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Report

drawn up on behalf of the Committee on Budgets

on the proposal from the Commission of the European Communities to the Council (Doc. 633/78) for a regulation concerning interest rebates for certain loans with a structural objective

Rapporteur : Mr Harry NOTENBOOM

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By letter of 20 February 1979 the Council requested the European Parliament to deliver an opinion on the proposal from the Commission of the European Communities to the Council for a regulation concerning interest rebates for certain loans with a structural objective.

The President of the European Parliament referred this proposal to the Committee on Budgets as the committee responsible and to the Committee on Economic and Monetary Affairs for its opinion.

On 21 March 1979 the Committee on Budgets appointed Mr Notenboom rapporteur.

It considered this proposal at its meetings of 28 and 29 March and 4 and 5 April 1979.

At its meeting of 4 April, the committee adopted the motion for a resolution by 10 votes to 1.

Present : Mr Bangemann, acting chairman; Mr Notenboom, rapporteur; Mr Alber, Lord Bruce of Donington, Mr Dankert, Mrs Dahlerup, Mr Krieg, Mr Ripamonti, Mr Schreiber, Mr Shaw and Mr Spinelli.

The opinion of the Committee on Economic and Monetary Affairs is attached.

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A

The Committee on Budgets hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

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 concerning interest rebates for certain loans with a structural objective

The European Parliament,

- having regard to the proposal from the Commission of the European Communities to the Council[1],
- having been consulted by the Council (Doc. 633/78),
- having regard to the report of the Committee on Budgets and the opinion of the Committee on Economic and Monetary Affairs (Doc. 84/79),

1. Welcomes the principle of creating a subsidized loan mechanism for the 'less prosperous' Member States actively participating in the European Monetary System;

2. Recalls that the Community decision-making process applies in full to the European Council and that its 'resolution' of 4/5 December must therefore be considered as a guideline which the Institutions will take as a basis in deciding freely in accordance with the conditions laid down by the Treaties;

3. Expresses the following reservations, however, about the proposed mechanism:

   (a) the appropriations earmarked for the interest rebates must be non-compulsory and fixed annually in the budget;

   (b) financial compensation of the Member States not participating in the European Monetary System from the budget must be an exceptional and interim measure and must be reconsidered each year as part of the budgetary procedure;

   (c) Parliament must be consulted on the Member States which are to receive these rebates; the agreement between the Commission and the European Investment Bank must be officially forwarded to Parliament;

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[1] OJ No. C 65, 9.3.1979, p. 3

4. Therefore invites the Commission, pursuant to Article 149 of the EEC Treaty, to modify its text in line with the proposals attached to this resolution;

5. Once again requests the Commission to ensure that the Community's general financial policy is consistent and coordinated and to submit to Parliament a report on the subject;

