

European Community borrowing and lending

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European File

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In 1983 the European Community and the European Investment Bank borrowed 6.2 billion ECU¹ on the capital markets of the Community's Member States as well as in the United States, Japan, Switzerland and other countries. This money, together with cash held in reserve, financed soft loans totalling 7 billion ECU: 6.6 billion within the Community and 0.4 billion elsewhere, mainly in Mediterranean countries and African, Caribbean and Pacific States associated with the Community through cooperation agreements. Within the Community, a total of 38.7 billion ECU has been loaned in the period 1954 to 1983. The annual figure increased by 25% in 1983.²

Why and how

What is the purpose of European loans? What benefits do they offer in comparison with the lending activities of Member States or the traditional financial markets?

- In the first place, the Community's good name, its borrowing capacity and the guarantees it can offer, through its rigorously managed independent budget, allow it to raise large sums on favourable terms on the financial markets, especially the international markets (extra-Community sources providing 45% of the total in 1983). These funds can then be loaned out on good terms. The Community does not seek to make a profit and interest rate subsidies are offered on certain loans. In return, the borrower must give adequate guarantees; his project must be viable; and it must serve Community objectives.
- European loans aim to realize priority goals established by the Community. From the onset of the recession, there have been signs of growing structural imbalances between regions and Member States. The surge in energy costs has brought about a new worldwide division of labour which has generated widespread difficulties in economic adaptation. Finally, Europe has clearly been losing ground to its principal world competitors. Community loans help to narrow the economic divergences between Member States and to promote investment which in turn encourages innovation and generates employment. They also aid the redevelopment of struggling regions; promote the energy independence of Europe; and further the modernization, restructuring and competitiveness of industry.

Projects aided by Community loans in 1983 created 44 000 new jobs, mainly in manufacturing industry, including 7 000 jobs for redundant miners and steel-

¹ 1 ECU (European Currency Unit) = about £0.60, Ir. £0.72 or US \$0.72 (at exchange rates current on 3 December 1984).

² This file updates and replaces our No 5/82. It excludes borrowing and lending designed to support the balance of payments in Member States. In 1983, 4.2 billion ECU was loaned to France for this purpose. Ireland and Italy received 1.8 billion ECU between them in 1976 and 1977. These loans are made by the Council of Ministers under certain economic policy conditions.

workers. In addition, loans for infrastructure developments created more than 500 000 jobs, lasting for at least one year. Community loans in the energy sector since 1977 have contributed to a 20% reduction in Community dependence on imported oil since 1978. All Member States have benefited from such loans but, as a concrete sign of the solidarity of Community countries, a special effort has been made for the regions. In 1983 more than 60% of loans were made in underdeveloped regions or areas stricken by serious problems of unemployment or industrial decline. In 1983 it is estimated that Community loans and non-repayable grants represented between 9% and 14% of total investment in the least-favoured regions.

Community loans are channelled through a number of financial instruments:

- The European Investment Bank (EIB) is the principal source of Community investment finance (24.9 billion ECU loaned within the Community between 1958 and 1983, including 4.3 billion in 1983). Following the terms set out in the Treaty of Rome, the Bank promotes the balanced development of the Community by aiding the financing of projects which fulfil priority objectives. These include, first of all, projects which will develop the economy of struggling regions (almost two-thirds of all loans to date). Other projects which can receive EIB assistance include schemes which will reduce the Community's dependence on oil; the modernization and redevelopment of industry; new technologies; the protection of the environment, etc. The EIB has an independent legal status and capital provided by the Member States. It has its own management structure: the board of governors, the board of directors and the management committee. The board of directors has 18 full members and ten temporary members nominated by the Member States and one full member and one temporary member appointed by the European Commission. It is this body which allocates loans after receiving the agreement of the Member State concerned and the opinion of the Commission.
- The European Coal and Steel Community (ECSC) has made loans totalling 9.2 billion ECU between 1954 and 1983, including 0.8 billion in 1983 alone. It finances productive investment in the two industries concerned. In addition, with the approval of the Council of Ministers, it finances projects which aim to improve the marketing and transport of steel and coal and schemes to bring new industries to the coal and steel areas. The ECSC also finances the building or the modernization of workers' homes. Its loans are decided and granted by the European Commission.
- Euratom, the European Atomic Energy Community, loaned 1.6 billion ECU between 1963 and 1983, including 0.4 billion in 1983. This institution finances, up to a ceiling fixed by the Council of Ministers, investments in the nuclear energy and nuclear fuels sector. The European Commission makes loans in the name of Euratom and chooses projects which conform with the Community's energy strategy. The EIB takes part in the examination of dossiers and the preparation of contracts as an agent of the Commission.

