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REPORT

of the Committee on Budgets

on the Commission proposal for a Council decision extending a Community guarantee to the European Investment Bank in case of losses on loans in Estonia, Latvia and Lithuania (COM(92) 401 final - C3-0464/92)

Rapporteur: Mr. J. Tomlinson

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PE 203.662/fin.

consultation procedure requiring a single reading
operation procedure (first reading)

**II Cooperation procedure (second reading) requiring the votes of a majority of the current Members of Parliament
*** Parliamentary assent requiring the votes of a majority of the current Members of Parliament

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By letter of 7 December 1992 the Council consulted the European Parliament, pursuant to Article 235 of the EEC Treaty, on the Commission proposal for a Council decision (EEC) extending a Community guarantee to the European Investment Bank in case of losses on loans in Estonia, Latvia and Lithuania.

At the sitting of 14 December 1992 the President of Parliament announced that he had referred this proposal to the Committee on Budgets as the committee responsible and to the Committee on Economic and Monetary Affairs and Industrial Policy and the Committee on External Economic Relations for their opinions.

At its meeting of 14 December 1992 the Committee on Budgets had confirmed the appointment of Mr Tomlinson as rapporteur.

At its meeting of 25 January 1993 it considered the Commission proposal and draft report.

At the latter meeting it adopted the draft legislative resolution unanimously.

The following took part in the vote: von der Vring, chairman; Pasty, vice-chairman; Tomlinson, rapporteur; Böge, Cassidy, Colajanni (for Papoutsis), Colom I Naval, Duarte, Elles, Goedmakers, Langes, Marques Mendes, Napoletano, Theato and Zavvos.

The opinion of the Committee on External Economic Relations is attached; the Committee on Economic and Monetary Affairs and Industrial Policy decided not to deliver an opinion at its meeting of 21 December 1992.

The report was tabled on 26 January 1993.

The deadline for tabling amendments is noon on 4 February 1993.

A.

Commission proposal for a Council decision extending a Community guarantee to the European Investment Bank in case of losses on loans in Estonia, Latvia and Lithuania.

Commission text¹

Amendments

(Amendment No. 1)

Before the fifth recital, new recital

Whereas the two arms of the budgetary authority are currently negotiating the establishment of a Guarantee Fund, and whereas agreement on such a Fund, and a sufficiently-endowed Fund, is a condition for concluding a new Interinstitutional Agreement;

(Amendment No. 2)

Before the fifth recital, new recital

Whereas it is recognized that the European Parliament is a party to the negotiations on all aspects of the Interinstitutional Agreement, and thus that the agreement reached on the Guarantee Fund at the European Council in December 1992 does not constitute the final word on this Guarantee Fund;

(Amendment No. 3)

(Fifth recital)

Whereas the Council has invited the Bank, and the Bank has agreed, to make loans for capital investment projects carried out in the three countries under the guarantee provided in this Decision;

Whereas the budgetary authority of the European Communities, Council and Parliament, have invited the Bank, and the Bank has agreed, to make loans for capital investment projects carried out in the three countries under the guarantee provided in this Decision;

1 For full text see COM(92)0401 - OJ No. C 311, 27.11.92, p. 62.

Commission text

Amendments

(Amendment No. 4)
Article 2 (new)

The Bank shall advance new loans under the guarantee only to the extent authorized in the remarks to the budgetary line - B0-219 - covering such guarantees.

(Amendment No. 5)
Article 3 (new)

Every six months the Commission shall inform Parliament and Council as to the rhythm of take-up of loans under the guarantee. To this end, the Bank shall forward to the Commission all necessary details for the complete information of Parliament and Council.

(Amendment No. 6)
Article 4, new

Once a year the Commission shall forward to Parliament and Council a report which will include an evaluation on the implementation of this decision.

A.

DRAFT LEGISLATIVE RESOLUTION

embodying the opinion of the European Parliament on the Commission proposal for a Council decision extending a Community guarantee to the European Investment Bank in case of losses on loans in Estonia, Latvia and Lithuania.

The European Parliament,

- having regard to the Commission proposal to the Council (COM(92)0401)¹,
 - having been consulted by the Council pursuant to Article 235 of the EEC Treaty (C3-0464/92),
 - having regard to the report of the Committee on Budgets and the opinion of the Committee on External Economic Relations (A3-0010/93),
1. Approves the Commission proposal subject to Parliament's amendments and in accordance with the vote thereon;
 2. Calls on the Commission to amend its proposal accordingly, pursuant to Article 149(3) of the EEC Treaty;
 3. Calls on the Council to notify Parliament should it intend to depart from the text approved by Parliament;
 4. Asks to be consulted again should the Council intend to make substantial modifications to the Commission proposal;
 5. Instructs its President to forward this opinion to the Council and Commission.

