

European Communities

EUROPEAN PARLIAMENT

Working Documents

1975-1976

13 May 1975

DOCUMENT 79/75

Report

drawn up on behalf of the Committee on Energy, Research and Technology

on the proposal from the Commission of the European Communities to the Council (Doc. 480/74) for a decision empowering the Commission to issue Euratom loans with a view to a Community contribution towards the financing of nuclear power stations

Rapporteur: Mr L. MEMMEL

1.2.2.

PE 39.623/fin.



By letter of 3 February 1975 the President of the Council of the European Communities optionally requested the European Parliament, pursuant to Article 187 of the Euratom Treaty, to deliver an opinion on the proposal for a Council Decision empowering the Commission to issue Euratom loans with a view to a Community contribution towards the financing of nuclear power stations.

The President of the European Parliament referred this proposal to the Committee on Energy, Research and Technology as the committee responsible and to the Committee on Budgets for its opinion.

On 11 February 1975 the Committee on Energy, Research and Technology appointed Mr Memmel rapporteur.

It considered this proposal at its meetings of 4 March and 29 April 1975.

On 29 April 1975, the committee adopted the motion for a resolution and the explanatory statement unanimously with one abstention.

Present: Mr Springorum, chairman; Mr Flämig and Mr Leonardi, vice-chairmen; Mr Memmel, rapporteur; Mr Burgbacher, Mr Covelli, Mr Van der Gun, Mr Krall, Mr Martens, Mr Noè, Mr Normanton, Mr Osborn, Mr Rivierez (deputizing for Mr Cointat), Mr Vandewiele and Mrs Walz.

The opinion of the Committee on Budgets is attached.

C o n t e n t s

	<u>Page</u>
A MOTION FOR A RESOLUTION	5
B EXPLANATORY STATEMENT	
I. Introduction	7
II. The European Parliament's requests of 17 January 1972	7
III. Evaluation of the draft Council Decision	8
IV. Conclusions	10
Opinion of the Committee on Budgets	11

The Committee on Energy, Research and Technology 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 for a Council Decision empowering the Commission to issue Euratom loans with a view to a Community contribution towards the financing of nuclear power stations

The European Parliament,

- having regard to the proposal from the Commission of the European Communities to the Council¹,
 - having been consulted by the Council pursuant to Article 187 of the Euratom Treaty (Doc. 480 /74),
 - having regard to the report of the Committee on Energy, Research and Technology and the opinion of the Committee on Budgets (Doc. 79/75),
 - having regard to its resolution of 17 January 1972 on the proposal from the Commission of the European Communities to the Council for a Decision on the issue of loans as a Community contribution towards the financing of nuclear power stations²,
1. Notes that its earlier basic demands in this field have been taken into account in the Commission's proposal;
 2. Believes that the proceeds from the planned loans should only be invested in projects which are viable and incorporate up-to-date technical developments in the generation and distribution of electricity;
 3. Considers that, in line with the relevant legal rules, an entry should be made in the annual budget to cover Community borrowings and lendings, which should be subject to the budgetary procedure applicable to all Community revenue and expenditure, and that the Commission must therefore be empowered by the budgetary authorities to borrow funds and to approve loans of sums to be accurately defined and set out in the budgetary documents;
 4. Requests the Commission to make the following amendments to its proposal, pursuant to Article 119 (2) of the Treaty establishing the EAEC;
 5. Intends to apply the procedure for conciliation between Parliament and the Council should the latter not accept Parliament's opinion.

¹ OJ No. C 35 of 14.2.1975, p.6

² OJ No. C 10 of 5.2.1972, p.6

Draft Council decision empowering
the Commission to issue Euratom
loans with a view to a Community
contribution towards the financing
of nuclear power stations

Preamble, recitals and Articles 1 to 4 unchanged

Article 5

The Commission shall inform the Council and the Parliament at regular intervals as to the progress of the operations provided for in this decision.

