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Committee on International Trade

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OPINION

of the Committee on International Trade

for the Committee on Budgets

on the proposal for a Council decision granting a Community guarantee to the European Investment Bank against losses under loans and guarantees for projects outside the Community
(COM(2006)0324 – C6-0275/2006 – 2006/0107(CNS))

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SHORT JUSTIFICATION

Community guarantees to the EIB against losses under loans and guarantees for projects outside the Community are an important instrument to support European economic and trade policy objectives at the global level. A large proportion of EIB loans, especially in Latin America, support European firms' overseas investments, which in turn contribute to increased trade. The European Parliament has been monitoring the overall activities of the EIB since 1999 through Annual Reports drawn up by the ECON Committee which have created an excellent spirit of cooperation with the Bank. On the specific topic of Community Guarantees to the EIB, the European Parliament has not so far expressed a detailed opinion.

Guarantee cover can be granted to EIB loans extended to companies, financial institutions or non-member states. Under the so-called "risk-sharing scheme" with the EU, the EIB is able to adequately secure non-sovereign guarantees (loans to private borrowers) for commercial risks through diverse security measures or credit enhancements, complemented by the budgetary guarantee of the Community covering mainly political risks arising from currency non-transfer, expropriation, war and civil disturbance. In the case of loans with sovereign project guarantees, virtually all risks are covered by the Community guarantee.

The fact that EIB loans are largely or even fully guaranteed by the Community's Loan Guarantee Fund (LGF) allows the Bank to offer very attractive conditions, because it does not need to charge the normal risk premium. This subsidisation produces credit costs up to 1-2 percent below the LIBOR standard. Accordingly there is a high and increasing demand for EIB credits throughout the world.

The draftsman considers that the Community guarantee to the EIB deserves the full support of the European Parliament, as a means of employing public money to advance EU policy goals, on condition that these goals are indeed promoted coherently. At present, this is not assured:

- the Bank may tend to judge loans in third countries profiting from Community guarantees mainly on the basis of their financial sustainability. This favours borrowers which least need reduced credit costs to the disadvantage of innovative private entrepreneurs and public projects. The "gift" of lower interest rates should instead accrue, in principle, to EIB loans for projects that have, as a priority, a high and measurable value in advancing EU policy objectives, since the budget of the guarantee fund is limited;
- the list of objectives for Community guaranteed EIB loans to third countries does not consistently feature EU policy objectives and favours large scale projects, especially in the energy supply sector. This is to the detriment of the EU policy objective of diversification of energy sources and the Kyoto requirements and should be rectified;
- in addition, the priority given to large-scale hydroelectric projects can have a negative effect on local residents and the environment;
- present accounting, information and monitoring instruments fail, to a considerable extent, to specify the precise risk of EIB lending operations and the exact content of

guarantee-supported EIB projects, making it difficult to establish which EU policy objectives are being advanced.

The Commission proposal sets out to partially rectify some of these shortcomings:

- the introduction of a Reserve Mandate, not allocated to any one region, which will be used in response to natural disasters, post-conflict reconstruction or developments in strategically important countries provides welcome additional flexibility, so long as the loans guaranteed meet the general requirement of promoting European policy objectives;
- the potential eligibility of countries from the South Caucuses and Central Asia responds to a previous position of the European Parliament;
- individual countries only become eligible once they meet the political and macroeconomic conditions set out in the high level agreements with the EU. However it is regrettable that in the Commission's proposal the European Parliament is not given its due role in evaluating third countries' respect for these conditions;
- the Commission says that its proposal reinforces requirements linking EIB external activities with EU policies, through strengthened cooperation between the Commission and the EIB and enhanced reporting. Whilst sharing this objective, proposed amendments in this opinion seek to improve further the required levels of openness and transparency.

More generally these proposals, although positive, remain limited to objectives of financial planning and financial security of guarantee operations.

Presently the regional mandates for EIB lending operations are being revisited. It therefore seems appropriate to widen the scope of the Commission proposal in order to ensure that Community Guarantees are used coherently to provide tangible advances towards EU policy goals and to strengthen the indispensable evaluation and monitoring mechanisms.

