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PO -CH /GH/0059

PART A

Chancellor's (Howe) Papers:

EUROPEAN FINANCE COUNCIL
OCTOBER 1980

Disposal Directions: 25 Years

25/7/95

PO -CH /GH/0059
PART A

1

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 20 final

Brussels, 24th January 1980

PROPOSAL FOR A COUNCIL DECISION APPLYING FOR THE SECOND TIME DECISION 78/870/EEC EMPOWERING THE COMMISSION TO CONTRACT LOANS FOR THE PURPOSE OF PROMOTING INVESTMENT WITHIN THE COMMUNITY

(presented by the Commission to the Council)

COM(80) 20 final

EXPLANATORY MEMORANDUM

By its Decision of 16 October 1978, the Council established the New Community Instrument (NCI), through which the Community is able to borrow funds on its own account and thus has greater scope for promoting investment in the Community with a view to stimulating an economic upturn and supporting common policies. The purpose of the NCI is to help implement investment projects which contribute to the greater integration of Member States' economic policies and which are in line with priority Community objectives.

The Council Decision provides for the raising of loans not exceeding 1 000 million EUA and to be activated tranche by tranche, each tranche being used to finance investments in accordance with guidelines laid down when the tranche is authorized.

On 14 May 1979, the Council authorized a first tranche of 500 million EUA to be used for financing projects in the energy and infrastructure sectors. Nine projects have since been signed totalling 277 million EUA in the form of NCI loans. A number of other projects have reached an advanced stage of preparation and will bring total commitments to 498 million EUA, leaving a balance of only 2 million EUA from the first tranche.

Experience with the first tranche has demonstrated the usefulness of the new instrument. The first series of projects alone represents a total investment cost of 3 372 million EUA, with energy projects accounting for 60% of that figure. The Community's borrowing capacity has added significantly to the incentive to investment in the sectors chosen for priority attention by the Commission. The projects are helping to attain the general objectives laid down in the Council Decision, and the investment impact on regional development, employment and energy supplies is contributing to the convergence of economic policies.

.../...

Since the borrowings authorized under the first tranche are soon to be used up and in view of the success of the operation to date, the Commission feels that a second tranche should now be authorized. Priority will, of course, continue to be given to the sectors already singled out by the Council. Their financing requirements are still considerable, and the Community must therefore provide the most extensive support possible. Accordingly, the Commission proposes that the second tranche be equivalent to the balance of total authorized borrowings, i.e. 500 million EUA, and that the loans again be allocated to the energy and infrastructure sectors.

The Commission feels that, within these existing priority areas, there should be some move towards a broader interpretation of the concept of infrastructure in the case of certain projects to be carried out in priority regions or in areas hard-hit by the crisis.

For instance, as part of the integrated operations now being set up, the second tranche could, among other things, make a start on meeting the financing requirements of urban renewal projects.

There are two possible areas of priority financing here : housing and advance factories. As housing is such a potentially vast field, consideration should be given only to those projects submitted by the national authrorities which, in their content and financing, form part of the programmes coordinated by the public authorities and which contribute to establishing production sectors or improving general economic productivity in the area in question.

In accordance with the Decision of 16 October 1978, the Commission will inform the Council and the European Parliament annually of receipts and expenses resulting from NCI transactions and, as soon as the amount of loans taken up reaches the equivalent of 800 million EUA, and not later than 16 October 1980, it will submit a report to both institutions on the experience gained during the operation of that Decision.

The Commission proposes therefore that, after consulting Parliament, the Council adopt the proposal for a Decision attached hereto.

.../...

Proposal for a

COUNCIL DECISION

applying for the second time Decision 78/870/EEC empowering the Commission to contract loans for the purpose of promoting investment within the Community.

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,
Having regard to Council Decision 78/780/EEC of 16 October 1978 empowering the Commission to contract loans for the purpose of promoting investment within the Community (1), and in particular Article 2 thereof,

Having regard to the proposal from the Commission (2),

Having regard to the Opinion of the European Parliament (3),

Whereas the Commission has already contracted a large proportion of the first tranche of borrowing authorized by Council Decision 79/486/EEC of 14 May 1979 applying Decision 78/870/EEC; whereas that tranche will soon be used up;

Whereas investment in the infrastructure and energy sectors is still of paramount importance for the economies of the Member States, notably on account of its impact on regional development and employment, and continues to make the Community less dependent on imported energy and to guarantee greater security of supplies;

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(1) OJ Nº L 298, 25.10.1978, p.9
(2) OJ Nº
(3) OJ Nº

Whereas a second tranche of borrowings for on-lending should therefore be authorized in pursuance of Decision 78/870/EEC; whereas the same sectors as those stipulated in Decision 79/486/EEC should be covered by this operation;

Whereas it must be possible to grant loans in priority regions or areas more particularly affected by restructuring or conversion problems of, notably in connection with integrated operations, for the purpose of financing advance factories or housing projects that are submitted by the national administrations and form part of programmes coordinated by the public authorities with regard to their content and financing and that help to establish production sectors or to improve general economic productivity in those priority regions or areas;

Whereas borrowings of an amount equivalent to a capital sum of 500 million European units of account should now be authorized,

HAS DECIDED AS FOLLOWS :

Article 1

A second tranche of borrowings is hereby authorized for an amount not exceeding the equivalent of a capital sum ot 500 million European units of account.

Article 2

The product of these borrowings shall be used for loans to finance investment projects which are carried out on Community territory and which are consistent with priority Community objectives in the infrastructure and energy sectors.

For the purposes of this tranche ;

infrastructure investment shall cover in particular transport, telecommunications, agricultural improvements, water supply works, environmental protection, housing and advance factories.

.../...

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energy investment shall contribute to greater self-sufficiency, security and diversification of Community energy supplies; investment shall ensure the development, exploitation, transportation and storage of energy resources; particular attention shall be paid to energy conservation and to the development of alternative energy sources.

Article 3

The Commission shall decide whether or not projects are eligible in accordance with the guidelines laid down in Article 3 of Decision 79/486/EEC.

Done at Brussels,

For the Council,
The President,

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TELEGRAM NUMBER 3490 OF 15 JULY.
INFO PRIORITY LUXEMBOURG.
INFO ROUTINE BRUSSELS, COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS AND BONN.

ERUOPEAN COMMUNITY

FINANCE COUNCIL : 15 JULY

ORTOLI FACILITY - SECOND TRANCE

SUMMARY
AGREED BUT ONLY 400 MEUA WILL BE IMMEDIATELY AVAILABLE. COUNCIL WILL DISCUSS IN OCTOBER WHETHER UP TO 100 MEUA SHOULD BE RESERVED FOR PROJECTS FALLING WITHIN THE ENLARGED DEFINITION OF INFRANSTRUCTURE PROPOSED BY THE COMMISSION.

DETAIL
2. PRESIDENCY PROPOSED THAT THE SECOND TRANCE SHOULD BE APPROVED BUT THAT THE COUNCIL SHOULD EXAMINE THE DEFINITION OF INFRASTRUCTURE AGAIN IN OCTOBER. ITALIANS WERE NOT PREPARED TO ACCEPT THIS UNLESS THE DISSENTING DELEGATIONS GAVE ASSURANCES THAT THEY WOULD APPROACH THE QUESTION WITH AN OPEN MIND. THEY ARGUED THAT THE HOUSING PROJECTS THAT THEY HAD IN MIND WERE AN ESSENTIAL PART OF OTHERWISE ACCEPTABLE PROJECTS.

3. GERMANS WERE PREPARED TO ACCEPT THE PRESIDENCY FORMULA. THEIR ATTITUDE WAS BASED ON THE NEED FOR A CLEAR DISTINCTION BETWEEN AREAS THAT WERE COMMUNITY RESPONSIBILITY AND THOSE THAT WERE NATIONAL. THERE WERE ENOUGH PROGRAMMES TO TAKE UP THE AMOUNT OF THE SECOND TRANCHE WITHOUT THE EXTENSION. THEY WOULD LISTEN TO ARGUMENTS TO THE CONTRARY, BUT WITHOUT ANY ASSURANCE THAT THEY WOULD AGREE.

4. DUTCH WERE IN FAVOUR OF APPROVAL OF THE SECOND TRANCHE FOLLOWED BY A REVIEW WHEN DISBURSEMENTS REACHED 800 MEUA, AS REQUIRED BY THE 1978 DECISION, WHICH COULD INCLUDE DEBATE ON THE EXTENSION OF SCOPE OF INFRASTRUCTURE. NOT OPPOSED IN PRINCIPLE TO SOME EXTENSION, BUT THE FORM IT TOOK SHOULD BE DECIDED IN THE COURSE OF THE REVIEW.

5. ITALIANS WERE NOT PREPARED TO ACCEPT PRESIDENCY PROPOSAL ON THIS BASIS. BELGIANS THEN PROPOSED THAT THE SECOND TRANCHE SHOULD BE APPROVED BUT THAT ONLY 80 PER CENT SHOULD BE IMMEDIATELY AVAILABLE. THE COUNCIL SHOULD SICUSS IN OCTOBER,. IN THE LIGHT OF EXPERIENCE WITH THE SECOND TRANCE IN THE INTERIM, WHETHER SOME OR ALL OF THE REMAINING 20 PER CENT SHOULD BE MADE AVAILABLE FOR ADVANCE FACTORIES AND HOUSING.

6. THIS WAS AGREED.

FCO COPY TO:-
FCO - PS/SOFS, PS/PUS, PS/LPS, PURNEY, SPRECKLEY
CAB - WALSH
TSY - PS/CHANCELLOR, PS/MOFS (C) HANCOCK, ASHFORD, THOMSON
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THIS TELEGRAM
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EUROPEAN COMMUNITIES
THE COUNCIL

Brussels, 29 September 1980 (30.09)

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COVER NOTE

From: Commission of the European Communities
to : Permanent Representatives Committee

Subject: Community loans: Second NCI tranche
- Decision on 100 MEUA

Delegations will find attached a note from the Commission concerning the use to be made of 100 MEUA in the context of the second NCI tranche. This note was circulated at the meeting of the Permanent Representatives Committee on 25 September 1980.

ANNEX

COMPROMISE ON HOUSING UNDER NCI II

In approving the second NCI tranche of 500 MEUA, the Council released only 400 MEUA for continuation of the projects financed under the first tranche. The use to which the remaining 100 MEUA is to be put has still to be decided. The Commission's proposal that the concept of infrastructure in the NCI context be extended to include the construction of housing and industrial plant put up by public promoters to fill future needs, is still before the Council.

In the meantime the EIB has published its annual report for 1979 listing the infrastructure projects being financed, including housing projects. The EIB also finances advance ~~prefabricated~~ factory buildings. The basic NCI decision stipulated that loan requests were subject to the usual EIB criteria. In addition, when the parallel decision-making procedure concerning interest rate subsidies under the EMS was adopted it was expressly stated in the Council minutes that the concept of infrastructure was the same as that applied by the EIB for its own projects. Obviously, given its statutes the Bank has to ensure that all projects, including housing, contribute to an increase in general economic productivity.

Given the above, there is a possible compromise which the Council could adopt in its decision on the use of the remaining 100 MEUA, namely to agree to the Commission proposal - which has the support of the European Parliament - but to enter a joint statement by the Council and the Commission in the Council minutes. This statement would be to the effect that the concept of infrastructure in the NCI context as regards housing and industrial plant built for future needs is consonant with the interpretation applied by the EIB in the case of projects of this type.

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COM(80) 583

COMMISSION
OF THE
EUROPEAN COMMUNITIES

General Secretariat

Brussels, 9th October 1980

FOR OFFICIAL USE ONLY

ENERGY AND ECONOMIC POLICY

IV b

(Staff paper)

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ENERGY AND ECONOMIC POLICY

INTRODUCTION

1. The burden of the energy constraint on the short- and medium-term management of our economies - in the form of a major transfer of resources and strong inflationary pressures - prompted the Council, at its meeting on 9 June 1980, to place on the agenda for its October meeting a discussion of the links between energy problems and economic policy.

The purpose of this Communication is to serve as a basis for that discussion and enable the Council to adopt its guidelines.

THE INTERNATIONAL DIMENSION OF THE PROBLEM

2. This paper does not touch on the wider economic aspects of the second energy crisis, which are discussed in the annual report to the Council. The emphasis here is on:

(a) identifying and putting into practice the right solutions to the problems arising from balance-of-payments deficits;

(b) reducing the Community's dependence on external energy supply, and primarily its dependence on oil imports, by means of structural adjustments geared notably to conserving energy and to fostering the production and use of alternative energy sources.

3. As emphasized by the European Council, concerted action is needed by all the consuming countries, particularly in view of the implications for competitivity. In our highly integrated economy, isolated (or worse, contradictory) measures would together be detrimental to general growth potential.

It would be just as hazardous to accept a marked inequality of structural adjustment effort in the energy sector. The costs of adjustment - in resource allocation or losses of competitiveness - would be borne solely by the countries that embarked on the course of action needed, while all consumer countries would benefit.

4. Accordingly, by virtue of its responsibilities, both within the Community and outside, the Community has a special role to play in formulating and implementing an appropriate economic and energy strategy.

The Community has already set itself three objectives:

(i) to lay the foundations of genuine solidarity among consuming countries by contributing, as it did at the Tokyo Summit, to the joint definition of targets for reducing its dependence on external energy sources;

(ii) to place the supply of energy on a sounder basis by entering into a dialogue with the producing countries aimed at achieving smoother reconciliation of the interests of the countries involved;

(iii) to play an active role in the areas of development or financing which will make it possible to ease the situation in the developing countries hardest hit by the crisis, in particular by helping to exploit their energy potential and mineral resources.

BALANCE-OF-PAYMENTS FINANCING

5. Balance-of-payments deficits, which are larger and more permanently entrenched than after the first oil crisis, raise a problem of general economic policy, that of reconciling the steady reduction of the deficits with a continued general level of activity and employment that is as high as possible. That problem is discussed in the annual economic report.

They also give rise to a problem of financing, now being debated by the Council on the basis of guidelines which need to be confirmed and given practical shape.

6. The first of these guidelines, following up the conclusions of the European Council and of the Venice summit meeting of the major industrialized countries, is to step up the activity of the international organizations (IMF, World Bank and the regional Banks) in recycling oil capital, with particular consideration for the problems of non-oil developing countries. It would be appropriate also to assess thehelp which could be given to support their efforts to bring about the structural changes necessitated by the state of their external payments. Noting and taking into account the decisions taken at the annual meetings of the Fund and the Bank in Washington, the Council should, before the next meeting of the Interim Committee, consider whether actual progress so far matches up to the targets advocated.

7. The Community is already directly involved in transferring capital to the non-oil developing countries under the Lomé Convention, under its arrangements for assisting non-associated developing countries and under various financial protocols. Under the further studies on this matter which the Council called for on 9 june, an effort must be made to identify the areas in which joint action can be undertaken with the oil-producing countries whereby the resources available can be mobilized faster, on a wider scale and more effectively. The Commission and the EIB already participate in co-financing schemes with a number of development funds and are already concerned to expand the scope of such participation. The bringing together of these objectives, together with the normal operations of the banking system must be examined in depth.

8. The third guideline is to strengthen the Community's own financing mechanisms. More active solidarity will be to the advantage of all, by helping to ease the financial constraint where it might otherwise lead to unduly restrictive measures, with adverse effects on growth and employment. The first essential here is the prompt completion of the work spelt out by the Council on 9 june 1980 :

(a) towards raising the ceiling on Community borrowings and improving the conditions for using this instrument;

(b) towards enabling the Community to use the ECU as the numéraire for the loans it floats on the international capital markets, as advocated in the opinion of the Monetary Committee, and so providing lenders with additional facilities for diversification.

The expanding role of the Community's financial instruments (EIB, NCI, ECSC and Euratom) helps to alleviate balance of payments problems when the corresponding loans are raised on the international capital markets.

REDUCING DEPENDENCE ON IMPORTED ENERGY AND DIVERSIFYING SOURCES OF SUPPLY

9. Under its broad thrust of restoring equilibrium as well as in its specific aspects, economic policy must serve the objectives - paramount for our economies - of reducing energy demand and diversifying sources of energy. The investment required for this purpose will also actively help to sustain economic activity. Action is needed at two levels:

(a) a coherent energy pricing policy;

(b) proper planning of investment and of the financial resources needed.

A. The role of prices

10. Demand adjustment and investment depend to a large extent on the prices of energy products on the domestic market. To speed up adjustments in the energy field, two conditions must be met: the general price trend (particularly for petroleum products) must serve the aims of both conservation and diversification, must move smoothly and must admit of reliable forecasting; and there must be an appropriate hierarchy of prices for the different sources of energy.

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(i) The trend in the general level of domestic prices

11. Energy users must be in a position to base their decisions on forward assumptions regarding prices that are sufficiently reliable and consistent with the general direction of energy policy. This condition is essential if market forces are to ensure the most efficient allocation of resources.

