European Communities

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Working Documents

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DOCUMENT 36/78

Report

drawn up on behalf of the Committee on Budgets

on the proposal from the Commission of the European Communities to the Council (Doc. 546/77) for a decision empowering the Commission to issue loans for the purpose of promoting investment within the Community

Rapporteur: Mr A. SPINELLI

PE 52.694/fin.

1.2.2

English Edition

By letter of 8 February 1978 the President of the Council of the European Communities requested the European Parliament to deliver an opinion on the proposal from the Commission of the European Communities to the Council for a decision empowering the Commission to issue loans for the purpose of promoting investment within the Community.

The President of the European Parliament referred this proposal on 15 February 1978 to the Committee on Budgets as the committee responsible and to the Committee on Economic and Monetary Affairs and the Committee on Regional Policy, Regional Planning and Transport for their opinions.

On 1 March 1978, the Committee on Budgets appointed Mr SPINELLI rapporteur.

It considered this proposal at its meeting of 21 March 1978.

At the same meeting the committee adopted the motion for a resolution by 11 votes to 1 with 1 abstention.

Present: Mr Aigner, vice-chairman and acting chairman; Mr Bangemann, vice-chairman; Mr Spinelli, rapporteur; Mr van Aerssen, Mr Amadei, Lord Bruce of Donington, Mr Hansen, Mr Normanton (deputizing for Lord Bessborough), Mr Notenboom, Mr Ripamonti, Mr Ryan, Mr Shaw and Mr Wurtz.

The opinion of the Committee on Regional Policy, Regional Planning and Transport is attached.

The opinion of the Committee on Economic and Monetary Affairs is being published separately.

C O N T E N T S

A

The Committee on Budgets hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the Commission's proposal for a decision empowering the Commission to issue loans for the purpose of promoting investment within the Community.

The European Parliament,

- having regard to the proposal from the Commission of the European Communities to the Council[1],
- having been consulted by the Council (Doc. 546/77),
- having regard to the report of the Committee on Budgets and the opinions of the Committee on Economic and Monetary Affairs and the Committee on Regional Policy, Regional Planning and Transport (Doc. 36/78),
- having regard to Parliament's powers and in particular the budgetary powers vested in it as set out in Article 203 of the EEC Treaty and the inter-institutional conciliation agreement on Community acts with financial implications[2],

1. Welcomes the Commission's proposal on condition that it is amended in accordance with this resolution, so that:
   (a) the new financial instrument will be placed at the service of a policy to revitalize the Community;
   (b) borrowings under the instrument will be entered in the budget and approved in accordance with the budgetary procedure;
   (c) the Commission will be directly responsible for granting loans;

2. Calls therefore on the Commission to adopt, pursuant to Article 149, second paragraph, of the EEC Treaty, the following amendments;

3. Reserves the right to invoke the conciliation procedure should the Council depart from this opinion.

[1] OJ No. C 37 of 14.2.1978, p.7

[2] OJ No. C 89 of 22.4.1975

TEXT PROPOSED BY THE COMMISSION OF THE EUROPEAN COMMUNITIES [1]	AMENDED TEXT
COUNCIL DECISION EMPOWERING THE COMMISSION TO ISSUE LOANS FOR THE PURPOSE OF PROMOTING INVESTMENT WITHIN THE COMMUNITY	
Preamble unchanged	
Recital 1	Recital 1
- Whereas economic activity, employment and investment in the Community are all too low;	- Whereas economic activity, employment and investment are all too low and unevenly distributed in the Community;
Recitals 2 and 3 unchanged	
Recital 4	Recital 4
- Whereas this Community action should aim to realize structural investment projects conforming to priority Community objectives especially in the energy, industry and infrastructure sectors,	- Whereas this Community action should aim to realize structural investment projects which contribute to greater convergence and integration of national economic policies and conform to priority Community objectives especially in the energy, industry and infrastructure sectors,
Recitals 5 and 6 unchanged	
Recital 7	Recital 7
- Whereas borrowings of one thousand million EUA in capital seem right in the present circumstances to achieve the desired result;	- Whereas borrowings of one thousand million EUA in capital seem right in the present circumstances to help to achieve the desired result;
	Recital 7a (new)
	- Whereas the EEC's financial activities should be determined parallel to and within the framework of budgetary policy and should be subject to the budgetary authority's control,
Recital 8 unchanged	
Article 1	Article 1
The Commission is enabled to issue loans on behalf of the European Economic Community the proceeds of which will be lent to finance investments. These investments, which will help to attain the Community's priority objectives, will be made in energy-related and industrial projects and in infrastructure projects, taking account of their regional impact, as well as in other sectors to be defined by the Council according to the procedure laid down in Article 2. These projects, because of their size or nature, are those which need greater finance than is already available from existing institutions and organs of the Community.	The Commission is empowered to issue loans on behalf of the European Economic Community, the proceeds of which will be lent to finance investments which contribute to greater convergence and integration of the economic policies of the Member States and conform to the Community's priority objectives in the energy, industrial and infrastructure sectors, taking account of their regional impact as well as in other sectors to be defined by the Council in accordance with the procedure laid down in Article 2. These projects, because of their size or nature, are those which need greater finance than is already available from existing institutions and organs of the Community.

