

European BACKGROUND INFORMATION Community

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BACKGROUND NOTE

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EUROPEAN COMMUNITY TO MAKE ITS THIRD LOAN TO PORTUGAL

The European Community and Portugal have signed their third loan contract as part of the 150 million units of account (UA) to be channelled through the European Investment Bank (EIB) as emergency aid to the ailing Portuguese economy.

The equivalent of UA 20 million has been granted for 10 years to Companhia Uniao Fabril (CUE), one of Portugal's largest industrial companies and the major producer of chemicals, metallurgical products and fertilizers. It will be used to help finance the construction of a pelletizing plant, the modernization of copper metallurgy installations and the necessary auxiliary utility systems (water, power, etc.) at the company's industrial complex at Barreiro on the left bank of the Tage facing Lisbon. The project will cost about UA 50 million and will create some 160 new jobs.

The pelletizing plant will produce 340,000 tons of iron pellets a year, which will be used by Sideurgia Nacional, the Portuguese steel producers. The pellets will be manufactured from pyrite cinders, a by product presently unused of CUE's sulphuric acid plants. The project will thus use mineral resources which would otherwise be wasted.

Community Aid to Portugal Now Hits UA 70 Million

This new EIB loan raises to UA 70 million the amount of Community aid to Portugal. In April, UA 35 million was lent to Companhia Portuguesa de Electricidade to expand energy supplies by building a new power station near Lisbon. UA 15 million was also lent to the Banco de Fomento Nacional, the Portuguese development bank, to help finance small and medium-sized industrial and tourism projects.

The Community has granted a 3 per cent interest rebate, payable to the EIB, which reduces the Bank's current 9.5 per cent interest rate for loans of over eight years to a net rate of 5.5 per cent.

* Exchange rate applied by the EIB in the current quarter (April 1 - June 30) are
1 unit of account = Escudos 32.83 or US dollar 1.13.

Background to the EIB's Role in Portugal

The offer to Portugal of UA 150 million in long-term credit from the EIB was made on October 7 last year by the Council of the European Communities after discussions with the EIB and pending consideration of a long-term financial protocol.

The provision of these loan facilities is a practical means of helping to reestablish a climate favourable to both public and private investment in Portugal, at a time of particular economic difficulties.

All funds come from the EIB's own resources, raised on capital markets. The 3 per cent interest rebate on every loan comes from the Community's own budget. Since these interest rebates could cost the Community UA 30 million, the total aid package offered to Portugal could be considered to be UA 180 million.

The Community itself fully guarantees all EIB loans to Portugal under the emergency aid program.