- The NIC, the New Community Instrument for borrowing and lending (loans totalling 3 billion ECU from 1979 to 1983, including 1.2 billion in 1983) finances priority projects for the development of energy sources, infrastructure and, since 1982, small and medium-sized enterprises. Since 1983 projects involving industrial cooperation and new technologies have also been included. The Council of Ministers authorizes the European Commission to borrow funds in the Community's name within successive limits. The Commission selects projects on the basis of directives from the Council. Applications are examined by the EIB on the basis of its usual criteria. The bank grants the loans in the Community's name, establishes the conditions and manages the transactions.

Subsidies, which reduce interest rates by between 3 and 5%, can be granted for ECSC loans, within certain limits. Subsidies of 3% have also been given in recent years for EIB and NIC loans for the reconstruction of areas of Italy and Greece devastated by earthquakes and for projects in Italy and Ireland, the poorest full members of the European Monetary System. The building of a museum at Milos in the Cyclades and the refurbishing of the Doge's palace in Venice have also been granted subsidized loans because of their significant contribution to the preservation of Europe's cultural heritage. The cost of all these subsidies is borne by the Community budget.

The diversity of Community financial resources should not be regarded as a handicap. On the contrary, it allows the Community to deploy its finances more effectively. By using different labels and offering different guarantees, according to the types of loans involved, it can make a number of approaches to international finance houses, such as banks, which are often forbidden from loaning more than a certain amount to each creditor. When it comes to the financing of projects, the different instruments available allow the Community to respond in the most flexible and effective way to the specific needs of different sectors and regions. Diversity does not rule out coordination. Thus:

- The dates, the place of issue and the terms of borrowing are coordinated to take account of overall needs and the state of the financial market.
- Companies, public bodies, banks and other organizations seeking finance must apply to the EIB in Luxembourg for loans from its own resources or those of the NIC. With the exception of ECSC reconversion loans, which are handled by national ministries, loan applications can be made to a single Commission service, the Directorate-General for Credit and Investment, based in Luxembourg.
- Financing arrangements, as seen above, are handled by the EIB and the Commission in a number of different ways. Loans are also coordinated with Commission services which make non-repayable grants: the European Regional Development Fund, the European Social Fund, the Guidance section

of the European Agricultural Guidance and Guarantee Fund¹ and so on. In a number of areas experiencing acute problems — such as Naples and Belfast — this coordination takes the form of integrated operations which help to mobilize all available Community and national resources.

The Community's role as a financier has developed over the years. From 1974 to 1983 the real value of loans, taking account of inflation, has more than doubled. But progress has been faster in some areas. In present day values, loans have increased fivefold in the energy sector (where they help to develop indigenous resources, to diversify the types of fuels used and to make energy savings); by sixteenfold in the infrastructure sector (where they promote the development of the least prosperous regions and improve transport links between Member States); and by threefold in the manufacturing sector, where efforts have been stepped up in recent years through the multiplication of loans to small and medium-sized businesses, which are seen as a prime mover of employment, innovation and regional development. This sector received 1.3 billion ECU in 1983, 40% more than the previous year and 19% of all loans. Businesses of this kind benefit especially from global loans from the EIB, NIC and ECSC to national financing agencies, which then redistribute them.

In concrete terms, what do Community loans achieve? Let's take 1983's activities by way of example.²