¹ OJ No. C 311, 27.11.1992, p. 62

B.

EXPLANATORY STATEMENT

1. This proposal provides for a guarantee from the general budget of the European Communities to cover the European Investment Bank in cases where the Bank does not receive the payments due under any loan, granted in accordance with its usual criteria, in Estonia, Latvia and Lithuania. An overall limit of ECU 200 million is set for a three-year period.
2. The three Baltic States, Estonia, Latvia and Lithuania are in the process of transition from centrally-planned to market economies. This process is being accompanied by political reforms tending towards the creation of genuine pluralistic societies. At their meeting on 11 November 1991 Ministers of the G-24 group of nations welcomed the fact that the newly independent Baltic States had committed themselves to respecting human rights and undertaking democratic and market-oriented reform. They confirmed the extension of G-24 coordinated economic assistance to the three countries and agreed on a common approach to supporting their reform programmes. In this connection, the Community in the autumn of 1992 agreed to provide medium-term financial assistance to the three states in the form of loans of a maximum duration of seven years, to be guaranteed by the general budget of the European Communities, and to total no more than ECU 220 million. The present proposal to invite the EIB to advance loans against the Community guarantee is thus additional to the assistance already afforded.
3. The Commission proposal suggests that the Baltic States should be eligible for EIB finance on a similar basis to other Central and Eastern European countries, amongst which Poland, Hungary, the former Czech and Slovak Federal Republic, Bulgaria and Romania already benefit from similar schemes. The loans are to be destined for infrastructure projects in particular, and will be coordinated with other financial institutions.
4. Queries have been raised about the human rights situation in the Baltic States, and in particular about the treatment of the large Russian minority in Estonia - 38% of the population - who are legal residents of the country but who were not allowed to vote in the elections because they have not been granted Estonian citizenship. The Committee on Foreign Affairs and Security has produced a report on the situation in the Baltic Republics, and in response to a request from the Committee on Budgets its rapporteur has sent the latter committee a letter focusing on the human rights situation. This letter is reproduced in annex. In essence, the letter points out that while the Russian minority was indeed excluded from the recent elections, the elections themselves were fair, that the confusion about citizenship to some extent is a result of the political situation in the countries, that it is the intention to resolve the problems in time for the next election, and that in any event the Baltic States require outside financial support in order to improve circumstances for all sections of the population.

5. Some means must be established whereby Parliament and Council are kept appraised of the status of projects for which the Communities' budget has guaranteed the financing. A model for such a provision might be article 5 of the recently-proposed Council decision providing medium-term financial assistance for the Baltic States (COM(92) 410, 23 September 1992), in accordance with which the Commission will, at least once a year, address to Parliament and Council a report evaluating the implementation of the decision. Parliament made a similar proposal in its amendments to the proposal to indemnify the EIB against losses under loans to certain countries outside the Community.
6. In the light of the increasing issuance of guarantees from the Community budget, the recent appearance of the Council's proposal for the budgetary treatment of Community loan guarantees to non-member states is timely. In recognition of the need for a form of provisioning, the Council proposes establishing a Guarantee Fund, to be managed separately from the Community budget, and with a target size of 10% of total outstanding liabilities, to be built up by depositing 14% of the capital value of all new external loans and guarantees. The Fund goes some way towards meeting Parliament's oft-expressed concerns about the continued issuance of guarantees against the Community budget, but the questions arise of (a) whether the target size of the Fund of 10% of outstanding liabilities is really sufficient, and (b) whether it is not going to take far too long to reach even this target when only 14% of new outstanding loans and guarantees is to be payed into the Fund. Also, the Parliament would insist that, in case of an actual default resulting in a guarantee commitment having to be met, if there were no more funds available under the ceiling for category 4 of the financial perspective, and no possibility of meeting the shortfall by transferring appropriations from those budgetary lines relating to cooperation with the defaulting country, the ceiling for category 4-appropriations would have to be raised and with it the overall budgetary ceiling.
7. The present Commission proposal prescribes an overall limit of ECU 200 million for a three-year period. It needs to be clarified whether this total is to include interest on the loans advanced, or whether it merely applies to the total principal of the loans (in which case any call on the budget under the guarantee could be considerably greater). Also, a mechanism should be installed that would permit the Bank to advance new loans under the guarantee only in so far as there is cover for such increased lending in the remarks to the budgetary line covering the guarantee.
8. The Committee might also, as on earlier occasions, propose the amendment of the recital, "Whereas the Council has invited the Bank" to, "Whereas the budgetary authority of the European Communities, Council and Parliament, have invited the Bank".