Just as moderation in oil price increases is necessary to enable international economy to return to stability and growth, so over-steep downward fluctuations in real prices like those between 1974 and 1978 may deter an all-out effort to reduce the demand for oil. This fall in the real price was partly caused by rapid inflation and exchange rate movements, but also by the fact that certain specific taxes which are part of the prices were adjusted only on an *ad hoc* basis.

12. Looking ahead to the medium term, and leaving aside cyclical fluctuations in the economy, the general situation regarding oil supply and demand means at the very least that any policy incorporating a fall in oil prices in real terms must be ruled out.

The Commission considers that, to keep the trend of petroleum product prices as regular as possible and constantly in line with the general direction of energy policy, the Council should follow, as a guiding principle, the policy that there should be no decrease in the real price of petroleum products to the final consumer.

13. This principle would be applied as follows:

(a) in line with the principle already accepted by the Council, increases in the representative import price of crude oil must be passed on to the final consumer within a reasonable period of time;

(b) the Commission proposes that the Council should establish the guideline that, as a general rule, and without accentuating inflationary tendencies, the taxation of petroleum products should at the very least be held level in real terms by means of regular adjustments;

(c) the Commission stresses - and the Council has already acknowledged - that the secondary inflationary effects of oil price rises must be contained to the utmost extent possible.

Although these guidelines and measures must be put into operation by the Member States, with reference to their individual situations, the guidelines themselves must be common, and their implementation must be monitored regularly: the Commission suggests that, after adopting them, the Council should review the results annually.

14. These measures may not be enough if there is a sharp downward trend in the import price of oil. Other instruments should then be used.

The Commission is continuing to examine this point, and will inform the Council, for a later meeting, of its findings and conclusions.

15. The proposed decisions could bring about an increase in public revenue; it would be essential to contain the inflationary consequences and to obviate any deflationary effects. Appropriate countervailing measures might take the following forms:

(a) a reduction in charges, which would at the same time prevent a decline in the competitiveness of Community firms and exert a favourable influence on investment and employment;

(b) a reduction in indirect taxation, which would help to ease inflationary pressures;

(c) an increase in budgetary funds for incentives to adaptation in the energy field.

(ii) Hierarchy of domestic prices of energy sources

16. The hierarchy of prices for the different energy products, which government influences through a range of interventions, mainly taxation and budgetary, must serve the aims of reducing dependence on external energy sources, particularly by cutting oil imports and by developing alternative energy sources. Price differentials must act both as a deterrent (oil) and as an incentive (other sources of energy). This is not always the case: in some Member States at least, the domestic price for certain products (heavy fuel oil is an example) does not encourage a diversification of sources or give any urgency to investment in, say, energy conservation. Such distortions can be traced back, to a large extent, to the way in which different energy products are taxed.

Further, the structure of prices, i.e. including taxation, as between the Member States is a potential and a present source of distortion of competition and the cause of a poor allocation of resources.

17. The Commission asks the Council to approve the following two aims:

(a) to arrive at a hierarchy of prices which is consistent with overall energy policy;

(b) to prevent excessive differences in the price structures as between Member States which are not justified either by a similarity of situations or by the fact of belonging to the same market.

At a later date the Commission will put up proposals defining the bases, including harmonization of taxation, for attaining these objectives.

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B. Planning of investments and of the resources required

18. Prices have a pivotal role to play as an incentive to the adjustment of demand. But, government has a direct and crucial role in carrying out investment, much of which depends on decisions by government and without which the goal of self-sufficiency, for which government is responsible, will not be attained. The consequences are two-fold: (a) the principle of planned programmes which define not only the investments needed to reach the Community's targets, but also the resources for carrying them out; (b) taking account of energy requirements proper and the requirements of the economy as a whole, this programme-planning, in the Commission's view, should amplify and speed up the entire effort.

19. In its Resolution of 9 June 1980, the Council decided to make an annual assessment of national energy programmes at Community level - the Community being a meeting-point for comparing targets, defining and monitoring priorities, identifying shortcomings and appraising results.

The Community's acknowledged position therefore answers a very clear requirement. It is the best **forum** in which to define forcefully - and present to the public - policies which are necessarily comparable and analogous and which, in the Commission's view, must:

(a) give the greatest possible boost to energy investment;

(b) contribute to the development of nuclear energy and help to remove the obstacles hampering its expansion;

(c) pursue a consistent internal and external coal policy as regards research, availabilities and costs, with the aim of self-sufficiency;

(d) stimulate the investment required in energy conservation and develop new energy sources.

The Ministers for Financial Affairs cannot remain indifferent to the action in these fields taken by the Ministers for Energy. The general economy is directly concerned: by balance-of-payments and price constraints, but also by the impetus to growth and employment offered by the new "industrial energy economy" and by the expansion of energy investment.

20. Consideration of the matching of resources to goals is also of direct interest to the Economic and Financial Affairs Ministers meeting in Council. Particular attention will have to be given to budgetary, economic and financial mechanisms, and to both national and Community legislation introduced to encourage the investments which are immediately necessary and to facilitate their funding. The only way to make sure this is done is by the systematic and critical monitoring of the state of progress of the programmes.

21. In addition, the Community contributes to the investment effort through its financial instruments (funds under the Budget and loans). Its contribution is substantial: in 1979, 1 580 million EUA in loans granted, or 6% of Community energy production investment (considerably more if self-financing is deducted). The Community's action should help the Member States to pursue a vigorous energy policy. It should be primarily directed to supporting coherent programmes which serve the common objectives and are integrated into an overall policy by the recipient Member States. Community financing should not take the place of national financing, but should speed up and amplify certain measures which could not be carried out without an external financial contribution.

22. It is in that context that the Commission asks the Council:

(a) to approve the guidelines set out in this Communication;

(b) to decide to convene every year a Council meeting of the Economic and Financial Affairs Ministers with appropriate participation to examine how the legislative means and the financial resources match up to the real targets of the Member States' energy programmes;

(c) to take note that every year the Commission will present on that occasion a report on the possible contribution from Community resources to the overall investment effort, and will suggest how they should be used to serve priority aims.

EUROPEAN COMMUNITIES
Monetary Committee

Brussels, 10 October 1980
II/472/80 - EN final

DIFFUSION TRES RESTREINTE

REPORT TO THE COUNCIL AND THE COMMISSION ON RECYCLING

Contents

INTRODUCTION

The Committee's Opinion on issues raised by the recycling process (doc. II/267/80 dated 4 June 1980) was referred to the Council meeting on 9 June 1980; the Council then called upon the Committee to examine the following points in greater depth :

1. the Community's role in the recycling process in the framework of the international organisations;
2. the Community loan mechanism and the other Community instruments for recycling in favour of the member countries of the Community;
3. the instruments for recycling in favour of third countries (e.g. the possibility of opening a window for third countries in the Community loan mechanism);
4. the link between adjustment and financing, problems of surveillance and "early conditionality";
5. co-financing and triangular operations;
6. costs and risks (guarantees, transformation, etc.), resources available and tentative quantification of possible actions.

Part I of this Report examines the Community's role in recycling in favour of member countries, through an adjustment of the Community loan mechanism, and the related questions of conditionality, surveillance and the mix between adjustment and financing; the other points of the Council's mandate, including the aspects of recycling to non-member countries, are examined in Part II. The Committee has furthermore delivered a separate Opinion on another issue relevant to recycling, i.e. the use of the ECU as a denominator for loans floated by the Community institutions (doc. II/397/80 dated 8 September 1980 - in Annex).

The Committee would point out that the present Report should be seen as complementary to its Opinion of 4 June 1980, in which the issues raised by the recycling process were examined in their general terms and in a broader context. In particular, the Opinion defined recycling as "a process by which the surpluses run by certain countries - in this case the oil-producing countries - are made available to countries in balance of payments deficit.

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This process is based to a large extent on international financial intermediation, both public and private, which makes possible a certain transformation between the forms of investment offered to the surplus countries and the financing terms offered to the deficit countries". Furthermore, the Opinion stressed that "the bulk of the recycling activity will continue to be carried out by the international financial markets and the commercial banks ... supplemented by an expanded activity of the international organisations, and primarily of the International Monetary Fund, the World Bank and the regional development banks". The Community as an entity must on the one hand support the efforts made in this wider international context, and on the other has a particular role of its own to play in the context of the present payments imbalances.

I. ADJUSTING THE COMMUNITY LOAN MECHANISM

The Committee has devoted itself to examining how the Community loan mechanism set up in 1975 should be adapted to the requirements of the new structure of external payments disequilibria, the aim being to improve its effectiveness and enable the Community to contribute to the harmonious development of the recycling process. In this part of the Report the Committee studies the problems connected with the financing of the deficits of Member States.

1. Aim, duration and ranking of the mechanism

1.1. According to Article 1 of Regulation (EEC) N° 397/75 which set up the mechanism, "the Community may undertake a series of operations to raise funds, either directly from third countries and financial institutions, or on the capital markets, with the sole aim of re-lending those funds to one or more Member States in balance of payments difficulties caused by the increase in prices of petroleum products".

The Committee feels that the wording of this Article should be clarified. It accepts the notion of "sole aim" if it is understood that its intention is merely that of ensuring that the Community borrows solely in order to re-lend to one or more Member States. As regards the cause of the balance of payments difficulties, the Committee is of the opinion that the relevant phrase should read as follows : "balance of payments difficulties directly or indirectly related to an increase in prices of petroleum products".

.../...

1.2. As regards the duration of the mechanism, which was not specified in the 1975 Regulation, the Committee feels that the Council should in five years' time, on the basis of a report from the Commission, examine whether the Community loan in its principle, its arrangements and its ceiling still meets the needs which led to its creation.

1.3. Since it does not directly involve the commitment of member countries' foreign exchange reserves, this instrument is still, as far as its general design is concerned, well suited to the requirements of recycling. There is however, the question of whether any order of priorities should be assigned to the way in which calls are made on the various resources available to the national authorities to finance an external payments deficit (international capital markets, Community assistance, IMF facilities). The Committee discussed this question and concluded that no a priori position should be taken on the matter, so as to be able to react to circumstances in the best way possible.

The Council Decision of 8 May 1964 on co-operation between Member States in the field of international monetary relations (64/301/EEC) provides that "consultations shall take place within the Monetary Committee in respect of any important decision or position taken by Member States in the field of international monetary relations and concerning in particular : ... recourse by a Member State to resources which can be mobilised within the framework of international agreements". It is in the framework of these consultations that the ranking of calls on the various sources of financing could be examined.

Similarly, the Committee did not consider it useful to attempt to establish priorities in the recourse to the medium-term financial assistance and the Community loans. Cases are possible in which only one of the two could be used, and others in which both could be used simultaneously. In the present situation, with all the Member States running current payments deficits, financing by Community borrowing, in accordance with the needs of recycling, may be the form of Community support which could most easily be mobilised in practice.

2. Techniques

Experience of the past lending operations has shown that the procedure for implementing the mechanism is at times excessively rigid :

.../...

2.1. Raising the loan (article 2 of Regulation (EEC) N° 397/75), after a loan application by a Member State, requires the Council, after consulting the Monetary Committee, to authorise the Commission to negotiate with the lenders; the Monetary Committee must again be consulted after the negotiations, and finally, a further Council decision is required to authorise the borrowing and lending operations involved. Experience has shown this procedure to be lengthy - in the first implementation of the mechanism, approximately one year intervened between the initial request and the funds' disbursement - and too cumbersome, in that it does not always permit the Community to adapt easily to market conditions.

The Committee considers that this procedure should be simplified so as to, if possible, reduce the references to Council to only one : the Council's role could consist in authorising the lending of a specified amount for a specified country (and the corresponding borrowing), and in simultaneously setting the economic policy conditions before the conclusion of the negotiations with the lenders; the ensuing operations would be carried out by the Commission in consultation with the Monetary Committee.

2.2. Experience with loans that have been made under the mechanism has revealed one unsatisfactory feature, namely that a country that had borrowed through the mechanism and was in a position to repay its borrowings ahead of their due date was not able to do so because there was no means whereby the Community itself could prematurely redeem the funds which it had borrowed and on-lent. There is not much sense in setting economic policy conditions for a Member State whose position has already recovered and is ready to repay a loan granted to it. Therefore, whenever a borrowing member so wished and agreed to the terms of the borrowing this would involve, explicit provision should be made for the possibility of early repayment. Allowing advance repayment clearly implies having recourse to the usual borrowing formulae prevalent on the market, which would expressly contain an early redemption clause.

2.3. Instead of giving preference to the issue of bonds as has been the case hitherto, the Commission should dispose of the necessary flexibility in its borrowing operations, both to facilitate the possibility of early repayments discussed above and to make the best of market conditions. It should thus be

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able to have recourse to the other instruments available on the markets and to new instruments such as ECU-denominated loans, and it should explore and develop the possibilities of borrowing directly from surplus countries. In practice, however, variable rate loans should not be given preference over fixed rate borrowing; they should in particular be avoided as far as possible when borrowing directly from surplus countries. At all events, loans denominated or payable in the currency of a Member State should be issued only after the agreement of the competent national authorities. In this context, the provision under Article 2 of Regulation (EEC) N° 397/75, whereby the average period of loans may not be less than five years, should be made more flexible, it being understood that the Community should not engage in maturity transformation. It is therefore suggested that the period of loans should be subject to mutual agreement between borrowing Member States and the Commission, in consultation with the Monetary Committee.

3. Conditionality

3.1. As requested by the Council, the Committee proceeded to define the modalities which might govern the concept of early conditionality mentioned in its Opinion of 4 June 1980. In practice this means that a country may have recourse to the Community loan before serious balance of payments difficulties have arisen, rather than after a situation of manifest crisis. This implies an appropriate concept of conditionality. It is in fact in the Community's interest to promote adjustment in a member country, through the contribution of even a modest financing, before this country reaches a situation of manifest crisis. On the other hand, a country may have an interest in relying on Community conditionality to promote the adoption of an adjustment programme vis-à-vis its own public opinion.

3.2. Graduation of conditionality. Conditionality should aim at restoring a sustainable balance of payments situation and should concern not only the demand side but place greater emphasis on the structural adaptations required in the medium term, particularly as regards energy. This concept of conditionality should at the same time contribute to increased convergence in the Community. Conditionality itself will have to be adapted to the situation of the country seeking a loan, particularly to the sustainabiltiy of the forecast deficits having regard to the country's external indebtedness and to the possibilities of financing these deficits. The more serious the member state's economic situation, the more specific endeavours on the supply side, particularly in the energy field, will have to be supplemented by general adjustment measures on

.../...

the demand side. This may imply setting monetary or fiscal targets. These targets would be set at regular intervals by the Council, acting on a proposal by the Commission and after consulting the Monetary Committee; compliance would be monitored, at regular intervals, jointly by the Commission and the Committee. It may be desirable for the loan to be disbursed in successive instalments, the release of each instalment being subject to compliance with the programme's objectives.

3.3. Council procedures. In practice the situation of a country facing balance of payments difficulties and intending to adopt an adjustment programme and to have recourse to a Community loan would be assessed by the Council on a proposal by the Commission, after the Monetary Committee had been consulted and had made its examination. The Council could grant a Community loan against the country's undertaking to conform to an adjustment programme, whose nature and validity would be the subject of a Monetary Committee opinion. Furthermore, according to the seriousness of the situation, or its development, the country could be asked to respect specific quantified targets.

3.4. Procedures in the Monetary Committee. The Committee feels that a mutual information and monitoring procedure on the balance of payments and external indebtedness positions of all member countries and on the policies pursued in these areas should be established. Essentially this would mean reinforcing and making more systematic the exchange of information which already takes place. Such a procedure falls within the Committee's competence, and the Committee has agreed to establish it as soon as possible.

4. Guarantee

4.1. In the event of default by the final borrower, the guarantee arrangements for the Community's creditors consist in participation by the Member States in accordance with a procedure laid down in Article 6 of Regulation (EEC) 397/75 and in Articles 1 to 9 of Regulation (EEC) 398/75, and in a token entry of the liabilities in the Community Budget to ensure that the creditors are paid without delay.

4.2. The Committee stressed that - as the experience of past decades has shown - the likelihood of default by any Community Member State is practically nil and it is in this light that it examined whether the present dual-guarantee system ought to be maintained. It is clear that the present system will remain in force with respect to the Community's loan operations carried out under Regulations (EEC) 397/75 and 398/75.

Several members felt that the entry in the Community's Budget constitutes in itself a commitment by the Community - i.e. by the Member States - which is sufficient to satisfy lenders and that there is consequently no need for a special or adjacent guarantee. Abolition of the system of guarantees by the Members States would correspond to the Community nature of the instrument and make it simpler to implement. Payments in the event of default would be made according to normal budgetary procedures. Other members felt the maintenance of the present dual-guarantee system would be preferable, either because they felt that every effort should be made to avoid exhausting at some date the Community budget's financing capacity, or because they questioned the interpretation the markets could give to the scrapping of the counter-guarantees by the Member States.

