REPORT

drawn up on behalf of the Committee on Energy and Research

on the proposal from the Commission of the European Communities to the Council (Doc. 1-733/82 - COM(82) 357 final) for a regulation on the payment of financial incentives in support of certain categories of investments in the rational use of energy

Rapporteur: Mr J. PURVIS
By letter of 6 October 1982, 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 Council Regulation (EEC) on the payment of financial incentives in support of investments in the rational use of energy.

On 13 October 1982, the President of the European Parliament referred this proposal to the Committee on Energy and Research as the committee responsible and to the Committee on Budgets and the Committee on Economic and Monetary Affairs for an opinion. On 13 December 1982, the proposal was also referred to the Committee on Transport for an opinion.

At its meeting of 3 November 1982, the Committee on Energy and Research appointed Mr J. Purvis rapporteur.

The committee considered the Commission's proposal at its meetings of 3 November 1982, 18 January and 24 February 1983. At the last-mentioned meeting, the committee adopted the draft report and recommended to Parliament that it adopt the Commission's proposal with the following amendments.

The Commission stated before the committee that it was prepared to accept the amendments, though with reservations on amendments Nos. 7 and 9 as to their administrative and budgetary feasibility.

The committee then adopted unanimously the motion for a resolution as a whole.

The following took part in the vote: Mr Seligman, acting chairman; Mr Purvis, rapporteur; Mr Adam, Mr K. Fuchs, Mr Linkohr, Mr Petronio, Mrs Phlix, Mr Protopapadakis, Mr Schinzeli (deputizing for Mr Rogalla), Mr Van de Meulebroucke (deputizing for Mr Bonino), Mr Veronesi, Mrs Viehoff (deputizing for Mrs Lizin).

The opinions of the Committee on Economic and Monetary Affairs and the Committee on Transport are attached. The opinion of the Committee on Budgets will be delivered during consideration of the report in plenary sitting pursuant to Rule 101 (5) of the Rules of Procedure.

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The Committee on Energy and Research hereby submits to the European Parliament the following amendments and motion for a resolution together with explanatory statement:


Amendments tabled by the Committee on Energy and Research

Amendment No. 1
Whereas the commitment of these categories of investment encounters economic and financial obstacles arising from uncertainty about the future course of energy prices, the long payback period generally required for investment, the cost of equipment, high and unstable interest rates, cash flow constraints on commercial enterprises, and budgetary constraints which restrict the activity of certain organizations, especially local authorities;

Whereas also it is appropriate that investors procuring loans partly or wholly from other sources and in currencies suitable to their cash flow should be eligible provided the financial viability is approved by the EIB.

Text proposed by the Commission of the European Communities

Preamble
Whereas the commitment of these categories of investment encounters economic and financial obstacles arising from uncertainty about the future course of energy prices, the long payback period generally required for investment, the cost of equipment, high and unstable interest rates, and budgetary constraints which restrict the activity of certain organizations, especially local authorities;

Whereas, in this context, it is appropriate that investors granted loans under the terms of Article 54 of the ECSC Treaty should also be eligible for such incentives;

PE 82.177/fin.
Amendment No. 3
Investment which falls within one of the four categories set out below and which is in receipt either of loans granted under the Council decisions empowering the Commission to contract loans under the New Community Instrument, or of loans granted under Article 54 of the ECSC Treaty or of other loans approved as financially viable by the EIB may receive a specific incentive granted in the form of an interest rebate:

Category 1 (Article 1)
investment in heat generation for district-heating systems using industrial waste heat, solid fuels and waste material and for existing combined heat and power systems designed to use the waste heat from existing power stations and industrial plants;

Category 2 (Article 1)
investment in the conversion of industrial fuel-oil-fired plant to solid fuels such as coal, lignite and peat;

Category 3 (Article 1)
investment in operations related to the preparation of coal for users other than power stations and coking plants;

Amendment No. 4
investment in heat generation for district-heating systems using industrial waste heat, solid fuels and waste material and for existing combined heat and power systems designed to use the waste heat from existing power stations and industrial plants;

Amendment No. 5
investment in the conversion of industrial fuel-oil-fired plant to solid fuels such as coal, lignite and peat;

Amendment No. 6
investment in operations related to the preparation of solid fuels for users other than power stations and coking plants including gasification, granulation and mixtures of oil and water;
Amendments tabled by the Committee on Energy and Research

Text proposed by the Commission of the European Communities

Category 4 unchanged

Amendment No. 7

NEW Category 5:

Category 5: investment in energy saving measures by public, industrial and domestic users under global loan facilities available through agents acting on behalf of the EIB.