6. Instructs the Committee on Budgets to keep under review the financial transactions involved in this new mechanism;

7. Reserves the right to open the conciliation procedure should the Council depart from this opinion.

TEXT PROPOSED BY THE COMMISSION OF THE EUROPEAN COMMUNITIES [1]	AMENDED TEXT
Regulation concerning interest rebates for certain loans with a structural objective	
Preamble and first recital unchanged	
Second recital	Second recital
WHEREAS the European Council, at its meeting of 4 and 5 December 1978, provided that this system should include measures to strengthen the economies of the less prosperous Member States taking part in it;	WHEREAS the European Council, at its meeting of 4 and 5 December 1978, indicated certain guidelines for measures to strengthen the economies of the less prosperous Member States taking part in this system;
Third to fifth recitals unchanged	
Sixth recital	Sixth recital
WHEREAS the European Council requested the Community institutions and the European Investment Bank to put at the disposal of these States for a five-year period loans of 1,000 million EUA a year on special terms, those made by the Community institutions being within the framework of Council Decision 78/870/EEC;	WHEREAS the Community institutions and the European Investment Bank should put at the disposal of these States for a five-year period loans of an indicative total of 1,000 million EUA on special terms, those made by the Community institutions being within the framework of Council Decision 78/870/EEC;
Seventh recital	Seventh recital
WHEREAS the Community should, during this five-year period, participate in this action by granting interest rebates on these loans of 3% a year, totalling 1,000 million EUA in five annual instalments of 200 million EUA each;	WHEREAS the Community should, during this five-year period, participate in this action by granting interest rebates on these loans of 3% a year, for an indicative total of 1,000 million EUA in five annual instalments estimated at 200 million EUA each;
Eighth and ninth recitals and Article 1 unchanged	
Article 2	Article 2
The Council shall decide, on a proposal from the Commission and acting by a qualified majority, which Member State or States shall be eligible for the subsidies described at Article 1.	The Council shall decide, on a proposal from the Commission and acting by a qualified majority after consulting the European Parliament, which of the less-prosperous Community Member States shall be eligible for the subsidies described at Article 1.
Article 3	Article 3
The interest rate subsidies provided for in this Regulation shall be granted only for loans primarily devoted to financing projects and programmes relating to the infrastructure, provided such loans are consistent with the Community's priority objectives, especially those of regional policy, provided they do not distort conditions of competition in any way that is inconsistent with the principles of the relevant provisions of the Treaty, and provided that the investment contributes to increasing gross fixed asset formation in the Member States concerned.	The interest rate subsidies provided for in this Regulation shall be granted only for loans primarily devoted to financing projects and programmes relating to the infrastructure, provided such loans are consistent with the Community's priority objectives, especially those of regional policy, provided they do not distort conditions of competition in any way that is inconsistent with the principles of the relevant provisions of the Treaty, and provided that the investment contributes to increasing gross fixed asset formation and creating productive jobs in the Member States concerned.

[1] For complete text see OJ No. C 65, 9.3.1979, p. 3

TEXT PROPOSED BY THE COMMISSION OF THE EUROPEAN COMMUNITIES	AMENDED TEXT
Articles 4 to 7 unchanged	
Article 8 The amount of loans to be subsidized pursuant to this Regulation shall be 5,000 million EUA over five years, divided into five annual instalments of 1,000 million EUA each. Over the same period, the amount of interest rate subsidies financed by the budget shall be 1,000 million EUA divided into five annual instalments of 200 million EUA each.	**Article 8** The amount of loans to be subsidized pursuant to this Regulation <u>is estim</u> <u>to</u> be 5,000 million EUA over five ye divided into five annual instalments 1,000 million EUA each. Over the sa period, the amount of interest rate sidies financed by the budget <u>is est</u> <u>mated to</u> be 1,000 million EUA divide into five annual instalments of 200 million EUA each.
Articles 9 and 10 unchanged	
Article 11 No later than two years after this Regulation enters into force, the Commission shall present the Council and the European Parliament with a report on the application of the Regulation, and shall make any proposals for adjustments it may consider necessary.	**Article 11** No later than <u>one year</u> after this Regulation enters into force, the Commission shall present the Council and the European Parliament with a report on the application of the Regulation, and shall make any proposals for adjustments it may consid necessary.
Article 12 unchanged	

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EXPLANATORY STATEMENT

INTRODUCTION

1. The European Council of 4 and 5 December 1978 paved the way for the establishment of a European monetary system, the stability of which, however, depended on greater convergence between the economic policies of the Member States of the Community. To facilitate such convergence, the Heads of State and Government set out the principal points of measures for strengthening the economic potential of the 'less prosperous' countries of the Community. In the Council's view these measures ought to encourage investment in the Member States concerned by granting interest rebates on loans.

2. The European Council therefore invited the Commission to draw up a proposal for a regulation on the subject.

The Council asked the European Parliament for its opinion on the proposal on 20 February 1979.

DESCRIPTION OF THE MECHANISM

3. Under this mechanism, interest rates on loans to finance certain investments will be subsidized. The proposed duration of the mechanism is five years.

Amount of the loans

4. The amount of loans to be subsidized totals 5,000 m EUA divided into annual instalments of 1,000 m EUA. There is no question of creating a new borrowing and lending system, but of using two existing financing channels:

- the NCI (new Community instrument) and
- the EIB.

