



*European Communities
Commission
Background Report*

20 Kensington Palace Gardens
London W8 4QQ
Telephone: 01-727 8090

March 1, 1978

PROMOTING INVESTMENT WITHIN THE COMMUNITY

The low level of investment in the Community has worried both the Commission and member governments. The share of gross fixed capital formation in the Community's gross national product (GDP) has fallen from an average rate of 23 per cent for 1970-1973 to 20.5 per cent in 1977. In the productive sector of the economy investors still remain hesitant, even though profit margins are improving.

In Rome, in March 1977, the European Council of Heads of State and Governments expressed concern at the unfavourable investment trends in the Community, and asked the Commission "by the better use of Community instruments and the Board of Governors of the European Investment Bank (EIB), to seek ways of improving the effectiveness of their activities" in reversing the dismal trend.

In a Communication⁺ to the Council of Ministers last June the Commission pointed out that it was already using existing instruments to the maximum it was allowed, but restrictions imposed on direct budget financing, on the EIB, the European Coal and Steel Community (ECSC) and Euratom, prevented extension of investment commitments beyond certain thresholds. A new mechanism was needed that allowed the Commission greater recourse to borrowing in capital markets, where Community creditworthiness in its own right is high.

This did not mean, the Commission emphasised, that the Community could take the place of investment action by industry or by governments. But in well defined areas the Community could facilitate or advance the financing of projects useful to the Community as a whole, and act as a catalyst with a real leadership and financial impact going well beyond the actual volume of Community intervention involved.

After further discussions with specialist committees and the Council of Ministers, the Commission's proposals were adopted in principle by the European Council at its December meeting, but on condition that the loans should be handled by the EIB.

At its meeting on February 20, 1978, the Council of Finance Ministers broadly accepted the Commission's detailed proposals⁺⁺ for establishing the borrowing mechanism and, subject to some further examination of the technical aspects, asked that the proposals should be referred to the European Parliament for an Opinion.

⁺ EC Bulletin 6/1977 pts. 1.4.1. and 1.4.2

⁺⁺ COM (78) 26 final, January 30, 1978

/...

Detailed Proposals

Noting that under Article 235 of the Rome Treaty, and subject to unanimous agreement by the Council of Ministers, the Community can introduce new instruments designed to meet its overall objectives, the Commission proposes that it should be authorised to borrow up to a limit of 1,000 million units of account (approximately £650 m) on the capital market, based on Community creditworthiness in its own right.

Subject to this ceiling, and Council approval, the loans would be introduced a block at a time and used towards financing structural investment in priority Community projects, especially in the fields of energy, certain key industries and infrastructure, with a special bias in favour of regional development.

Funds borrowed would be deposited with the EIB and invested on a temporary basis if need be. The Bank would have a general mandate on behalf of the Community to make loans in consultation with the Commission.

The Council would be regularly informed of the transactions and the Commission would submit an annual review of its borrowing policy together with the budget estimates.

Hesitations

Originally, Member States, particularly West Germany, were reluctant to grant the Commission wider borrowing powers. This was one reason why they insisted that the EIB should handle the loans. The Commission is aware that, to begin with, operations will be experimental, and that use of the new borrowing facility must be built up gradually.

By this wider strategic use of investment loans, however, it hopes to contribute to less unemployment and more jobs in the Community.

+

+

+