[1] For complete text see OJ No. C 37 of 14.2.1978, p.7

TEXT PROPOSED BY THE COMMISSION OF THE EUROPEAN COMMUNITIES	AMENDED TEXT
Article 2	Article 2
Loans, limited by this decision to one billion EUA, will be activated tranche by tranche. The Council acting by a qualified majority on a proposal of the Commission shall activate each tranche and fix general guidelines for its use for each tranche. The Commission will specify rules by which it will determine the eligibility of projects.	The loans and their entry in the budget - which is required if they are to be guaranteed by the Community - shall be approved by the budgetary authority acting on a proposal from the Commission, in accordance with normal budgetary procedure. At the same time the decision fixing the general guidelines for the use of the loans shall be adopted by majority vote of the Council on a proposal from the Commission and after consulting Parliament in accordance with the legislative conciliation procedure. On the basis of this decision the Commission will specify rules by which it will determine the eligibility of projects. During the first year in which this decision is implemented, loans shall not exceed one thousand million EUA in capital.
The Commission will borrow on the capital markets within the limits of the tranches activated. A single borrowing can be used to finance projects with different objectives.	The Commission shall borrow on the capital markets within the limits of the amounts authorized. A single borrowing can be used to finance projects with different objectives.
Article 3	Article 3
Borrowing and lending transactions shall be expressed in the same currency. Lending terms for reimbursement of capital and the rate and payment of interest shall be fixed taking account of the costs and expenses of both the borrowing and lending side of each transaction.	Borrowing and lending transactions shall be expressed in the same currency. Lending terms for reimbursement of capital and the rate and payment of interest shall be fixed taking account of the costs and expenses of both the borrowing and lending side of each transaction, as well as all other conditions to which, by virtue of common policies, the granting of these loans can or must be subject.
Article 4	Article 4
The terms of the loans to be issued shall be negotiated by the Commission in the best interests of the Community having regard to the conditions on capital markets and in accordance with the constraints imposed by the duration and other financial aspects of the loans to be granted. Funds borrowed will be deposited with the European Investment Bank to be invested on a temporary basis if necessary.	Unchanged.

TEXT PROPOSED BY THE COMMISSION OF THE EUROPEAN COMMUNITIES	AMENDED TEXT
Article 5	Article 5
The Commission hereby gives the Bank a general mandate on behalf of the Community to make loans under this present Decision.	Loans made under this decision shall be granted by the Commission in accordance with the following procedure:
Loans under this mandate will be made by the Bank for and at the risk of the Community. In accordance with procedures laid down by its Statute, and following its usual criteria, the Bank will:	- requests for loans shall be submitted to the Commission which, if it finds them eligible, shall forward them to the European Investment Bank;
receive loan requests, (either directly or else through the intermediation of either the Commission or a Member State), examine these requests (after the Commission has decided on the eligibility of each loan), decide whether to make the loans and if so on what terms, and to administer the loans.	- the EIB shall examine the requests from the point of view of their financial soundness and shall communicate its opinion to the Commission; - the Commission shall decide whether to make the loans and, if so, on what terms, - the EIB shall be responsible for administering the loan on behalf of the Community.
The Bank's mandate will be embodied in a cooperation agreement with the Commission.	The EIB's mandate from the Commission regarding the temporary investment of loans, the examination of requests for loans and the administration of loans shall be set out in a cooperation agreement between the EIB and the Commission. Should the EIB be unable to accept this task it shall be carried out by the specialized departments of the Commission.
Article 6	Article 6
The Commission shall periodically inform the Council and Parliament of receipts and expenses resulting from borrowings and lendings. Each year it shall submit a review of its borrowing policy together with the budget estimates.	The Commission shall periodically inform the Council and Parliament of receipts and expenses resulting from borrowings and lendings. Each year it shall attach to its estimates a review of its borrowing and lending policy, which shall be considered as an integral part of the annual budget.
Financial control and audit will be carried out in accordance with the Financial Regulation of the general budget of the European Communities.	Financial control and audit will be carried out in accordance with the Financial Regulation of the general budget of the European Communities.

B

EXPLANATORY STATEMENT

Technical aspects of the Commission's proposal

1. This proposal is based on Article 235 of the Treaty; it thus entails an opinion by Parliament and a Council decision adopted unanimously.