Energy

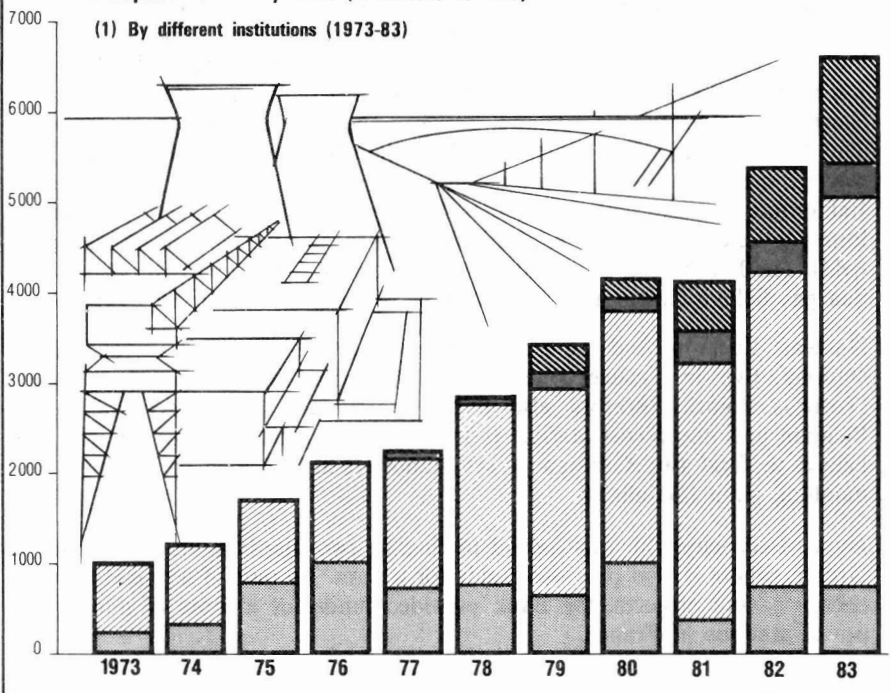
- Solid fuels: the ECSC supported continued or increased coal production in a series of mines in Germany, France and the United Kingdom (eight mines). It also financed the construction of a factory making anthracite briquettes (Maxiheat, Mid-Glamorgan) and a coal terminal at Newcastle docks. Two other terminals received ECSC aid, one at Workington in the United Kingdom and the other in France. Six power stations were built or converted to coal-burning, Moneypoint in Ireland with NIC aid, one in Italy with EIB aid and the others in France and Germany with ECSC aid. The ECSC also gave global loans for promoting the use of coal in British factories. The EIB financed the conversion to coal-burning of five Italian cement plants. Finally, NIC funds were used to part-finance the opening of lignite mines and associated power stations in France. Similar projects were aided by the EIB in Greece.
- Hydrocarbons: the EIB helped to finance the development of two oil wells in Italy and one in Denmark. In the Danish case, the loans covered the cost of a marine drilling platform, an oil terminal on land and a 330 kilometre oil

¹ See also *European File* Nos 18/83 'Regional development and the European Community', 2/84 'The European Social Fund' and 10/83 'Europe's common agricultural policy'.

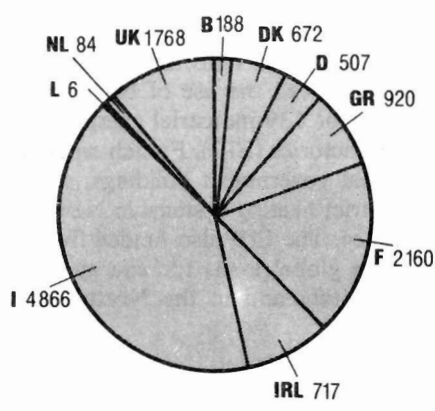
² For more details, see 'Commission Report on the borrowing and lending activities of the Community in 1983' in *European Economy* No 21, September 1984, and European Investment Bank, *Annual Report 1983*.

European Community loans (in millions of ECU)

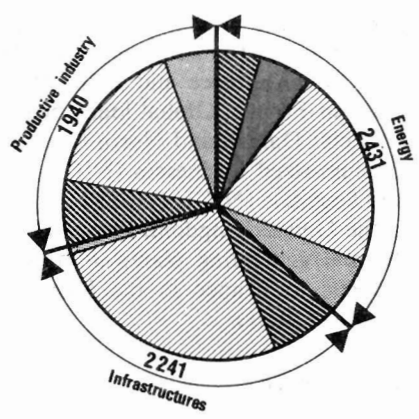
(1) By different institutions (1973-83)



(2) To different countries (1982 + 1983)



(3) By institution and by sector (1983)



Source: Commission report on the borrowing and lending activities of the Community in 1983.

pipeline, which also attracted NIC funds. In the natural gas sector, the EIB supported a number of Danish projects including new gas links to 48 local authorities, the construction of 500 kilometres of gas pipeline and the building – also with NIC assistance – of technical installations for the Tyra gas field. The EIB also financed 447 kilometres of the gas pipeline from the Soviet Union to West Germany, between the Czech and French frontiers. The NIC financed 380 kilometres of pipeline for Algerian gas in Sicily and the EIB supported a similar project in North Central Italy. The NIC financed Italian gas storage projects and the EIB helped to finance the exploitation of four gas fields under the sea, three in Italy and one in Britain (the Magnus field). The EIB helped to finance links between this field and two other North Sea gas fields (Thistle and Murchison) and the main Scottish gas network.