4.3. It should be noted that, were the counter-guarantee system by Member States to be maintained, certain member countries would submit an increase in the amount of the Community loan authorised by the Council to a parliamentary procedure, which would result in a further delay, as happened in 1975 when the system was set up. Between the Council's political decision and the termination of the procedure in the last country, the delay could thus be long enough for a modification of the international financial environment to intervene.

5. Ceiling

The Committee feels it advisable to recommend the following adjustments. It points out in this respect that, if these modifications are adopted, they will require a decision in the form of a Council regulation and, particularly if the Member States' counter-guarantee system is maintained, certain member countries might find themselves bound to the precedent of 1975 to make their agreement subject to parliamentary procedure.

5.1. Denomination. In conformity with other decisions taken within the Community, the ceiling should be denominated in ECU and not in US dollars.

5.2. Calculation of the ceiling. Interest on borrowing operations should henceforth be excluded from the ceiling, in line with normal international practice in the matter : the ceiling fixed by the Council would therefore relate only to the principal. As an example, applying this new method to the nominal figure authorised at present would - in the present market conditions - entail an increase of about one half in the borrowing capacity.

5.3. Definition of the ceiling. The ceiling should be considered as a limit on all outstanding amounts, i.e. the borrowing and lending resources would be reconstituted as and when repayments were made. If a margin can be reconstituted, there is no need to return to the Council each time the ceiling is exhausted, it being nevertheless understood that each activation of the mechanism is subject to prior authorisation by the Council.

5.4. Increase in the ceiling. The general feeling of the Committee is that the ceiling should be increased from that decided in 1975 (3 billion US dollars in principal and interest payments). The modifications described above would by themselves, if adopted, entail a significant increase.

5.4.1. Certain arguments may be put forth in support of a more substantial increase :

- the erosion in the ceiling's real value since 1975;
- the need to reverse the decline in the present ceiling in relation to the size of the international capital market, whose annual volume of operations has tripled since 1975;
- the Community's current deficit is at present larger in proportion to trade and output than was the case following the last oil shock and is expected to persist for longer; a higher ceiling is thus necessary for the mechanism to contribute significantly to recycling;
- while after the first oil shock there was still a number of surplus countries whithin the Community, now all Community countries are in current deficit;
- the desire for coherence with the increase in the size of the credit mechanisms decided when the European Monetary System was set up, in order to have the same credibility and positive announcement effects on the exchange markets : it must be observed in this regard that in spite of their significant resources the two mechanisms have not been used, which confirms their psychological effect;
- the need to allow a number of large borrowers to have recourse to the mechanism simultaneously without exhausting its facilities, in contrast to the present situation (over 80 % of the funds available were promptly taken up by loans to two member countries).

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5.4.2. Other arguments may be put forth in support of a more modest increase :

- the higher level of reserves, not least the result of the gold valuation within the EMS, and the relatively high credit worthiness of all Community countries create a better basis for the financing of deficits which is now becoming necessary;

- when the EMS was set up, short-term monetary support and medium-term financial assistance were more than doubled, in order to give a credible guarantee of the stability of exchange rates as regards the foreign exchange markets; neither of the two instruments has been used so far, which therefore leaves a borrowing margin available;

- in order to maintain the high credit standing with regard to its various borrowing instruments, the Community must give an example of a disciplined, not a permissive policy;

- it must be demonstrated both internally and internationally that the first priority is the most rapid adjustment possible to the changed conditions of the world economy;

- the Community should not compete too hard for OPEC funds with other methods of recycling of special importance throughout the world, e.g. direct channelling to the developing countries, making funds available for the IMF and the World Bank, etc.

5.4.3. The members of the Committee who support the first set of arguments (5.4.1.) consider that it would justify a ceiling of between 10 and 15 billion ECU. The members of the Committee who support the second set of arguments (5.4.2.) consider that it would justify a ceiling of between 4 and 5 billion ECU. Some members however could sympathise with some of the arguments presented in 5.4.1. and some of the arguments presented in 5.4.2. They therefore felt that a compromise should be found between the two ranges indicated above.

In all cases, the Committee members based their assessments on the assumption that the proposals advanced in paragraphs 5.1, 5.2 and 5.3 are adopted.

.../...

5.4.4. Several members pointed out that fixing a ceiling is essential only if it were decided to maintain the counter-guarantee system subscribed by Member States. In fact, the Council is called upon to decide, in each particular case, the amount of the borrowing operations authorised and therefore remains master of the overall volume of such loans. One could therefore refrain from preventively fixing the ceiling for such operations and assess the size of the envisaged loans each time the activation of the mechanism is requested.

5.4.5. As a formation of independent experts, the Committee has the general feeling that a compromise around 7 billion ECU would have some chance of being a point of equilibrium and would not pose particular financial or technical problems (1).

II. OTHER ASPECTS OF RECYCLING

These other aspects cover points 1 (international organisations), 3 (recycling for the benefit of non-member countries), 5 (co-financing) and 6 (costs and risks) on the list drawn up by the Council. The Committee's work on these points is a follow-up to the Opinion of 4 June : it continues the analysis and defines certain solutions.

6. Costs and risks

The Committee started by drawing a distinction between the "recycling" aspect and the "aid" aspect of the problem of assistance to the developing countries, in order to deal only with recycling proper : it is nevertheless aware not only of the need to increase development aid so as to enable the poorest countries to overcome their difficulties, but also of the fact that intervention by public bodies in the recycling process would entail shouldering part of the risks and costs - transformation costs, possibly exchange risks and default risks.

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(1) The alternate members of two countries preferred not to take a position on this point.

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7. The Community and the international institutions

In its Opinion of 4 June, the Committee considered that the Bretton Woods institutions have an essential role to play and called on the Community to play an active and unified role within these institutions, and to support new initiatives aimed at improving and expanding that role. The Community should in particular support the proposals for the IMF to borrow directly from surplus countries, for better coordination between the IMF, the IBRD and regional financial organisations, and for the development of consortium-type operations and structural adjustment loans. The Community should endeavour to coordinate its interventions in the fora in which international monetary questions are discussed, not only in the Bretton Woods institutions but also - in the present context of global negotiations - in organisations such as the United Nations. This means defining a common position in advance, or, at the very least, co-ordinating more closely the positions upheld by the Member States' representatives in these institutions. The Monetary Committee could be invited to intensify its action in this field.

8. Third country financing

8.1. For geographic and political reasons, non-member countries have different relations with the Community according to whether they are candidates for accession (or potential candidates), associated countries, ACP countries or other countries. The Committee is aware of the fact that the assessment of the problem can be modulated according to membership to one or other of these groups.

8.2. The general feeling of the Committee is that the formal opening in the Community loan mechanism of a special window for non-member countries is not appropriate at this time. The Community cannot take the place of the IMF, which is equipped to deal with international payments imbalances, has the mechanisms to induce borrowers to adopt the appropriate adjustment policies and where, lastly, the main parties to the recycling process are represented. The Community's role must be to support the efforts of the Fund, and even to supplement its action in certain specific cases by making its own or its members' contribution to solving a particular problem.

.../...

8.3. Although it felt that a window in favour of non-member countries should not be opened when the Community loan mechanism is adjusted, the Committee nevertheless considers that for certain countries and in certain circumstances, the Member States and the Community could take part in joint measures for the benefit of countries in serious payments difficulties. This has happened in the past and it should not be ruled out that it might happen in the future. By way of example, these measures have taken various forms in the past : rescheduling of the external debt, granting of guarantees, action on export credits, accelerating the implementation of financial protocols, etc. The countries particularly concerned are those which, because of their geographical proximity or their political and commercial links, maintain close relations with the Community. The Committee considers that when such actions are undertaken, it would be advisable for the member countries to confer together at Community level and even, if necessary, for the Community as such to participate. It also felt that, despite the special nature of these measures, their design and implementation must follow a number of guiding principles. Thought must be given to these guiding principles within the Community - a task which the Committee could assume. Thus, not only could these ad hoc measures be made more effective, but also the functioning of the normal financing instruments need not to be distorted by the pressure of events.

9. Co-financing and triangular operations

9.1. The Community can make a third contribution to strengthening the recycling for the benefit of both its members and non-member countries by continuing and expanding the co-financing and triangular financing operations in which certain Community institutions are already involved.

9.2. The EIB is already carrying out loan operations for the benefit of non-member countries and its borrowing operations on markets outside the Community draw partly on the savings of the oil-producing countries. It also contributes to the recycling process, as does the EDF, by associating oil capital in co-financing operations. Thus, under the first Lomé Convention, the EDF and the EIB contributed 17 % and Arab funds 19 % to financing a group of co-financed projects totalling 3.2 billion EUA. Co-financing operations have also been carried out under association agreements, with the Mediterranean countries and in connection with aid to non-associated developing countries.

.../...

9.3. In the future, these operations are likely to develop and multiply, both under the new Lomé Convention (five articles of which are exclusively devoted to co-financing arrangements) and under the new financial protocols in preparation. The past and future development of these operations is largely due to the attraction for the holders of large funds of the Community's activity in the field of project financing, because of the experience it has acquired, the tested procedures at its command, and the administrative technical and financial aid it can grant. The Committee is aware of the importance of the Community institutions' efforts to develop this type of operations. It feels that in this area it is desirable for co-operation with the surplus oil countries and their institutions to be increased in the most appropriate forms by the authorities responsible for the various financial instruments.

10. Characteristics of financial assets

An essential aspect of the problem is that of defining the characteristics of the financial assets which best meet the requirements of recycling : on the one hand, every effort should be made, in the interest of deficit countries, to obtain as favourable conditions as possible; on the other, attention must be given to offering surplus countries assets which are sufficiently attractive. The examination and testing of the appropriate formulae in this area is being actively pursued in numerous national and international quarters, both official and private. The Monetary Committee considers that, given both the trade links between oil producers and member countries and the relations uniting the latter within the European Monetary System, the Community should actively participate in this research and seize on the occasions which arise to adopt a common attitude and to promote the most effective financial innovations possible. The examination of the characteristics of the financial assets which best meet the requirements of recycling should continue and involve a detailed discussion on subjects such as the choice of the duration of the securities, formulae for borrowing at variable rates, the distribution of exchange risk. As to the utilisation of the ECU, the Committee recently adopted an opinion which is annexed to the present report.

* * *

UROPEAN COMMUNITIES

Monetary Committee

ANNEX

2B

Brussels, 8 September 1980

II/397/80-EN

OPINION ON THE USE OF THE ECU AS DENOMINATOR FOR LOANS BY THE COMMUNITY

The way in which the ECU is used and develops is of great importance for the future of the European Monetary System and its institutions, which the Committee is now studying at the request of the Council. The use of the ECU could also be relevant to recycling, which is the subject of a further remit by the Council to the Committee.

As suggestions have been put forward in various Community bodies that the ECU be used as denominator for loans floated by the Community institutions, the Committee would point out that in its opinion the following considerations should be taken into account :

1. In order to acquire sufficient experience with ECU-denominated issues, their continuity must be ensured. For market reasons, it is therefore necessary that such issues be repeated. An experimental isolated issue is of no interest in itself.
2. For reasons of consistency, care must be taken to see that the solutions devised for the technical problems arising in defining the characteristics of an issue are closely co-ordinated and are homogeneous between the various Community issuers.
3. The Community's excellent credit standing and the quality of the ECU in relation to other numeraires offer the prospect of ECU-denominated issues being made on good terms. When a reasonably broad market in such issues had developed they might, if conditions are right, be made at a somewhat more favourable interest rate than the weighted average of the interest rates attaching to loans denominated in the currencies of Member States. In the initial stages however the narrowness of the market may prevent this.

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EUROPEAN COMMUNITIES
THE COUNCIL

Brussels, 14 October 1980
(17.10)

10311/80

RESTREINT

CCG 49

INTRODUCTORY NOTE

from: General Secretariat
to : Council of European Communities
on : 20 October 1980

No. prev. doc. 10212/80 CCG 47 No. Cion prop. 8608/80
CCG 31
COM(80)
330 final

Subject: Export credits
- Amendment of the Arrangement on Guidelines

1. On 6 May 1980 the Council adopted, on behalf of the Community, a negotiating brief covering a series of desirable amendments to the Arrangement on Officially Supported Export Credits (4793/1/80 CCG 10 REV).

2. At their meeting from 12 to 14 May 1980 the Participants in the Arrangement agreed to:

- increase, with effect from 1 July 1980, the minimum interest rates used in the matrix contained in the Arrangement (1);

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(1) Council Decision of 27 June 1980 (8007/1/80 CCG 30 REV)

.../...

- reach a mutually acceptable solution by 1 December 1980 for pursuing the review of the Arrangement. This point was also referred to in the communiqué issued following the OECD Council meeting at Ministerial level (Paris, 3 and 4 June 1980) and, subsequently, in the Declaration made on the occasion of the Venice Summit (23 June 1980). The relevant passages of these two texts are set out in the Annex to the present note.

3. One of the problems relating to the amendment of the Arrangement in general is that of a possible revision of the mechanism for adjusting minimum interest rates, further to the view of certain Participants that the present adjustment scheme (case by case after negotiations between the Participants in the Arrangement) seemed inadequate and that the minimum rates should be closer to the market interest rates.

On this point, the Participants have been issued with the report drawn up at their request by Mr Wallen (Swedish delegation), which postulates two alternative automatic rate adjustment schemes:

- rate system differentiated by currency ("formula 1")

(a uniform, but moving, matrix for all currencies, whereby adjustments are function of certain parameters ("formula 2").

4. After studying the report, the Commission on 17 June 1980 placed a Recommendation for a Decision before the Council.

The purpose of this Recommendation is to supplement the negotiating brief attached to the aforementioned Decision of 6 May 1980. Thus it proposes that the Community's negotiating position on the problem referred to in point 3 above be based on "formula 2" (8068/80 CCG 31).

.../...

5. The work carried out to date on this subject within the Council has not yet made it possible to formulate a common EEC position.

In particular, it has proved impossible to take action on the conclusion reached by the Council at its meeting on 15 and 16 September 1980, when it invited the Permanent Representatives Committee, in collaboration with the Commission to try its utmost to find by 1 October 1980 - starting date of a further meeting of the Participants - a solution that would enable the Community to present a common position.

6. The differences of opinion between delegations may be summarized as follows:

A. seven delegations (B, DK, I, IRL, L, NL, UK) agreed to the Commission Recommendation formula 2, on the understanding that the arrangements for applying it would have to be specified.

Most of these delegations maintained that the present system of a fixed matrix - which could only be re-adjusted as a result of fresh negotiations - was too rigid and that formula 2 might represent a way of preserving the Arrangement on Guidelines, and moreover a less complex and more practical way than formula 1.

The Netherlands delegation however said that, in its view, this should be a provisional solution within the framework of the Arrangement and that more detailed studies should be conducted in order to advance towards the formula 1, which it felt was the best means of resolving the basic problems.

.../...

B. One delegation (D) favoured formula 1, which provided for rates to be differentiated according to currencies, since in its view this was, as had been noted in Mr Wallen's report, the only adequate and fair solution to the problems of distortion of competition and was therefore more in tune with the objectives of the EEC Treaty.

However, this delegation did not rule out the possibility, if all delegations agreed in the Council, that it might be able to accept formula 2 as a basis for negotiation provisionally while studies continued on ways and means of putting formula 1 into practice.

C. One delegation (F) found both alternatives in Mr Wallen's report unacceptable in view of the automatic way they would work. It thought rates should be adjusted, where necessary, by negotiations between the Arrangement Participants.

It argued in particular that to adope one or other of the alternatives would be tantamount to adjusting to a situation of monetary disorder, that frequent changes in interest rates would make transactions much more difficult for sellers and for buyers, and finally that the criteria taken as a basis for automatic adjustments of rates did not constitute sufficiently clear and precise reference points.

7. The above situation prevented the Community from adopting a substantive position at the meeting of the Participants in the Arrangement held from 1 to 3 October 1980.

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8. Following this further meeting of the Participants, the Permanent Representatives Committee held another discussion, during which it was found that the differences summarized in point 6 had remained.

Concluding its discussion, the Committee agreed to refer the matter to the Council. The main question was whether it was possible to decide on a common position in favour of adopting, in line with the Commission's Recommendation for a Decision, formula 2 as contained in Mr Wallen's report (1) or an alternative formula.

9. The Committee also emphasized that the Council should be made aware of the urgency of the above question.

It pointed out that, at the close of the Participant's recent meeting, the Chairman had:

- said that he was waiting for a position to be adopted by the EEC;
- remarked that once that position was known, he would go ahead with bilateral contacts as well as some other consultations (which are in fact planned from the end of October);
- fixed the next plenary meeting of Participants in the Arrangement for 19, 20 and 21 November 1980 in Paris.

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(1) On this point, the Committee noted that the Italian delegation was suggesting certain technical arrangements for a gradual transition from the present matrix system to the formula 2 system.

