

COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE COMMISSION
TO THE COUNCIL AND TO THE EUROPEAN PARLIAMENT

First report on the borrowing and lending activities
of the New Community Instrument (NCI)
- Financial year 1979 -
(Council Decision 78/870/EEC of 16 October 1978)

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Interest subsidies for certain loans granted under the
European Monetary System : Council Regulation
(EEC) No 1736/79 of 3 August 1979
- Report on the financial year 1979 -

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I. Introduction

On the Commission's proposal, the Council authorized the Commission, by Decision 78/870/EEC of 16 October 1978,⁽¹⁾ to contract loans for the purpose of promoting investment within the Community with a view to stimulating economic activity and supporting common policies. The aim of this New Community Instrument for borrowing and lending operations (NCI) is to assist investment projects which will contribute to the greater integration of the Member States' economic policies and which are in line with the Community's priority objectives.

The Council's decision provides for the raising of loans up to a maximum of 1 000 million EUA to be activated tranche by tranche, each tranche being applied to the financing of investments in accordance with guidelines laid down when the tranche is authorized.

The first tranche of loans was authorized by the Council on 14 May 1979 (Decision 79/486/EEC)⁽²⁾ to an amount of 500 million EUA; this report covers solely the operations under that tranche.

This is the Commission's first report to the Council and to Parliament pursuant to Article 6 of Decision 78/870/EEC, which stipulates: "The Commission shall annually inform the Council and the European Parliament of receipts and expenses resulting from borrowing and lending transactions."

(1) O.J. No. L 298/9 of 25 October 1978

(2) O.J. No. L 125/16 of 22 May 1979

II. Loans raised

The first NCI bond issues on the capital market were well received and demonstrate that it is worthwhile for the Community to offer a wider range of securities to investors.

By 31 December 1979, two loans had been contracted on the following terms:

- a 15-year bond issue of DM 225 million at 7.7/8%;
- a 20-year issue of USD 125 million at 11.60% on the United States domestic market.

These issues, which amount to a total of 178 million EUA, are guaranteed under the General Budget of the Community.

Pursuant to Article 2 of Council Decision 79/486/EEC of 14 May 1979 authorizing the first tranche of borrowing, the funds raised are to be used to finance investment projects on Community territory which are consistent with priority Community objectives in the infrastructure and energy sectors.

III. Loans granted

By 31 December 1979 the Commission, acting in conjunction with the European Investment Bank, had signed nine loan contracts to a total of 277 million EUA, of which 174.5 million EUA had been disbursed by that date.

The recipient countries are Italy, the United Kingdom and Ireland.

The sectors concerned are in line with those laid down by the implementing decision, viz. infrastructure and energy projects.

The loans were allocated as follows:

(million EUA)

Title of project	I	UK	IRL	TOTAL	%
A. <u>Infrastructure</u>					
1. Pertusillo III/Cassa	39.6			39.6	
2. Lothian Water		25.9		25.9	
3. Dublin Water			24.7	24.7	
4. Irish Telephones			17.9	17.	
5. Irish Roads			19.4	19.4	
TOTAL	39.6	25.9	62.0	127.5	46
B. <u>Energy</u>					
6. Dinorwic CEGB		79.4		79.4	
7. Aghada ESB			24.7	24.7	
8. ENEL - Alto Gesso	34.9			34.9	
9. ENEL - Geothermal project	10.5			10.5	
TOTAL	45.4	79.4	24.7	149.5	54
TOTAL A + B	85.0	105.3	86.7	277.0	
%	31 %	38 %	31 %	100 %	

The balance of 223 million EUA available from the first tranche of 500 million EUA may be committed shortly.

IV. Assessment of the investments

The first financing operations from the resources of the New Community Instrument have made an added contribution to investment in the Community. They are in line with the Community's priority objectives for regional development, employment and energy.

The funds have been provided jointly with, and complementarily to, the EIB, thus covering an important part of the investment cost and facilitating the implementation of the priority projects concerned. Depending on the time-scale of the projects and their amortization period, the loans have been granted for 15 to 20 years.