Article 5

The Commission shall inform the Council and the Parliament at regular intervals as to the revenue and expenditure operations connected with the issue and servicing of Euratom loans and shall attach a review of its loan policy to the budget estimates every year.

Article 6 unchanged

¹ For complete text, see OJ No. C 35, 14 February 1975, p.6

EXPLANATORY STATEMENTI. Introduction

1. The draft Council Decision submitted by the Commission, which will empower the Commission to issue Euratom loans with a view to a Community contribution towards the financing of nuclear power stations, is not the first of its kind. The Commission had already submitted a similar proposal in 1971 (Doc. 120/71-c), on which this committee expressed its views in Mr Adams' report (Doc. 226/71). The former Committee for Finance and Budgets delivered an opinion drawn up by Mr Schwörer.

2. While essentially approving the Commission's proposals, our committee had proposed a number of amendments of a fundamental nature concerning the issue of the loans and these are still relevant. We must therefore consider the proposal in the light of the committee's views at that time as expressed in the European Parliament's resolution of 17 January 1972¹.

3. The committee has already on various occasions expressed the wish that the Community should assist in the financing of nuclear power stations and it approved the above-mentioned proposal to that effect. Since, as it has often observed, there is a danger that the 1985 target for nuclear power station capacity may not be met, it welcomes any measure which can help to achieve it. The proposed Community contribution towards the financing of nuclear power stations by means of Euratom loans is one such measure.

II. The European Parliament's requests of 17 January 1972

4. In its amendments the European Parliament had been particularly concerned to make the following points:

- (a) The proposal should be based not only on Article 172, but also on Article 2(c) of the Euratom Treaty.
- (b) The European Parliament had specified that the purpose of raising loans should be to finance investment projects relating to the production of electricity of nuclear origin and not only in the nuclear industry as such.

¹ OJ No. C 10/1972, p.6

- (c) The terms of the loans must be negotiated on the basis of conditions on the capital market.
- (d) The Commission's decision on the granting of loans must be based on the principle of cost-effectiveness, particularly through the use of installations of optimum size.
- (e) The Commission must keep not only the Council but also the Parliament regularly informed of developments.

III. Evaluation of the draft Council Decision

5. The economic and financial considerations set out in the explanatory memorandum are based on the assumption that the measures to be carried through or introduced by 1981 can be implemented. The Commission gives the figures for the expenditure involved, which by 1980 will be more than four times higher than in 1975 and at the same time shows the investment required between now and 1985, when it will be six times the 1975 figure.

Although your committee cannot regard it as certain that the target can be met, it nonetheless welcomes every effort in that direction in the interests of greater security of energy supplies. It is aware that there are competing demands on the capital required for these investments because of the considerable increase in prices of other raw materials and other sources of energy which also have to be developed.

6. The committee agrees that it is therefore of vital importance to secure the largest possible contribution from nuclear energy as soon as possible.

7. The committee observes that all the demands contained in the resolution of 17 January 1972 referred to above have been incorporated in the Council Decision proposed by the Commission. The reference to Article 2(c) of the Euratom Treaty is made in the fourth consideration. The statement that the purpose of the loans is to finance 'investment projects relating to the industrial production of electricity of nuclear origin and to the installations involved in supplying such projects with fuel' is found in Article 1.

8. The need to take the conditions on the capital market into account is mentioned in Article 2. Since the Commission has not indicated any maximum rate of interest as in the corresponding Article in the 1971 draft, our committee has a further observation to make.

The opinion was expressed during the deliberations of the committee that this presented an opportunity to channel so-called petrodollars back into the Community. There would only be any point in doing this, however, if capital market conditions were such as to permit agreement on a set interest rate for the whole period of the loan. This period must also be such as to enable the nuclear power stations to make the normal interest and redemption payments, on the loans subsequently granted to them, from their profits. Our positive evaluation of the proposal is given on the assumption that the Commission will act accordingly.