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10. Finally, the Council's attention is drawn to a second unresolved problem concerning the possible amendment of the Arrangement on guidelines, namely the amendment of the procedures currently prescribed by the Arrangement for tied aid credits with a grant element of less than 25% (1)

There is no formal proposal on this point. However, it has already been discussed several times:

- within the Community, where eight delegations are in favour of the amendment, while the French delegation cannot support them;
- at meetings of the Participants, most recently at the meeting in October 1980 when all Participants, except the Community which could not adopt a position, highlighted the importance they attached to the amendment.

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(1) The amendment involves mainly:
- in the case of credits with a grant element of less than 15%, change from the present system of prior notification without discussion to prior notification with discussion;
- in the case of credits with a grant element of 15% or more but less than 25%, change from the present system of immediate notification to prior notification without discussion.

ANNEX

I. EXTRACT FROM THE COMMUNIQUE ISSUED FOLLOWING THE OECD COUNCIL MEETING AT MINISTERIAL LEVEL (Paris, 3 and 4 June 1980)

"21. Ministers, having in mind their common aim to expand world trade, gave their full support to the efforts under way to adapt the terms of the Arrangement on Export Credits to bring them closer to current market conditions and reduce distortions in export competition, recognizing the differentiated treatment of developing countries in the Arrangement. They welcomed the immediate measure recently taken in the field of interest rates and encouraged the Participants in the Arrangement to pursue their efforts, as it was agreed among them, with a view to reaching a mutually acceptable solution by 1 December 1980".

II. EXTRACT FROM THE VENICE SUMMIT DECLARATION (22 and 23 June 1980)([1])

"32. We reaffirm our determination to avoid a harmful export credit race. To this end we shall work with the other participants to strengthen the International Arrangement on Export Credits with a view to reaching a mutually acceptable solution covering all aspects of the Arrangement by 1 December 1980. In particular, we shall seek to bring its terms closer to current market conditions and reduce distortions in export competition, recognising the differentiated treatment of developing countries in the Arrangement."

([1]) Translation made by the Council Secretariat from the French communiqué

16/10/80. 7

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NEW COMMUNITY INSTRUMENT : DECISION ON THE REMAINING 100 MEUA OF THE SECOND TRANCHE.

The Council considered in July the Commission proposal for a second tranche of the Ortoli facility (the alternative name for the New Community Instrument). The Council were unable to reach an agreement on the proposal to extend the definition of infrastructure to cover loans for housing and advanced factories, and decided to return to this question in October, meanwhile releasing 400 meua out of the 500 meua for the proposed second tranche on the same terms as the first tranche - excluding housing and advance factories. The telegram reporting this discussion is attached.

2. Since July, nothing has happened, which, objectively considered, seems likely to alter the position of any member state on this question. The Commission have however produced a compromise (also attached) which suggests that housing and advanced factories would be eligible for an Ortoli facility loan only where the projects would be of such a nature as to be eligible for an EIB loan.

UK Interest

3. From the point of view of the Ortoli facility itself, we have no direct interest in the coverage of the loans, as we are not large borrowers. We had earlier briefed the Chancellor to support the extended definition of infrastructure because we feared that a decision against it by the Council might prejudice our chances of having housing in particular accepted for a refund under the article 235 regulation implementing the 30 May agreement. Now that this regulation is to all intents and purposes agreed, this argument does not apply with the same force. Nevertheless, the Italians have supported the Commission proposals strongly (they have a direct interest in maximising their borrowings under the Ortoli facility, on which the receive their interest rate subsidies), and it would seem impolitic to abandon our support for their position too quickly. Secondly, there is a valid argument that housing and advanced factories are as much a part of infrastructure as telecommunications and water supply works (two of the categories covered by the existing definition). We suspect that the Commission compromise would be unduly restrictive, because in practice the EIB does very little lending on housing and

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in advance factories. There is also the point that if the criteria for the Ortoli facility are to be modeled so closely on the criteria for the EIB, why have a separate Ortoli facility?

4. We would therefore recommend the Chancellor to continue to support the Commission proposal in its original form for at least as long as the Italians do.

Line to Take

5. Consider that the remaining 100 meua of the second tranche should be released on the terms originally proposed by the Commission. Housing and advanced factories seem to us to be as much a part of infrastructure as telecommunications and water supply works.

6. [Not attracted by the Commission compromise. Suspect in practice it would be rather restrictive, and it seems a pity to deny the Ortoli facility a separate character from EIB funds.]

7. /If the Italians abandon their support for the Commission proposal/ Would be prepared to fall in with the majority of the Council in the interest of settling this issue. Nevertheless, believe that neither housing nor advanced factories are inappropriate for Community finance, and would like that view recorded in the Council minutes.

C J BAKER
16 October 1980

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CONNEXION AVEC ORDINATEUR.

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BRUXELLES LE 16/10/80 17H 57M 54S

041/886645 BMF D - MR. LAHNSTEIN - BONN - GERMANY

041/414431 BBKF D - MR. GLESKE - FRANKFURT - GERMANY

055/16833 ECOSEC DK - MR. USSINC - COPENHAGEN - DENMARK

55/15427 NSKID DK - MR. ANDERSEN - COPENHAGEN - DENMARK

0500/30357 GEEC EI - MR. HORGAN - DUBLIN - IRELAND

0500/31041 CEBK EI - MR. O'GRADY WALSHE - DUBLIN - IRELAND

043/610021 BANKIT - MR. DINI - ROME - ITALY

044/33141 MIFI NL - MR. WELLINK - 'S-GRAVENHAGE - NETHERLANDS
044/11355 DNBAM NL - MR. SZASZ - AMSTERDAM - NETHERLANDS

051/262405 TREASURY LDN - SIR KENNETH COUZENS - LONDON - U.K.

051/885001 BKEN - MR. BALFOUR - LONDON - U.K.

ON TERMINATION OF THE WRITTEN PROCEDURE, PLEASE FIND BELOW THE FINAL VERSION OF THE ANNEX ON THE LEGAL IMPLICATIONS OF ADJUSTING THE COMMUNITY LOAN MECHANISM, TO BE ATTACHED TO BHE MONETARY COMMITTEE'S REPORT ON RECYCLING.

1. WHILE IT DOES NOT CONSIDER ITSELF QUALIFIED TO DECIDE ON THE QUESTIONS OF LEGISLATIVE, BUDGETARY AND ACCOUNTING PROCEDURES IMPLIED BY ADJUSTMENTS TO THE COMMUNITY LOAN MECHANISM, THE MONETARY COMMITTEE DRAWS ATTENTION TO CERTAIN CONSEQUENCES OF THE CHANGES IT PROPOSES.

2. IT IS UNDERSTOOD THAT IT IS FOR THE COUNCIL, ACTING UNANIMOUSLY, TO DETERMINE THE ADJUSTMENTS TO THE MECHANISM AT PRESENT IN FORCE BY A REGULATION ADOPTED ON THE BASIS OF ARTICLE 235 OF THE TREATY., HOWEVER, THE QUESTION OF WHETHER THE MEMBER STATES SHOULD MAKE THEIR AGREEMENT SUBJECT TO A NATIONAL PARLIAMENTARY PROCEDURE HAS NOT BEEN SETTLED. THREE ARGUMENTS HAVE BEEN PUT FORWARD :

- SEVERAL MEMBERS FELT THAT A NATIONAL PARLIAMENTARY PROCEDURE IS NOT REQUIRED WHEN THE COUNCIL ADOPTS A DECISION UNDER TICLE 235. THE REGULATION ADJUSTING THE LOAN MECHANISM WOULD THEREFORE BE IMMEDIATELY APPLICABLE EVEN IF THE PRESENT DUAL-GUARANTEE SYSTEM WERE MAINTAINED, AND ALL THE MORE SO IF IT WERE ABOLISHED.

- OTHER MEMBERS FELT THAT IF THE MEMBER STATES MAINTAINED THE COUNTER-GUARANTEE SYSTEM, ANY CHANGE MADE TO THE COMMUNITY LOAN MECHANISM WOULD BE SUBJECT TO A NATIONAL PARLIAMENTARY PROCEDURE. THIS REQUIREMENT WOULD DISAPPEAR IF THE DUAL GUARANTEE WERE ABOLISHED.

- SOME MEMBERS FELT THAT A NATIONAL PARLIAMENTARY PROCEDURE WAS NECESSARY IN ORDER TO ADOPT THE CHANGES MADE TO THE EXISTING MECHANISM EVEN IF THE SYSTEM OF COUNTER-GUARANTEES BY THE MEMBER STATES WERE ABOLISHED.

3. THE COMMITTEE FEELS THAT, WHATEVER THE GUARANTEE SYSTEM ADOPTED, THE CONTRACTUAL OBLIGATION FOR SERVICING THE DEBT DEVOLVES ON THE COMMUNITY, AS THE INSTITUTION ISSUING THE LOANS.

UNDER THE PRESENT DUAL-GUARANTEE MECHANISM, THE COMMUNITY BUDGET MUST, IN THE EVENT OF THE DEBTOR MEMBER STATE FINDING IT IMPOSSIBLE TO MEET ITS COMMITMENTS, ASSURE THE PAYMENTS ATTACHING TO THE LOANS OUT OF ITS CASH FUNDS, UNTIL THE REFINANCING MECHANISM IS ACTIVATED. THE OTHER MEMBER STATES ACQUIRE A CLAIM ON THE COMMUNITY, AND THIS CLAIM IS EXTINGUISHED AT THE LATEST WHEN THE BORROWING MEMBER STATE HAS RETURNED TO SOLVENCY AND CAN REPAY THE INSTALMENTS DUE.

IF THE COUNTER-GUARANTEE MECHANISM WERE ABOLISHED, THE COMMUNITY - STILL IN THE EVENT OF IMPOSSIBILITY OF THE DEBTOR MEMBER STATE TO MEET ITS COMMITMENTS - WOULD TAKE RESPONSIBILITY FOR SERVICING THE DEBT IN ACCORDANCE WITH NORMAL BUDGETARY PROCEDURES (EG. SUPPLEMENTARY OR AMENDING BUDGET).

IRRESPECTIVE OF THE GUARANTEE SYSTEM ADOPTED, SINCE THE GUARANTEE IS REPRESENTED BY A TOKEN ENTRY, THE CORRESPONDING LIABILITIES ARE NOT TAKEN INTO ACCOUNT IN FIXING THE VOLUME OF EXPENDITURE OF THE COMMUNITY BUDGET AND IN APPLYING THE OWN RESOURCES CEILING IMPOSED BY THE LIMIT OF 1-0/0 OF THE VAT RATE.
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ENERGY AND ECONOMIC POLICY
A COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

Expected treatment at Council

The general feeling expressed by delegations at the Co-ordinating Group Meeting on 13 October was that there has been insufficient time to consider in any detail the full implications of the Commission's paper which has only been available in anything like its present form since the first week in October. We understand that at the Council meeting the Commission will therefore simply introduce the paper and invite delegations to comment if they so wish. Delegations may be expected to have a view on where the paper should be remitted for further study. The Council should not be invited to endorse the paper or its conclusions.

IV 9

Brief synopsis

The purpose of the Commission's paper is to examine the links between energy problems and economic policy, and in particular how instruments of economic policy (especially taxation) could be applied to help reduce the Community's energy demand and to diversify sources of supply. The paper considers the international dimension to the problem, including the difficulties raised by balance of payment deficits and its central thesis is for a policy based on energy pricing and investment. The Commission point to the importance of giving consumers the correct signals about the future trend of energy prices and emphasises the central and potential role of energy taxation. On energy investment the paper argues strongly for adequate investment particularly in energy savings, nuclear electricity and coal. The paper concludes by inviting the Council to approve the guidelines it sets out, to convene meetings of the Finance Council annually "with appropriate representation" (in earlier working drafts joint meetings with the Energy Council) to assess the adequacy of Member States energy programmes and to note that on these occasions the Commission will report on the possible contribution of Community resources to global investment.

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Line to take

(a) Procedural - You should oppose any (unexpected) attempt to endorse the document or to adopt the guidelines in it or its conclusions. There has been insufficient time to give the paper adequate consideration. You should therefore agree to the expected proposal for remission to officials for further study. Since the paper straddles economic and energy policies, it is unlikely that it can be adequately considered either solely by economic or by energy working groups. You will wish to ensure that fiscal matters at least remain within the Treasury Economic net.

(b) Content - There is no need to comment on the paper if it is being dismissed with only token discussion. If comment seems tactically advantageous, you might make the following (mostly instructive) points:

We can welcome the EC support for the recycling role of the IMF and World Bank and the suggestion for improving the Community Loan Mechanism.

We also consider the paper is right to emphasise the importance of the pricing mechanism in reducing energy demand; - indeed the UK is under some attack domestically for allegedly having higher energy prices in some areas than our EC partners. We can express some sympathy for looking at a common approach to the principles of energy pricing although actual prices may vary for sound economic reasons.

We can agree that taxation has a role to play in energy policy by reinforcing the price signals given by the market and on the need to keep the level of tax on petroleum products under regular review. But equally national Governments must maintain their freedom of action on fiscal measures whose levels cannot be established on energy policy grounds alone.

On energy investment the Commission is already discussing with Member States whether there is a need for Community support and the role the Community might play. We clearly need to await the outcome of these discussions before coming to any conclusions. The idea of a regular (annual) report to be taken at the proposed annual Finance Councils for considering Member States' energy programmes is an interesting one, but Member States will wish to consider with the Commission whether such a formalised system is in fact necessary.

Attached as an Annex to these notes are some detailed comments on the points raised in the Commission's paper.

PE1 Division
16 October 1980

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ANNEX

ENERGY AND ECONOMIC POLICY

Below are some more specific points on the Commission's paper:

The International Dimension of the Problem

Insufficient information is given here for us to immediately verify the three "Community objectives". As far as the suggestion for concerted consumer action is concerned, we can agree with the principle and the UK is working in the IEA and EC to achieve this. But equally we would wish to avoid any "confrontation" with OPEC which might provoke retaliation.

Balance of Payments Financing

We welcome the EC support for the recycling role of the IMF and World Bank. At their recent annual meetings it was agreed that access to the IMF should be increased to 600% of quota over three years to be financed by the Seventh Quota increase (now in process of ratification), by direct borrowing from members and if necessary from the market.

The Finance Council will also have before it the Monetary Committee's report on recycling and the issues referred to in paragraph 8 of the paper are dealt with in the brief provided for that item. You will wish to note that we are in favour of improving the Community Loan Mechanism as suggested in sub-paragraph (a), but are cautious about the Community issuing ECU denominated loans as suggested in sub-paragraph (b).

Reducing Dependence on Improved Energy and Diversifying Sources of Supply

A. The role of prices - We are fully in accord with our partners in regarding economic pricing as the cornerstone of achieving successful adjustment to the changed circumstances of the energy market. But the Commission never coherently identify a principle to govern pricing policy. Indeed there is more than a hint

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that they think prices should be shaded up and other energy prices shaded down as compared with economic levels, to encourage diversification. UK policy is that energy prices should be set at levels aimed to cover the long term costs of supply.

A "guiding principle" that there should be no decrease in the real price of petroleum products to the fuel consumer is proposed in the final sentence of paragraph 12. We could agree that the nominal price of petroleum products seems unlikely to fall, but UK petroleum product prices are market determined and there are no price control mechanisms to adjust prices (other than by taxation) if market pressures result in a falling real price. The principle has interventionist implications.

B. Planning of investments - The May Energy Council invited the Commission to assess whether there was a need for Community support for energy investment and to report back. The Commission's work is still awaited. It would therefore be premature to discuss or take decisions on the Community's possible future role in energy investment until we have seen the outcome of the Commission's work.

Our record on investment in substituting for oil is good. On coal we are the largest Community producer and have the largest use in power stations. The Government's nuclear programme also represents a major investment commitment.

16/10/80. 40 10

FINANCE COUNCIL MEETING, OCTOBER 20TH 1980

"Global Negotiations" at the United Nations

Recommendation

It would be very helpful if the Chancellor could find an opportunity to confirm with Herr Matthöfer the importance of maintaining common cause with the US Government concerning the safeguard of the independence of the IMF and IBRD in these proposed negotiations.

Background

2. A month ago, after two weeks of argument , the UN General Assembly in Special Session failed to agree on a definition of the objectives and procedures for the proposed Global Negotiations on world economic issues. The breakdown arose because of the G77's insistence that (i) the UN should be formally responsible for "conducting" negotiations and thus, for example, for "entrusting" work on monetary issues to the IMF; (ii) the UN should "reach a package agreement" at the culmination of the negotiations; and (iii) the proceedings throughout should be subject to majority voting, except in the case of "important matters", when a consensus (unanimity)would be required.

ADDITIONAL BRIEFING 9

3. President Carter decided to reject these terms because (i) they would confer an unacceptable measure of authority on the UN over the business of the Fund and Bank, and (ii) that the "consensus rule" would in practice be an inadequate safeguard against mounting political pressures in the UN as the negotiations proceeded. In brief, he concluded that the procedure proposed would involve a serious threat to the autonomy of the Fund and Bank.

4. His position was supported both by HMG and by the FRG, but by no other industrialised countries, either within the EC or outside it. The G77 attempted to pass over the result last month as a "consensus" decision with three dissentient voices.(This in itself was a vindication of apprehensions about the way in which "consensus" would be construed).