AMENDMENTS

The Committee on International Trade calls on the Committee on Budgets, as the committee responsible, to incorporate the following amendments in its report:

| Text proposed by the Commission ¹ | Amendments by Parliament |
|----------------------------------------------|----------------------------------------|
| (7) EIB Financing Operations should be | (7) EIB Financing Operations should be |

Amendment 1
Recital 7

¹ Not yet published in OJ.

consistent with and support EU external policies including specific regional objectives. EIB Financing Operations should take place in countries complying with appropriate conditionality consistent with EU high level agreements on political and macro-economic aspects,

consistent with and support EU external policies including specific regional objectives ***and should contribute to the general objective of developing and consolidating democracy and the rule of law, the objective of respecting human rights and fundamental freedoms, and the observance of international environmental agreements to which the European Community or its Member States are parties.*** EIB Financing Operations should take place in countries complying with appropriate conditionality consistent with EU high level agreements on political and macro-economic aspects; ***the EIB, in conjunction with the Commission, should consider setting up an ex-post control mechanism to ensure that actions financed by the EIB outside the Community uphold the values of the EU,***

Justification

To align with Article 181a of the Treaty, which provides the legal base for this proposal, and with the pertinent international environmental agreements signed by the EC or its Member States. It is important that the EIB's overall strategy, and individual projects, are assessed against clear criteria reflecting European values, in order to ensure transparency in connection with the use of public funds for the sake of both European citizens and the citizens of non-Community countries.

Amendment 2 Recital 8 a (new)

(8a) The information received by the European Parliament and the opportunities for scrutiny should also be strengthened, including by the transmission of strategic programming documents prepared by the Commission or by the EIB,

Justification

Enhanced cooperation between the Commission and the EIB should be complemented by increased involvement of the European Parliament which would contribute towards greater openness and transparency regarding the use of loan guarantees which ultimately represent a risk for the European taxpayer.

Amendment 3
Recital 8 b (new)

(8b) The EIB should ensure that individual projects are subject to a Sustainability Impact Assessment carried out independently of the project sponsors and the EIB,

Justification

EIB lending has been criticised for an excessive focus on large-scale hydro-electric projects which damage the environment and displace local residents. Individual projects, in all regions covered by this decision, should be subject to independent Sustainability Impact Assessments to identify the economic, social and environmental effects of the project and propose accompanying measures to maximise the positive impacts and minimise any negative effects. Such assessments should provide much greater transparency.

Amendment 4
Recital 9

(9) With regard to pre-accession countries, EIB financing in those countries should reflect the priorities established in the Accession and European Partnerships, in the Stabilisation and Association agreements and in negotiations with the EU. The focus of EU action in the Western Balkans should continue to shift progressively from reconstruction to pre-accession support. In this context, the EIB activity should ***also*** seek to encourage the institution building aspect, where relevant, in cooperation with other International Financial Institutions (“IFIs”) active in the region. Over the period 2007-2013, financing to candidate countries (Croatia, Turkey and the Former Yugoslav Republic of Macedonia) should increasingly take place under the Pre-Accession Facility made available by the EIB, which should be extended over time to cover the potential candidate countries in the Western Balkans in line with the progress of their accession process,

(9) With regard to pre-accession countries, EIB financing in those countries should reflect the priorities established in the Accession and European Partnerships, in the Stabilisation and Association agreements and in negotiations with the EU. The focus of EU action in the Western Balkans should continue to shift progressively from reconstruction to pre-accession support. In this context, the EIB activity should ***in addition*** seek to encourage the institution building aspect, where relevant, in cooperation with other International Financial Institutions (“IFIs”) active in the region. ***In addition, it is important to encourage trade in the Western Balkans since it is a vital tool for stressing the importance of switching from reconstruction to pre-accession support and thus becoming more integrated in the EU.*** Over the period 2007-2013, financing to candidate countries (Croatia, Turkey and the Former Yugoslav Republic of Macedonia) should increasingly take place under the Pre-Accession Facility made available by the EIB, which should be extended over time to cover the potential candidate countries in the

Western Balkans in line with the progress of their accession process,

Amendment 5

Recital 10

(10) With regard to countries covered by the ENPI, the EIB should continue and consolidate its activities in the Mediterranean region with its focus on private sector development. As regards Eastern Europe, Southern Caucasus and Russia, the EIB should enhance its activities in Russia and Ukraine and prepare to enter other countries in the region as soon as they fulfil appropriate conditionality consistent with EU high level agreements with the country in question on political and macro-economic aspects. In this region, the EIB should finance projects of significant interest to the EU in transport, energy, telecommunications and environmental infrastructure. Priority should be given to **projects on extended major Trans European Network axes, projects with cross-border implications for one or more Member States and major projects** favouring regional integration through increased connectivity. In the environmental sector, the EIB should in Russia give particular priority to projects within the framework of the Northern Dimension Environmental Partnership. In the energy sector, **strategic energy supply and energy transport** projects are of particular importance. EIB Financing Operations in this region should be carried out in close cooperation with the European Bank for Reconstruction and Development (“the EBRD”), in particular according to the terms to be set out in a tripartite Memorandum of Understanding between the Commission, the EIB and the EBRD,