9. The principle of cost-effectiveness, particularly by means of installations of optimum size, is stated in as many words in Article 3. The committee takes this to mean that Community resources will be invested exclusively in viable undertakings. This viability depends, however, on the price of nuclear energy, based on actual costs, as compared with possible alternative forms of energy, i.e. not only coal, but also oil.

10. In its opinion the Committee on Budgets has taken the issue of loans to finance nuclear power stations as the basis for general observations on the Community's overall policy on indebtedness. It therefore invites the Commission:

- to draw up as soon as possible a statement on its activities hitherto in obtaining funds for Community projects from the capital market, to describe the main elements of its political intentions in this respect and to submit a report containing the requested statement to the European Parliament,
- to attach to the annual budget of the Community in future a statement on all Community activities in respect of capital procurement in the current and the following financial year. A complete and constantly up-to-date picture of the Community's financial activities will thus be provided.

11. The Committee on Budgets also considers that an entry should be made in the annual budget to cover Euratom loan activities, which should therefore be subject to the general budgetary procedure defined in Article 177 of the Euratom Treaty. It feels that only within the framework of this procedure should the Commission be empowered to borrow funds and to approve loans of sums to be accurately defined in the budgetary documents. The Committee on Energy, Research and Technology shares this view, which is based on the relevant legal texts and was moreover adopted by the Commission itself in a similar proposal submitted to the Council on 28 September 1971 and favourably received at the time by the European Parliament.

12. Like the Committee on Budgets, the Committee on Energy, Research and Technology feels it is unfortunate that the draft Council Decision does not contain sufficient budgetary and financial justification for the issue of loans. While the Commission's action is fully approved on energy policy grounds, the budgetary and financial side of the matter must in future be treated with greater care than appears to have been the case here.

13. Article 5 admittedly complies with Parliament's wish that Parliament as well as the Council should be kept regularly informed of developments. In the light of the above observations, however, a further clause must be added to this article to the effect that the Commission shall include each year in the budget estimates a review of its loan policy.

IV. Conclusions

14. Subject to amendment of Article 5 of the proposal for a Council decision, the Committee on Energy, Research and Technology recommends that the European Parliament approve the Commission's proposal. As technical and financial questions are closely linked in this case Parliament should, however, recommend to the Commission that the co-financing of nuclear power stations from the proceeds of such loans should be subject to conditions favouring the use of the latest technical developments. In the long term this would satisfy the principle of cost-effectiveness as well as the principle of the viability of co-financed projects. Logically, this should apply not only to nuclear power generating plant but also to distribution installations, i.e. the high tension transmission network, since the one is incomplete without the other.

Opinion of the Committee on Budgets

Draftsman: Mr P. LAGORCE

On 25 February 1975 the Committee on Budgets appointed Mr Lagorce draftsman.

It considered the draft opinion at its meeting of 23/24 April 1975 and adopted it unanimously.

Present: Mr Lange, chairman; Mr Durand, vice-chairman; Mr Lagorce, draftsman; Mr Artzinger, Mr Brugger, Mr Concas, Mr Delmotte (deputizing for Mr Hansen), Mr Fröh, Mr Gerlach, Lord Lothian, Mr Memmel (deputizing for Mr Vernaschi), Mr Petre, Mr Shaw and Mr Yeats.

Importance for the future of the Community of developments in the energy field

1. Our committee is fully aware of the importance for the future of the Community of (i) rapid restructuring of energy sources, (ii) coordination of research and development in this field and (iii) pursuit by the institutions of an active policy intended to promote an effective and harmonized joint development such as will produce rapid results. These points were made in the opinions¹ drawn up by our committee on the revision of the JRC's multiannual programme of research and training². We do not therefore consider it necessary to deal with this problem again in this opinion.

Commission loans towards the financing of electricity production based on nuclear energy

2. The question of loans issued by the Commission with a view to a Community contribution towards the financing of nuclear power stations was considered by the Committee on Budgets on 7 and 10 December 1971, after a similar proposal³ had been referred to it. On that occasion the Committee on Budgets expressed a favourable opinion⁴, subject to certain amendments to the basic text. One of these amendments stipulated that the Commission should periodically inform Parliament as well as the Council of the progress of the planned operations. It should be noted that Article 5 of the present proposal lays down that Parliament and the Council should be so informed.