2. Its purpose is to make possible the financing of investment projects that conform to priority Community objectives: in the sectors of energy, industry, infrastructure - having regard to their regional impact - as also in any other sectors specified by the Council.

3. It involves the establishment of a new instrument whereby the Community's creditworthiness may be used to stimulate an economic upturn and to support common policies.

Loans will be made in accordance with the following procedure:

- the maximum amount of the loans is fixed at 1,000 m EUA (revolving fund);
- the Council, acting on Commission proposals, will activate each tranche of the loans; it will lay down the general objectives for these tranches and set out, for each tranche, the criteria to which the projects will have to conform;
- within the limit of the tranches activated by the Council, the Commission will borrow on the capital markets;
- the funds borrowed will be transferred to the EIB, which will invest them temporarily;
- loans will be granted by the EIB on a general mandate from the Commission (for the Community's account and at the Community's risk):
    - (a) the Commission will decide on the eligibility of projects, i.e. whether they conform to the objectives laid down for the tranches,
    - (b) the Bank will decide on the granting of loans and on the terms thereof (duration, rates ...); its decision will be based on banking criteria;
- the Commission will report periodically to Parliament on progress made with the operations envisaged;
- control of these operations shall be effected in accordance with the Financial Regulation, which means that the Court of Auditors shall have jurisdiction and Parliament the right of discharge.

4. A cooperation agreement between the Commission and the Bank will set out in detail the arrangements for carrying out the general mandate given to the Bank for administering the loans; it is also probable that one or more implementing regulations will be needed to set out certain other details of procedure concerning the loan mechanism.

Assessment of the Commission's proposal

5. The idea of loans for a Community investment policy, provided it is well conceived and well implemented, could represent an important step towards the achievement of economic and monetary union and could become a not inconsiderable instrument for promoting an economic revival in the Community. Consequently, it cannot but meet with the European Parliament's approval. However, the procedure followed by the Commission in preparing this proposal and the actual content of the proposal necessitate the following remarks.

A - Procedure in drawing up the proposal

6. Parliament must strongly protest at the fact that the Commission has entirely ignored its solemn undertaking to involve Parliament from the very beginning in the preparation of any proposal of such importance.

Mr Jenkins stated to the European Parliament (8.2.1977) that the Commission would not forward any proposal to the Council without having first considered, seriously and systematically, whether it was likely to receive the approval of the majority of the Assembly. It is clear that such an undertaking can be honoured only if the Commission takes account of Parliament's opinion during the elaboration of the proposal, ascertaining in advance whenever possible the probable reaction of Parliament, and only if, when submitting the proposal to the Council, it also announces it to Parliament by means of a statement setting forth its political considerations.

7. Instead of this, in the course of its elaboration - which has taken exactly one year - the proposal in question has followed the itinerary detailed below:

25 - 26 March 1977 - The Commission announces to the European Council alone its intention of possibly having recourse to a new financial instrument to promote convergence of the economies.

18 May 1977 - The Commission instructs its Vice-President Mr Ortoli to draw up a communication on this subject.

15 June 1977 - The communication is submitted to the European Council alone.

6 July 1977 - In commenting on the programme set forth in connection with the Belgian Presidency of the Council, Mr Jenkins announced, in addition

to much else, the submission of that communication, regretting that the European Council had unfortunately done much more discussing than decision-taking. During the debate in Parliament it is pointed out to him that the Commission should not have approached the Council on a matter of such importance without having first initiated a major debate in Parliament and received the latter's support.

17 October 1977 - After various meetings the Monetary Committee gives its opinion.

4 November 1977 - The Economic Policy Committee gives its opinion.

15 November 1977 - The Monetary Committee, at the request of the Council, gives a second opinion.

21 November 1977 - The Council of Economic and Finance Ministers refers the decision to the European Council.

5 - 6 December 1977 - The European Council pronounces in favour of the principle of creating a new instrument for loans and lays down certain conditions.

19 December 1977 - The Council of Economic and Finance Ministers asks the Commission to submit concrete proposals.

25 January 1978 - The Commission adopts the proposal for a decision adhering for the most part to the conditions laid down by the Council and by the Economic and Monetary Committees.

31 January 1978 - The proposal is forwarded to the Council.

8 February 1978 - The Council forwards the proposal to Parliament for consultation as required by the Treaty and, revealing at last the urgency of the matter, asks Parliament to deliver its opinion within some 30 days. At the same time it invites COREPER to start examining the technical aspects so that it may take a decision as soon as Parliament's opinion has been submitted and been duly entered on the Council's agenda.

27 February 1978 - COREPER and experts begin examining the proposal.

1 March 1978 - Parliament's Committee on Budgets reveives at last the draft decision and hears the report made upon it by Mr Ortoli.

