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Report

drawn up on behalf of the Committee on Economic and Monetary Affairs

on the proposal from the Commission of the European Communities to the Council (Doc. 1-468/83 - COM(83) 275 final)
for a Regulation on interest subsidies for certain loans granted under the European Monetary System

Rapporteur: Mr Michael WELSH

PE 87.064/fin
Or. En.

English Edition

By letter of 20 June 1983, the President of the Council of the European Communities requested the European Parliament to deliver an opinion on the proposal from the Commission of the European Communities for a regulation on interest subsidies for certain loans granted under the European Monetary System (Doc. 1-468/83).

On 4 July 1983, the President of the European Parliament referred this proposal to the Committee on Economic and Monetary Affairs as the committee responsible and to the Committee on Budgets for an opinion.

At its meeting of 19-20 September 1983, the Committee on Economic and Monetary Affairs appointed Mr Tuckman as rapporteur. At its meeting of 17-19 October , the Committee on Economic and Monetary Affairs replaced Mr Tuckman by Mr WELSH.

The Committee considered the Commission's proposal and the draft report at its meeting of 17-19 October 1983, 3-4 November 1983 and 21-23 November 1983. It adopted the report on the latter date on a unanimous vote with 5 abstentions. The committee also decided to request application of Rule 34 of the Rules of Procedure (procedure without debate).

The following took part in the vote: Mr Moreau, chairman; Mr Hopper, vice-chairman; Mr Macario, vice-chairman; Mr Welsh, rapporteur; Mr Caborn, Mr Delorozoy, Mr Halligan (deputizing for Mr Rogers), Mr Herman, Mr Nordmann, Mr Nyborg, Mr Papantoniou, Mr von Bismarck, Mr van Rompuy, Mr von Wogau and Mr Wagner.

The opinion of the Committee on Budgets is attached.

The report was adopted on 24 November 1983.

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The Committee on Economic and Monetary Affairs submits to the European Parliament the following motion for a resolution together with explanatory statement:

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MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a regulation on interest subsidies for certain loans granted under the European Monetary System

The European Parliament,

- having regard to the proposal from the Commission (COM (83) 275 fin),

- having been consulted by the Council (Doc. 1-468/83),

- having regard to the report of the Committee on Economic and Monetary Affairs and the opinion of the Committee on Budgets (Doc. 1-1118/83),[1]

- having regard to the result of the vote on the Commission's proposal,

A. having regard to the Treaty of Rome and particularly Article 235 thereof,

B. noting that under Council Regulation EEC No. 1736/79 an amount of 200 million ECU was allocated to provide investment subsidies for approved projects in the less prosperous Member States effectively and fully participating in the European Monetary System,

C. noting that the Commission proposes to renew this facility for two years pending a review to take account of any changes in basic circumstances which might be bought about by enlargement or of any developments in the European Monetary System,

D. noting that the draft general budget for 1984 contains a pm entry only in respect of this item,

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[1] OJ No. C 163, 22.6.83, p. 7

1. Agrees that the system proposed by the Commission should be extended provisionally for a period of two years until the European Monetary System is consolidated;

2. Instructs its President to forward to the Commission and Council, as Parliament's opinion, the Commission's proposal as voted by Parliament and the corresponding resolution.

EXPLANATORY STATEMENT

1. Regulation 1738/79 provided for special interest rate subsidies to be made available to certain less prosperous Member States who became full Members of the EMS in recognition of the fact that difference to the parity grid system put a particular strain on their economies. The Community took the view that a special effort was needed to stimulate the economic performance of these countries by helping to reinforce structures through the financing of investment projects.

2. Italy and Ireland were designated as less prosperous countries and 1000 million units of amount was set aside for the purpose spread over 5 years. The 200 million units of amount available each year have been divided approximately 2/3rd 1/3rd between the two beneficiaries and the Commission considers that this has been a useful method of underpinning investment in these countries particularly in the energy field.

3. It therefore proposes renewing the Regulation for a further two years, but accepts that the whole system will have to be reviewed after that particularly in view of impending enlargement and possible development in the EMS.

4. The Committee for Economic and Monetary Affairs fully supports the aim of helping less prosperous Member States catch up with the other Community countries and recognises that interest rate subsidies are a useful way of promoting structural investment.

<u>OPINION OF THE COMMITTEE ON BUDGETS</u>

Draftsman: Mr L. CROUX

On 28 September 1983 the Committee on Budgets appointed Mr L. CROUX draftsman of the opinion.

The committee considered the draft opinion at its meeting of 13 October 1983, when it adopted the conclusions unanimously.

The following took part in the vote: Mr LANGE, chairman; Mr NOTENBOOM, vice-chairman; Mr CROUX, draftsman; Mr BAILLOT, Mr BROK, Mr LALUMIERE, Mr LANGES, Mr SABY, Mr SCHALL and Mrs SCRIVENER.

1) When the European Monetary System was set up in 1979 it was also decided to introduce back-up measures to strengthen the economies of the less prosperous Member States participating in the system. The measures took the form of a 3% interest subsidy on loans totalling 1,000 million ECU per annum and granted by the EIB to Italy and Ireland from its own resources or through the 'New Community Instrument' (NCI). This represented expenditure of 200 million ECU per year. Member States not participating in the EMS received financial compensation corresponding to their share in the financing of the interest subsidies.

2) These measures come to an end in 1983. The Commission now proposes to extend them in a slightly amended form for a further two years. The changes go only a very small way towards meeting the wishes expressed by Parliament and the criticisms formulated by the Court of Auditors[1].