Article 2 unchanged

Amendment No. 8

REPLACE with NEW paragraph:

2. In the case of EIB and NCI loans the interest rebate will be paid to the EIB. With ECSC loans and in all other cases it will be paid directly to the investor.

Article 3

When the interest rebate applies to ECSC loans, the sum is paid directly to the investor. In all other cases, it will be paid to the EIB.

Amendment No. 9

ADD NEW paragraph:

3. Where appropriate in the view of the Commission and EIB, the interest rate rebate may be wholly or partly capitalised in order to provide a postponement of principle and/or interest payments for up to two years.

Article 4 unchanged

Amendment No. 10

The financial incentives provided for in Article 1 of this regulation will be additional to -

Article 5

The financial incentives provided for in Article 1 of this regulation may be additional to -

Articles 6, 7 and 8 unchanged

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MOTION FOR A RESOLUTION

closing the procedure for consultation of the European Parliament on the proposal from the Commission of the European Communities to the Council for a Council Regulation (EEC) on the payment of financial incentives in support of categories of investment in the rational use of energy

The European Parliament,

- having regard to the proposal from the Commission of the European Communities (COM (82) 357 fin),
- having been consulted by the Council (Doc. 1-733/82),
- having regard to the report of the Committee on Energy and Research and the opinions of the Committee on Budgets, the Committee on Transport and the Committee on Economic and Monetary Affairs (Doc. 1-1345/82),
- having regard to the results of the vote on the proposal from the Commission,

A. drawing attention to Parliament's previous resolutions on this subject, in particular its Resolution of 14.06.82,

B. recalling, in the light of the energy objectives of the Community, that the rational use of energy is one of the most effective and direct instruments for reducing oil imports,

C. considering that energy prices and concern for security of supply will still be a very significant element in investment decisions which lead to more rational use of energy.

D. whereas it is difficult to assess how much a reduction in energy consumption is due to more rational use of energy as opposed to recessionary factors.

1. Welcomes the Commission proposal on interest rate rebates as being a useful contribution to further encouraging energy investment and thus achieving Community energy objectives.

2. Suggests that, to meet observations that such rebates of up to 3% will only have effect at the margin in view of the cash flow difficulties of many enterprises, it should be possible for investors to take such rebates in the form of a holiday on initial payments of principle and interest;

1 OJ No. C285, 30.10.82, p. 5
2 OJ No. C149 of 14.06.82, page 137 (Report by Mr ROGALLA)
3. Approves the idea of all the Community's financial instruments being applicable, but proposes that loans from other sources, in whatever currency, if found viable by the European Investment Bank, should be brought within the scope of the regulation so as to enhance its flexibility, and, in particular, its usefulness in low interest rate Member States;

4. Acknowledges that for administrative reasons a fixed rate of interest rebate may be necessary, but suggests the Commission considers ways of varying this relative to the actual rates of interest in the currency borrowed;

5. Accepts the choice that has been made of investment categories and believes that those chosen are such as to have considerable impact through the substitution of oil and the use of residual fuels and/or waste;

6. But considers that it would be very beneficial for attainment of the Community's energy objectives if an additional category encompassing energy-saving measures for industrial and domestic users were included, employing global loans and guarantees through agent banks and that local authorities should also be eligible in this category.