8. The political absurdity of excluding Parliament in this way from the preparation of the proposal is particularly serious since the Commission knows (and states it explicitly in its letter to the Council dated 31.1. 1978) that the subject-matter of the proposal requires consultation between Parliament and the Council and that, consequently, the Council cannot take a decision before the positions of the two Institutions have been sufficiently aligned and before a new opinion has been received from Parliament.

9. By its behaviour, the Commission has harmed not only Parliament, but also, and possibly even more so, itself. Having renounced the support of Parliament, it has been quite helpless, at the mercy of reserves, doubts, frequently antagonisms, always reductive tendencies which invariably oppose any serious Community initiative, and has in fact been obliged to abandon its institutional role, which should be that of initiating proposals, formulating them in the higher interests of the Community and not allowing itself to be dictated to by monetary and economic committees, COREPER, Councils and Bank in the matter what it should propose.

10. Despite all this, Parliament, in the interests of the Community, now intends to help the Commission to return to its original idea, which was part of a grand political design.

The Committee on Budgets therefore invites the Commission to take over the amendments here proposed and to defend them before the Council.

B - Content of the proposal

11. It is clear that a proposal aimed at establishing a financial instrument cannot provide a definition of the policy it is designed to serve. But it is also clear that, until the Community has an effective policy for revitalizing the economy through an increasing convergence and integration of national economic policies, any financial instrument is liable to remain something of an abstraction and will inevitably be viewed as just one more banking instrument and, in consequence even perhaps as superfluous.

So far the Community has neither discussed nor drafted nor adopted a policy to promote economic integration. Only when the discussions, now started, on the revival of the policy for economic and monetary union are concluded and become a true Community policy, will it be possible to give a definitive appraisal of the significance of this 'new Community instrument'.

However, this does not mean that for the time being we need pay no heed to the methods by which this is to be achieved. On the contrary, we must pay the closest attention to these instruments so that, when the political conditions for their use have been created, they will be able to function properly.

12. The Committee on Budgets therefore asks first and foremost that the need for an overall economic policy be clearly stated in the preamble and in Article 1, as also at the end of Article 3, which must be drafted in such a manner as to make it clear that loans must take account of all the conditions imposed by existing and future common policies. If no such conditions were indicated, loans would be granted purely on the basis of banking considerations and the creation of this instrument would then be superfluous.

It is understandable that, in proposing this new instrument, the Commission should calculate how much capital is available and thus reaches the cautious conclusion that, taking account of other Community fund-raising (totalling approximately 3,500 million EUA), an experimental ceiling of 1,000 million EUA should be fixed. This should also help to assuage the fears of the governments of certain Member States. If, however, this ceiling is maintained indefinitely, the whole importance of the experiment is lost. We therefore ask that Article 2 should state that 1,000 million EUA will be the ceiling for the <u>first</u> year of application.

Since this first ceiling is contained in the draft decision which is to be adopted on the basis of Article 235, a unanimous Council decision is required. However, it is difficult to see why the Commission proposes that the Council alone should decide on each individual operation, even if only by a qualified majority vote.

13. The decision on individual loans is divided into two parts. Firstly, a decision must be taken on the raising of loans and on the authorization for granting loans, both of which have to be included in the budget. This decision must be taken by the budgetary authority, and more specifically by the Council at a first reading on a proposal by the Commission and by Parliament for amendments. Article 203 (4) of the EEC Treaty gives Parliament the right, acting by a majority of its members, to amend the <u>draft budget</u> (<u>without any distinction between revenue and expenditure</u>) with the sole exception of compulsory expenditure, on which it has only the right to make proposals.

Secondly, the general guidelines for the use of the loans must be fixed. This is a typical legislative proposal with financial implications and therefore subject to the legislative conciliation procedure. The Council may take a decision only when the conciliation procedure has brought the positions of the two institutions sufficiently close together, and after a further opinion by Parliament. Moreover, vital interests are not involved as only a few hundred million EUA are at stake.

14. Having proposed the abolition of some of Parliament's rights, the Commission goes on to abolish its own in Article 5. The Committee on Budgets cannot accept the present wording of this article because it places on the Community, and therefore on its budget, the burden of the risks of these loans while at the same time giving a general mandate to the EIB to decide which loans to grant.

The Commission's right to decide on the eligibility of applications for loans is very limited, as it merely provides an opinion which the Bank can ignore.

If this method of granting loans were adopted, it would be impossible to use the new financial instrument for an active policy to promote investments and it would remain merely a financial operation granting the Bank greater funds without increasing either its capital or its risks.

The Committee on Budgets therefore proposed that Article 5 be amended to eliminate the role of advisor to the EIB assumed by the Commission and instead to give the Commission full responsibility for decisions on loans and on the terms of loans. The EIB must act only as the agent of the Commission, examining whether loan applications are financially sound risks and administering the loans decided on by the Commission.