5. Over the last month the US authorities have clearly confirmed their views to ourselves and to the Germans. As to the latter, Herr Genscher told Lord Carrington on the 25th September that he thought the US/UK/FRG tactics had been mistaken, and that he hoped to secure changes in the German position after the elections. On the other hand, State Secretary Lahnstein of the Federal Finance Ministry has recently reassured Treasury officials that he is confident that the Germans'stance will be maintained.

Prospects

6. Discussion in New York will probably be resumed in the General Assembly on or after November 17th. Its character will be affected by the outcome of the US Presidential Election. If Governor Reagan is elected, the G77 are likely to acquiesce in a postponement of/the issue until some time in early 1981. If President Carter is re-elected, informal discussions are likely to start up again early next month. In that event we cannot exclude the possibility ~~of~~ that the US position might vacillate somewhat unpredictably (as it has done in thepast). This makes it all the more important that the Anglo-German entente on this issue be preserved and strengthened. We intend to take every opportunity of so doing. Lord Carrington will be briefed in the same sense for the EC Foreign Ministers' informal meeting on 25/26 October, and for the Political Co-operation Meeting on 4th November.

7. Our view is that it would be premature and undesirable for HMG or for the FRG to consider, at this stage, possible amendments to the draft which was rejected on September 15th; it would be for the US themselves, we believe, to suggest a formula in the first place (they are engaged in informal talks with the G77).

AEF2 Divn.
16 Oct 1980

Addressed to:Mr.C.J.Baker(for Briefing for Council Meeting)

(Circulation - P.T.O.)

AIDE MEMOIRE ON THE UK ECONOMY 16 October 1980

PRESENT SITUATION

GDP average estimate fell by almost 2 per cent in Q2 1980, and in H1 1980 was 1 per cent below its average level throughout 1979. Industrial output in the eight months to August 1980 was 4¾ per cent lower, and manufacturing output 6½ per cent lower than the average levels throughout 1979.

Consumers' expenditure fell by 2½ per cent in Q2 1980 to the overall level in H2 1979. Retail sales in the 3 months to August 1980 were 1 per cent below the level of the previous 3 months. The volume of exports (less erratics) fell 5¼ per cent in August: the trend in the second half of 1979 and the first half of 1980 had been flat. The volume of imports (less erratics) fell 8¼ per cent in August: the trend since the beginning of 1980 has been downwards. Manufacturing investment in H1 1980 is estimated to have fallen 5 per cent. Distributive and service industry investment (excl. shipping) rose 2 per cent in H1 1980. DI investment intentions survey (conducted in April and May) suggests fall of 8-12 per cent in manufacturing investment in 1980 and a similar fall in 1981; distributive and service industries (excluding shipping) investment expected to increase not more than 5 per cent in 1980. Manufacturing, wholesaling and retailing stocks fell substantially in H1 1980.

Unemployment (UK, seasonally adjusted excluding school-leavers) was 1,784,000 (7.4 per cent) at September count, up 88,000 on August. Vacancies fell for 15th month running to 113,000.

Wholesale input prices (fuel and materials) rose 17¼ per cent and wholesale output prices ("factory gate") rose 14¾ per cent in the year to September. The year on year RPI increase stood at 16.3 per cent in August compared with 16.9 per cent in July and 21.0 per cent in June. Average earnings in August were 21.6 per cent higher than a year earlier compared with 18.9 per cent in July (however the latter figure was biased downwards due to special factors). RPDI was little changed in Q2 1980. The average level in H1 1980 was 1½ per cent higher than the average level throughout 1979.

ADDITIONAL BRIEFING b

PSBR was £4.47m (seasonally adjusted) in the first quarter of 1980-81. CGBR was £7.77 billion in the first half of 1980-81 (not seasonally adjusted). The CGBR is usually high in the first part of the financial year but this trend is more pronounced than usual in 1980.

In banking September sterling M3 increased by £390m (0.6 per cent). MLR reduced to 16 per cent on 3 July.

Visible trade surplus of £693m in Q3 1980 followed a total deficit of £933m in the two preceding quarters. Estimated current account surplus of £688 in the 9 months to September. Reserves at end-September $27.64 billion. The exchange rate was $2.4075 on 15 October (having reached $2.4200 on 4 September); the effective rate was 76.6.

NB. September figures for the RPI and retail sales are due to be published on the 17 and 20 October respectively.

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EUROPEAN COMMUNITIES
THE COUNCIL

Brussels, 16 October 1980
(17.10)

10450/80

R/LIMITE

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TRANSLATION OF LETTER

from : Mr Jean-Yves HABERER, Chairman of the Monetary Committee

dated: 16 October 1980

to : Mr Gaston THORN, President of the Council of the European Communities

Subject: Report to the Council and the Commission on recycling

Sir,

Please find enclosed a report to the Council and the Commission on recycling, adopted by the Monetary Committee on 10 October 1980.

(Complimentary close).

(s.) J-Y. HABERER

Encl.: II/472/80 - EN (final)

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(1) The General Secretariat of the Council received this document in English, French and German only.

EUROPEAN COMMUNITIES

Monetary Committee

Brussels, 10 October 1980

II/472/80 - EN final

DIFFUSION TRES RESTREINTE

REPORT TO THE COUNCIL AND THE COMMISSION ON RECYCLING

Contents

INTRODUCTION

The Committee's Opinion on issues raised by the recycling process (doc. II/267/80 dated 4 June 1980) was referred to the Council meeting on 9 June 1980; the Council then called upon the Committee to examine the following points in greater depth :

1. the Community's role in the recycling process in the framework of the international organisations;
2. the Community loan mechanism and the other Community instruments for recycling in favour of the member countries of the Community;
3. the instruments for recycling in favour of third countries (e.g. the possibility of opening a window for third countries in the Community loan mechanism);
4. the link between adjustment and financing, problems of surveillance and "early conditionality";
5. co-financing and triangular operations;
6. costs and risks (guarantees, transformation, etc.), resources available and tentative quantification of possible actions.

Part I of this Report examines the Community's role in recycling in favour of member countries, through an adjustment of the Community loan mechanism, and the related questions of conditionality, surveillance and the mix between adjustment and financing; the other points of the Council's mandate, including the aspects of recycling to non-member countries, are examined in Part II. The Committee has furthermore delivered a separate Opinion on another issue relevant to recycling, i.e. the use of the ECU as a denominator for loans floated by the Community institutions (doc. II/397/80 dated 8 September 1980 - in Annex).

The Committee would point out that the present Report should be seen as complementary to its Opinion of 4 June 1980, in which the issues raised by the recycling process were examined in their general terms and in a broader context. In particular, the Opinion defined recycling as "a process by which the surpluses run by certain countries - in this case the oil-producing countries - are made available to countries in balance of payments deficit.

This process is based to a large extent on international financial intermediation, both public and private, which makes possible a certain transformation between the forms of investment offered to the surplus countries and the financing terms offered to the deficit countries". Furthermore, the Opinion stressed that "the bulk of the recycling activity will continue to be carried out by the international financial markets and the commercial banks ... supplemented by an expanded activity of the international organisations, and primarily of the International Monetary Fund, the World Bank and the regional development banks". The Community as an entity must on the one hand support the efforts made in this wider international context, and on the other has a particular role of its own to play in the context of the present payments imbalances.

I. ADJUSTING THE COMMUNITY LOAN MECHANISM

The Committee has devoted itself to examining how the Community loan mechanism set up in 1975 should be adapted to the requirements of the new structure of external payments disequilibria, the aim being to improve its effectiveness and enable the Community to contribute to the harmonious development of the recycling process. In this part of the Report the Committee studies the problems connected with the financing of the deficits of Member States.

1. Aim, duration and ranking of the mechanism

1.1. According to Article 1 of Regulation (EEC) N° 397/75 which set up the mechanism, "the Community may undertake a series of operations to raise funds, either directly from third countries and financial institutions, or on the capital markets, with the sole aim of re-lending those funds to one or more Member States in balance of payments difficulties caused by the increase in prices of petroleum products".

The Committee feels that the wording of this Article should be clarified. It accepts the notion of "sole aim" if it is understood that its intention is merely that of ensuring that the Community borrows solely in order to re-lend to one or more Member States. As regards the cause of the balance of payments difficulties, the Committee is of the opinion that the relevant phrase should read as follows : "balance of payments difficulties directly or indirectly related to an increase in prices of petroleum products".

.../...

1.2. As regards the duration of the mechanism, which was not specified in the 1975 Regulation, the Committee feels that the Council should in five years' time, on the basis of a report from the Commission, examine whether the Community loan in its principle, its arrangements and its ceiling still meets the needs which led to its creation.

1.3. Since it does not directly involve the commitment of member countries' foreign exchange reserves, this instrument is still, as far as its general design is concerned, well suited to the requirements of recycling. There is however, the question of whether any order of priorities should be assigned to the way in which calls are made on the various resources available to the national authorities to finance an external payments deficit (international capital markets, Community assistance, IMF facilities). The Committee discussed this question and concluded that no a priori position should be taken on the matter, so as to be able to react to circumstances in the best way possible.

The Council Decision of 8 May 1964 on co-operation between Member States in the field of international monetary relations (64/301/EEC) provides that "consultations shall take place within the Monetary Committee in respect of any important decision or position taken by Member States in the field of international monetary relations and concerning in particular : ... recourse by a Member State to resources which can be mobilised within the framework of international agreements". It is in the framework of these consultations that the ranking of calls on the various sources of financing could be examined.

Similarly, the Committee did not consider it useful to attempt to establish priorities in the recourse to the medium-term financial assistance and the Community loans. Cases are possible in which only one of the two could be used, and others in which both could be used simultaneously. In the present situation, with all the Member States running current payments deficits, financing by Community borrowing, in accordance with the needs of recycling, may be the form of Community support which could most easily be mobilised in practice.

2. Techniques

Experience of the past lending operations has shown that the procedure for implementing the mechanism is at times excessively rigid :

.../...

2.1. Raising the loan (article 2 of Regulation (EEC) N° 397/75), after a loan application by a Member State, requires the Council, after consulting the Monetary Committee, to authorise the Commission to negotiate with the lenders; the Monetary Committee must again be consulted after the negotiations, and finally, a further Council decision is required to authorise the borrowing and lending operations involved. Experience has shown this procedure to be lengthy - in the first implementation of the mechanism, approximately one year intervened between the initial request and the funds' disbursement - and too cumbersome, in that it does not always permit the Community to adapt easily to market conditions.

The Committee considers that this procedure should be simplified so as to, if possible, reduce the references to Council to only one : the Council's role could consist in authorising the lending of a specified amount for a specified country (and the corresponding borrowing), and in simultaneously setting the economic policy conditions before the conclusion of the negotiations with the lenders; the ensuing operations would be carried out by the Commission in consultation with the Monetary Committee.

2.2. Experience with loans that have been made under the mechanism has revealed one unsatisfactory feature, namely that a country that had borrowed through the mechanism and was in a position to repay its borrowings ahead of their due date was not able to do so because there was no means whereby the Community itself could prematurely redeem the funds which it had borrowed and on-lent. There is not much sense in setting economic policy conditions for a Member State whose position has already recovered and is ready to repay a loan granted to it. Therefore, whenever a borrowing member so wished and agreed to the terms of the borrowing this would involve, explicit provision should be made for the possibility of early repayment. Allowing advance repayment clearly implies having recourse to the usual borrowing formulae prevalent on the market, which would expressly contain an early redemption clause.

2.3. Instead of giving preference to the issue of bonds as has been the case hitherto, the Commission should dispose of the necessary flexibility in its borrowing operations, both to facilitate the possibility of early repayments discussed above and to make the best of market conditions. It should thus be

.../...

able to have recourse to the other instruments available on the markets and to new instruments such as ECU-denominated loans, and it should explore and develop the possibilities of borrowing directly from surplus countries. In practice, however, variable rate loans should not be given preference over fixed rate borrowing; they should in particular be avoided as far as possible when borrowing directly from surplus countries. At all events, loans denominated or payable in the currency of a Member State should be issued only after the agreement of the competent national authorities. In this context, the provision under Article 2 of Regulation (EEC) N° 397/75, whereby the average period of loans may not be less than five years, should be made more flexible, it being understood that the Community should not engage in maturity transformation. It is therefore suggested that the period of loans should be subject to mutual agreement between borrowing Member States and the Commission, in consultation with the Monetary Committee.

3. Conditionality

3.1. As requested by the Council, the Committee proceeded to define the modalities which might govern the concept of early conditionality mentioned in its Opinion of 4 June 1980. In practice this means that a country may have recourse to the Community loan before serious balance of payments difficulties have arisen,rather than after a situation of manifest crisis. This implies an appropriate concept of conditionality. It is in fact in the Community's interest to promote adjustment in a member country, through the contribution of even a modest financing, before this country reaches a situation of manifest crisis. On the other hand, a country may have an interest in relying on Community conditionality to promote the adoption of an adjustment programme vis-à-vis its own public opinion.

3.2. Graduation of conditionality. Conditionality should aim at restoring a sustainable balance of payments situation and should concern not only the demand side but place greater emphasis on the structural adaptations required in the medium term, particularly as regards energy. This concept of conditionality should at the same time contribute to increased convergence in the Community. Conditionality itself will have to be adapted to the situation of the country seeking a loan, particularly to the sustainabiltiy of the forecast deficits having regard to the country's external indebtedness and to the possibilities of financing these deficits. The more serious the member state's economic situation, the more specific endeavours on the supply side, particularly in the energy field, will have to be supplemented by general adjustment measures on

.../...

the demand side. This may imply setting monetary or fiscal targets. These targets would be set at regular intervals by the Council, acting on a proposal by the Commission and after consulting the Monetary Committee; compliance would be monitored, at regular intervals, jointly by the Commission and the Committee. It may be desirable for the loan to be disbursed in successive instalments, the release of each instalment being subject to compliance with the programme's objectives.

3.3. Council procedures. In practice the situation of a country facing balance of payments difficulties and intending to adopt an adjustment programme and to have recourse to a Community loan would be assessed by the Council on a proposal by the Commission, after the Monetary Committee had been consulted and had made its examination. The Council could grant a Community loan against the country's undertaking to conform to an adjustment programme, whose nature and validity would be the subject of a Monetary Committee opinion. Furthermore, according to the seriousness of the situation, or its development, the country could be asked to respect specific quantified targets.

3.4. Procedures in the Monetary Committee. The Committee feels that a mutual information and monitoring procedure on the balance of payments and external indebtedness positions of all member countries and on the policies pursued in these areas should be established. Essentially this would mean reinforcing and making more systematic the exchange of information which already takes place. Such a procedure falls within the Committee's competence, and the Committee has agreed to establish it as soon as possible.

4. Guarantee

4.1. In the event of default by the final borrower, the guarantee arrangements for the Community's creditors consist in participation by the Member States in accordance with a procedure laid down in Article 6 of Regulation (EEC) 397/75 and in Articles 1 to 9 of Regulation (EEC) 398/75, and in a token entry of the liabilities in the Community Budget to ensure that the creditors are paid without delay.

4.2. The Committee stressed that - as the experience of past decades has shown - the likelihood of default by any Community Member State is practically nil and it is in this light that it examined whether the present dual-guarantee system ought to be maintained. It is clear that the present system will remain in force with respect to the Community's loan operations carried out under Regulations (EEC) 397/75 and 398/75.

Several members felt that the entry in the Community's Budget constitutes in itself a commitment by the Community - i.e. by the Member States - which is sufficient to satisfy lenders and that there is consequently no need for a special or adjacent guarantee. Abolition of the system of guarantees by the Members States would correspond to the Community nature of the instrument and make it simpler to implement. Payments in the event of default would be made according to normal budgetary procedures. Other members felt the maintenance of the present dual-guarantee system would be preferable, either because they felt that every effort should be made to avoid exhausting at some date the Community budget's financing capacity, or because they questioned the interpretation the markets could give to the scrapping of the counter-guarantees by the Member States.

4.3. It should be noted that, were the counter-guarantee system by Member States to be maintained, certain member countries would submit an increase in the amount of the Community loan authorised by the Council to a parliamentary procedure, which would result in a further delay, as happened in 1975 when the system was set up. Between the Council's political decision and the termination of the procedure in the last country, the delay could thus be long enough for a modification of the international financial environment to intervene.

5. Ceiling

The Committee feels it advisable to recommend the following adjustments. It points out in this respect that, if these modifications are adopted, they will require a decision in the form of a Council regulation and, particularly if the Member States' counter-guarantee system is maintained, certain member countries might find themselves bound to the precedent of 1975 to make their agreement subject to parliamentary procedure.

5.1. Denomination. In conformity with other decisions taken within the Community, the ceiling should be denominated in ECU and not in US dollars.

5.2. Calculation of the ceiling. Interest on borrowing operations should henceforth be excluded from the ceiling, in line with normal international practice in the matter : the ceiling fixed by the Council would therefore relate only to the principal. As an example, applying this new method to the nominal figure authorised at present would - in the present market conditions - entail an increase of about one half in the borrowing capacity.