7. Stresses the importance of using independent advisers and experts in selection procedures, in order to ensure that the best projects are approved;

8. Emphasizes the importance of flexibility in this regulation, not only as regards sources of finance, but also as regards the range of energy projects under consideration, with a view to promoting the widest possible interest throughout the Community and attaining the Community's energy objectives;

9. Considers, therefore, that the Commission should widen the scope of its present proposal, as urged in the attached amendments, so as to give more enterprises, in all Member States, the chance of applying for an interest rebate, and thus increase the overall level of investment in rational use of energy, which is so necessary;

10. Reminds the Commission and, particularly, the Council that implementation of a Community measure such as the one proposed would have an important impact on the efforts for economic recovery;

11. Calls on the joint budgetary authority to ensure that resources will be made available equal to the submission of appropriate projects in that the objectives of this scheme are wholly consistent with the oft repeated priorities of the Community's energy policy;
12. Asks the Commission to submit to Parliament and Council a brief review of the scheme's utilisation and efficacy 12 months after enactment drawing implications as to any desirable amendments and the projected financial requirements;

13. Calls on the Commission to devise a system for calculating what proportion of the fall in energy consumption is due to more rational use of energy, as opposed to recessionary factors, such as that a more realistic assessment can be given of the results of the proposal.

14. Approves the Commission's proposal subject to the reservations expressed above and to attached amendments;

15. Asks its President to submit to the Commission and the Council the Commission proposal in the version as voted by Parliament and the corresponding resolution.
I  INTRODUCTION

1. This proposal for a resolution in the field of investment in the rational use of energy should be welcomed as a concrete follow-up of the earlier communication on investment in the rational use of energy, which consisted 'only' of recommendations. Whereas the latter was broadly descriptive, this proposal for a resolution is specific concerning both the areas of action as well as the means of implementation.

3. There should, in fact, be no need to repeat the way in which a serious effort to win the improved rational use of energy will help to achieve the energy objectives of the Community, on which there is general agreement. In short, the present proposal aims at:

   (1) substitution of oil, and
   (2) use of residual fuels and/or waste heat.

It could also be said that the proposal gives in addition:

   (1) the possibility of restructuring the energy demand, since more indigenous sources would be used and (just as important):
   (2) increase economic activity if carried out.

II  THE PROPOSAL

3. Four categories of investment would come under consideration. As far as substitution of oil is concerned, the
impact could be considerable, both from the point of view of oil-saving as well as from that of the increased use of coal. Matter which would otherwise have been wasted heat or waste products could be instead converted into useful low temperature heat.

4. The proposed instrument is an interest rebate on loans from the Community though the EIB, NCI or ECSC Treaty. The Parliament has for a long time now advocated using these financial channels as one way to increase the vital investment in the energy sector which has been dangerously low since the first oil crisis. The rapporteur also feels that:

(1) the idea of an interest rebate is both sound and appropriate, in that this can be determinant in making sub-marginally and marginally attractive schemes go ahead and will speed up positive investment decisions.

(2) There is no doubt that high interest rates are an obstacle, when it comes to investment decisions in the energy sector, and probably as important as price.

III AN_INTEREST_RATE

5. A wide range of national schemes for financial measures aimed at reducing oil imports and increasing the use of indigenous energy sources, whatever these might be, exist already. The majority of them have been set up, however, to suit national requirements and conditions. Bearing in mind that Member States' energy demand and supply situations differ widely, it is not surprising that their financial support schemes differ widely, too.
6. Considering how needs and monetary conditions vary in various countries, one could ask if a fixed interest rebate of 3% would have the desired effect. Does the rebate mean the same to a coal-producing country as to a non-coal-producing country? Does 3% mean the same if invested in the conversion schemes as if it is invested in the category for the increased use of waste? Surely one does not talk about the same scales of investment here. Does 3% mean the same at high and low levels of interest rates? 3% off 6% interest rates is much more significant than 3% off 18% interest rates.

7. The crucial question, in other words, is whether a fixed interest rebate will have the same investment elasticity which will in fact be essential if the proposal is to be equally attractive to all Member States. This question of attractiveness is raised here because we all vividly remember the lack of success of, for instance, the former proposal from the Commission, where - to increase the use of Community-produced coal - the inter-Community coal trade should have been helped by giving 3 ECU per imported ton of coal. The proposal failed, not only because of the level of financial support, but also because 3 ECU had a different meaning in each of the various countries. Would, in fact, a 3% rebate have the same disqualifying element in it?