3) We are aware of the advantages of the EMS, even in its current imperfectly functioning form. Two basic questions still have to be answered however:

(a) Does the system fulfil its objective, namely to promote the integration of the less prosperous Member States in the EMS? The Commission's proposal takes this for granted without discussing it at any stage. Moreover, at no point in the regulation is there mention of the criterion of promoting integration as such. The proposal merely sets out a number of indirectly related guidelines such as reducing regional imbalances, improving the employment situation and achieving the Community's energy objectives. Broadly speaking, the guidelines listed in Article 4 correspond to virtually all the types of loan which can be granted under the NCI.

It is therefore questionable whether it is right for these measures to be continued specifically as back-up measures for the EMS.

(b) The second question arises in relation to the compensation for Member States not participating in the EMS. Experience has shown that the possibility of benefitting from interest subsidies is not an adequate incentive for them to join the system, and rather that the principle of financial compensation has the opposite effect. It would therefore be better if the compensation arrangements were replaced with measures to make it easier for the Member States concerned to join the EMS.

4) When the Commission's proposal is analysed in greater detail from the budgetary angle, it becomes clear that Article 6, which defines the financial scope of the regulation, not only lays down a maximum amount but also imposes an obligation on the budgetary authority to enter a specific amount (200 million ECU) in the budget.

Here, the Commission is in breach of the Joint Declaration of 30 June 1982[2].

This situation is compounded by the following factors:

(a) - interest subsidies play a vital role in combating the economic recession and unemployment, and the level of the resources allocated to them is strictly a matter of budgetary policy which falls exclusively within the terms of reference of the budgetary authority;

(b) - it is irresponsible in the present context, when the Community's own resources are becoming exhausted, to propose further compulsory expenditure.

The fact that the regulation no longer lays down the volume of loans that can be subsidized does nothing to alter the situation. The volume is determined almost automatically by the amount of expenditure stipulated and the prescribed subsidy of 3%.

5) The effective use of the resources available depends essentially on strict monitoring of the projects subsidized to ensure that they are consistent with Community policy in the sectors concerned. The 1979 text required 'indicative programmes' for this purpose. The Commission considers that these have not proved as useful as had been expected and simply abolishes them. It feels that it already obtains adequate information from the regional programmes drawn up under the Regional Fund.

6) Despite Parliament's call for a move towards greater political responsibility for the Commission in granting and managing loans, the present proposal appears to strengthen even further the role of the European Investment Bank.

The special report of the Court of Auditors, referred to above, describes the procedures for granting interest subsidies and clearly shows that in the last resort it is the EIB that decides whether or not a loan with an interest subsidy should be granted. In arriving at its decision the Bank takes into account the opinions of the Member State and of the Commission. Although the Commission can prevent an interest subsidy being granted for a specific project, i.e. by declaring that it is not eligible for a loan under the Regulation, the Bank is completely free to select projects from the list of those eligible, even in the case of NCI loans, although the latter account for only a minority of subsidized loans. In theory the EIB would thus be in a position to prevent the relevant budgetary line being implemented in whole or in part. This situation remains unchanged in the new proposal, it is merely expressed more clearly in Articles 4 and 5.

7) It may be pointed out that the Commission does not pay out the interest subsidy as and when the interest to be subsidized falls due but does so annually in a lump sum corresponding to the present value of the interest subsidy. This procedure is governed by the agreement between the Commission and the EIB and has in fact recently been adjusted in line with comments made by the Court of Auditors.

Discussions are currently under way regarding new arrangements for the supporting documents that must be produced by the EIB in respect of its calculations of the amount of the subsidy.

8) To sum up, the Commission's proposal gives rise to grave doubts as to the wisdom of allowing the EMS back-up measures to continue in the proposed form for a limited duration.

The Commission indicates that it intends to submit new proposals when the effects on the EMS of the enlargement of the Community have become clear and in the light of future experience with the EMS. Past experience has shown that the Commission and the Council are all too keen to adopt temporary solutions as a means of avoiding a thorough discussion of the basic issues and that in such transitional arrangements Parliament has very little chance of making its position felt.

CONCLUSIONS

9) The Committee on Budgets:

(a) considers that the present proposal from the Commission is very much a stopgap measure in favour of the EMS and that the Commission should be called upon to submit a proposal for a general system of interest subsidies on loans to promote investment in the Community. Such a system should be broadly-based enough to promote the integration of the less prosperous Member States in the EMS and to make joining the EMS easier for those Member States that have not already done so;

(b) cannot accept that the amounts made available for such interest subsidies should be fixed by regulation or that compensation in respect of such amounts should be granted to Member States not benefiting from the measures;

(c) urges that the Commission should be given the last word in the procedure for granting interest subsidies, both as regards the eligibility of the projects and the actual granting of the subsidy; does not consider this to be incompatible with the existing procedures for granting loans eligible for subsidies;

(d) expects the agreement between the Commission and the EIB to be amended on the above lines and submitted to Parliament and will ensure that the latter does not derogate from the full application of the Financial Regulation and, in particular, that it enables the Commission to obtain the supporting documents required under that Regulation, even in the case of loans granted out of the EIB's own resources;

(e) requests the Committee on Economic and Monetary Affairs to make a thorough investigation of whether the proposed guidelines for the granting of interest subsidies offer adequate guarantees that the projects will promote integration within the framework of the EMS and dovetail with Community policies.

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[1] Special report of the Court of Auditors on loans and borrowing OJ No. C 319, 6.12.1982

[2] Joint Declaration by the European Parliament, the Council and the Commission on various measures to improve the budgetary procedure (OJ No. C 194, 28.7.1982)