The Bank accepted this role for EURATOM loans and for the proposal for Community contracts which was never implemented. There is no reason to suppose it unable to accept the same role in this case. But it is worth pointing out that the EIB's role is not indispensable; EURATOM loans can be administered without difficulty, and probably with less expense, by the specialized departments of the Commission.

15. In conclusion, the Committee on Budgets notes the Commission's proposal to annex to the estimates a summary of the loan policy, but insists that this document be made an integral part of the annual budget and that it should specify the overall annual extent of borrowing and lending, of interest due and payable, and of commitments arising under the Community guarantee.

OPINION OF THE COMMITTEE ON REGIONAL POLICY, REGIONAL PLANNING AND TRANSPORT

Draftsman: Mr S. BROSNAN

On 1 March 1978, the Committee on Regional Policy, Regional Planning and Transport appointed Mr Brosnan draftsman.

At the same meeting the committee considered the draft opinion and adopted it unanimously.

Present: Mr Evans, chairman; Mr Albers, Lord Bruce of Donington (deputizing for Mr Ellis), Mr Damseaux, Mr Delmotte, Mrs Ewing, Mr Fuchs, Mr Hamilton, Mrs Kellett-Bowman, Mr Mascagni, Mr Osborn, Mr Schyns and Mr Seefeld.

1. In paragraph 29 of its resolution[1] adopted on the basis of the report drawn up by Mr Delmotte on behalf of the Committee on Regional Policy, Regional Planning and Transport on aspects of the Community's regional policy to be developed in the future[2], the European Parliament:

> '.... insists that the annual available resources, fixed in accordance with the budget procedure, should be reinforced by recourse to Community loans .....'.

In paragraph 22 of its resolution[3] adopted on the basis of the report drawn up by Mr Noè on behalf of the Committee on Regional Policy, Regional Planning and Transport on the communication from the Commission of the European Communities to the Council concerning guidelines for Community regional policy[4], the European Parliament:

> 'Invites the Commission to put forward practical proposals for the establishment, within the framework of the regional policy, of a borrowing and lending mechanism.'

The appropriations allocated to Community regional policy must be increased substantially by borrowing to finance investments.

2. In point 51 of its communication to the Council of 3 June 1977[5] concerning guidelines for Community regional policy, the Commission states that:

> 'The scale and diversity of the regional problems facing the Community and the Member States will require considerable financial resources for several years. In view of the Community's budgetary limitations, a substantial increase in resources for Community regional policy, one in proportion to its objectives, seems unlikely.'

In point 52 the Commission undertakes to consider with the Council, as part of its work on the use of loans to finance investment, 'the possibilities of using these resources for regional policy.'

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[1] OJ No. C 118, 16.5.1977, p. 54

[2] Doc. 35/77, 6.4.1977

[3] OJ No. C 266, 7.11.1977, p.37

[4] Doc. 307/77, 10.10.1977

[5] Doc. 183/77

3. The proposal of 30 January 1978[1] for a Community decision empowering the Commission to issue loans for the purpose of promoting investment within the Community is therefore intended to further this objective of helping to finance Community regional policy.

4. In this connection the Committee on Regional Policy, Regional Planning and Transport recommends the Committee on Budgets, the committee responsible, to modify the proposed Council decision in order to define clearly the regional scope of the provisions under consideration, since the aim is not merely to increase investment but also to distribute it more fairly throughout the Community.

Indeed, in point 13 of its report on the regional problems in the enlarged Community,[2] submitted to the Council on 4 May 1973, the Commission points out that:

'At a time when it is maintained that economic expansion is no end in itself but must, as a priority, contribute to mitigating disparity in living conditions, it is unthinkable that the Community should only lead to an increase in the process whereby wealth is principally attracted to places where it exists already. Unless the Community's economic resources are moved where human resources are, thus sustaining living local communities, there is bound to be disenchantment over the idea of European unity.'

What has been called the 'fifth resource' must therefore promote the alignment of our economies by facilitating the necessary structural modifications.

- The first recital of the proposed decision should be completed as follows (new part underlined):

  'Whereas economic activity, employment and investment in the Community are all too low and are unequally distributed'

- The fourth recital should be clarified as follows (new part underlined):

  'Whereas this Community action should aim to realize structural investment projects conforming to priority Community objectives especially in the energy, industry and infrastructure sectors, above all in the least favoured regions of the Community, taking account of the fundamental objective of reducing regional imbalances in the Community,'

- In Article 1 the words 'taking account of their regional impact' should be replaced by the following:
  'which will help to reduce regional imbalances within the framework of the regional development programmes'.