The nine projects financed represent between them an investment of 1,810 million EUA, of which energy accounts for 1,050 million EUA. The NCI loans thus make up 15.3% of the finance required on average, the range for individual projects varying from 10 to 27%.

In Ireland, the construction of a 270 MW power station at Aghada in County Cork is an important feature of the Electricity Supply Board's plan, which is to increase generation capacity by nearly 60% by about 1985 in order to meet the expected increase in demand. The power station will be fuelled by natural gas discovered 60 km off Cork.

The construction of water supply works and sewage collection and treatment plant in the city of Dublin and its suburbs and in the neighbouring new towns will meet the requirements stemming from industrial development and population growth in this area.

Work on certain national arterial roads and on urban and outer-city roads at Dublin, Cork, Limerick and Dundalk will bring about a general improvement in the road network to match the traffic forecasts.

The modernizing of telecommunications will add 28 000 new telephone subscribers and help to improve conditions for establishing and operating undertakings.

All these works are essential to Ireland's regional development programme.

In the United Kingdom, the hydro-electric power station at Dinorwic in North Wales will use the "pumped storage" technique: it will generate electricity (total capacity, 1 680 MW) to supply energy at peak periods, provide a booster supply if other power stations fail and regulate the frequency of the national grid. This project will make it possible to make maximum use of the electricity generated by the base-load stations (coal-fired or nuclear for the most part), which are the most efficient, and in this way will help to alleviate dependence on oil for electricity generation.

The purpose of building a dam and other works by the Lothian Regional Council in Scotland is to improve water supplies to the city of Edinburgh and in the county of Midlothian and to reduce pollution in the Firth of Forth by major improvements to the Edinburgh sewage system.

In Italy, the extension of the Pertusillo aqueduct will make a major contribution to solving the water supply problems which have always been an obstacle to the economic development of Apulia and Basilicata. It will supply 55 municipalities in the centre of Apulia, with a population of more than 1 1/2 million.

The hydro-electric pumping station in the massif of Alto Gesso in Piedmont (capacity of about 1 200 MW) will regulate the Italian national grid and replace outdated, high-consumption oil-fired power stations.

The geothermal project covers five condensing stations in Tuscany with a total capacity of 63 MW. By using subterranean steam to drive turbo-alternators, electricity will be produced from a source that is non-polluting and does not depend on imports.

V. Cooperation between the Commission and the EIB

Pursuant to Article 5 of the Decision, a Cooperation Agreement between the Commission and the Bank was signed on 27 November 1978; it lays down their responsibilities and the procedures for their cooperation.

Under this Convention:

- the Commission borrows the funds, the amount of which is decided by joint agreement between the Commission and the Bank in the light of prospective lending operations. The funds are then deposited with the Bank in an account opened in the name of the Commission;
- the Bank, following the procedures laid down by its Statute and in accordance with its customary criteria, examines the projects, decides whether to grant the loans, lays down the terms and administers them after they have been approved as eligible by the Commission.

VI. Grant of EMS interest subsidies for projects financed by the NCI

Pursuant to the Resolution of the European Council of 5 December 1978 on the establishment of the European Monetary System, the Council decided on 3 August 1979 that an interest subsidy of 3% could be granted on EIB and NCI loans, primarily for the financing of infrastructure investments, in the less prosperous Member States which are effectively and fully participating in the EMS.

The Council has designated Italy and Ireland as such countries.

In 1979, interest subsidies were granted on five NCI loans: for the Pertusillo III project, the ENEL geothermal project and the ENEL Alto Gesso project in Italy, and for the telephones and roads projects in Ireland.

VII. Conclusion

As the full amount authorized under the first tranche is now in the process of being committed, the Commission decided that it should ask the Council to authorize the second tranche for the balance of the total amount set by the Council, i.e., 500 million EUA.