Summary of the proposal

3. In the explanatory memorandum attention is drawn to the need to reduce the Community's external dependence upon oil supplies from 63% to 45% by 1985 and to ensure that half of all electricity needs are met by nuclear energy by the same date. If this objective is to be attained, a huge investment programme will be necessary during the coming decade. The Commission considers that the financial commitments needed to cover the total expenditure will amount to 46,200 million u.a. in the six years from 1975 to 1980 inclusive.

4. For the 11 years from 1975 to 1985, investment expenditure will total 104,850 million u.a. Moreover, during these same 11 years demand for nuclear fuels will grow and investments for mining, enrichment and reprocessing of these fuels will amount to 7,500 million u.a. Total investment will thus exceed 112,000 million u.a.

¹ PE 37.472 and PE 39.699

² Doc. 89/74 and COM(74) 2200 final

³ Doc. 120/71

⁴ PE 28.682/final

5. The present situation, in which national governments are forcing electricity producers to maintain artificially low tariffs, leaves little room for self-financing so that the producers have been forced to turn to the capital market. The problems are further exacerbated by the prevailing high interest rates and instability of the capital market.

6. The Commission intends to deal with this situation by adopting a common financing policy involving greater reliance on the Community's financial resources by means of Euratom loans. The Euratom Treaty provides in Article 172 for the financing of research by means of loans:

'4. Loans for the financing of research or investment shall be raised on terms fixed by the Council in the manner provided for in Article 177 (5).

The Community may borrow on the capital market of a Member State, either in accordance with legal provisions applying to internal issues, or, if there are no such provisions in a Member State, after the Member State concerned and the Commission have conferred together and have reached agreement upon the proposed loan.

The competent authorities of the Member State concerned may refuse to give their assent only if there is reason to fear serious disturbances on the capital market of that State.'

7. It is not the Commission's intention through this proposal to replace traditional sources of finance in the energy investment sector but to offer an additional possibility by making available capital to which the electricity producers do not normally have access. This would involve issuing supplementary loans which would not normally exceed 30% of other funds borrowed by the producer. Normal guarantees - securities and mortgage rights - would be required by the Commission.

8. The Commission is therefore asking for authorization to issue loans, to a maximum of 500 million u.a. per year, on terms it considers to be in the best interests of the Community. The sums borrowed 'shall be applied by way of loans for the purpose of financing investment projects relating to the industrial production of electricity of nuclear origin and to the installations involved in supplying such projects with fuel.'

9. The Commission recalls in its proposal that, as far back as 1963, funds amounting to 41 million dollars were raised under the Euratom Treaty and granted as loans to EAEC undertakings.

Other types of Community loans

10. The Committee on Budgets points out that three distinct types of loan, very different in character, are already available under Community arrangements.

- ECSC loans: the High Authority is empowered by the Treaty of Paris to contract loans 'to procure the funds it requires to carry out its tasks'. These funds may be utilized only for the granting of loans. Since its establishment, the ECSC has contracted for a nominal amount of 1500m u.a., 276m u.a. of which was contracted in 1973;
- EIB loans: set up by the Treaty of Rome to 'contribute, by having recourse to the capital market and utilizing its own resources, to the... development of the common market in the interest of the Community', the EIB borrowed, from 1961 to 1973, a total of 2264m u.a., and 841m u.a. during 1974 alone;
- EEC loans: on 17 February 1975 the Council adopted a regulation permitting the Community to borrow funds for specific purposes and to relend them to one or more Member States encountering balance of payments difficulties as a result of the increase in the price of petroleum products. This regulation provides that lending operations authorized under its terms shall be limited to 3000 million dollars.