[1] Doc. 546/77

[2] Doc. 70/73

5. The European Parliament has repeatedly emphasized the inadequacy of the appropriations allocated to Community regional policy. To limit borrowings to 1,000 million EUA therefore seems, despite the Commission's opinion, scarcely 'right in the present circumstances'.

The sum allocated to the ERDF (European Regional Development Fund) for 1978 is approximately half the Commission's original estimated requirements. According to the proposals submitted by the Commission in 1973, the ERDF should have been allocated 1,000 million u.a. in 1976 (point 3 of the explanatory memorandum)[1]. Brought up to date to take account of inflation since the date of this proposal and converted into EUA, this sum would be between 1,200 million and 1,300 million EUA in 1978.

Consequently, the prupose 'of promoting investment within the Community' can hardly be served by limiting borrowings to 1,000 million EUA.

- The seventh recital, 'Whereas borrowings of one billion EUA in capital seem right in the present circumstances to achieve the desired result', should be deleted.

6. Ever since the Regional Fund was set up the European Parliament has called for an increase in its allocation but has also emphasized the need to implement an overall regional policy. An increase in the funds allocated to regional policy is justified only if an effective policy is defined and implemented at Community level.

Such a policy necessarily involves the coordination of the Community's general and sectoral policies and of those of its financial instruments having a regional impact. Coordination at Community level must be accompanied by coordination with national policies and measures with regional implications.

This coordination requires, in particular, the implementation of measures providing financial support to transport infrastructures of Community interest.

Therefore, since the Community's financial resources have proved inadequate, they must be not only increased but also coordinated.

7. This should be done as part of the development programmes. All the sectoral policies (transport, energy, social, financial, etc.) should be integrated into regional development plans through which the overall regional policy is realized.

In paragraph 18 of its resolution of 21 April 1977[2], the European Parliament:

> 'Considers it essential to initiate development programmes with a view to ensuring such coordination, concentrating resources and checking the effective use of aid.'

8. Since 1 January 1978 regional development programmes have had to be submitted if assistance is to be granted from the ERDF.

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[1] Doc. 152/73

[2] OJ No. C 118, 16.5.1977, p. 53

Hence these programmes should also form a framework for Community loans. which, in coordination with the other financial instruments, will thus have a real follow-through effect.

- This is why the Committee on Regional Policy. Regional Planning and Transport recommends the Committee on Budgets to modify Article 1 to refer to the financing of investment projects ... 'which will help to reduce regional imbalances within the framework of the regional development programmes'.

9. Article 5 of the proposed decision, which gives the European Investment Bank a general mandate to grant loans, is therefore open to question. The general mandate should remain with the Commission, which would assess requests for loans as part of the development programmes and in coordination with the other financial instruments. The European Investment Bank could perhaps be given a separate, purely administrative mandate.

The Committee on Regional Policy, Regional Planning and Transport will leave the committee responsible to study more closely this question of the mandate given to the European Investment Bank, in particular as regards the European Parliament's powers of control over the administration of these funds.

10. Will the EIB's general mandate enable, in particular small and medium-sized undertakings and deferred-profit projects to have access to Community loans? The outline for regional development programmes drawn up by the Regional Policy Committee mentions measures which may have 'an effect on regional development', including vocational training and social cultural amenities in the regions.

The European Parliament has emphasized the importance of these measures 'which present a heavy burden for some Member States given their high cost and the absence of any immediate profit' (paragraph 15 of the resolution of 21 April 1977)[1].

In point 39 of its communication concerning guidelines for Community regional policy,[2] the Commission repeats almost the whole of paragraph 15 of Parliament's resolution:

> '....the Community ought to be in a position to assist those regions in the provision of social infrastructure, education and vocational training, in so far as these contribute directly to regional development, since the high cost and lack of immediate return is a heavy charge on the Member States concerned.'

There is no guarantee that the mandate to be conferred on the EIB will enable the Community to support these essential but not immediately profitable investments.

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[1] OJ No. C 118, 16.5.1977, p. 53

[2] Doc. 183/77

11. To conclude, the Committee on Regional Policy, Regional Planning and Transport approves the substance of the proposed decision 'empowering the Commission to issue loans for the purpose of promoting investment within the Community' having, itself, earlier recommended the creation of such a financial instrument, subject to the modifications proposed in paragraphs 4, 5 and 8 of this opinion:

- The first recital of the proposed decision should be completed as follows (new part underlined):
  'Whereas economic activity, employment and investment in the Community are all too low and are unequally distributed'.
- The fourth recital should be clarified as follows (new part underlined):
  'Whereas this Community action should aim to realize structural investment projects conforming to priority Community objectives especially in the energy, industry and infrastructure sectors, above all in the least favoured regions of the Community, taking account of the fundamental objective of reducing regional imbalances in the Community'.
- The seventh recital, 'Whereas borrowings of one billion EUA in capital seem right in the present circumstances to achieve the desired result', should be deleted.
- In Article 1 the words 'taking account of their regional impact' should be replaced by the following:
  'which will help to reduce regional imbalances within the framework of the regional development programmes'.