In empirical economies there are some doubts as to the strength and magnitude of the interest elasticity of investment demand as it shifts during the cycle, but beyond all doubt: all recent empirical studies emphasise the role of interest rates as one of two key factors (the other one being expected demand for the output) determining investment decisions.

8. The rapporteur feels that permitting investors to borrow funds from sources and in currencies which best suit their purposes will make the 3% proposed rebate potentially as attractive in all Member States. The EIB can still provide the stamp of approval as to financial viability and the Commission as to choice of the projects. One could, of course, think of different ways in which to obtain equal attractiveness, perhaps the first requirement being an inbuilt flexibility.

\[\text{References:}\]
IV WHICH INVESTMENT CATEGORIES?

9. The attractiveness of the proposed scheme must play the major role as far as the selected categories are concerned. It is hoped that projects in all the categories will obtain support so that valid assessments can be made as to the scheme's effectiveness. But the prime consideration should be achieving the Community's energy objectives. The Committee therefore has suggested a widening of projects which could be taken into consideration. It is felt that the scope of the categories is acceptable with approval of amendments which will give it balance.

10. The proposal from the Committee on Transport to add another very broadly conceived category covering energy-saving in the transport sector was considered in detail by the Committee on Energy and Research. In spite of a great deal of sympathy for a policy aimed at potentially major energy savings in the transport sector, the proposed amendment was opposed by the Commission and the rapporteur and was rejected by 10 votes to 0 with 2 abstentions for the following reasons:

- the entire scope for energy-saving in the transport sector has been discussed in Parliament as a separate subject, including hearings, and it is therefore more appropriate that a specific programme be drawn up in this sector,

- the budgetary resources for proposals for the rational use of energy would be unduly dispersed if the proposed new category were added,

- the new energy-saving category 5, added on the proposal of the Committee on Energy and Research, need not preclude interesting energy-saving projects in the transport sector.
11. There should be no doubt of our positive opinion on the proposal.

(1) Your rapporteur urges the Council to accept speedily in line with their oft-professed adherence to the Community's energy objectives. The amendments proposed to the regulation should meet any doubts regarding the financial mechanism and a common interest in all Member States.

(2) A Community action along these lines seems appropriate, because it could have other clear positive effects, other than those specifically mentioned, for the energy sector. It would have a clear positive economic effect, in particular as regards employment and competitiveness. Your rapporteur would like to point out the possibility of simultaneously pursuing - within the Community framework - regional, social and environmental policies since in addition financial means from the Regional Fund can be made available for capital projects and the Social Fund in training of operations to be more energy efficient.

12. In view of the doubts being expressed in various quarters as to whether this innovative scheme will in fact influence investment decisions towards achievement of the Community's energy objectives, it seems reasonable that it should be reviewed 12 months after enactment at which point we should all be prepared to consider any desirable changes.
Dear Mrs Walz,

On 13 December, the President of the European Parliament referred this proposal to the Committee on transport as the committee asked for an opinion. At its meeting of 26 January 1983, the Committee on Transport considered the proposal for a regulation and adopted the following opinion: In its proposal, the commission envisages the payment of financial incentives in the form of interest subsidies on various categories of investment which are in line with the Community's energy policy objectives. Investment in transport is not included in the proposal for a regulation.

In its resolution of 15 October 1982 on ways of saving energy in the transport sector (OJ No. C 287, 9.11.1981, pp. 66 ff.), the European Parliament, following the ALBERS report (Doc. 1-249/81), had already called for increased efforts to save energy in the transport sector, especially to reduce oil consumption. In paragraph 27 of this resolution, the European Parliament had in particular called on the Commission to draw up practical proposals for financing the planned energy saving programmes.

The Commission nevertheless failed to include the transport sector in its communication to the Council on investment in the rational use of energy (Doc. 1-1063/81). In paragraph 12 of its resolution of 14 May 1982 (OJ No. C 149, 14.6.1982, pp.137 ff.) the European Parliament then stressed that Community measures to encourage the rational use of energy must embrace investment incentives for energy saving in the transport sector, in particular as regards the technical improvement of means of transport, the control of traffic flows, improvements in public transport, the development of combined transport modes and development of the infrastructure.
Yet in its recommendation of 28 July 1982 (OJ No. L 247, 23.8.1982, p. 9) on this topic, the Council did not heed the European Parliament's request. Given the Council's general failure to act on matters concerning transport, however, this is not a reason to let the request drop.