5. Thus, sums borrowed from the NIC or the EIB may be used as loans for the creation of infrastructures in the 'less prosperous' Member States and may be granted the interest rebates proposed.

6. It is worth recalling that the volume of NIC borrowing/lending is fixed at 1,000 m EUA and that the annual average volume of EIB borrowing/ lending within the Community is of the order of 2,000 m EUA.

Rebates

7. The Community will subsidize 3% of the interest rate on such loans, which for 5,000 m EUA of loans represents total expenditure of the order of 1,000 m EUA, i.e. 200 m EUA a year.

Recipient Member States

8. The Council, acting on a proposal from the Commission, decides which Member States are eligible for loans and subsidies. They will be the 'less prosperous' Member States that 'effectively and fully participate in the mechanisms of the EMS'.

In concrete terms Italy and Ireland will be eligible, as will the United Kingdom once it starts participating in the EMS.

Investments eligible

9. Interest rate subsidies will be granted for loans to finance investments relating to infrastructures that genuinely increase the economic potential of the recipient country. The projects in question must also be consistent with the Community's priority objectives (especially in its regional policy) and must not distort conditions of competition.

10. The Commission decides whether projects are eligible (i.e. whether they conform to the criteria described above). However, the decision to grant a loan is taken either by the EIB or jointly by the EIB and the Commission (under the NCI).

Overall investment programmes

11. Interest rate subsidies will be granted only for loans to finance investments that form part of an overall indicative programme drawn up in advance by the Member State concerned in collaboration with the Commission.

Compensation

12. Any 'less prosperous' Member State not participating in the EMS will be entitled to 'compensation' financed by the budget and calculated on the basis of the expenditure on interest rate subsidies actually incurred during a given financial year. Interest rate subsidies are in fact financed, through the budget, by all the Member States, and it was felt that the contributions of the 'less prosperous' Member States that did not receive interest rate subsidies ought to be reimbursed.

Final provisions

13. The arrangements for operating the mechanism will be defined in an agreement between the EIB and the Commission.

14. Two years after the mechanism becomes operational, the Commission will submit to the Council and Parliament a report containing, if necessary, proposals for revising the mechanism.

15. Lastly, it should be noted that the mechanism will be retroactive in effect - i.e. applicable from 1 January 1979 - which means that interest rate subsidies can be granted for borrowing and lending operations approved before it became operational but after 1 January 1979.

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REMARKS AND COMMENTS

16. The Commission's proposal gives rise to various remarks and comments by the Committee on Budgets. The latter has even been prompted to propose amendments to certain points of the proposed regulation.

Compliance with institutional rules

17. It should be noted that the Commission's proposal reproduces the resolution adopted by the European Council of 4 and 5 December 1978 practically word for word. The Commission has thus completely waived its right of initiative and has merely adopted the very precise and detailed proposals made by the European Council.

18. Thus it is highly improbable that the Commission will be able to amend its proposal in deference to Parliament's opinion, just as it is highly unlikely that the 'ordinary' Council will agree to amend it if a conciliation procedure is initiated.

19. Lastly, there is no doubt that, if the Commission had worded its proposal in complete freedom, some of the provisions found open to criticism by the Committee on Budgets would have been different.

20. The interplay of the inter-institutional mechanisms provided for in the Treaty has thus once again been distorted through the European Council's interference with the Community legislative process.

Coherence of Community financial policy

21. The second general remark concerns the manifest lack of coherence, or at least coordination, of the various Community financial policy instruments.

22. There are at present five distinct borrowing/lending mechanisms: the ECSC, the EIB, Euratom loans, Community loans (or balance of payments) and the NCI (new Community instrument). This means that the Community appears to those who have made loans to it to have five different labels ('windows'); similarly, borrowers have a choice between five different lending mechanisms managed by different institutions and services.

23. There is also a variety of interest rebate systems for loans. Two have been in operation for several years - the ECSC and the EIB systems. One of the Commission's current proposals provides for interest rebates on certain loans granted by the EIB for industrial conversion and restructuring projects. The draft regulation in question thus creates a fourth system, applicable solely to 'loans with a structural objective'.