- Nuclear: Euratom and the EIB jointly financed the building of four power stations, two in France, one in Italy and one in the United Kingdom (Torness Point). Euratom also helped to finance two power stations in Belgium and one power station and fuel enriching plant in France. The EIB helped to fund two German power stations and a British fuel storage and handling plant (Sellafield).
- Hydro-electricity: the EIB helped to finance two plants in Italy and four in Greece, where it also provided funds for a dam. As part of a global loan for energy saving projects, the Bank provided funds for a score of mini hydro power stations in France.
- Electricity grids: EIB and NIC loans helped to pay for the linking of the British and French national grids through underwater cables from Sellindge to Bonningue-les-Calais. The EIB also financed improvements to the Irish grid (power lines from Moneypoint power station to Dublin) and similar projects in Italy (underwater cables from the mainland to Sicily and the laying of 1 400 kilometres of power lines, etc.).
- Economic use of energy and alternative energy sources: there was a proliferation of loans for small projects. The EIB helped to fund improvements to refineries in Greece and Italy. The ECSC financed the use of blast furnace gases in France. Global loans helped to pay for 139 industrial energy-saving projects: Danish and North-Central Italian factories (EIB), French small and medium-sized businesses (NIC), French local government buildings, schools and hospitals (NIC). The EIB supported district heating systems in Newcastle in the United Kingdom, Denmark and France. The EIB also funded five geothermal generating plants in Italy and gave global loans for energy saving projects in France in the Mezzogiorno in Italy and in the North-Central region of Italy.

Infrastructure

- Roads: the EIB helped to pay for the building or upgrading of 3 000 kilometres of road in Greece (including the Patras to Olympia road) and a

number of roads in France, Ireland (the Dublin and Cork avoiding roads, etc.) and Italy (including the Carnia to Austria section of the Friuli Motorway, linking Northern and Southern Europe, also funded by the NIC). Road projects supported by the bank in the United Kingdom included the Liverpool, Cardiff and Edinburgh ring roads, urban road improvements in Devon, a link between the M8 and M9 in Scotland, a link from the M4 to Llanelli in South Wales and various roads in Humberside, Lancashire, the Glasgow suburbs and the Outer Hebrides. Global EIB loans were also used to improve hundreds of departmental roads in France and similar loans were made to Greece by the Bank and the NIC.

- Other transport infrastructures: the EIB assisted the modernization of suburban railways in Dublin and port installations in Denmark, the purchase of a vehicle ferry for the Scottish island of Berneray, the development of airports at Birmingham, Exeter and Manchester, to improve their European links, and the purchase of five aircraft for the European service of Air France.
- Telecommunications: the EIB and NIC jointly contributed to the improvement of the Irish telephone and telex network (assisting 48 000 subscribers) and a similar project in Greece. The EIB financed the connection of 323 000 new phones in the Mezzogiorno and improvements to the networks in various less-favoured parts of France and parts of Britain (Hull and Scotland).
- Housing and architectural heritage: the EIB and NIC financed the building of 7 400 council houses as part of an industrial development programme in the Mezzogiorno. The ECSC helped in the construction or modernization of 4 000 homes for coal and steel workers in all ten Member States. The EIB also helped to finance the restoration of the Doge's palace in Venice and the preservation of its art works.
- Environment: the EIB financed refuse treatment plants in the United Kingdom at Hull and Grimsby and in Lancashire where it also supported coastal protection projects. Most efforts by the Bank were, however, concentrated on sewage treatment projects, which help to clean up seas and beaches. Projects of this kind were aided in Denmark, in eight Greek cities including Athens and Thessaloniki, in Italy (Rome, Ostia and Naples) and in the United Kingdom (Prestwick and Monkton in Strathclyde). In many cases these projects also helped to improve water supplies. Schemes of this kind included those in Northumbria and Wales and 14 Irish Counties, Dublin, Kildare, Kilkenny, Meath, Tipperary, Waterford, Wexford, Wicklow and parts of Clare, Donegal, Galway, Longford, Mayo and Monaghan. Water supply projects funded by the EIB aided 2.3 million people in the Italian provinces of Naples and Caserta, as well as the town of Stornoway in the Scottish Outer Hebrides.
- Productive infrastructure: the EIB financed the irrigation of 6 200 hectares of agricultural land in Greece and 24 000 hectares in Italy. The Bank also

contributed to the improvement and servicing of several industrial estates in Greece and in the United Kingdom (in Devon, Newcastle and Stornoway). The NIC helped to fund the building of turnkey and custom-built factories in the Shannon Free Airport and Gaeltacht areas of Ireland.