The Commission presented to the Council a proposal to this end on 29 January 1980 (Doc. COM/580/20 final), asking that energy and infrastructure be again made priority areas for Community action. But since its purpose is to foster the revival of economic activity, the Commission considers that the concept of infrastructure should be more broadly interpreted for projects to be carried out in priority regions or in areas where the productive sector is hit by industrial crisis.

Two types of priority investment could be considered in this context - housing and advance factories. They should be submitted by national authorities, should fit into programmes co-ordinated by the public authorities regarding their content and their financing, and should assist the setting up of productive activities or the growth of economic productivity in general in priority areas.

In this way, the second tranche should be used to offer an initial response to the financing requirements of urban renewal projects, particularly within the framework of the integrated operations now being launched.

COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND TO PARLIAMENT

Interest subsidies for certain loans granted
under the European Monetary System:

Council Regulation (EEC) No 1736/79 of
3 August 1979

- Report on the financial year 1979 -

INTRODUCTION

Council Regulation (EEC) No 1736/79 of 3 August 1979⁽¹⁾ provides for interest subsidies to be made available, in the context of the European Monetary System, for certain loans granted from the own resources of the European Investment Bank or from the resources of the New Community Instrument.

Pursuant to the Regulation, this aid is intended essentially to promote infrastructure investment projects and programmes in the less prosperous Member States effectively and fully participating in the mechanisms of the EMS. Article 10 of the Regulation stipulates that the Commission is to inform the Council and Parliament annually of operations carried out; such is the purpose of this report.

Article 5 of the Regulation lays down that the investments to be subsidized must contribute to resolving the main structural problems affecting the State concerned and, in particular, to reducing regional imbalances and to improving the employment situation. Article 7 specifies the financial ceilings applicable to the operations carried out: five annual instalments of 1 000 million ECU for the loans to be subsidized and five annual instalments of 200 million ECU to be entered in the budget to cover the discounted value of the subsidies representing an interest rate reduction of 3% per year.

The EIB informs the Commission and the Member State concerned of any projects for which an application for an interest subsidy has been received and, if the Commission gives its endorsement, notifies the latter of the amount of each subsidy as soon as the loan terms are known. The Commission then pays to the EIB the European unit of account equivalent of all the interest payments that would be due at the rate of 3% per year for the duration of each loan, discounted to a date not later than two months from the signing of the contract. The EIB administers these interest subsidies.

By its implementing Decision 79/691/EEC of 3 August 1979⁽²⁾, the Council designated Ireland and Italy as Member States eligible for the measures provided for in the above Regulation.

The indicative programmes referred to in Article 3 of the Regulation are being prepared, and the investment projects selected in 1979 were judged to be compatible with the regional development programmes mentioned in the same article.

(1) O.J. no. L 200/1 of 8.8.1979

(2) O.J. no. L 200/18 of 8.8.1979

Following adoption of the Regulation by the Council in early August 1979 (with retrospective effect from 1 January 1979), 34 interest subsidies were granted from 1979 budget appropriations on the basis of the Commission's decision that the projects were eligible; the corresponding payments to the EIB were made between November 1979 and April 1980. The 34 interest subsidies in question were for 30 investment projects, which were financed by 29 loans granted from the EIB's own resources and for 5 loans granted from the NCI's resources, representing a capital sum totalling 903.5 million EUA ⁽¹⁾. Four of the projects were therefore jointly financed by EIB and by NCI loans.

The interest subsidies used up the full 200 million EUA of budgetary resources available for the 1979 instalment, and a first drawing of 3.9 million EUA had to be made on 1980 appropriations, so that the last payment could be made in full. Of the two ceilings mentioned in Regulation No 1736/79 it is therefore the 200 million EUA appropriation intended to cover the total discounted value of the interest subsidies which was decisive in closing the accounts for the 1979 operations. The relationship between this ceiling and the amount of loans subsidized (estimated at a standard 20% when the mechanism was set up) depends on the terms on which the loans are granted, and in particular on their duration. In 1979, the discounted value of the interest subsidies granted represented 22.6% of the amount of the loans, and this was the reason why the latter did not reach the ceiling of 1 000 million EUA.