24. The Committee on Budgets has often deplored this situation and invited the Commission to reconsider the excessive diversification in the Community's financial policy. But it does not yet seem to have succeeded in convincing the Commission of the need to give serious thought to this problem.

Volume and use of financial aid

25. It does not seem that loans granted to the 'less prosperous' Member States will supplement the ordinary loans granted by the NCI and the EIB. There is no question of additional aid but of transforming traditional aid into preferential aid. It is therefore to be hoped that the limited nature of this initiative will be sufficient to enable the economies and currencies of the 'less prosperous' countries permanently to withstand the shock of their accession to the European monetary system.

26. The question will no doubt also arise how far the 'less prosperous' Member States can absorb this type of financial aid. The proposed mechanism presupposes a considerable increase in the volume of debts and investments and proposes only a very low subsidy (3%).

27. It could be claimed - but this is an economic question for the committee asked for its opinion - that the objective pursued (strong reinforcement of the investment ability and thus of the economic growth of the countries concerned) would have been more easily attained with a higher subsidy rate (of the order of 5 to 6% for instance).

Compensation for countries not participating in the EMS

28. The Commission proposal provides that the 'less prosperous' Member States that do not participate in the European Monetary System and that do not receive subsidized loans will receive financial compensation from the Community budget determined on the basis of expenditure on interest rate subsidies. This provision can certainly be criticized in that it is akin to a sort of institutionalization of the 'fair return' principle.

29. It is not easy to see why this principle of compensation for 'non-participant' Member States could not be extended to other types of financing, for instance under the common agricultural policy; Member States that do not produce wine could then request reimbursement of the expenditure incurred by the Community in subsidizing the wine market.

30. Moreover, the proposed compensation mechanism is a drastic departure from budgetary convention, since it is tantamount to reimbursing some countries from one particular chapter of expenditure.

31. The Committee on Budgets therefore considers that the compensation provided for should be seen as an exceptional and interim measure, and that the principle of such compensation should be reconsidered each year under the budgetary procedure.

Budgetization of the mechanism

32. As recourse will be had to existing borrowing and lending mechanisms (NCI and EIB), the problem of the budgetization of principal borrowing/lending operations will not arise. More accurately, it is the solution that will be adopted for all borrowing and lending operations that will apply.

33. It should be noted that this question is still pending as no solution could be found either in the new regulation or in the 1979 budget. As things now stand, 'budgetization' is confined to a token entry in the budget and a descriptive annex to it.

34. The budgetization of appropriations for interest rate subsidies for loans with a structural objective presents no particular problem since expenditure is involved rather than borrowing or lending operations.

35. However, the question of classification of this expenditure is a delicate one. For the Commission - and probably for the Council - it will have to be classified as compulsory expenditure, as the regulation concerning interest rate subsidies lays down the annual appropriations (200 m EUA) for the subsidies.

36. As the Committee on Budgets and the European Parliament have constantly opposed the fixing of the level of appropriations in regulations, the committee will certainly see fit to amend the text of the proposal for a regulation so that only an indicative annual interest rate subsidy is mentioned in the regulation. As far as the Committee on Budgets is concerned, it ought to be non-compulsory expenditure, the annual amount of which can be fixed only by the budgetary authority, which will of course take account of the figure mentioned in the basic regulation.

37. Recent experience with the Regional Fund has, moreover, shown that it is inadvisable to lay down definitively in regulations the appropriations for a project spread over several years; the original estimates may have to be altered because of changes in the economic and political situation.

38. The Committee on Budgets will therefore have to propose an amendment to Article 8 of the Commission's proposal.

Procedure for informing and consulting the European Parliament

39. The proposal for a regulation does not provide for Parliament to be consulted when the Council decides which Member States are eligible for subsidies. Such decisions are, however, of major political importance and it would be only natural to involve Parliament in the decision-making process. It would also be useful if the agreement between the EIB and the Commission on the management of the subsidies mechanism were forwarded to Parliament - as also the EIB/Commission agreement on the NCI which should have been forwarded to it after signature.