(10) With regard to countries covered by the ENPI, the EIB should continue and consolidate its activities in the Mediterranean region with its focus on private sector development, **on projects contributing to the achievement of the Millennium Development Goals, fostering sustainable development and enhancing environmental protection**. As regards Eastern Europe, Southern Caucasus and Russia, the EIB should enhance its activities in Russia and Ukraine and prepare to enter other countries in the region as soon as they fulfil appropriate conditionality consistent with EU high level agreements with the country in question on political and macro-economic aspects. **In this case also, activities should focus on private sector development**. In this region, the EIB should finance projects of significant interest to the EU in transport, **sustainable** energy, telecommunications and environmental infrastructure. Priority should be given to projects favouring **cross-border and** regional integration through increased connectivity. In the environmental sector, the EIB should in Russia give particular priority to projects within the framework of the Northern Dimension Environmental Partnership. In the energy sector, **sustainable** energy supply projects are of particular importance. EIB Financing Operations in this region should be carried out in close cooperation with the European Bank for Reconstruction and Development (“the EBRD”), in particular according to the terms to be set out in a tripartite Memorandum of Understanding between the Commission, the EIB and the EBRD,

Justification

The EIB needs to be given direction with regard to the end objectives of its activities rather than just the means. In the energy sector, the emphasis should be on projects that offer long-term sustainable supply whilst pipeline projects need to be carefully evaluated so as to guard against negative environmental effects.

Amendment 6

Recital 11

(11) With regard to countries covered by the DCECI, EIB financing in the Asian and Latin American countries **will** be progressively aligned with the EU cooperation strategy in those regions and be complementary to instruments financed by Community budgetary resources. The concept of “mutual interest”, so far limited in practice to the financing of projects involving EU companies, **will** be broadened to take into account the promotion of environmental sustainability and regional integration (such as transport, telecom and energy projects favouring interconnectivity). The EIB should endeavour to progressively expand its activities across a larger number of countries in those regions, including in the less prosperous countries. In Central Asia, the EIB should focus on **major** energy supply and energy transport projects with cross-border implications. EIB financing in Central Asia should be carried out in close cooperation with the EBRD, in particular according to the terms to be set out in a tripartite Memorandum of Understanding between the Commission, the EIB and the EBRD. To enhance visibility of EU intervention in Latin America, a specific amount should be identified for a Latin America facility,

(11) With regard to countries covered by the DCECI, ***the EIB should continue and consolidate its activities with a focus on projects contributing to the achievement of the Millennium Development Goals, fostering sustainable development and enhancing environmental protection.*** EIB financing in the Asian and Latin American countries **should** be progressively aligned with the EU cooperation strategy in those regions and be complementary to instruments financed by Community budgetary resources. The concept of “mutual interest”, so far limited in practice to the financing of projects involving EU companies, **should** be broadened to take into account the promotion of environmental sustainability and regional integration (such as transport, telecom and energy projects favouring interconnectivity). The EIB should endeavour to progressively expand its activities across a larger number of countries in those regions, including in the less prosperous countries. In Central Asia, the EIB should focus on ***environmental infrastructure, sustainable*** energy supply and energy transport projects with cross-border implications. EIB financing in Central Asia should be carried out in close cooperation with the EBRD, in particular according to the terms to be set out in a tripartite Memorandum of Understanding between the Commission, the EIB and the EBRD. To enhance visibility of EU intervention in Latin America, a specific amount should be identified for a Latin America facility,

Justification

The need for environmental infrastructure projects is at least as great in Central Asia as in the Eastern Europe, the Southern Caucuses and Russia. This amendment ensures more consistent treatment between the countries covered by recital 10 and those by recital 11.