Letter of 7 December 1992 from Mrs Concepcio FERRER I CASALS, Member of the European Parliament, to Mr von der VRING, chairman of the Committee on Budgets

Dear Mr von der Vring

At its meeting of 7 and 8 December the Committee on Budgets will consider (Item 6 on the agenda) a report by Mr Tomlinson on guarantees to the European Investment Bank in case of losses on loans in the Baltic States (COM(92) 401 final).

Given the concern voiced by some members of the committee when amending Mr Tomlinson's report, I considered it appropriate to make a few brief observations on the situation of human rights in the Baltic States.

1. It is impossible to ignore the 50 years of forced annexation by the former USSR and the policy of colonization and russification suffered by Estonia, Latvia and Lithuania, which gave rise to the problems facing these republics today. The institutional reforms and political development of these republics must therefore be judged on the basis of an understanding of their recent history.

2. Once they had a legal framework they were able to hold elections, which took place with due regard for democracy. In the case of Estonia it should be noted that about 38% of the population, Russian citizens who arrived in Estonia after its annexation by the former USSR, were not able to participate in the election as they had not been able to obtain Estonian citizenship.

3. In accordance with international standards and the European Convention of Human Rights, the right to citizenship cannot be considered a fundamental right, since it is for each State to set laws governing citizenship.

Therefore it cannot be held that Estonia violated human rights, although the democratic deficit which this law implies is deplorable. Nevertheless, this deficit will be made up in the next elections which will be held in three years' time, in which minorities who have been able to acquire nationality will be able to vote.

In Latvia, agreement has not yet been reached on the criteria for obtaining citizenship, but it is hoped that the law will fully respect the international agreements signed by the Latvian Government with regard to civil, social and economic rights.

The process of establishing a system allowing political, economic, cultural and social freedom has caused many problems for the Baltic States. It is not easy to overcome the problems resulting from Soviet domination and the existence in each of these countries of minorities which in some cases are almost majorities, and to preserve national identity in these circumstances.

Because of this situation, these countries need Community aid to enable them to consolidate democracy with complete respect for human rights; continued monitoring of the political outcome of institutional reforms in these republics will be needed, at least during the initial stage.

During the December part-session the Committee on External Economic Relations will present the financial protocols for cooperation with the Baltic States, having made the appropriate amendments, with a favourable opinion from the Committee on Foreign Affairs and Security.

(Closing formula and signature)

OPINION

of the Committee on External Economic Relations

Letter from the Chairman of the committee to Mr von der VRING, Chairman of the Committee on Budgets

Brussels, 2 December 1992

Subject: Proposal for a Council decision extending a Community guarantee to the European Investment Bank in case of losses on loans in Estonia, Latvia and Lithuania (COM(92) 401 final - C3-0464/92)

Dear Mr von der Vring,

At its meeting of 2 December 1992 the Committee on External Economic Relations considered the above-mentioned proposal for a Council decision.

The committee noted that the financial aid assigned by the European Investment Bank to the Baltic States had to be viewed as a matter of some importance, given the substantial requirements in those countries for public service-oriented fixed capital equipment, the dearth of domestic savings, and, added to that, the severe slump in production brought about by the demise of the centralized planning system.

The guarantee under the Community budget for EIB loans is intended to be additional to the other forms of financial assistance already granted by the Community to the Baltic States, for example medium-term balance-of-payments support, a subject on which the Committee on External Economic Relations has reported to Parliament.

On the other hand, the committee wishes to point out that the budget-funded guarantees which the Community has been called upon to give in recent years, covering both medium-term financial assistance operations and EIB loans to Central and Eastern European countries, have been increasing rapidly. The matter is one of considerable importance, given that the financial resources which the Community has, rightly, provided for those countries and the CIS republics have risen beyond ECU 5500 m.

That being the case, the Committee on External Economic Relations believes that the measures set out in Parliament's resolution on the second Delors package (A3-0209/92) need to be implemented immediately and without fail, that is to say:

an early-warning system should be introduced to cover the eventuality of a call being made on the guarantees given by the Community, and

a reserve, totalling not less than 20% of current guarantees, should be created in the Community budget for the exclusive purpose of meeting exceptional expenditure of the type concerned.

Subject to the foregoing points, the Committee on External Economic Relations approves the proposal for a decision in question.

Yours sincerely,
(sgd) Willy DE CLERCQ

The following took part in the vote: De Clercq, chairman; Cano Pinto, vice-chairman; Ib Christensen, de Vries, Gallenzi, Janssen van Raay (for Lemmer), Peijs, Price, Sonneveld (for Suárez González), Titley (for Miranda de Lage), and Woltjer (pursuant to Rule 111(2)).