.../...

5.3. Definition of the ceiling. The ceiling should be considered as a limit on all outstanding amounts, i.e. the borrowing and lending resources would be reconstituted as and when repayments were made. If a margin can be reconstituted, there is no need to return to the Council each time the ceiling is exhausted, it being nevertheless understood that each activation of the mechanism is subject to prior authorisation by the Council.

5.4. Increase in the ceiling. The general feeling of the Committee is that the ceiling should be increased from that decided in 1975 (3 billion US dollars in principal and interest payments). The modifications described above would by themselves, if adopted, entail a significant increase.

5.4.1. Certain arguments may be put forth in support of a more substantial increase :

- the erosion in the ceiling's real value since 1975;
- the need to reverse the decline in the present ceiling in relation to the size of the international capital market, whose annual volume of operations has tripled since 1975;
- the Community's current deficit is at present larger in proportion to trade and output than was the case following the last oil shock and is expected to persist for longer; a higher ceiling is thus necessary for the mechanism to contribute significantly to recycling;
- while after the first oil shock there was still a number of surplus countries whithin the Community, now all Community countries are in current deficit;
- the desire for coherence with the increase in the size of the credit mechanisms decided when the European Monetary System was set up, in order to have the same credibility and positive announcement effects on the exchange markets : it must be observed in this regard that in spite of their significant resources the two mechanisms have not been used, which confirms their psychological effect;
- the need to allow a number of large borrowers to have recourse to the mechanism simultaneously without exhausting its facilities, in contrast to the present situation (over 80 % of the funds available were promptly taken up by loans to two member countries).

.../...

5.4.2. Other arguments may be put forth in support of a more modest increase :

- the higher level of reserves, not least the result of the gold valuation within the EMS, and the relatively high credit worthiness of all Community countries create a better basis for the financing of deficits which is now becoming necessary;

- when the EMS was set up, short-term monetary support and medium-term financial assistance were more than doubled, in order to give a credible guarantee of the stability of exchange rates as regards the foreign exchange markets; neither of the two instruments has been used so far, which therefore leaves a borrowing margin available;

- in order to maintain the high credit standing with regard to its various borrowing instruments, the Community must give an example of a disciplined, not a permissive policy;

- it must be demonstrated both internally and internationally that the first priority is the most rapid adjustment possible to the changed conditions of the world economy;

- the Community should not compete too hard for OPEC funds with other methods of recycling of special importance throughout the world, e.g. direct channelling to the developing countries, making funds available for the IMF and the World Bank, etc.

5.4.3. The members of the Committee who support the first set of arguments (5.4.1.) consider that it would justify a ceiling of between 10 and 15 billion ECU. The members of the Committee who support the second set of arguments (5.4.2.) consider that it would justify a ceiling of between 4 and 5 billion ECU. Some members however could sympathise with some of the arguments presented in 5.4.1. and some of the arguments presented in 5.4.2. They therefore felt that a compromise should be found between the two ranges indicated above.

In all cases, the Committee members based their assessments on the assumption that the proposals advanced in paragraphs 5.1, 5.2 and 5.3 are adopted.

.../...

5.4.4. Several members pointed out that fixing a ceiling is essential only if it were decided to maintain the counter-guarantee system subscribed by Member States. In fact, the Council is called upon to decide, in each particular case, the amount of the borrowing operations authorised and therefore remains master of the overall volume of such loans. One could therefore refrain from preventively fixing the ceiling for such operations and assess the size of the envisaged loans each time the activation of the mechanism is requested.

5.4.5. As a formation of independent experts, the Committee has the general feeling that a compromise around 7 billion ECU would have some chance of being a point of equilibrium and would not pose particular financial or technical problems (1).

II. OTHER ASPECTS OF RECYCLING

These other aspects cover points 1 (international organisations), 3 (recycling for the benefit of non-member countries), 5 (co-financing) and 6 (costs and risks) on the list drawn up by the Council. The Committee's work on these points is a follow-up to the Opinion of 4 June : it continues the analysis and defines certain solutions.

6. Costs and risks

The Committee started by drawing a distinction between the "recycling" aspect and the "aid" aspect of the problem of assistance to the developing countries, in order to deal only with recycling proper : it is nevertheless aware not only of the need to increase development aid so as to enable the poorest countries to overcome their difficulties, but also of the fact that intervention by public bodies in the recycling process would entail shouldering part of the risks and costs - transformation costs, possibly exchange risks and default risks.

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(1) The alternate members of two countries preferred not to take a position on this point.

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7. The Community and the international institutions

In its Opinion of 4 June, the Committee considered that the Bretton Woods institutions have an essential role to play and called on the Community to play an active and unified role within these institutions, and to support new initiatives aimed at improving and expanding that role. The Community should in particular support the proposals for the IMF to borrow directly from surplus countries, for better coordination between the IMF, the IBRD and regional financial organisations, and for the development of consortium-type operations and structural adjustment loans. The Community should endeavour to coordinate its interventions in the fora in which international monetary questions are discussed, not only in the Bretton Woods institutions but also - in the present context of global negotiations - in organisations such as the United Nations. This means defining a common position in advance, or, at the very least, co-ordinating more closely the positions upheld by the Member States' representatives in these institutions. The Monetary Committee could be invited to intensify its action in this field.

8. Third country financing

8.1. For geographic and political reasons, non-member countries have different relations with the Community according to whether they are candidates for accession (or potential candidates), associated countries, ACP countries or other countries. The Committee is aware of the fact that the assessment of the problem can be modulated according to membership to one or other of these groups.

8.2. The general feeling of the Committee is that the formal opening in the Community loan mechanism of a special window for non-member countries is not appropriate at this time. The Community cannot take the place of the IMF, which is equipped to deal with international payments imbalances, has the mechanisms to induce borrowers to adopt the appropriate adjustment policies and where, lastly, the main parties to the recycling process are represented. The Community's role must be to support the efforts of the Fund, and even to supplement its action in certain specific cases by making its own or its members' contribution to solving a particular problem.

.../...

8.3. Although it felt that a window in favour of non-member countries should not be opened when the Community loan mechanism is adjusted, the Committee nevertheless considers that for certain countries and in certain circumstances, the Member States and the Community could take part in joint measures for the benefit of countries in serious payments difficulties. This has happened in the past and it should not be ruled out that it might happen in the future. By way of example, these measures have taken various forms in the past : rescheduling of the external debt, granting of guarantees, action on export credits, accelerating the implementation of financial protocols, etc. The countries particularly concerned are those which, because of their geographical proximity or their political and commercial links, maintain close relations with the Community. The Committee considers that when such actions are undertaken, it would be advisable for the member countries to confer together at Community level and even, if necessary, for the Community as such to participate. It also felt that, despite the special nature of these measures, their design and implementation must follow a number of guiding principles. Thought must be given to these guiding principles within the Community - a task which the Committee could assume. Thus, not only could these ad hoc measures be made more effective,but also the functioning of the normal financing instruments need not to be distorted by the pressure of events.

9. Co-financing and triangular operations

9.1. The Community can make a third contribution to strengthening the recycling for the benefit of both its members and non-member countries by continuing and expanding the co-financing and triangular financing operations in which certain Community institutions are already involved.

9.2. The EIB is already carrying out loan operations for the benefit of non-member countries and its borrowing operations on markets outside the Community draw partly on the savings of the oil-producing countries. It also contributes to the recycling process, as does the EDF, by associating oil capital in co-financing operations. Thus, under the first Lomé Convention, the EDF and the EIB contributed 17 % and Arab funds 19 % to financing a group of co-financed projects totalling 3.2 billion EUA. Co-financing operations have also been carried out under association agreements, with the Mediterranean countries and in connection with aid to non-associated developing countries.

.../...

9.3. In the future, these operations are likely to develop and multiply, both under the new Lomé Convention (five articles of which are exclusively devoted to co-financing arrangements) and under the new financial protocols in preparation. The past and future development of these operations is largely due to the attraction for the holders of large funds of the Community's activity in the field of project financing, because of the experience it has acquired, the tested procedures at its command, and the administrative technical and financial aid it can grant. The Committee is aware of the importance of the Community institutions' efforts to develop this type of operations. It feels that in this area it is desirable for co-operation with the surplus oil countries and their institutions to be increased in the most appropriate forms by the authorities responsible for the various financial instruments.

10. Characteristics of financial assets

An essential aspect of the problem is that of defining the characteristics of the financial assets which best meet the requirements of recycling : on the one hand, every effort should be made, in the interest of deficit countries, to obtain as favourable conditions as possible; on the other, attention must be given to offering surplus countries assets which are sufficiently attractive. The examination and testing of the appropriate formulae in this area is being actively pursued in numerous national and international quarters, both official and private. The Monetary Committee considers that, given both the trade links between oil producers and member countries and the relations uniting the latter within the European Monetary System, the Community should actively participate in this research and seize on the occasions which arise to adopt a common attitude and to promote the most effective financial innovations possible. The examination of the characteristics of the financial assets which best meet the requirements of recycling should continue and involve a detailed discussion on subjects such as the choice of the duration of the securities, formulae for borrowing at variable rates, the distribution of exchange risk. As to the utilisation of the ECU, the Committee recently adopted an opinion which is annexed to the present report.

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EUROPEAN COMMUNITIES

Monetary Committee

ANNEX

58

Brussels, 8 September 1980
II/397/80-EN

OPINION ON THE USE OF THE ECU AS DENOMINATOR FOR LOANS BY THE COMMUNITY

The way in which the ECU is used and develops is of great importance for the future of the European Monetary System and its institutions, which the Committee is now studying at the request of the Council. The use of the ECU could also be relevant to recycling, which is the subject of a further remit by the Council to the Committee.

As suggestions have been put forward in various Community bodies that the ECU be used as denominator for loans floated by the Community institutions, the Committee would point out that in its opinion the following considerations should be taken into account :

1. In order to acquire sufficient experience with ECU-denominated issues, their continuity must be ensured. For market reasons, it is therefore necessary that such issues be repeated. An experimental isolated issue is of no interest in itself.
2. For reasons of consistency, care must be taken to see that the solutions devised for the technical problems arising in defining the characteristics of an issue are closely co-ordinated and are homogeneous between the various Community issuers.
3. The Community's excellent credit standing and the quality of the ECU in relation to other numeraires offer the prospect of ECU-denominated issues being made on good terms. When a reasonably broad market in such issues had developed they might, if conditions are right, be made at a somewhat more favourable interest rate than the weighted average of the interest rates attaching to loans denominated in the currencies of Member States. In the initial stages however the narrowness of the market may prevent this.

ANNEX
II/472/80 (final)

LEGAL IMPLICATIONS OF ADJUSTING THE COMMUNITY LOAN MECHANISM

1. While it does not consider itself qualified to decide on the questions of legislative, budgetary and accounting procedures implied by adjustments to the Community loan mechanism, the Monetary Committee draws attention to certain consequences of the changes it proposes.

2. It is understood that it is for the Council, acting unanimously, to determine the adjustments to the mechanism at present in force by a regulation adopted on the basis of Article 235 of the Treaty; however, the question of whether the Member States should make their agreement subject to a national parliamentary procedure has not been settled. Three arguments have been put forward :

- Several members felt that a national parliamentary procedure is not required when the Council adopts a decision under Article 235. The regulation adjusting the loan mechanism would therefore be immediately applicable even if the present dual-guarantee system were maintained, and all the more so if it were abolished.
- Other members felt that if the Member States maintained the counter-guarantee system, any change made to the Community loan mechanism would be subject to a national parliamentary procedure. This requirement would disappear if the dual guarantee were abolished.
- Some members felt that a national parliamentary procedure was necessary in order to adopt the changes made to the existing mechanism even if the system of counter-guarantees by the Member States were abolished.

3. The Committee feels that, whatever the guarantee system adopted, the contractual obligation for servicing the debt devolves on the Community, as the institution issuing the loans.

.../...

Under the present dual-guarantee mechanism, the Community budget must, in the event of the debtor Member State finding it impossible to meet its commitments, assure the payments attaching to the loans out of its cash funds, until the refinancing mechanism is activated. The other Member States acquire a claim on the Community, and this claim is extinguished at the latest when the borrowing Member State has returned to solvency and can repay the instalments due.

If the counter-guarantee mechanism were abolished, the Community - still in the event of impossibility for the debtor Member State to meet its commitments - would take responsibility for servicing the debt in accordance with normal budgetary procedures (eg. supplementary or amending budget).

Irrespective of the guarantee system adopted, since the guarantee is represented by a token entry, the corresponding liabilities are not taken into account in fixing the volume of expenditure of the Community budget and in applying the own resources ceiling imposed by the limit of 1 % of the VAT rate.

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EUROPEAN COMMUNITIES
THE COUNCIL

Brussels, 16 October 1980 (17.10)

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NOTE

from: General Secretariat of the Council
to : ECO/FIN Council on 20 October 1980

Subject: New Community instrument (NCI)
- Decision on 100 MEUA in the context of the second NCI tranche

1. In accordance with the Council Decision of 22 July 1980, the Permanent Representatives Committee examined the decision on the use of the 100 MEUA of the second NCI tranche at its meetings on 25 September and 9 October 1980. As it was unable to reach an agreement on this question, the Permanent Representatives Committee agreed to submit it to the Council.

2. When the decision authorizing the second NCI tranche (500 MEUA) was adopted, the Council left unresolved the question of the use of part of this tranche, i.e. 100 MEUA, and particularly the possible extension of the scope of loans to include investments relating to advance factories and housing projects.

.../...

3. In its initial proposal, the Commission proposed that the scope of the NCI be extended to include investments for advance factories and housing projects, and the European Parliament agreed to this proposal.

At the meeting of the Permanent Representatives Committee on 25 September 1980, the Commission representative suggested that the following statement be added to the decision extending the proposed scope and included in the Council minutes:

> "The Council and the Commission agree that, as regards housing and advance factories, the concept of infrastructure in the context of the NCI corresponds to the interpretation given to such projects by the European Investment Bank."

4. Five delegations (B, IRL, I, L, UK) could accept the extension of the scope of loans as proposed by the Commission. Four delegations (D, DK, F, NL) stood by their positions that the scope adopted for the first tranche should be maintained for the entire second NCI tranche.

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1. MRS HEDLEY-MILLER not available
2. CHANCELLOR OF THE EXCHEQUER

c.c. with all attachments
Principal Private Secretary
PS/Financial Secretary
PS/Minister of State (C)
Sir K Couzens
Mr Hancock
Mr Byatt
Mr Ashford
Mrs Gilmore
Mr Edwards Mr Butt
Mr Balfour (B/E)
Mr Wentworth (Cabinet Office)
Mr Spreckley (FCO)
Mr Fitchew (UKREP)(6)
Mr Appleyard (Paris)
Mr Boyd (Bonn)
Mr Anson (Washington)
Mr Adams (Rome)

Steering brief only
PS/Chief Secretary
PS/Minister of State(L)
Sir D Wass
Mr Barratt
Mr Unwin
Mr Turnbull
Mr Slater
Mr J Williams
Mr K V Watts
Mr Ridley

FINANCE COUNCIL ; 20 October

The Finance Council will be meeting in Luxembourg on 20 October. The Chancellor will be attending, accompanied by Mr Hancock, Mr Wiggins and Mrs Gilmore.

Administrative Arrangements

The Council will begin at 14.30, preceded by the usual Ministerial lunch at 12.30. The Chancellor's party will be travelling on scheduled flights departing Heathrow at 9.50 (LG402), arriving at Luxembourg at 10.55. Their return will be on BA 395 departing Luxembourg 18.30 and arriving at Heathrow at 19.45.

The substantive items on the agenda will be taken in the following order:

- (i) export credits
- (ii) New Community Instrument (the Ortoli facility) Second tranche
- (iii) Monetary Committee report on recycling
- (iv) energy and economic policy.

Briefing on these is attached, along with the standard aide-memoire on the UK economy and a note on the "Global Negotiations" at the UN.

Export Credits

The issue here is to settle a Community position to enable there to be a satisfactory conclusion to the international negotiations on export credits. All except the French can expect the Uniform Moving Matrix. As the Chancellor will be aware an important UK objective in these negotiations is to reduce the public expenditure cost of export credit subsidies,while avoiding serious loss of export competitiveness.

New Community Instrument

The Council will be considering the disposition of the remaining 100 MEUA of the second tranche of the New Community Instrument (Ortoli facility). The Commission proposal is that this should include Housing and Advance Factories within the definition of infrastructure. Our major interest in this has been indirect, in that we have been concerned about the repercussions on our Article 235 refunds if the Commission proposal was rejected. This is now no longer as important, but there are still objective reasons for continuing to support the Commission proposal. The brief recommends the Chancellor to continue to support the proposal except in the unlikely event of the Italians giving way.

