in those third countries by offering it the guarantee provided for in this Decision;

Whereas this guarantee is subject to the conditions set out in the Council Regulation (EC, Euratom) of 31 October 1994 establishing a Guarantee Fund for the Community's external actions; ¹⁴

Whereas the Bank and the Commission will adopt the procedures for granting the guarantee;

Whereas, for the purpose of adopting this Decision, the only powers provided for by the Treaty are those under Article 235,

11 OJ No C 377, 31.12.1994.

12 OJ No

13 OJ No

14 Council Regulation (EC, Euratom) No 2728/94 (OJ No L 293, 12.11.1994).

HAS DECIDED AS FOLLOWS:

Article 1

The Community shall grant the European Investment Bank a guarantee of 100% in accordance with Article 4 in cases where the Bank does not receive the payments due under loans granted in accordance with its usual criteria for projects of mutual interest in those third countries with which the Community has concluded cooperation agreements.

This guarantee shall be restricted to an overall loan ceiling of ECU 410 million over a one-year period beginning on the date the present Decision takes effect. If, on expiry of this period, the loans granted by the Bank have not attained the overall amount referred to above, the one-year period shall be automatically extended by six months.

The countries concerned by the present Decision are: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Salvador, Uruguay and Venezuela; Bangladesh, Brunei, China, India, Indonesia, Macao, Malaysia, Pakistan, Philippines, Singapore, Sri Lanka, Thailand and Vietnam.

Article 2

The Commission shall inform the European Parliament and the Council every six months of the situation regarding loans signed. To that end, the Bank shall regularly transmit to the Commission the appropriate information.

Article 3

At the end of the loan period, the Commission shall inform the European Parliament and the Council of the loan operations and shall, at the same time, submit an assessment of the operation of the scheme and of coordination between the financial institutions operating in that area.

Article 4

Detailed rules for the application of this Decision shall be laid down in an agreement to be concluded between the Commission and the Bank.

Article 5

This Decision shall take effect on the day of its publication in the Official Journal of the European Communities.

Done at Brussels,

For the Council

The President

FINANCIAL STATEMENT

1. TITLE OF THE OPERATION

Guarantee of the European Community in respect of loans made by the European Investment Bank in Latin American and Asian countries with which the Community has concluded cooperation agreements.

2. BUDGET HEADING CONCERNED

Article B0-222: Guarantee of the European Community to the European Investment Bank for loans in Latin American and Asian countries with which the Community has concluded cooperation agreements.

3. LEGAL BASIS

To be provided by the proposed decision, on the basis of Article 235 of the Treaty.

4. DESCRIPTION OF THE OPERATION

The budget entry is intended to provide budgetary back-up for guarantees offered by the European Community to the European Investment Bank to cover 100% of all loans for a maximum of ECU 410 million for an indicative one-year period which the Bank has been asked to extend in order to finance projects in Latin American and Asian countries with which the Community has concluded cooperation agreements.

5. CLASSIFICATION OF EXPENDITURE

Compulsory.

6. NATURE OF EXPENDITURE

A guarantee to the European Investment Bank.

7. FINANCIAL IMPACT ON APPROPRIATIONS FOR OPERATIONS

Only in case of a call on the guarantee.

7.1 Method of calculation

A token entry is proposed, given that the amount and timing of any call on this budget heading cannot be calculated in advance and, furthermore, it is to be hoped that this entry will not be called on.

7.2 Cost distribution by elements of the operation

Not applicable.

7.3 Operational expenditure relating to studies, expert meetings, etc.

Not applicable.

8. FINANCING OF EXPENDITURE FOR OPERATIONS

- In the event of a default, payments would be made directly from the Fund to the creditor.

If the Fund did not contain sufficient resources to cover a default, additional payments would be called up from the budget, with

- any margin remaining in the reserve being the first recourse;
- any margin available under the ceiling of Category 4 of the Financial Perspective or following redeployment within Category 4 being the second recourse;
- a revision of the Financial Perspective in line with the provisions of the Interinstitutional Agreement, which might involve redeployment within other categories, being the third recourse.
- In order to meet its obligations, the Commission may undertake debt service provisionally by drawing on its liquid assets. In this case, Article 12 of Council Regulation (EEC, Euratom) No 1552/89 of 29 May 1989 is applicable.

9. COST-EFFECTIVENESS ANALYSIS

9.1 (i) Quantifiable objectives: See point 4 above.

(ii) Population: Countries in Latin America and Asia specified in the Council Decision.

9.2 Justification of operations

To foster the economic development of the countries concerned.

9.3 Follow-up and evaluation of the action

Not applicable.

10. FINANCIAL IMPACT ON STAFF COST AND OPERATIONS

Not applicable.

11. IMPACT ON THE RESERVE FOR GUARANTEES

11.1 Estimated schedule of loans to be signed while the decision is in force:

1996: ECU 410 million (guaranteed at 100%)

11.2 Estimated use of the guarantee reserve to provision the Guarantee Fund.¹⁵

1996: ECU 61.50 million

11.3 Estimated use of the guarantee reserve, including the present proposal (ECU million).¹⁶

	1995	1996	1997	1998	1999
Amount of reserve	323	326	336	346	356
Margin within the reserve	72	28	304	317	314

¹⁵ 15% provisioning rate on the guaranteed operation.

¹⁶ Situation as at 14.12.1995.

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