CONCLUSIONS

40. The Committee on Budgets approves the general balance of the Commission's proposal. It has, however, some serious reservations about the proposed decision-making process and the lack of any real initiative - and thus of responsibility - on the part of the Commission.

41. It again draws the Commission's attention to the need to ensure that the Community's financial policy is coherent and coordinated. It feels it is high time that the President of the Commission gave a detailed reply to the comments Parliament has been making on the subject for several years.

42. It formally invites the Commission, on the basis of Article 149 of the EEC Treaty, to take account of the above amendments to the proposal for a regulation, which are aimed at :

- giving an indicative character to the appropriations provided for in the regulation to finance annual expenditure on interest rate subsidies,
- ensuring that Parliament plays a more effective role and is better informed with regard to the functioning of this mechanism.

43. Lastly, the Committee on Budgets invites Parliament to reserve its right to initiate the conciliation procedure, in view of the importance of the financial implications of this draft regulation.

OPINION OF THE COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

Draftsman : Lord ARDWICK

On 21 February 1979 the Committee on Economic and Monetary Affairs appointed Lord Ardwick draftsman of the opinion.

At its meeting of 22 March 1979 the committee considered the draft opinion and adopted it unanimously with 3 abstentions.

Present : Mr Pisani, chairman; Lord Ardwick, draftsman; Mr Ellis, Mr Lange, Mr Nyborg, Mr Porcu, Mr Ripamonti, Mr Spénale, Mr Starke, Mr Stetter and Mr Vernaschi.

I. Aim of the proposal for a regulation

1. The aim of the proposal for a regulation is to ensure, with a view to the introduction of the European Monetary System, that loans granted either by the European Investment Bank or the New Community Instrument[1] to aid investments in the less prosperous Member States may carry an interest rebate financed by the budget of the European Communities.

This proposal is one of the measures provided for at the European Council meeting on the European Monetary System of 4 and 5 December 1978 aimed at strengthening the economies of the less prosperous Member States. A necessary condition for the smooth and lasting operation of the future European Monetary System is that inflation rates should converge towards the lowest possible level without producing deflation. If the economic policies of the Member States are to converge in fact, this certainly implies the need for at least some symmetry in the rights and obligations devolving on both surplus and deficit countries.

When the European Monetary System is first applied, particularly the less prosperous countries will be faced by difficult transitional problems and may be forced to adjust wage costs and, in general, to pursue a deflationary policy if they wish to remain within the System.

2. In addition to national measures, it will, therefore, be essential for the Member States also to undertake economic accompanying measures and transfers of resources. Community financing instruments with a structural objective already exist, such as the European Investment Bank, the European Coal and Steel Community and the New Community Instrument. This regulation provides that loans granted to the less prosperous Member States should carry an interest rebate at a fixed rate of 3% per annum - a facility that already exists for the European Coal and Steel Community.

In this context the Committee on Economic and Monetary Affairs can only approve the principle of granting interest rebates; this instrument is one of the means by which an effort is made to remedy social, regional and national inequalities, this being a condition for the successful establishment of a European Monetary System, as stressed by the European Parliament on 19 December 1978 when it adopted the motion for a resolution submitted by Mr Pisani on behalf of the Committee on Economic and Monetary Affairs on the establishment of a European Monetary System[2].

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[1] Council Decision 78/870/EEC - OJ L 298, 25.10.197 8, p.9
[2] OJ C 6, 8.1.1979, p. 3

However, this approval of principle must be tempered by a few remarks on the general management of these loans and the manner in which they link up with the various Funds and restructuring instruments.

II. The management of loans with interest rebates

Several preliminary remarks may be made about the actual management of the subsidized loans, in connection with their scope, that is to say their economic destination and their recipients.

(a) Scope

3. Article 3 indicates the economic destination of loans eligible for interest rebates. The rebates will be granted for loans primarily devoted to financing infrastructure projects and programmes, provided the loans are consistent with the Community's priority objectives.

