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REPORT

on the proposal for a Council decision on providing supplementary macro-financial assistance to Ukraine
(COM(2002) 12 – C5-0044/2002 – 2002/0018(CNS))

Committee on Industry, External Trade, Research and Energy

Rapporteur: Carlos Westendorp y Cabeza

(Simplified procedure - Rule 158(2))

Symbols for procedures

- * Consultation procedure
majority of the votes cast
- **I Cooperation procedure (first reading)
majority of the votes cast
- **II Cooperation procedure (second reading)
*majority of the votes cast, to approve the common position
majority of Parliament's component Members, to reject or amend
the common position*
- *** Assent procedure
*majority of Parliament's component Members except in cases
covered by Articles 105, 107, 161 and 300 of the EC Treaty and
Article 7 of the EU Treaty*
- ***I Codecision procedure (first reading)
majority of the votes cast
- ***II Codecision procedure (second reading)
*majority of the votes cast, to approve the common position
majority of Parliament's component Members, to reject or amend
the common position*
- ***III Codecision procedure (third reading)
majority of the votes cast, to approve the joint text

(The type of procedure depends on the legal basis proposed by the Commission)

Amendments to a legislative text

In amendments by Parliament, amended text is highlighted in ***bold italics***. Highlighting in *normal italics* is an indication for the relevant departments showing parts of the legislative text for which a correction is proposed, to assist preparation of the final text (for instance, obvious errors or omissions in a given language version). These suggested corrections are subject to the agreement of the departments concerned.

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PROCEDURAL PAGE

By letter of 31 January 2002 the Council consulted Parliament, pursuant to Article 308 of the EC Treaty on the proposal for a Council decision on providing supplementary macro-financial assistance to Ukraine (COM(2002) 12 - 2002/0018(CNS)).

At the sitting of 4 February 2002 the President of Parliament announced that he had referred this proposal to the Committee on Industry, External Trade, Research and Energy as the committee responsible and the Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy, the Committee on Budgets and the Committee on Budgetary Control for their opinion(C5-0044/2002).

The Committee on Industry, External Trade, Research and Energy appointed Carlos Westendorp y Cabeza rapporteur at its meeting of 19 February 2002.

At its meeting of 26 March 2002, the Committee on Industry, External Trade, Research and Energy decided to apply the simplified procedure under Rule 158 (2). As the chairman did not receive objections from at least one fifth of the committee's members within the time limit laid down by the above Rule, he noted that the report had been adopted.

The Committee on Foreign Affairs, Human Rights, Common Security and Defence Policy, the Committee on Budgetary Control and the Committee on Budgets decided on 25 January 2002, 21 February 2002 and 19 March 2002 respectively, not to deliver an opinion.

The report was tabled on 8 May 2002.

LEGISLATIVE PROPOSAL

Proposal for a Council decision on providing supplementary macro-financial assistance to Ukraine (COM(2002) 12 – C5-0044/2002 – 2002/0018(CNS))

The proposal is approved.

DRAFT LEGISLATIVE RESOLUTION

European Parliament legislative resolution on the proposal for a Council decision on providing supplementary macro-financial assistance to Ukraine (COM(2002) 12 – C5-0044/2002 – 2002/0018(CNS))

(Consultation procedure)

The European Parliament,

- having regard to the Commission proposal to the Council (COM(2002) 12¹),
 - having been consulted by the Council pursuant to Article 308 of the EC Treaty (C5-0044/2002),
 - having regard to Rule 67 of its Rules of Procedure,
 - having regard to the report of the Committee on Industry, External Trade, Research and Energy (A5-0160/2002),
1. Approves the Commission proposal ;
 2. Calls on the Council to notify Parliament should it intend to depart from the text approved by Parliament;
 3. Asks to be consulted again if the Council intends to amend the Commission proposal substantially;
 4. Instructs its President to forward its position to the Council and Commission.

¹ OJ C not yet published.

EXPLATORY STATEMENT

1. The proposal under consideration is overdue on the following grounds. Firstly, it is just a macro-financial loan from the EC to Ukraine of up to €110 million, a commitment undertaken by the EC in October 1998 when the Council approved a loan for Ukraine of €150 million but only disbursed €58 million in July 1999, while the remainder has been blocked since.

Secondly, the EC and Ukraine signed an Agreement on Partnership and Cooperation (PCA), which entered into force on 1 March 1998 and which commits the EC to supporting the efforts of Ukraine to undertake political economic and social measures that would enable the country to transform its economy into a market economy, build a new relationship with the EU, enhance the democratic transition and ensure stability and security.