The purpose of these modifications is to define clearly the regional scope of the provisions under examination, to draw attention to the inadequacy of the amount allocated for the loans and to reinforce the Community's financial resources by coordinating them within the framework of the regional development programmes.

Finally, the Committee on Regional Policy, Regional Planning and Transport leaves it to the Committee on Budgets as the committee responsible to study more closely the question of the mandate to be given to the European Investment Bank, which seems open to question (paragraph 9 of this opinion); particularly from the point of view of coordinating the Community's and the Member States' financial instruments within the framework of the regional development programmes, but also from that of enabling small and medium-sized undertakings and deferred-profit projects to have access to have access to Community loans (paragraph 10 of this opinion).

European Communities

EUROPEAN PARLIAMENT

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11 April 1978 DOCUMENT 36/78/ANNEX

OPINION

of the Committee on Economic and Monetary Affairs

on the proposal from the Commission of the European Communities to the Council (Doc. 546/77) for a decision empowering the Commission to issue loans for the purpose of promoting investment within the Community

Draftsman: Mr E. MÜLLER-HERMANN

PE 52.694/fin./Ann.

English Edition

On 2 March 1978 the Committee on Economic and Monetary Affairs appointed Mr Müller-Hermann draftsman.

It considered the draft opinion at its meetings of 21 March and 10 April 1978 and at the latter meeting adopted it by 7 votes to 2 with 4 abstentions.

Present: Mr Glinne, chairman; Sir Brandon Rhys Williams, vice-chairman; Mr Müller-Hermann, draftsman; Lord Ardwick, Mr Cousté, Mr Dankert, Mr Ellis, Mr Mascagni (deputizing for Mr Bordu), Mr Normanton, Mr Schwörer, Mr Spinelli, Mr Starke and Mr Stetter.

The Committee on Economic and Monetary Affairs has already given advance support[1] to the Commission's intention to set up a new Community financial instrument to promote investment within the Community. However, while it still approves the initiative in principle, an examination of the details of the Commission's proposal for a decision has led the Committee to express certain doubts on whether the proposed financial instrument can be effective or bring about a real improvement.

I. OBJECTIVES

The proposal for a Council Decision empowering the Commission to issue loans for the purpose of promoting investment within the Community concerns the Committee on Economic and Monetary Affairs for two reasons. The measure is intended to remedy the serious investment crisis in the Community. Moreover, from a more general standpoint, it is one of the practical measures chosen by the Commission to revive economic and monetary union.

A. An instrument for promoting investment within the Community.

Chiefly as a result of the economic crisis there is a serious shortage of investment within the Community. For some years market uncertainty and, in many cases, the low return on investment in relation to risks has discouraged savers from investing. Moreover, large amounts of capital held by third countries (petro-dollars) are usually put into short-term investment outside of the Community. As the Vice-President of the Commission, M. Ortoli, stressed during the debate in the European Parliament on the economic situation in the Community[2], in the years to come investment will have an increasingly important role to play both in supporting demand and as an essential factor in the modernization and restructuring of certain sectors of European industry. Failure to modernize could seriously impair the ability of Community industries to compete on world markets.

The Commission recommends an increase in public investment which, it hopes, can be achieved through greater convergence in the budgetary policies of the Member States. The proposal for a decision creates a new instrument which should express more clearly the indispensable solidarity which should bind the Member States of the Community.

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[1] Doc. 377/77 - Report by Lord Ardwick on the annual report on the economic situation in the Community;

[2] Debates of the European Parliament, OJ No. 233, November 1977, p. 167.

The proposal for a decision aims at setting up a new instrument designed to lend additional support to the investment effort thereby promoting investment within the Community. The proposal states that borrowings of 1,000 million EUA would seem right in the present circumstances. There is, however, reason to question whether the follow-through effect of such a limited sum would be sufficient. From a purely quantitative point of view it should be recalled that, in adopting Regulation No. 397/75 of 17 February 1975 on Community loans, the Council limited the amount of loan operations to the equivalent in units of account of $3,000 million[1].

B. A practical measure to revive economic and monetary union.

The Commission intends to revive economic and monetary union by successfully carrying through a number of practical measures in 1978. The new instrument for raising and granting investment loans is regarded by the Commission as a means of achieving Community economic and monetary solidarity in 1978.

At the same time it must be regretted that this 'new instrument', far from living up to its name, differs little from the traditional procedures currently in operation in the Community.