Nor is there any apparent reason why the Commission did not take account of this request in the proposal for a regulation submitted to the Council on 5 August 1982. The fact is that investment in the transport sector - for example improvements in public transport or the development of combined transport modes - can play an important part in ensuring that energy policy objectives on which special stress is laid in the recitals of the proposal for a regulation - the diversification of energy supplies and the modification of the structures of energy demand - are actually accomplished.

For these reasons, the Committee on Transport requests the Committee on Energy and Research, as the committee responsible, to make it clear in its motion for a resolution that the Commission's proposed measures to provide incentives must be extended to take in investment in more rational methods of energy use in the transport sector. In addition, the Committee on Transport suggests to the committee responsible the following two amendments to the text of the regulation:

1. **Preamble**

   After the 12th recital, add a new recital to read as follows:
   
   'This applies equally to investments in the more rational use of energy in the transport sector, in particular as regards the technical improvement of means of transport, the control of traffic flows, the improvement of public transport services, the development of combined transport modes and development of the infrastructure.'

2. **Text of the regulation**

   Add the following paragraph at the end of Article 1:
   
   'Category 5: investment in the more rational use of energy in the transport sector, in particular as regards the technical improvement of means of transport, the control of traffic flows, the improvement of public transport services, the development of combined transport modes and development of the infrastructure.'

   Yours sincerely,

   Horst SEEFEI

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The following Members took part in the vote:

Mr Seefeld (chairman), Dame Shelagh Roberts, Mr Carossino (vice-chairman), Mr Arndt (deputizing for Mr Albers), Mr Buttuffo, Mr Cardia, Mr Moreland (deputizing for Mr Cottrell), Mr Gabert, Mr Gauthier, Lord Harmar-Nicholls, Mr K.-H. Hoffmann, Mr Key, Mr Klinkenborg, Mr Loo (deputizing for Mr Lagakos), Mr Moorhouse, Mr Ripa de Meana and Mr Vandewiele.

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At its meeting on November 23-24 1982 the Committee on Economic and Monetary Affairs appointed Mr. Rogers draftsman of its opinion.

The committee considered the draft opinion at its meeting of 18 - 19 January 1983 and adopted it on that date on a unanimous vote with two abstentions.

PARTICIPATED IN THE VOTE:

Mr. HOPPER (first vice-chairman and acting chairman), Mr. ROGERS (draftsman); Mr. von BISMARCK; Mr. BONACCINI; Mr. CABORN, Mr. CAROSSINO (deputizing for Mr. Hoffman); Mr. DELOROZOY, Mr. LEONARDI; Mr. PURVIS (deputizing for Sir Brandon Rhys-Williams); Mr. WAGNER and Mr. WEDEKIND (deputizing for Mr. von Wogau).
BACKGROUND

1. The Commission's proposal, which follows on the previous communication from the Commission on investment in the rational use of energy, approved by the Parliament in May 1982 (1) would provide for financial incentives to increase investments aimed at a more rational use of energy within the Community.

More specifically it would achieve this by providing for Community interest rebates for investment projects in receipt of loans granted by the European Investment Bank from its own resources, of loans under the New Community Instrument or of loans under Article 54 of the European Coal and Steel Community Treaty, and falling within one of four categories of investment:

- investment in heat-generation for district-heating systems
- investment in the conversion of industrial fuel-oil-fired plant to coal
- investment related to the preparation of coal for uses other than power stations and coking plants
- investment in the generation of energy from urban, agricultural and industrial waste, and also from agricultural by-products.

2. The Commission considers that there are currently a number of major constraints on the financing of highly worthwhile projects, such as uncertainties about future trends in oil prices, energy prices in general, and long payback periods, which inhibit investment in these spheres. It believes that Community financing on the lines proposed would reduce these constraints, and would have a broad multiplier effect.