Thirdly, there is a further commitment undertaken by the European Union. At the Helsinki Summit on 11 December 1999, the European Council agreed on the 'Common Strategy of the EU on Ukraine'. The main concern of the Strategy document is to help Ukraine build a functioning market economy. This has required a reform programme agreed with the IMF and the World Bank. The reform programme includes the sector reform of agriculture, energy and transport as well as privatisation of large enterprises and liberalisation of prices while SMEs would be encouraged. The EU has committed itself to generous macro-economic assistance supporting Ukraine's effort with the 'reform programme', debt relief or balance of payments urgencies and specific projects that are associated with the energy sector.

However, the transition to a market economy has not been easy. Ukraine in recent years has been in a stagflation. GDP at constant prices has fallen as follows: in 1996 by -10%, in 1997 by -3%, in 1998 by -1.7% and in 1999 by -3%. On the other hand, consumer prices increased by 39.7% in 1996, 10% in 1997, 22% in 1998 and 21% in 1999.

2. The justification for the delay in disbursing the second part of the €92 million of the 1998 Decision is hollow, not even stated in the Commission's memorandum. A hint to understanding the delay of disbursing the second part is given by the Commission: "All this [negative macro-economic developments in 2002-2001] led Ukraine to stop servicing its debts to the Paris Club in January 2000. That same month, Moody's downgraded Ukraine to a default grade rating (from B3 to Caa1) and, in April 2000, Ukraine had to reschedule some its foreign debts to the private sector". (Memorandum, p.4)

In other words, during a critical period in which Ukraine experienced high inflation, government deficit, current account deficit, balance of payments problems, disappointing inward FDI and depletion of foreign exchange reserves, the Commission in consultation with the Economic and Financial Committee – a consultative organ to the ECOFIN Council – decided not to be helpful to the Ukraine's economic needs.

3. The new proposal entails features of the loan facility, which need mention and further clarification as to its handling by the Commission. Firstly, the macro-economic assistance takes the form of a loan of €110 million, which will have a maximum maturity period of 15 years and a grace period of 10 years. Secondly, there should be additional provisioning of the Guarantee Fund for some €1.62 million in the EC budget. This feature is further developed in the letter from the Budget Committee attached to this report. Thirdly, a concealed conditionality clause is attached. That is to say that the two or even more instalments of the new loan of up to €110 million (of which €92 million are the undisbursed funds from the 1998 loan operation and only €18 million is additional) would depend on two

conditions; the first has to do with the implementation by Ukraine of the adjustment and reform programme agreed with the IMF, and the second condition is linked to the structural reform measures to be agreed between the Commission and Ukraine.

4. All in all, and given the context this supplementary EC loan to Ukraine is given, the rapporteur supports the proposal in question.

Letter of 24 April 2002 from Terence Wynn , Chairman of the Committee on Budgets, to Mr Carlos Westendorp y Cabeza, Chairman of the Committee on Industry, External Trade, Research and Energy

Translation

Dear Chairman,

The Budgets Committee has taken note of the Commission proposal COM (2002) 12 for a Council Decision providing supplementary macro-financial assistance to Ukraine. The proposal aims at making available a long-term loan facility of up to EUR 110 million with a view to ensuring a sustainable balance-of-payments situation and to strengthening the country's reserve position. This new proposal was expected by the Budgets Committee, as the economic situation in the Ukraine has improved and it makes a loan instrument already authorised in 1998 available again under new and more favourable conditions.

When Council approved in October 1998 the third macro-financial loan for Ukraine for an amount of EUR 150 million, the Guarantee Fund was provisioned for to cover the total amount of the facility. As you know, macro-financial assistance to third countries is guaranteed 100% by the Guarantee Fund. Although only a first tranche of EUR 58 million was disbursed for reasons we are aware of, the Guarantee Fund remained provisioned for the total amount of the loan. Therefore, an amount of EUR 92 million out of the total envelope of EUR 110 million envisaged for this "new" facility is already covered by the Guarantee Fund. The provisioning for the remaining EUR 18 million only amounts to EUR 1.62 million.

It is for your Committee and Parliament to examine the merit of this new proposal. We note, however, that the political and economic situation in the Ukraine is now such that the adoption of this instrument would seem to be appropriate. As regards the current situation in the Guarantee Reserve, in particular, I see no objections to it. The limited margin under the ceiling of the Guarantee Reserve can still cover the provisioning of the outstanding amount.

As regards the general situation of the Guarantee Fund Mechanism, the Committee on Budgets has expressed its concern over the last two years about the limited lending capacity and the operation of the Guarantee Reserve. Following the recommendations of the Budgets Committee, the Commission has finally presented a Communication on EC/Euratom Lending and Guarantee Capacity for External Actions (COM (2002) 20) with a series of proposals to expand lending capacity. However, these proposals will not affect the operation of the current new instrument under consideration.

In conclusion, please note that the Budgets Committee has no objection to this new instrument.
Yours sincerely,

Terry Wynn
Chairman

Esko Seppänen
Standing Rapporteur