11. The Euratom loans which the draft decision intends to set up therefore constitute a fourth means of financing by loan and thus by Community borrowing. Three of these loan possibilities (ECSC - Euratom - loans for petroleum products), moreover, are directly linked to the Community energy sector and the fourth (EIB) is also in part used for the financing of this sector.

Towards a coherent Community loans policy

12. The draft decision underlines the somewhat fragmentary nature of the Community loans policy. Your draftsman considers that the time may well have come to consider an overhaul of this policy, which now seems to lack coherence.

13. There are in fact several reasons for proposing an amalgamation of the various types of Community loan. On the technical level it would seem desirable, given the new characteristics of the international capital market, to avoid the Community having to seek loans on this market in too uncoordinated a way, both as regards the financial technicalities of the borrowing operations and the most appropriate moment for contracting them.

Greater coordination could in fact enable the Community to organize its borrowing in a more satisfactory way and provide a welcome centralization of its loans policy.

14. In view of the growth in the number of existing possibilities for Community loans through the four schemes mentioned above, it would appear at first sight preferable that banks or institutions providing capital be given centralized guarantees from the Community itself and not by each of the three Communities which are in any case to be merged under the terms of the 1965 Treaty.

15. An amalgamation of this kind would, moreover, facilitate progress towards a genuine economic and monetary union. It would also make it easier to assess total investment needs and thus facilitate financing of all common policies. It would, finally, assure more satisfactory management and better control of the Community's capital budget, the formation of which would seem desirable.

Budgetization of the Community loans policy

16. Your draftsman would like to call attention to the opportunity for including in the Community budget - and thus of submitting to the budgetary procedure provided for by the Treaties - operations relating to Community loans. At the moment none of the three types of loans referred to above is directly incorporated in the general budgetary procedures and the draft decision is itself very vague on this point. Budgetization of the Community loans policy - from the point of view of its unification and its rationalization as outlined above - would appear desirable, since it would permit:

- integration of the Community loans policy in the framework of the general budgetary policy and thus of the economic policy which the institutions wish to follow;
- a better overall view of the needs and the financing abilities of the Community as a whole;
- an annual examination, in a more rigorous framework, of the situation and of the development of Community indebtedness;
- real participation and control by the budgetary authorities and in particular the European Parliament.

17. In this connection it would seem that the increasing volume of Community loans and their growing importance in the development of common policies calls for greater participation by Parliament. This should normally be exercised through the budgetary procedure. The Committee on Budgets recalls here that, in the context of the current revision of the Treaties necessitated by the strengthening of Parliament's budgetary powers, the Commission has proposed the addition of an Article 203b to read as follows:

'Any decision to have recourse to the raising of loans shall be decided during the budgetary procedure by the Council acting by a qualified majority and by agreement with the Assembly, acting by a majority of its members and an absolute majority of the votes cast'¹.

This draft article appears to constitute an interesting starting point for the necessary rationalization of the Community loans policy by means of its budgetization and for Parliament's participation in its implementation and control.

Specific comments on the Euratom loans

18. The explanatory memorandum accompanying the draft decision under discussion does not contain the information necessary to permit even a general appraisal of a proposal involving a sum of almost 5,000 m u.a. Since what is involved here is a virtually new type of financing (Euratom loans have scarcely been used until now), it is to be regretted that the decision on which Parliament has been consulted does not in fact amount to anything more than a simple authorization for the Commission to issue loans without giving any further details as regards amounts, procedures, guarantees etc., in respect of these loans. In particular, no details are given as to the possible cost of these loans to the Community budget or the manner in which it would meet them. The role played by Parliament (and the Council) in this procedure is described in the two lines of Article 5:

'The Commission shall inform the Council and the Parliament at regular intervals as to the progress of the operations provided for in this Decision'.

19. Supplementary information has, however, since been communicated to the members of the Committee on Budgets, at the draftsman's request. This information has enabled the draftsman to form a more precise idea of the Commission's aims, specifically that:

¹ Doc. COM (73) 1000(final), third part, page 9.