Monetary Committee report on recycling

The Council will have before it a report on recycling, and some conclusions drafted by the Commission. The report leaves two issues undecided - the guarantee arrangements under the Community Loan Mechanism (the Community's 1975 recycling instrument) and the size of the ceiling on the mechanism. The brief recommends the Chancellor to side with the majority on the guarantee arrangements at the end of the day, to support the compromise figure of 7 billion ECUs for the ceiling, and to seek a number of changes in the draft conclusions.

Energy and Economic Policy

The preparation of this agenda item has been very rushed, and the Commission has faced considerable criticism from Member States. As a result it has been agreed that the Commission should introduce their communication to the Council (COM(80)583 final - identical to the text in the briefing). Ministers will be free to make comments, if they wish, but there will not be a definitive discussion and there will be no formal conclusions. The brief recommends that the Chancellor may wish to note the Commission's ideas, but should make it clear (if there is any doubt) that its guidelines and conclusions ought not to be adopted at this Council. The Chancellor should agree to any proposal to remit the paper to officials for further consideration (preferably to the EPC).

The Global Negotiations of the UN

This is not an agenda item but I attach a brief which recommends the Chancellor to confirm with Herr Matthofer the importance of maintaining common cause with the US Government concerning the independence of the IMF and IBRD in these proposed negotiations.

CJBaker

CJ BAKER
17 October 1980

EXPORT CREDIT - AMENDMENT OF THE ARRANGEMENT ON GUIDELINES

17/10/80 · 15

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Objective

(1) To preserve an international understanding on export credit.

(2) To change the present Consensus so as to reduce the public expenditure cost of export credit subsidies, but avoid serious loss of UK competitiveness.

Line to take

(1) It is vital to maintain international regulation of export credit practices, and to achieve a satisfactory conclusion to the present negotiations. The 1 December deadline for the negotiations was reaffirmed in the Venice Summit communique.

(2) The key to these negotiations is an agreed Community position. It is very likely that once this has been achieved the negotiations can be brought to a successful conclusion.

(3) The UK supports the Uniform Moving Matrix, which has overwhelming support in the Community. Within a UMM there is scope for moderating the effect of automaticity, if that is what Governments wants.

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(4) We must try very hard to reach agreement at this meeting. Failure would reflect badly on the Community, and could lead to a growth of export credit competition that we would all wish to avoid.

[If the French gain wide support for a non automatic system, or if there is wide support for an interim increase in the minimum rates, while the OECD discussions continue beyond 1 December]

(5) We are prepared to accept this solution as a means of achieving an agreed Community position, in the hope that this will avoid the breakdown of the negotiations with other countries.

Background

1. It was agreed amongst OECD countries in the Spring, and reaffirmed in the Venice Summit Communique, that the international agreement on export credit - the Consensus, should be modified by 1 December 1980, to bring the minimum interest rate specified in the Consensus closer to market rates, and thus reduce the cost of export subsidies. A Mr Wallen produced a report offering two basic alternatives - UMM (Uniform Moving Matrix) and the DRS (Differentiated Rate System). Under the present Consensus Governments cannot offer subsidised interest rates below a certain minimum level, which applies to all countries irrespective of the level of their domestic interest rates. These minimum levels have been increased only fractionally (earlier this year) since they were set in 1976, and with rising commercial interest rates around the world subsidies have increased substantially. The UMM would retain the principle of a minimum interest rate applicable to all countries, but would bring that rate up to an average of international market rates, at the present time involving an increase from 8½ per cent to over 10 per cent. The minimum rate would be reviewed periodically and automatically adjusted as market rates moved. The DRS will also include automatic periodic adjustment, but instead of one minimum rate for all countries there would be different minimum rates for financing in different currencies,

related to market interest rates applicable to those currencies.

2. The Commission support the UMM, and eight of the Nine are now ready to support it also - France being the exception. At your meeting with colleagues on 16 October it was agreed that we should continue to support the UMM at the Finance Council on 20 October, as a basis for achieving a Community position, and for the same reason we should accept any compromise solution which gained wide support, providing it offered the prospect of rate increases and avoiding a breakdown of the OECD discussions.

3. As regards other countries, the US is very keen for change - it was they who pressed for the 1 December deadline. They are prepared to be accommodating, once the Community has made a choice, but they have threatened to derogate from the present Consensus, if no change can be agreed by December. The Japanese* have put forward technical objections, and have expressed concern about the effect of reduced subsidies on developing countries, but they are likely to fall in line with a majority view. The key to the whole process is agreement within the Community.

4. Ministerial discussion in Brussels so far has been brief and inconclusive. The meeting on 20 October is the main opportunity to achieve a Community position. If that is done, Mr Wallen will visit other main countries and seek a basis for agreement before an OECD wide meeting of officials in mid-November. Without agreement on the 20 October there seems little chance of meeting the 1 December deadline. The Commission is expected to argue strongly for agreement to a Community position on the basis of UMM.

5. The French have argued in Community discussions that they object to the automaticity of the UMM, ie countries would lose control over the minimum rates which would be changed automatically

at six or twelve month intervals on the basis of an arithmetical calculation. In fact there is a whole spectrum of possible mechanisms, eg longer review periods, , a limit on the size of, or delay in implementing, any upward movement of the rate, exclusion of projects 'under negotiation' from rate increases, to blunt the automaticity. But an entirely non-automatic discretionary system, for reviews without commitment, has been unattractive to most countries, because each review would be agonizingly difficult.

6. If there is wide support for making the system less automatic, or, worse, for a wholly discretionary review system, either would be better than no Community position, as they would offer some basis for further negotiations with other countries, and the stronger possibility of preserving the existing Consensus. (The Italians may table proposals for transitional arrangements which are not relevant to a Community decision but they could lead to discussion of the other alternatives). Consideration of the technicalities for softening the effects of an automatic system should, of course be remitted to officials. In the last resort, agreement simply to an interim increase in the minimum rates with a commitment to further reviews, would be better than no Community position at all.

7. The French are concerned, privately, at the problem of 'pure cover'. They believe that any increase in the Consensus minimum interest rate would give a competitive advantage to the Germans because such an increase would not affect German exporters, whose finance is not subsidised (because commercial rates are low) and is, therefore, not governed by the Consensus. (The German practice of Government guarantee but no subsidy is called 'pure cover'). On the other-hand, German exporters can normally offer only a (less attractive) floating rate against the fixed rate of subsidised finance, and they find difficulty in matching the

longer maturities which other countries can offer. German exporters have not seen advantage in the UMM - they press for the DRS which would in fact allow exporters in other countries to offer DM financing at market rates.

8. Some countries have argued that because 'pure cover' includes a Government guarantee it should be brought within the Consensus rule on interest rates. In the unlikely event that 'pure cover' is discussed, and there is support for bringing it within the Consensus, we should agree.

9. If it arises, we should support proposals, which have been discussed in the OECD group, to ensure prior notification of tied aid credits with a grant element of less than 25 per cent.

A J PERRY
17 October 1980

* The Americans have just told us that the Japanese have now changed their position, which is now similar to the US.

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MONETARY COMMITTEE REPORT ON RECYCLING

III a

Introduction

This agenda item will be discussed on the basis of a report by the Monetary Committee (II/472/80), to which has been annexed an earlier Monetary Committee opinion on the use of ECU as a denominator for Community Loans; and some draft conclusions prepared by the Commission which are annexed to this brief.

2. The bulk of the report is taken up with a consideration of the changes that might be made to the existing Community Loan Mechanism, the 1975 Recycling Mechanism, under which the Commission borrows for on-lending to Member States. The changes suggested are the result of experience with the existing mechanism, and the need to adapt it to the different circumstances of the second round of oil induced balance of payments deficits. The report proposes the simplification of the procedure for authorising each individual loan (although still leaving the council with the key decision); different forms of borrowing other than straight bond issues to allow the Commission to be more flexible in its borrowing in response to the different requirements of member states, and to introduce the possibility for a member state to repay its loan early; changes in the arrangements for conditionality; and changes in the amount and detailed arrangements for the overall ceiling on the facility. The report also considers the arrangements for guaranteeing the Commission's borrowing under the mechanism.

3. Two of these issues are left unresolved in the report: the nature of the guarantee, and the size of the ceiling. These are considered further below. The changes in the nature of the ceiling (allowing it to be reconstituted as loans are repaid, excluding interest outstanding from the calculation of the ceiling and denominating it in ECUs instead of dollars) are uncontroversial. Although the text in the report on conditionality is now agreed, this generated a good deal of discussion in the Monetary Committee. No member state was satisfied with the way conditionality had operated in the past, but were divided on how it should be improved. The Commission in particular wanted a much more directed system with access to the Community Loan Mechanism limited to member

states which had taken part in a Monetary Committee programme for exchanging information about external positions. The Commission also wanted "two-stage" conditionality in which a member state that was not yet in a crisis would apply for a Community loan with light conditionality as a way of promoting greater economic convergence. We made it clear that we found this an implausible thing for a member state to do, and that we thought it was too dirigiste to impose a condition on a member state's right to apply for a Community loan. Our views are reasonably reflected in the report.

4. The second part of the report concerns other aspects of recycling, of which potentially the most controversial is recycling for the benefit of non-member countries. The report comes down against opening a window for third countries in the Community Loan Mechanism. However, it suggests that it would be advisable for the member states to confer about ad hoc measures taken to help third countries, and that there should be "guiding principles" for such ad hoc measures. In our view, this comes too close to commiting the Community to support for third countries.

5. Paragraph 6 of the report refers to the Committee's awareness "of the need to increase development aid so as to enable the poorest countries to overcome their difficulties". We tried to redraft this so that it read "deploy" development aid, but this was not accepted, and the Chancellor should therefore reserve his position on increases in development aid-even to the poorest.

Issues for Decision

6. These are the nature of the Guarantee Mechanism, and the size of the Ceiling.

7. The choice on guarantee arrangements is between a continuation of the existing procedure, and an alternative modeled on the guarantee for the New Community Instrument (which is of course for project finance rather than balance of payments finance). Under the existing procedure, if a member state which had borrowed failed to repay on the due date, the other member states would be liable to provide to the Commission the foreign currency necessary to enable it to discharge its obligation to the original lender. The key for dividing this liability is set out in the regulations

establishing this scheme, and the UK's liability is in principle the same of that as Germany and France, and would lie between 22.02 per cent and 44.04 per cent of the total default. To guard against the risk of delay in the collecting the necessary foreign currency from member states, there is a token entry in the Community Budget under which the Commission could draw temporarily the funds necessary for it to meet its obligations.

8. The alternative is a guarantee which rests solely on the Community Budget. The member states would not be directly involved.

9. If a reasonably large member state defaulted, the actual UK share of the guarantee under the existing procedure would come out at around 25 per cent. This would be higher than our marginal rate of contribution to a guarantee resting solely on the Community Budget (about 17½ per cent). On the other hand, a default, particularly if it was a large one (and in practice the guarantee arrangements could be invoked in a variety of situations from a formal default to a request by member state for more time to pay) would place a great strain on a Community Budget constrained by the one per cent VAT ceiling. Cuts would need to be made in other areas of Community expenditure, including those from which we benefit such as the regional and social funds (and perhaps even our refunds under the 30 May agreement, although we would naturally resist this strongly). A guarantee resting on the Budget could therefore have a cost to the UK over and above our marginal contribution to the actual amount of the guarantee, but Sir Kenneth Couzens judgement is that the total cost is unlikely to exceed and could well be less than the 25 per cent or so that we might have to pay under the existing procedure.

10. The report advances as an argument in favour of a guarantee resting solely on the budget, the fact that this would not need parliamentary ratification in some member states, as would a continuation of the existing guarantee (but applying to a larger amount following an increase in the ceiling). This is not a problem which affects the UK (our powers to incur the guarantee are in section 2(3) of the European Communities Act), but we do have an interest in ensuring that the facility is in place without excessive delay. An alternative to, say, an Italian drawing under

the Community Loan Mechanism might be an Italian drawing under the Medium Term Financial Assistance, the UK contribution to which would count as public expenditure.

11. On balance, therefore, we would slightly recommend a guarantee resting solely on the budget. However, the arguments are finely balanced, and we would recommend the Chancellor not to be in the lead on this discussion and to accept the majority view.

12. In the Monetary Committee discussion of the ceiling, the UK has favoured a larger rather than a smaller increase. It seems sensible to ensure that the ceiling is large enough to enable the facility to be used by member states if it is required without the need for frequent renewal by the Council. The Council would still have adequate control with a large ceiling because the individual loans would be authorised by it. A compromise figure of 7 billion ECUs suggested in the report seems about right, and we would recommend the Chancellor to report it.

The Draft Conclusions

13. These draft conclusions leave a lot to be desired. They do not address themselves to the two issues for decision outlined in the previous section. The Chancellor should ask his colleagues whether they are really prepared to leave decisions on these important points until the Council comes to consider amendments to the regulations.

14. There are also things which need to be excluded from the draft conclusions. On paragraph 1(ii)"in particular as regards the need of ensuring the continuity of issues" needs to be deleted. There is no point in the Community launching a series of ECU issues if they are not well received by the market. Subject to that deletion, the rest of this subparagraph which contains Commission religion on the ECU can be allowed to stand.

15. Pargraph 2(i). "where-ever possible" needs to be added at the end. Experience has shown (for example in the UN special session) that it is simply not possible in all cases to achieve such a coordination. It would also be better if "concrete" was removed from the last sentence of the introduction to paragraph 2.

16. Paragraph 2(ii). This gives too much prominence to the possibility of extending Community action to third countries. As the report notes, the Community would be undertaking risks in lending to third countries, and this is something which it could only decide to do in the light of each individual case. The Chancellor could find M Monory and Sr Pandolfi particularly keen on this sub-paragraph. He might care to point out privately to Sr Pandolfi that Italy's national interest (and that of other member states) would be better served by keeping the Community Loan Mechanism purely for the benefit of Member States. He might also try to concert a line with Herr Matthöfer on this point.

Line to Take

On the Report

17. The commitment in paragraph 6 to increasing development aid should be understood as subject to domestic public expenditure constraints.

On the Issues for Decision

18. A fine balance to be struck on the guarantee. Marginally in favour of a guarantee resting solely on the budget, but can accept the majority view of colleagues.

19. Support the compromise figure of 7 billion ECUs for the ceiling. A figure of this size seems necessary to enable the Community Loan Mechanism to carry out a useful function. Ultimate control by the Council is in any case ensured.

On the Draft Conclusions

20. These should include conclusions on the ceiling and guarantee.

21. The continuity of issues of the ECU loans (1(ii)) cannot be ensured by the Community without regard for market reception of the issues.

22. 2(i) is too optimistic on the ability of the member states to co-ordinate positions in the international fora. This should clearly be attempted whereever possible, but not automatically undertaken on every issue.

23. 2(ii) places too much emphasis on actions for third countries. These take a subsidiary place in the Monetary Committee report. Third countries should look primarily to the international organisations, and not to the Community.

CJ Baker

C J BAKER
17 October 1980

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DRAFT CONCLUSIONS OF THE ECO FIN COUNCIL

The Council and the Commission have received and examined a report on recycling by the Monetary Committee. They agree with the indications and adopt the recommendations set out in the report. On a proposal from the Commission the Council:-

(i) agrees to adapt the Community Loan Mechanism set up in 1975 along the lines indicated by the Committee, and requests the Commission to take the necessary measures to submit proposals for a regulation in time for the next meeting.

III b

(ii) Approves the encouragement given to the use of the ECU as a numeraire for the loans issued by the Community; it recommends its views and requests that the Committee's considerations be taken into account, [in particular as regards the need of ensuring a continuity of issues.]

2. As regards the other points which the Council asked the Committee to study, it considers it useful to continue the work along the lines indicated in the report. It agrees to this end to study further the following issues with a view to presenting [concrete] recommendations on:

(i) coordination of the positions upheld by representatives of Member States in the international fora in which monetary questions are discussed, with a view to arriving at a definition of common positions wherever possible

(ii) the definition of the guiding principles which should govern the intervention of Member States and that of the Community ~~when~~ +If an ad hoc action is undertaken for the benefit of a third country in serious payments difficulties.

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(iii) the study and the definition of the characteristics of the financial assets which best meet the requirements of recycling, which would involve the study of subjects such as the choice and the duration of the securities, the diversification of borrowing forms and the distribution of exchange risks.

BRIEFING
CHECK-
LIST

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EC FINANCE COUNCIL : 20 OCTOBER 1980

CHECK LIST OF BRIEFING MATERIAL

Item (i) Export Credit
Brief

Item (ii) New Community Instrument

a. Brief
b. Draft Council Decision
c. Report of Finance Council, 15 July
d. Note from the Commission

Item (iii) Report from Monetary Committee on recycling

a. Brief
b. Draft Council conclusions
c. Document II/472/80
d. telex annex to document

Item (iv) Commission Communication on energy and economic policy

a. Brief
b. Commission document COM(80)583

Additional briefing

a. Brief on Global Negotiations at the United Nations
b. Aide-memoire on the UK economy.

