

Luxembourg, March 14, 1964

M e m o r a n d u m

on certain aspects of the financial activity of the
European Coal and Steel Community

I. Impact of previous borrowings and related transactions
on the U.S. balance of payment

In the period between March 1954 and March 1964 the High Authority of the European Coal and Steel Community has borrowed in the U.S.A. and Europe :

in U.S.A. Dollars	\$ 245 million
in European currencies (equivalent)	\$ 157 million
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Total	\$ 402 million
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Of the latter amount only \$ 190 million (or 47 % of the total) originated from American funds and the remainder of \$ 212 million (or 53 % of the total) from European funds.

The details of these borrowings can be seen in the attached table. It is noteworthy that of the total Dollar borrowings of \$ 245 million only \$ 190 million were of genuine American origin (including the \$ 100 million loan granted by the U.S. Government) and \$ 55 million of European origin.

It is well known that foreign bond issues offered in New York are principally bought by foreigners who cover their purchases by remitting foreign exchange to the USA (this part of foreign Dollar bond issues in the New York market has consequently no impact on the U.S. balance of payments).

It is also noteworthy that of the amount borrowed in the U.S.A. three transactions in the aggregate amount of \$ 35 million (10 + 15 + 10) represented borrowings with terms between 3 and 5 years (i.e. borrowings which are rapidly repaid).

From the attached table it can be seen that between March 1954 and June 1964 \$ 107.00 million were or will be remitted to American lenders as follows :

repayment of capital	\$ 54.10 million
interest	\$ 52.90 million
	<u> </u>
	\$ 107.00 million.

The impact of the borrowings and of the remittances for capital and interest on the U.S. balance of payments can be summarized as follows. In the 10 years under review

the borrowings from American lenders amounted to \$ 190 million
remittances to these lenders amounted to \$ 107 million

The net outflow of funds from the USA equalled \$ 83 million.
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As mentioned above the proportion of total American and European capital borrowed by the High Authority up to March 1964 was 47 % : 53 %. Owing to intensified borrowings in Europe and to current amortization of previous borrowings that proportion will decrease to 40 % for the USA and increase to 60 % for Europe as of the end of May 1964. In consequence of new borrowings in Europe scheduled for 1964 the quota for American funds will further decline perhaps even before June next. From the above figures and explanations the following conclusions can be drawn :

- a) The impact of the High Authority's borrowings on the U.S. balance of payments was, in fact, negligible (average annual rate of 8.3 million dollars).

- b) The High Authority does not look to the New York capital market as its main source of financing as was suggested in certain quarters.
- c) The High Authority has shown real restraint in making use of the facilities of the New York market and thus has proved its willingness for international cooperation.

II. Future financing needs of the Community

1. The volume of loan applications filed by the enterprises with the High Authority reached new peaks in 1963. This induced the High Authority to pursue its active borrowing policy. As in previous years, however, due regard had to be given to the balance of payments problems of the lending countries. In consequence the High Authority's borrowings in 1963 were confined to the capital markets of the European Economic Community and reached only about half the volume of 1962.

The decline in the volume of borrowings had different causes. The principal one was the decision to abstain in 1963 from borrowings in the United States and from Dollar borrowings in Europe. In 1963 American authorities have repeatedly stressed that European and other borrowers should spare the American market and that, as long as the American balance of payments problems persist, they should borrow only in Europe. The pursuing of such a policy by the borrowers was, however, hampered by the fact that the lending capacities of the various European capital markets are much smaller than that of the American market.

2. In respect of 1964 it can be hoped that the capacity of certain European markets will improve as far as foreign borrowing is concerned. It must be borne in mind, however, that borrowers who used to cover their capital requirements in the American market will in future more violently compete for funds in the limited European markets than in the past.

3. The High Authority could probably borrow more in European markets if borrowing in US-Dollars, in supplement of borrowing in European currencies, could be envisaged. Strange as it is, European lenders are more prepared to lend long term money if the bonds are expressed in US-Dollars. (The reasons for such attitude are well described in Paper No 3 prepared by the U.S. Treasury for the use of the Joint Economic Committee "A description and analysis of certain European capital markets").

It is noteworthy that between July 1963 and now the following Dollar bond issues were very successfully floated in Europe (i.e. sold to Non-American investors) :

Autostrade	\$ 15 million
Voest	\$ 10 "
Takeda	\$ 15 "
Belgium	\$ 20 "
Canon	\$ 5 "
Austria	\$ 18 "
Norges Kom. Bank	\$ 10 "
City of Oslo	\$ 15 "
Copenhagen Telefon	\$ 12 "

Although borrowings of such a type do not have any impact on the U.S. balance of payments, the High Authority would not like to consider future offers by European banks for Dollar loans to be issued and sold in Europe as long as it is not known whether the U.S. Administration has any objection to the use of the Dollar as the currency of loans transacted outside U.S.