Amendment 7
Recital 16

(16) Reporting by the EIB and the Commission on EIB Financing Operations should be strengthened. On the basis of the information received from the EIB, the Commission should report, on an annual basis, to the European Parliament and the Council on the EIB Financing Operations carried out under this Decision,

(16) Reporting by the EIB and the Commission on EIB Financing Operations, ***as well as the EIB's own assessment capacities***, should be strengthened. On the basis of the information received from the EIB, the Commission ***should produce its own assessment, drawing on independent, external expertise for major loan projects, and*** should report, on an annual basis, to the European Parliament and the Council on the EIB Financing Operations carried out under this Decision. ***This report should include an assessment of the contribution of the EIB Financing Operations to the achievement of the external policy objectives of the EU. The report should also list EIB supported loans according to their risk exposure as assessed by the EIB,***

Justification

The Commission should not rely exclusively on information from the EIB in drawing up its project assessments and the annual report but be ready to obtain information from independent, external experts including those based in the countries where EIB financing operations have taken place. The annual report should set out clearly how the EIB has contributed to fulfilling the objectives set out in recitals 10 and 11 (as amended).

Amendment 8
Recital 17

(17) The Community guarantee established by this Decision should cover EIB Financing Operations signed during a seven-year period beginning on 1 January 2007. In order to be able to take stock of the developments during the first half of that period, the EIB and the Commission should prepare a mid-term review of the Decision,

(17) The Community guarantee established by this Decision should cover EIB Financing Operations signed during a seven-year period beginning on 1 January 2007. In order to be able to take stock of the developments during the first half of that period, the EIB and the Commission should prepare a mid-term review of the Decision. ***This review should be undertaken on the basis of a broad consultation of***

stakeholders concerning the impact of the EIB's operations,

Justification

Public confidence in EIB operations and the use of European taxpayers' funds to support them requires greater openness and transparency to ensure that the widest possible range of stakeholders are included in the review process.

Amendment 9

Recital 18

(18) EIB Financing Operations should continue to be managed in accordance with the Bank's own rules and procedures, including appropriate control measures, as well as with the relevant rules and procedures concerning the Court of Auditors and OLAF,

(18) EIB Financing Operations should continue to be managed in accordance with the Bank's own rules and procedures, including appropriate control measures, as well as with the relevant rules and procedures concerning the Court of Auditors and OLAF; ***the EIB should make sure, in accordance with Article 267 of the Treaty, which sets out its task, that the projects it finances cannot be entirely financed by the various means available in the individual Member States, and in particular that no distortion of competition with credit and investment institutions is generated,***

Justification

This amendment seeks to ensure that the Decision does not generate any distortion of competition with credit and investment institutions.

Amendment 10

Recital 18 a (new)

(18a) In the interests of transparency, which is a key value of the EU, the EIB should remunerate the EU's Community guarantee on financially reasonable terms laid down by the Commission. If, for any reason of a financial, technical or political nature, the cost of such remuneration is borne by the EU, it should be subject to a grant decision in line with the requirements of Community common law,

Justification

Transparency is a key value of the EU and there is no reason why an action of this kind

should not be taken into account in the project value chain. Of course, there is nothing to stop the Union - whether for financial, technical or political reasons - from covering the cost of fair remuneration in respect of the guarantee by providing a grant for the same amount, but it must do so by means of budget decision in line with the provisions of Community common law on grants.

Amendment 11
Article 2, paragraph 2

2. Individual countries shall become eligible under the regional ceilings and sub-ceilings as and when they fulfil appropriate conditionality consistent with EU high level agreements with the country in question on political and macro-economic aspects. The Commission, in consultation with the EIB, shall determine when an individual country has fulfilled the appropriate conditionality and shall notify the EIB thereof.

2. Individual countries shall become eligible under the regional ceilings and sub-ceilings as and when they fulfil appropriate conditionality consistent with EU policies and high level agreements with the country in question on political and macro-economic aspects. The Commission, in consultation with the EIB, shall determine when an individual country has fulfilled the appropriate conditionality and shall notify the EIB thereof ***after having consulted the European Parliament on the basis of a clear statement of its reasons, it being understood that belonging to any European Partnership Agreement implies eligibility.***

Justification

As we have seen in discussion of the interim trade agreement with Turkmenistan, political and economic conditionality is a highly debatable issue which cannot be regarded as merely a technical matter. Instead decisions about the eligibility of individual countries should be subject to genuine parliamentary scrutiny.

Amendment 12
Article 2, paragraph 4

4. In the event of serious concerns over the political or economic situation in a specific country, the Commission and the EIB may decide to suspend EIB Financing Operations in such country.

4. In the event of serious concerns over the political or economic situation in a specific country, the Commission and the EIB may decide to suspend EIB Financing Operations in such country ***after having consulted the European Parliament.***

Justification

As with the previous amendment, the political nature of the decision to grant or deny access to EIB lending with a Community guarantee means that appropriate Parliamentary scrutiny is required.