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EUROPEAN COMMUNITIES
THE COUNCIL

Brussels, 17 October 1980

10471/80

RESTREINT
ECOFIN 74
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TRANSLATION OF LETTER

from : Commission of the European Communities, signed by Mr A. GIOLITTI, Member
dated: 15 October 1980
to : Mr G. THORN, President of the Council of the European Communities

Subject: Commission communication to the Council concerning energy and economic policy

Sir,

Please find attached a communication from the Commission to the Council concerning energy and economic policy.

This communication is intended for examination by the Council at its meeting on economic and financial questions on 20 October 1980.

(Complimentary close).

(s.) Antonio GIOLITTI

Encl.: COM(80) 583 final

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COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 583 final

Brussels, 15 october 1980

ENERGY AND ECONOMIC POLICY

(Communication from the Commission to the Council)

ENERGY AND ECONOMIC POLICY

INTRODUCTION

1. The burden of the energy constraint on the short- and medium-term management of our economies - in the form of a major transfer of resources and strong inflationary pressures - prompted the Council, at its meeting on 9 June 1980, to place on the agenda for its October meeting a discussion of the links between energy problems and economic policy.

The purpose of this Communication is to serve as a basis for that discussion and enable the Council to adopt its guidelines.

THE INTERNATIONAL DIMENSION OF THE PROBLEM

2. This paper does not touch on the wider economic aspects of the second energy crisis, which are discussed in the annual report to the Council. The emphasis here is on:

(a) identifying and putting into practice the right solutions to the problems arising from balance-of-payments deficits;

(b) reducing the Community's dependence on external energy supply, and primarily its dependence on oil imports, by means of structural adjustments geared notably to conserving energy and to fostering the production and use of alternative energy sources.

3. As emphasized by the European Council, concerted action is needed by all the consuming countries, particularly in view of the implications for competitivity. In our highly integrated economy, isolated (or worse, contradictory) measures would together be detrimental to general growth potential.

It would be just as hazardous to accept a marked inequality of structural adjustment effort in the energy sector. The costs of adjustment - in resource allocation or losses of competitiveness - would be borne solely by the countries that embarked on the course of action needed, while all consumer countries would benefit.

4. Accordingly, by virtue of its responsibilities, both within the Community and outside, the Community has a special role to play in formulating and implementing an appropriate economic and energy strategy.

The Community has already set itself three objectives:

(i) to lay the foundations of genuine solidarity among consuming countries by contributing, as it did at the Tokyo Summit, to the joint definition of targets for reducing its dependence on external energy sources;

(ii) to place the supply of energy on a sounder basis by entering into a dialogue with the producing countries aimed at achieving smoother reconciliation of the interests of the countries involved;

(iii) to play an active role in the areas of development or financing which will make it possible to ease the situation in the developing countries hardest hit by the crisis, in particular by helping to exploit their energy potential and mineral resources.

BALANCE-OF-PAYMENTS FINANCING

5. Balance-of-payments deficits, which are larger and more permanently entrenched than after the first oil crisis, raise a problem of general economic policy, that of reconciling the steady reduction of the deficits with a continued general level of activity and employment that is as high as possible. That problem is discussed in the annual economic report.

They also give rise to a problem of financing, now being debated by the Council on the basis of guidelines which need to be confirmed and given practical shape.

6. The first of these guidelines, following up the conclusions of the European Council and of the Venice summit meeting of the major industrialized countries, is to step up the activity of the international organizations (IMF, World Bank and the regional Banks) in recycling oil capital, with particular consideration for the problems of non-oil developing countries. It would be appropriate also to assess thehelp which could be given to support their efforts to bring about the structural changes necessitated by the state of their external payments. Noting and taking into account the decisions taken at the annual meetings of the Fund and the Bank in Washington, the Council should, before the next meeting of the Interim Committee, consider whether actual progress so far matches up to the targets advocated.

7. The Community is already directly involved in transferring capital to the non-oil developing countries under the Lomé Convention, under its arrangements for assisting non-associated developing countries and under various financial protocols. Under the further studies on this matter which the Council called for on 9 june, an effort must be made to identify the areas in which joint action can be undertaken with the oil-producing countries whereby the resources available can be mobilized faster, on a wider scale and more effectively. The Commission and the EIB already participate in co-financing schemes with a number of development funds and are already concerned to expand the scope of such participation. The bringing together of these objectives, together with the normal operations of the banking system must be examined in depth.

8. The third guideline is to strengthen the Community's own financing mechanisms. More active solidarity will be to the advantage of all, by helping to ease the financial constraint where it might otherwise lead to unduly restrictive measures, with adverse effects on growth and employment. The first essential here is the prompt completion of the work spelt out by the Council on 9 june 1980 :

(a) towards raising the ceiling on Community borrowings and improving the conditions for using this instrument;

(b) towards enabling the Community to use the ECU as the numéraire for the loans it floats on the international capital markets, as advocated in the opinion of the Monetary Committee, and so providing lenders with additional facilities for diversification.

The expanding role of the Community's financial instruments (EIB, NCI, ECSC and Euratom) helps to alleviate balance of payments problems when the corresponding loans are raised on the international capital markets.

REDUCING DEPENDENCE ON IMPORTED ENERGY AND DIVERSIFYING SOURCES OF SUPPLY

9. Under its broad thrust of restoring equilibrium as well as in its specific aspects, economic policy must serve the objectives - paramount for our economies - of reducing energy demand and diversifying sources of energy. The investment required for this purpose will also actively help to sustain economic activity. Action is needed at two levels:

(a) a coherent energy pricing policy;

(b) proper planning of investment and of the financial resources needed.

A. The role of prices

10. Demand adjustment and investment depend to a large extent on the prices of energy products on the domestic market. To speed up adjustments in the energy field, two conditions must be met: the general price trend (particularly for petroleum products) must serve the aims of both conservation and diversification, must move smoothly and must admit of reliable forecasting; and there must be an appropriate hierarchy of prices for the different sources of energy.

(i) The trend in the general level of domestic prices

11. Energy users must be in a position to base their decisions on forward assumptions regarding prices that are sufficiently reliable and consistent with the general direction of energy policy. This condition is essential if market forces are to ensure the most efficient allocation of resources.

12. Looking ahead to the medium term, and leaving aside cyclical fluctuations in the economy, the general situation regarding oil supply and demand means at the very least that any policy incorporating a fall in oil prices in real terms must be ruled out.

The Commission considers that, to keep the trend of petroleum product prices as constantly consistent as possible with the general direction of energy policy, the line of conduct of the Member States, insofar as they have an influence on the formation of prices, should be to prevent a trend for the final consumer which discourages energy saving and diversification.

13. This principle would be applied as follows:

(a) in line with the principle already accepted by the Council, increases in the representative import price of crude oil must be passed on to the final consumer within a reasonable period of time;

(b) the Commission proposes that the Council should establish the guideline that, as a general rule, but without accentuating inflationary tendencies, the level of taxation of petroleum products should be periodically adjusted in the light of the requirements of energy policy,

.../...

(c) the Commission stresses - and the Council has already acknowledged - that the secondary inflationary effects of oil price rises must be contained to the utmost extent possible.

Although these guidelines and measures must be put into operation by the Member States, with reference to their individual situations, the guidelines themselves must be common, and their implementation must be monitored regularly: the Commission suggests that, after adopting them, the Council should review the results annually.

14. These measures may not be enough if there is a sharp downward trend in the import price of oil. Other instruments should then be used.

The Commission is continuing to examine this point, and will inform the Council, for a later meeting, of its findings and conclusions.

15. The proposed decisions could bring about an increase in public revenue; it would be essential to contain the inflationary consequences and to obviate any deflationary effects. Appropriate countervailing measures might take the following forms:

(a) a reduction in charges, which would at the same time prevent a decline in the competitiveness of Community firms and exert a favourable influence on investment and employment;

(b) a reduction in indirect taxation, which would help to ease inflationary pressures;

(c) an increase in budgetary funds for incentives to adaptation in the energy field.

(ii) Hierarchy of domestic prices of energy sources

16. The hierarchy of prices for the different energy products, which government influences through a range of interventions, mainly taxation and budgetary, must serve the aims of reducing dependence on external energy sources, particularly by cutting oil imports and by developing alternative energy sources. Price differentials must act both as a deterrent (oil) and as an incentive (other sources of energy). This is not always the case: in some Member States at least, the domestic price for certain products (heavy fuel oil is an example) does not encourage a diversification of sources or give any urgency to investment in, say, energy conservation. Such distortions can be traced back, to a large extent, to the way in which different energy products are taxed.

Further, the structure of prices, i.e. including taxation, as between the Member States is a potential and a present source of distortion of competition and the cause of a poor allocation of resources.

17. The Commission asks the Council to approve the following two aims:

(a) to arrive at a hierarchy of prices which is consistent with overall energy policy;

(b) to prevent excessive differences in the price structures as between Member States which are not justified either by a similarity of situations or by the fact of belonging to the same market.

At a later date the Commission will put up proposals defining the bases, including harmonization of taxation, for attaining these objectives.

B. Planning of investments and of the resources required

18. Prices have a pivotal role to play as an incentive to the adjustment of demand. But, government has a direct and crucial role in carrying out investment, much of which depends on decisions by government and without which the goal of self-sufficiency, for which government is responsible, will not be attained. The consequences are two-fold: (a) the principle of planned programmes which define not only the investments needed to reach the Community's targets, but also the resources for carrying them out; (b) taking account of energy requirements proper and the requirements of the economy as a whole, this programme-planning, in the Commission's view, should amplify and speed up the entire effort.

19. In its Resolution of 9 June 1980, the Council decided to make an annual assessment of national energy programmes at Community level - the Community being a meeting-point for comparing targets, defining and monitoring priorities, identifying shortcomings and appraising results.

The Community's acknowledged position therefore answers a very clear requirement. It is the best forum in which to define forcefully - and present to the public - policies which are necessarily comparable and analogous and which, in the Commission's view, must:

(a) give the greatest possible boost to energy investment;

(b) contribute to the development of nuclear energy and help to remove the obstacles hampering its expansion;

(c) pursue a consistent internal and external coal policy as regards research, availabilities and costs, with the aim of self-sufficiency;

(d) stimulate the investment required in energy conservation and develop new energy sources.

The Ministers for Financial Affairs cannot remain indifferent to the action in these fields taken by the Ministers for Energy. The general economy is directly concerned: by balance-of-payments and price constraints, but also by the impetus to growth and employment offered by the new "industrial energy economy" and by the expansion of energy investment.

20. Consideration of the matching of resources to goals is also of direct interest to the Economic and Financial Affairs Ministers meeting in Council. Particular attention will have to be given to budgetary, economic and financial mechanisms, and to both national and Community legislation introduced to encourage the investments which are immediately necessary and to facilitate their funding. The only way to make sure this is done is by the systematic and critical monitoring of the state of progress of the programmes.

21. In addition, the Community contributes to the investment effort through its financial instruments (funds under the Budget and loans). Its contribution is substantial: in 1979, 1 580 million EUA in loans granted, or 6% of Community energy production investment (considerably more if self-financing is deducted). The Community's action should help the Member States to pursue a vigorous energy policy. It should be primarily directed to supporting coherent programmes which serve the common objectives and are integrated into an overall policy by the recipient Member States. Community financing should not take the place of national financing, but should speed up and amplify certain measures which could not be carried out without an external financial contribution.

22. It is in that context that the Commission asks the Council:

(a) to approve the guidelines set out in this Communication;

(b) to decide to convene every year a Council meeting of the Economic and Financial Affairs Ministers with appropriate participation to examine how the legislative means and the financial resources match up to the real targets of the Member States' energy programmes;

(c) to take note that every year the Commission will present on that occasion a report on the possible contribution from Community resources to the overall investment effort, and will suggest how they should be used to serve priority aims.

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EUROPEAN COMMUNITIES
THE COUNCIL

Brussels, 17 October 1980

10438/80

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PTS A 40

LIST OF "A" ITEMS

for: 661st meeting of the COUNCIL OF THE EUROPEAN COMMUNITIES (Economic and Financial Questions)

Luxembourg, Monday 20 October 1980 (14.30)

1. Requests for transfers of appropriations within the Council's budget estimates for the financial year 1980

   10050/80 FIN 558

2. Proposals for the transfer of appropriations from one chapter to another within the Commission's budget estimates for the financial year 1980

   - No 5/80

     10051/80 FIN 559
     ASSL 96

   - No 7/80

     10052/80 FIN 560
     ASSL 97

   - No 8/80

     10053/80 FIN 561
     ASSL 98

3. Proposals for transfers of appropriations from one chapter to another within the Commission's budget estimates for the financial year 1980

   - No 6 (safety of car occupants)

     10370/80 FIN 591
     ASSL 108

   - No 9/80 (assessment and utilization of research results)

     10480/80 FIN 603
     ASSL 109

.../...

4. Minutes of the 616th Council meeting, held on 17 December 1979 (Environment)

   11818/79 PV/CONS 63
   ENV 196
   + COR 1

5. Co-operation Agreement with Canada (AECL) in the field of nuclear-waste management

   10168/80 ATO 113
   7660/80 ATO 65

6. Council assent, under the second paragraph of Article 54 of the ECSC Treaty, to the financing of investment projects to increase and stabilize the production of pellets and improve the quality of this product in the iron ore mine or processing plant at Kirkenes (Northern Norway) by the company Aktieselskabet Sydvaranger, Oslo (Norway)

   10289/80 SID 138

7. Approval of financing projects for the countries of the Mediterranean basin

   10226/80 MED 53
   FIN 574

8. Adoption of position of Community delegation on Draft Decision No 3/80 of the EEC-Switzerland and EEC-Austria Joint Committees - Community transit - amending the Agreement between the European Economic Community and Switzerland/Austria on the application of the rules on Community transit following the accession of the Hellenic Republic to the European Communities

   9985/80 AELE
   CH 27
   A 46

9. Adoption of the position of the Community delegation on Draft Decisions of the EEC-EFTA Joint Committees amending Protocol No 3 concerning the definition of the concept of "originating products" and methods of administrative co-operation to take account of the accession of the Hellenic Republic to the Community

   9986/80 AELE 40

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EUROPEAN COMMUNITIES
THE COUNCIL

Brussels, 17 October 1980

10438/80

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   9986/80 AELE 40

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10. Adoption in the official languages of the Communities of the Council Regulation opening, allocating and providing for the administration of a Community tariff quota for aubergines falling within subheading ex 07.01 T of the Common Customs Tariff, originating in Cyprus (1980)

    10371/80 CY 36
    10026/1/80 CY 33 REV 1

11. Written Questions put to the Council by Members of the European Parliament

    10243/80 ASSQUE 730

    (a) No 1620/79 by Mr GLINNE - Planned construction of a nuclear power station at Cattenom (France)

        8395/1/80 ASSQUE 517 REV 1

    (b) No 611/80 by Mrs HERKLOTZ - Cleaning up of the Rhine

        9631/80 ASSQUE 688

    (c) No 726/80 by Mr ANSQUER - Channel Tunnel scheme

        9632/80 ASSQUE 689

    (d) No 745/80 by Mr WURTZ - Refusal of access to certain occupations for candidates in the European elections

        9876/80 ASSQUE 690

    (e) No 798/80 by Mr HABSBURG - International Labour Organization Convention on the employment of minors

        9877/80 ASSQUE 691

    (f) No 869/80 by Mr MORELAND - Decision-making at the Council of Transport Ministers

        9888/80 ASSQUE 702

    (g) No 908/80 by Mrs HOFFMAN - Situation of the European car industry

        9878/80 ASSQUE 692

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12. Adoption in the official languages of the Communities of the Council Directive on the approximation of the laws of the Member States relating to the protection of employees in the event of the insolvency of their employer

    10365/80 SOC 352
    10061/80 SOC 332

13. Management Board of the European Centre for the Development of Vocational Training: replacement of Dr R.M. JOHNSON, who has resigned

    10165/80 SOC 342

14. Advisory Committee on Safety, Hygiene and Health Protection at Work: replacement of Mr John PETRIE and Mr John DEWSBURY, alternate members who have resigned

    10166/80 SOC 343

15. Economic and Social Committee

    - Temporary appointment of officials at grades A 1, A 2 and LA/3 in the Secretariat of the Economic and Social Committee

      10084/80 CES 114

16. Renewal of the ECSC Consultative Committee

    10468/80 SOC 361

17. Adoption in the official languages of the Communities of the Council Regulation on the temporary suspension of the autonomous Common Customs Tariff duty applicable to certain catalysts falling within subheading ex 38.19 G

    10372/80 UD 121
    10358/80 UD 120

18. Adoption of Council acts in Greek

    10376/80

19. Emergency aid for El Asnam earthquake victims (Article 90 of the budget)

    10417/80 ALIM 66
    FIN 594

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20. Draft letter of amendment to the draft general budget of the European Communities for the financial year 1981 (Pre-accession aid to Portugal)

    10479/80 FIN 602

21. Replies to the letters from the President of the European Parliament on

    - mission expenses

      10367/80 ASSL 106
STAT 87

    - revision of the Staff Regulations of Officials of the European Communities

      10368/80 ASSL 107
STAT 88

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