To explore the U.S. Administration's views on this question is one of the purposes of the present visit. Would, for instance, the American authorities declare that they have no objections to the floating of Dollar bond issues in Europe, then the High Authority, perhaps, could considerably increase the total amount of its European borrowing.

4. The second purpose of this visit is to explore the U.S. Administrations's views on an eventual return to the New York market. After the Interest Equalization Tax will be enacted into law, business on the New York market, in the view of the New York banking community, will again revive.

Of course, no borrower of good standing is inclined to borrow regardless of cost. Only weak borrowers in urgent need of funds would be prepared to borrow in New York selling the total amount of the issue to American lenders and paying the Interest Equalization Tax on such total (in other words, putting up with the heavy additional cost for the money).

Good borrowers, on the contrary, might think of a return to New York only for the purpose of continuing their contact with that market and for availing themselves of its special facilities (underwriting system, Stock Exchange listing and quotation etc.). Such good borrowers would, however, not be inclined to meet the wishes of the New York financing community and to return to this market if the total cost of the whole borrowing would be prohibitive. For that reason, a return to New York might be considered only if the New York bankers would agree to sell say only 10 to 20 % of the issue to American residents and the remainder to non-residents. Applying such quotas would necessitate the payment of the Interest Equalization Tax only on the small proportion of the bonds sold in the U.S. The impact of the Tax on the cost of the total issue would thus be reduced to bearable proportions.

At present the High Authority has no intention of borrowing in New York even if the burden for the U.S. balance of payments were negligible (10 to 20 % of the issue). This attitude might, however, change in the future. But before even thinking of any exploratory talks with the New York banks (as occasionally suggested by them) the High Authority would like to know the U.S. Administration's views on the type of transactions described above in this section.

THE HIGH AUTHORITY'S BORROWINGS, INTEREST AND REDEMPTION PAYMENTS
AND THEIR IMPACT ON THE AMERICAN BALANCE OF PAYMENTS

Operations burdening the balance of payments (column 5 below only)						Operations improving the balance of payments (columns 7, 9 and 11)				
Borrowings and their sources						Period between March 1954 and June 1964 (in million dollars)				
Year	Country	Currency of issue	Amount of issue in million \$ or equivalent	of which		Repayment of capital		Remittances for interest		TOTAL transfers in favour of American lenders (columns 7 + 9)
				American funds	European funds	to American lenders	to NON American lenders	to American lenders	to NON American lenders	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	<u>USA</u>									
1954	Eximbank	\$	100	100	-	23.20	-	33.00	-	56.20
1957	20 years Bonds	\$	25	9	16	1.40	2.50	3.80	6.70	5.20
1957	3 to 5 years Notes	\$	10	10	-	10.00	-	2.00	-	12.00
1958	20 years Bonds	\$	35	18	17	1.20	1.10	5.40	5.10	6.60
1958	3 to 5 years Notes	\$	15	15	-	15.00	-	2.70	-	17.70
1960	20 years Bonds	\$	25	16	9	-	-	3.00	1.70	3.00
1960	3 to 5 years Notes	\$	10	10	-	3.30	-	1.60	-	4.90
1962	20 years Bonds	\$	25	12	13	-	-	1.40	1.20	1.40
	USA	Sub Total	245	190	55	54.10	3.60	52.90	14.70	107.00
1955/64	Germany	DM	38	-	38	-	6.30	-	-	-
1961/63	Netherlands	Fl.	34	-	34	-		-	-	-
1956/62	Switzerland	Sfrs.	28	-	28	-		-	-	-
1963	Italy	Lire	24	-	24	-		-	-	-
1955/63	Luxembourg	Lfrs.	17	-	17	-		-	-	-
1955/63	Belgium	Bfrs.	16	-	16	-		-	-	-
-	France	Ffrs.	-	-	-	-	-	-	-	-
	Other countries	Sub Total	157	-	157	-	6.30	-	-	-
	Initial amounts	Total	402	190	212	54.10	9.90	52.90	-	107.00
% of Total			100 %	47 %	53 %					
Outstanding June 1, 1964										
Amount			338,0	135,4	202,6		64.00			
% of Total			100 %	40 %	60 %					