(1) OJ C 1491/137 of 14.6.1982, based on a report by Mr. Rogalla (Doc. 1-205/82)
GENERAL CONSIDERATIONS

3. In considering the Commission's proposal it is again worth recalling one of the central conclusions of the St. Geours report "on investment and employment in an energy-efficient society"(1). "No lasting growth is possible without energy saving and fuel switching towards more readily available sources; without sustained economic growth, no swift improvement in the efficiency of energy use is possible; and in parallel, rationalizing the use of energy itself constitutes a major factor in future economic growth."

4. The categories of projects selected by the Commission in its present proposal represent practical investments that should be taken at Community level to help achieve the central objectives mentioned above.

5. They will help to reduce the use of oil, and to make much greater use of domestic European energy resources. They will thus serve to reduce the Community's energy import dependence, and by improving national balance of payments will mitigate a major constraint on renewed economic growth.

6. In addition the type of investments cited are more likely to be practicable in a shorter time span than many other possible energy investments. They are much less controversial than investment in nuclear energy, and more likely to have a quicker return than investments in alternative energy sources such as solar energy.

7. Furthermore, although they are extremely hard to calculate, the overall employment impacts of such investments are likely to be positive, both in terms of jobs directly provided, and in terms of multiplier effects throughout the economy.

(1) XVII 1052/81 Final, transmission note from Mr. St. Geours, page 3
8. In spite, however, of all these positive effects for the Community as a whole, it is clear that the constraints mentioned by the Commission are very real ones. Again as the St. Geours' report points out (1) "a first aspect of the problem is that the individual interest and the general interest clearly do not coincide." The former is more influenced by factors of short-term risk, and by the need for short term gain.

Even more generally, and as the report points out (2): "Although counter-inflation policies are clearly indispensable, the restrictive and deflationary character that they have adopted in some countries constitutes a major threat to future progress towards a more rational use of energy .... Applying the general economic restrictions to the investments designed to encourage the rational use of energy would encourage the tendency for the economy to move into a downward spiral .... Thus it is vital to disconnect the conditions for financing the rational use of energy from economic policy restrictions, which generally have extremely short-term objectives."

9. These considerations underline the importance of the Community providing a major spur for investment in the type of projects cited in the Commission's proposal, but also indicate that greater resources should be provided, and that the measures suggested by the Commission should only constitute a first step.

CONCLUSIONS

10. The Committee on Economic and Monetary Affairs believes that the Commission's proposal, if approved, could have considerable beneficial consequences for the Community economy in terms of reducing Community energy import dependence, and reducing balance of payment constraints, in terms of stimulating economic growth and of enhancing employment. It believes that the categories of investment projects selected represent practical measures that can be taken in a relatively short time frame.

(1) OP CIT, transmission note, page 2
(2) OP CIT, main body of the report, pages 148 and 149
11. The Committee would consequently recommend approval of the categories suggested. It has also consistently emphasized the important role that should be played by the Community's borrowing and lending instruments, and where appropriate by interest rate subsidies provided from the Community's budget, and therefore supports the proposed means as well.

12. The Committee does note, however, that the Commission's proposal will involve payment of interest rebates "after examination of the technical and financial characteristics of each project presented to the European Investment Bank or to the Commission" (page 2 of the proposal). It further notes that there are still uncertainties concerning the exact procedures for cooperation between the Commission and the European Investment Bank in administering the proposed programme. The Committee would therefore, insist that the exact terms of this cooperation be established as soon as possible.

13. It should again be pointed out that the measures proposed, while important in their own right, must be complemented by other energy actions at Community level, in particular achievement of a coherent Community strategy on energy pricing. Furthermore, in terms of the investment in heat generation for district-heating systems, the importance of existing institutional constraints on such district-heating systems should also be pointed out, and attempts should be made to encourage those areas where such legal and planning constraints exist, to improve the possibilities for district-heating systems to be instituted.

14. The Commission should also be asked to evaluate the impacts of any measures that are adopted, and in particular the nature of the impacts on employment.

15. Subject to the above comments the Committee on Economic and Monetary Affairs is strongly in favour of the Commission's proposal.