The amount of each interest subsidy and of each loan subsidized is given in the annexed lists. The figures may be summed up as follows: ⁽²⁾

On a country basis, the breakdown of the interest subsidies was 68% for Italy and 32% for Ireland.

(1) The loan amounts in units of account quoted in the EIB's documents (notably the Annual Report, which has not yet been published) differ slightly from those given here, since the latter were calculated on the basis of the exchange rates ruling on the same date as that used for calculating the interest subsidies.

(2) Totals may differ slightly from the sum of the components because of rounding.

	<u>Loans</u>		<u>Interest subsidies</u>	
	<u>Number</u>	<u>million EUA</u>	<u>million EUA</u>	<u>%</u>
Italy	19	645.8	137.7*	67.6
Ireland	15	257.8	66.1	32.4
	<u>34</u>	<u>903.5</u>	<u>203.9*</u>	<u>100.0</u>

Taking the source of the funds, the 5 NCI loans accounted for 13% of the interest subsidies and the 29 loans from the EIB's own resources for 87%.

	<u>Loans</u>		<u>Interest subsidies</u>	
	<u>Number</u>	<u>million EUA</u>	<u>million EUA</u>	<u>%</u>
NCI	5	122.1	26.3*	12.9
EIB	29	781.5	177.6	87.1
	<u>34</u>	<u>903.5</u>	<u>203.9*</u>	<u>100.0</u>

The breakdown by sector is as follows :

	<u>Loans</u>		<u>Interest subsidies</u>	
	<u>Number</u>	<u>million EUA</u>	<u>million EUA</u>	<u>%</u>
Primary energy production	6	144.4	28.0*	13.7
Transformation of energy	2	37.4	9.6	4.7
Transmission of energy	7	223.3	49.8	24.4
Sub total:				
energy	15	405.1	87.4	42.9
Water engineering	12	357.2	83.5	41.0
Communications	6	119.3	27.1	13.3
Forestry	1	21.9	5.8	2.8
Total: energy and other infrastructure	<u>34</u>	<u>903.5</u>	<u>203.9*</u>	<u>100.0</u>

* of which an amount of 3.9 million EUA from 1980 appropriations.

More specifically, 43% of the interest subsidies were for projects in the energy sector, with 14% concerning the development of new sources of primary energy (hydrocarbons, peat, geothermal energy, hydroelectric power), 5% thermal power stations (transformation of primary energy) and 24% the transmission of energy (gas pipelines, electricity grids, district heating schemes). The infrastructure projects in the other sectors, which accounted in all for 57% of the interest subsidies, relate to water supply (including irrigation), water purification and drainage (41%); to improvements in telephone and road networks and to infrastructures for industrial estates (13%), and to forestry development in Ireland (3%).

As regards the reduction of regional imbalances, 84% of the amounts paid out as interest subsidies were for projects located wholly or partly in priority regions. Since the projects involve infrastructure, the number of new permanent jobs for running the completed projects is necessarily limited (2 900). None the less, the projects will, over time, help to create, above all indirectly, a substantial number of jobs. Moreover, the work involved in and supplies needed for carrying out the infrastructure schemes will have direct and indirect temporary repercussions on the employment situation over what may, in some cases, be relatively long periods.

FINANCIAL COMPENSATION FOR THE UNITED KINGDOM

Article 8 of Regulation No 1736/79 stipulates that any Member State which does not effectively and fully participate in the EMS shall receive financial compensation the amount of which is to be determined on the basis of expenditure on interest subsidies. As the United Kingdom does not play a full part in the EMS, a statement was entered in the record of the Council meeting at which the Regulation was adopted to the effect that the Commission will refund to that Member State on a quarterly basis its share of the financing of the interest subsidies granted. Two payments, totalling 44.1 MEUA, have been made for this purpose.