- the initial ceiling of 500 m u.a. ought certainly to be raised, or even doubled, in the course of the five-year period considered,
- the Commission considers that since almost all potential borrowers are public enterprises (EDF, Electricity Board, Enel), any risk of loss to the lender seems 'really hypothetical',
- administration of these loans would be entrusted to the Commission Directorate General which already administers ECSC loans.

20. Your draftsman also notes that the Commission, apparently at the Council's request, has deleted from its draft decision Article 4, providing for revenue and expenditure operations connected with the Euratom loans to be entered in the Community budget.

For the reasons given in paragraphs 16 and 17 above, your draftsman considers that these loans ought to appear, as revenue and expenditure, in the body of the Community budget. This budgetization was explicitly provided for in the first draft Council decision of 28 September 1971¹, the explanatory memorandum of which stated that the annual repayments of sums borrowed would be entered as expenditure and those of the corresponding sums lent entered as revenue in the Euratom research and investment budget.

Your draftsman considers moreover that this budgetization is required by the texts of the Euratom Treaty² and the Financial Regulation³. Budget items for loan revenue and expenditure appear in the nomenclature⁴ and have been used to enter in the budget loans contracted under the 1959 US-Euratom agreement.

¹ Doc. 120/71

² Article 171, Euratom Treaty: 'Estimates shall be drawn up for each financial year of all revenue and expenditure of the Community, other than those of the Agency and the Joint Undertakings, and such revenue and expenditure shall be shown either in the operating budget or in the research and investment budget'.

³ Article 1, Financial Regulation of 25 April 1973:
 1. 'The budget of the European Communities (hereinafter called 'budget') is the act which makes provisions for and authorizes annually in advance the expected revenue and expenditure of the Communities. For the purposes of this Financial Regulation, the revenue and expenditure of the Communities shall comprise:(...)
 - revenue and expenditure of the European Atomic Energy Community, with the exception of that of the Supply Agency and of the Joint Undertakings.
 2. For the purposes of this Financial Regulation, research and investment expenditure shall comprise any expenditure which could be allocated to the budget pursuant to the Treaty establishing the European Atomic Energy Community and to the measures taken in application thereof and in particular: (...)
 - loans approved and charges relating thereto;
 - repayment of loans and charges relating thereto...;'

⁴ Revenue: chapter 94 of the general budget
 Expenditure: chapter 7 of the research and investment budget

For these reasons, your draftsman considers that the activities of Euratom should be entered annually in the budget and thereby submitted to the general budgetary procedure of Article 177 of the Euratom Treaty. This should be the procedure for empowering the Commission to borrow funds and grant loans, for precisely defined amounts laid down in the budgetary documents.

CONCLUSIONS

21. Without regard to the basic reasons (the need to finance electricity production from nuclear energy) behind this draft decision, the Committee on Budgets must restrict itself to the following observations and recommendations:

(a) With a view to making possible an appraisal of the overall Community loans policy and preparing its much-needed rationalization, the Commission is asked to draw up as soon as possible a summary of its past activities with respect to the financing of common policies by means of recourse to the capital market - and to submit the broad outlines of the proposed policy in this area for the future. This summary and report should be communicated to the European Parliament;

(b) The Commission is asked, in view of the desirability of budgetizing its loans policy, to attach to the annual Community budget a note summarizing all Community capital transactions made during the current financial year and planned for the following one, so as to provide up to date information on and complete understanding of all the Community's financial activities;

(c) Euratom loans and borrowings ought - in accordance with the legal rules in force - to be covered by an annual budget entry and subjected to the budgetary procedure applicable to all Community resources and expenditure, and the Commission should thereby be empowered by the budgetary authorities to borrow funds and grant loans for precisely defined amounts laid down in the budgetary documents.

22. The Committee on Budgets requests the Committee on Energy, Research and Technology to include the three points made above in its draft opinion.

23. Should the Council intend to adopt a draft decision without taking full account of the main recommendations set out in the opinion of the Committee on Budgets, the latter reserves the right to propose to Parliament that it request the opening of a conciliation procedure.