Article 3 could be regarded as too vague and, moreover, sectors other than the infrastructure could be considered eligible and to deserve equal priority.

Article 3 also points out that these loans must not distort conditions of competition. In this context, it is not clear whether small and medium-sized undertakings would also be eligible for the loans; if they were excluded, this could distort the conditions of competition.

(b) Selection and management of loans

4. The amount of the loans to be subsidized is fixed at 5,000 million EUA over five years, divided into five annual instalments of 1,000 million EUA each. The amount of the interest rebates is fixed at 1,000 million EUA, divided into annual instalments of 200 million EUA. Pursuant to Article 2, the Council shall decide, on a proposal from the Commission, and acting by a qualified majority, which Member State or States shall be eligible for the subsidies. The Commission decides (Article 5) whether the loans are eligible for the interest rebate, subject to approval of the loan being made. The European Investment Bank is responsible for the actual management of the subsidized loans. This distribution of powers is in line with the respective responsibilities and experience of the Commission and the Bank.

5. However, apart from the report submitted to it not later than two years after the regulation enters into force (Article 11), the European Parliament is in no way involved in the implementation of this rebate

mechanism. It is not consulted on the selection of Member States eligible for the rebates (Article 2). Moreover - though this is a question which falls within the terms of reference of the Committee on Budgets - the system of financing these interest rebates by non-differentiated appropriations, classified as compulsory expenditure, unduly restricts the European Parliament's budgetary prerogatives.

Furthermore, the proposal for a regulation is not sufficiently precise about the criteria of eligibility for these subsidized loans.

(c) General structure of the loans

6. Article 4 provides that to ensure the coherence of Community action, indicative programmes shall be drawn up by each Member State involved in collaboration with the Commission and that they will be concerned with the overall amount and the categories of investment to be aimed at. The effectiveness of Community aid for the less prosperous countries or regions depends on the coherence of the measures taken. Yet the fact has to be noted that the number of instruments applied is constantly growing: in addition to the European Investment Bank, the ECSC and the Regional and Social Funds, there are the recent New Community Instrument and the Community industrial restructuring and conversion measures pursuant to Article 375 of the Community budget, to which this regulation on interest rebates is now being added. This proliferation of instruments, each with its own special procedure, is unsatisfactory. The loose ends and overlappings likely to result therefrom will not only weaken the impact of the measures taken but also introduce new distortions. These dangers cannot be emphasized too strongly when this proposal for a regulation is being considered and it should be recalled on this occasion that on 4 and 5 December 1978 the European Council requested the Commission to study 'the link between increased convergence of the Member States' economic achievements and use of Community instruments, particularly funds aimed at reducing structural imbalances.'[1]

In conclusion, the Commission on Economic and Monetary Affairs :

1. Points out that, if a European Monetary System is to be established on a lasting and effective basis, this will require an increasing convergence of economic policies and, in particular, accompanying measures and transfers of resources to benefit the less prosperous countries of the Community;

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[1] European Council Resolution of 5.12.1978 on the establishment of an EMS and related questions, paragraph 4

2. In that context, approves the principle of the Community granting to the less prosperous Member States loans to the amount of 5,000 million EUA for a period of five years, with interest rebates as provided in this regulation;

3. Regrets that the proposal is vague about the economic destination, the recipients and the selection criteria for these subsidized loans and points out that in the main the appropriations should be allocated for the financing of technical, economic and social infrastructures and services necessary for development;

4. Observes that the European Parliament is not sufficiently involved in the implementation of this interest rebate mechanism, either as regards eligibility for loans or the budgetary procedure, in which the loans should be classified as non-compulsory expenditure;

5. Lastly, stresses that the increase in the number of Community instruments, each with its own distinct procedure and under the responsibility of a different Commissioner, is likely to weaken the true economic scope of the objective pursued and to introduce new distortions; observes, in this context, that the link-up between the interest rebate mechanism and the other Community loan and aid instruments is not brought out clearly enough in this regulation and requests the Commission to submit a report explaining how it intends to guarantee the coherence of the various forms of aid.