EMS INTEREST SUBSIDIES, FINANCIAL YEAR 1979: ITALY

	<u>Borrower</u>	<u>Project</u>	<u>Amount of loan</u>		<u>Interest</u>
			<u>LIT '000</u>	<u>million</u>	<u>million</u>
			<u>million</u>	<u>EUA</u>	<u>EUA</u>
	<u>NCI loans</u>				
**	Ente Nazionale per l'Energia Elettrica	Hydroelectric power station at Alto Gesso	40.0	34.2	7.247*
	Ente Nazionale per l'Energia Elettrica	Geothermal energy, Tuscany	12.0	10.3	2.173
**	Cassa per il Mezzogiorno	Aqueduct, Pertusillo III	45.0	39.8	8.493
			<u>97.0</u>	<u>84.3</u>	<u>17.913</u>
	<u>EIB loans</u>				
	Ente Nazionale Idrocarburi	Gas pipeline Italy/Algerian-Tunisian frontier	1 40.0	34.9	8.211
			2 45.0	39.4	8.860
	AGIP S.p.A.	Hydrocarbons:			
		Cavone	9.0	7.8	1.094
		Settale Amelia	9.0	7.8	1.158
	Entreprise municipale de Brescia	District heating, Brescia	13.0	11.2	2.312
**	Ente Nazionale per l'Energia Elettrica	Hydroelectric power station at Alto Gesso	90.0	77.2	14.855
	"	Electricity, Friuli-Venezia Giulia	25.0	21.5	4.260
	"	Electricity, Mezzogiorno	50.0	43.0	8.738
	"	Control system	50.0	43.3	9.990
**	Cassa per il Mezzogiorno	Aqueduct Pertusillo III	80.0	70.3	15.571
	"	Irrigation, Tarento	80.0	69.4	15.728
	"	Irrigation, Foggia	65.0	56.2	12.406
	"	Irrigation, Campobasso	25.0	21.6	4.771
	"	Drinking water, Avellino, Benevento	22.0	19.1	4.325
	"	By-pass road, Western Catania	25.0	21.6	3.864
	"	Industrial estate, Syracuse IV	20.0	17.2	3.686
			<u>648.0</u>	<u>561.5</u>	<u>119.828</u>
	TOTAL: ITALY		<u>745.0</u>	<u>645.8</u>	<u>137.741*</u>

*of which an amount of 3.856 million EUA from 1980 appropriations.

** projects jointly financed on EIB and NCI resources.

EMS INTEREST SUBSIDIES, FINANCIAL YEAR 1979: IRELAND

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<u>Borrower</u>	<u>Project</u>	<u>Amount of loan</u>		<u>Interest</u>
		<u>IRL</u> <u>million</u>	<u>million</u> <u>EUA</u>	<u>subsidy</u> <u>million</u> <u>EUA</u>
<u>NCI loans</u>				
Irish Government	Telephone network VI	12.0	18.1	4.012
" "	Road network III	13.0	19.6	4.347
		<u>25.0</u>	<u>37.7</u>	<u>8.359</u>
<u>EIB loans</u>				
Bord na Mona	Peat production	4.8	7.1	1.471
Electricity Supply Board	Power station at Aghada	10.0	14.9	4.010
" "	Combustion turbines, Aghada	15.0	22.5	5.588
" "	Electricity grid	20.0	30.0	7.452
Irish Government	Water engineering, Dublin	16.5	24.9	6.917
" "	Water engineering, West of Ireland	5.0	7.3	1.947
" "	Water engineering, Galway	4.3	6.5	1.804
" "	Water engineering, Sligo and Mayo	5.0	7.5	2.097
" "	Water engineering, South and South-East	16.0	24.0	6.468
" "	Land drainage	7.0	10.6	2.935
" "	Telephone network VI	18.0	26.2	6.692
" "	Road network III	11.0	16.6	4.533
" "	Forestry development	15.0	21.9	5.839
		<u>147.6</u>	<u>220.1</u>	<u>57.755</u>
<u>TOTAL: IRELAND</u>		<u>172.6</u>	<u>257.8</u>	<u>66.114</u>

** projects jointly financed on EIB and NCI resources.