- The rebuilding of areas of Southern Italy devastated by the November 1980 earthquake: the EIB helped to finance water supplies and sewerage facilities for 32 communes with a population of 80 000, the rebuilding of a factory for car components and the reconstruction of 107 sections of road. NIC funds helped to rebuild or repair railways, 18 university buildings and 65 other public buildings and to create seven industrial estates and a civil defence headquarters.

Productive investments

- Steel: the ECSC financed the modernization of a number of steelworks in Germany, France, Italy and the United Kingdom (Darlington). It also funded special steels projects in France and Germany. Coking plants received EIB aid in Germany and from the ECSC in the Netherlands. The ECSC also helped to fund a French research laboratory.

- Other sectors:

- To help the economic redevelopment of mining and steel areas, the ECSC gave global loans for dozens of small and medium-sized businesses. The United Kingdom received 37 million ECU for projects of this kind, Germany 23 million and Italy 10 million. Direct loans were granted for a number of other sectors: a titanium foundry and an aluminium foundry in Belgium, a car maintenance plant in Germany, a lighting equipment factory at Kilbarry in County Waterford in Ireland, a steel tube factory in Italy, another at Taarnabauch in Ebbw Vale in Wales, a zinc-making factory at Moxley in the West Midlands of England, a computer parts factory at Brynmawr in Gwent, in Wales, an optics plant in Glasgow, as well as factories making textiles (Taarnabauch), pharmaceuticals (Dalry, Ayrshire), food products (Corby, Northants and Bridgend, Mid-Glamorgan) and a wholesale distribution centre in Glasgow.
- The EIB has financed regional development projects including a pharmaceuticals plant in Germany, three plants in the United Kingdom (a creamery and an aeronautics factory in Belfast and a bottle works at Worksop in the East Midlands) and a variety of projects in Italy, including a brewery, an ice-cream factory, a frozen food plant, a drink container factory, as well as cardboard, motor-car, car components and optic fibre cable factories. Other EIB loans in Italy benefited energy or new technology projects, such as a factory for glass wool products, a plant making helicopter blades from composite fibres, a plant for machine tools and

factory robots, a factory for computer systems and parts, a plant developing robots for car factories, and a plant developing biotechnologies for use in the pharmaceutical industry.

- In addition, global EIB and NIC loans funded over 3 000 small and medium-sized industrial and service projects (compared to 1 200 in 1982). The businesses assisted in this way were concentrated in the metal-working, engineering, food, tourism, woodworking, building materials, publishing, chemicals, electrical and electronics industries. About 60% of the projects employed less than 50 people. More than half of the projects were funded by the EIB in assisted regions of Ireland (4 million ECU), the United Kingdom (26 million ECU), Denmark (6 million ECU), Greece (32 million), France (126 million) and in Mezzogiorno (292 million) and the North-Centre of Italy (127 million). The Bank also gave global loans for small and medium-sized agricultural projects as well as food-processing developments in Ireland (4 million ECU) and Greece (31 million). The NIC gave loans to unassisted regions of the United Kingdom (68 million ECU), Denmark (22 million), France (105 million) and the North-Centre of Italy (274 million).
- Tourism: the global loans already mentioned also included finance for a range of small and medium-sized tourism projects contributing to regional development. The tourism sector also gained from specific NIC loans in the Centre-North of Italy and EIB loans in the Mezzogiorno and Ireland. The Bank also financed a hotel-restaurant in Germany and a catering school in Plymouth in the United Kingdom.



The above list concerns only projects aided in 1983. It shows what the Community's borrowing and lending policy can achieve. This policy must be strengthened further to help reduce regional disparities and promote economic growth and employment through large-scale European investment and modernization programmes, especially in the industry, energy and transport sectors ■

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