II. PROCEDURE FOR RAISING AND GRANTING INVESTMENT LOANS

A. Procedure for raising loans

The draft decision correctly points to the 'creditworthiness' which the Community has in its own right and which 'must be used to best advantage, to reinforce European support for the said investments and to support policies decided at Community level'[2]. At the same time the numerous limitations which the text places on the power to raise loans conflicts with the statement regarding the Community's capability in this area. Apart from the fact that a ceiling of 1,000 million u.a. has been placed on borrowing, the Council, acting by a qualified majority, is responsible for authorizing each loan instalment and fixing general guidelines for its use, although the terms of the loans are to be negotiated by the Commission.

This procedure is a considerable step backwards in relation to the possibilities provided by Article 49 of the ECSC Treaty and offers nothing novel.

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[1] OJ No. L 46, 20.2.1975, p. 2, Art. 5;

[2] Doc. 546/77, 6th recital.

B. Procedure for granting loans

The European Investment Bank has been given a general mandate to make loans. This means that, in practice, the European Investment Bank will decide both the amount of the loans and the time-table for granting them, since it will be responsible for receiving and selecting loan requests. Operations under the European Investment Bank's mandate are carried out 'for and at the risk of the Community' (Article 5).

Thus the Commission, which should play a leading part in this matter, subject to financial control and audit, to be carried out in accordance with the Financial Regulation of the general budget of the Communities has, in the last analysis, accepted a very subordinate role. Thus in the use of this 'new instrument' the Commission is severely curtailed by the powers of the Council to raise loans and of the European Investment Bank to administer them. The Commission's role is merely to 'specify rules by which it will determine the eligibility of projects' (Article 2).

It is therefore an exaggeration to speak of a 'new instrument' (2nd recital) and there is a danger that, in the exercise of its general mandate, the European Investment Bank may not give the impulse to investments so urgently needed by certain sectors of Community industry. The European Parliament and, in particular, the Committee on Economic and Monetary Affairs has recently had occasion - during the adoption of Mr Notenboom's report on small and medium-sized undertakings (Doc. 518/77) - to stress the European Investment Bank's failure to provide adequate aid for small and medium-sized undertakings. The European Investment Bank, which is directly controlled by the Finance Ministers of the nine Member States, tends to operate in accordance with strict banking criteria which favour the public sector and large-scale projects at the expense of medium-sized private undertakings and projects which are only profitable in the long term.

It is clear that by not going far enough, the Commission's initiative runs the risk not only of falling short of its goal but of further complicating lending and borrowing operations, in an area where the need for coordination has frequently been stressed. With regard to loan instruments, the proposal under consideration again highlights[1] the need to provide the European Monetary Cooperation Fund with the resources and the powers it requires.

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[1] Debates of the European Parliament, OJ No. 182, October 1974, pp. 232 et seq. - Debate on the regulation concerning Community loans - Lange Report (Doc. 307/74).

With regard to Community lending policy, there is a danger that the draft decision will add to the proliferation of measures on investments which are already covered by ECSC loans (Article 49 of the Treaty), the various Funds, the European Investment Bank and measures under Article 375 of the budget (Community reorganization and redevelopment operations in connection with crises in certain industrial sectors).

CONCLUSIONS

The Committee on Economic and Monetary Affairs:

1. Calls on the Commission to use all the means at its disposal to promote a favourable climate for investments within the Community and encourage undertakings to invest, since the level of economic activity, employment and the competitive position of the Community depend to a large extent on its investment policy;

2. Assumes that the loans of 1,000 million EUA envisaged in the Commission's proposal can be only a first step, whereas the provision of funds for investment must be regarded as a long-time task;

3. Stresses the need, with a view to a consistent and active investment policy within the Community, for better coordination of the instruments for lending and borrowing and in particular for the strengthening of the powers of the European Monetary Cooperation Fund;

4. Considers it necessary for the European Parliament to be consulted on the general guidelines to be drawn up for the use of each tranche;

5. Considers that, while it is certainly right for the Commission to confirm the eligibility of the projects, it should not take on the role of a bank and that in its guidelines on issuing loans it should lay down general political and economic rules to be observed by the European Investment Bank when examining, approving and administering loans; the Commission may specify that it retains the final word in particular cases;

6. Wishes to ensure that the general rules lay due emphasis on the profitability of the projects, even if policy considerations - particularly those of regional policy - must be a major factor, and that for example medium-sized and small undertakings are given special consideration;

7. Assumes that the questions of repayment, interest payments and any risk relating to exchange rates will be clarified in the general guidelines;

8. Recommends that provision be made for consultation with the Member State concerned on any borrowing or lending transaction envisaged, in order to avoid creating disturbances on the national markets;

9. Approves the Commission's proposal for a Council decision in the expectation that the aforementioned recommendations will be taken into consideration.