Amendment 13
Article 4, paragraph 1 a (new)

1a. The European Parliament shall be kept fully informed of this dialogue, including by means of transmission of Commission country and regional strategy papers and the EIB strategic planning documents and project pipelines.

Justification

Again an enhanced level of parliamentary involvement will contribute to greater openness and transparency of EIB activity and so to greater public confidence in the impact of the projects it is supporting.

Amendment 14
Article 6, paragraph 2 a (new)

2a. In the interests of transparency, which is a key value of the EU, the EIB shall remunerate the EU's Community guarantee on financially reasonable terms laid down by the Commission. If, for any reason of a financial, technical or political nature, the cost of such remuneration is borne by the EU, it must be subject to a grant decision in accordance with the requirements of Community law.

Justification

Transparency is a key value of the EU and there is no reason why an action of this kind should not be taken into account in the project value chain. Of course, there is nothing to stop the Union - whether for financial, technical or political reasons - from covering the cost of fair remuneration in respect of the guarantee by providing a grant for the same amount, but it must do so by means of budget decision in line with the provisions of Community common law on grants.

Amendment 15
Article 6, paragraph 2 b (new)

2b. If a Head of State, a government member, a member of a Member State's parliament, a member of the Commission or a Member of the European Parliament is directly or indirectly associated with an entity benefiting from EIB activity covered

by the Community guarantee, the Community guarantee decision shall be the subject of a special report drawn up by the bank's verification committee. This paragraph shall not apply to current Community guarantee agreements concluded on normal terms which, by virtue of their subject or their financial implications, are of no significance to any of the parties involved.

Justification

The EIB is a means of exercising political influence and the way it operates must fulfil all the transparency requirements which are based on the values, and are essential prerequisites for the credibility, of the European Union and its satellite organisations. The proposed provision already exists in the domestic law of some Member States, establishing transparency requirements for the management of enterprises in the private sector and, in some cases, the public sector. The provision meets the requirements of good governance. In view of the complex technical, financial and political links which can arise, it is appropriate for a safeguard of this kind to be introduced.

Amendment 16
Article 7, paragraph 1

1. The Commission shall report annually to the European Parliament and the Council on the EIB Financing Operations carried out under this Decision. The report shall include an assessment of the contribution of the EIB Financing Operations to the fulfilment of the external policy objectives of the European Union, ***taking into account the operational objectives of the EIB.***

1. The Commission shall report annually to the European Parliament and the Council on the EIB Financing Operations carried out under this Decision. The report shall include an assessment of the contribution of the EIB Financing Operations to the fulfilment of the external policy objectives of the European Union ***and in particular to the achievement of the Millennium Development Goals, and shall list EIB supported loans according to their risk exposure as assessed by the EIB.***

Justification

The annual report should give priority to the contribution that is being made towards the fulfilment of the Millennium Development Goals, given that these are specific, internationally agreed targets.

Amendment 17
Article 7, paragraph 1 a (new)

1a. The annual report shall include an evaluation of the main concerns raised in

the Sustainability Impact Assessments of loan projects referred to in recital (8b) and the recommendations made by the Commission to the EIB for the mitigation of such concerns.

Justification

This will contribute an independent element to the assessment process as well as contribute to greater openness and transparency.

Amendment 18
Article 7, paragraph 2 a (new)

2a. The Commission shall also obtain whatever outside expertise is required to enable it to make an independent assessment of the contribution of the EIB Financing Operations.

Justification

This will also contribute an independent element to the assessment process as well as contribute to greater openness and transparency.

PROCEDURE

| | |
|-------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Title | Proposal for a Council decision granting a Community guarantee to the European Investment Bank against losses under loans and guarantees for projects outside the Community |
| References | COM(2006)0324 – C6-0275/2006 – 2006/0107(CNS) |
| Committee responsible | BUDG |
| Opinion by Date announced in plenary | INTA 5.9.2006 |
| Draftsman Date appointed | Alain Lipietz 12.7.2006 |
| Discussed in committee | 11.7.2006 11.9.2006 3.10.2006 23.10.2006 |
| Date adopted | 23.10.2006 |
| Result of final vote | +: 11 -: 0 0: 0 |
| Members present for the final vote | Jean-Pierre Audy, Enrique Barón Crespo, Daniel Caspary, Christofer Fjellner, Georgios Papastamkos, Peter Šťastný, Johan Van Hecke, Zbigniew Zaleski |
| Substitute(s) present for the final vote | Elisa Ferreira, Małgorzata Handzlik, Margrietus van den Berg |
| Substitute(s) under Rule 178(2) present for the final vote | |