EUROPEAN INVESTMENT BANK

CA/273/93
5 October 1993

PV/93/15

DRAFT : please provide the Secretariat, preferably
in writing, with any requested amendments,
if possible before the next meeting on 5 October

B O A R D O F D I R E C T O R S

Minutes of the meeting held in Luxembourg
on Tuesday 20 July 1993 at 9.00 a.m.

[redacted]

[redacted]

II : general questions

9. Reassessment of the Outlook for Bank Activity in 1993

Turning to Documents 93/318 and 93/368 (mid-year Balance Sheet and Profgit and Loss Account), the CHAIRMAN informed the Board that total loan signatures for the current year were now expected to reach approximately ECU 20 billion, which would represent an increase of about 17% over the volume of lending in 1992. Operations outside the community were expected to account for about ECU 1.5 to 2 billion, i.e. 7.5% to 10% of the total. Disbursements were expected to be of the order of ECU 17 to 18 billion and total borrowing would be between ECU 16 and 17 billion. The final outcome depended on a number of factors, among them interest-rate movements and the level of economic activity in the Community.

With regard to the Edinburgh Facility the CHAIRMAN said that loan signatures were expected to total about ECU 2 billion, with approvals having reached about ECU 3.25 billion to date, including the amounts approved earlier at the present meeting. He noted, however, that it would not be appropriate to extrapolate the approved amount to the whole year.

If the estimated amounts were realised, the total outstanding volume of lending would increase to about ECU 97 billion which would represent some two thirds of the statutory ceiling on commitments This would be slightly less than expected at the time of the last capital increase and would mean that the Bank was about six months behind the scenario for growth projected in January 1991.

Responding to questions from Mr. EVANS concerning the Edinburgh Facility, the CHAIRMAN pointed out that the accelerated lending had been relatively easy to achieve because the Bank had been able to bring forward projects already in the pipeline. It would be more difficult to maintain this pace with new projects and he therefore appealed to the Member States and the Commission to support the Bank in identifying new projects eligible under the Edinburgh and Copenhagen Facilities.

Mr. GREPPI, Head of Operations in the Community, Directorate PM1, confirmed that the amount approved was over ECU 3 billion and added that so far signatures had reached ECU 900 million and disbursements ECU 780 million. The volume specifically attributable to new projects under the Edinburgh and Copenhagen Facilities was difficult to estimate.

In reply to Mme. OBOLENSKY on the impact of the current recession on the development of the Bank's lending programme, the CHAIRMAN noted that to date the impact of the recession on the Bank's lending had been much less than expected, but that it might take some time for the effects to be felt.

Mr. GREPPI added that there was no negative impact on the existing project pipeline but that a slow-down was apparent for new operations. He observed that the sectoral composition of the lending programme was changing, with the number of industrial projects diminishing whereas the share of infrastructure projects was increasing as a result of the Edinburgh and Copenhagen Facilities.

Mr. BRANTNER expressed surprise about the high level of the mid year operating income which had increased by 20%. If this level were to be maintained during the second part of the year the total would reach about ECU 1.4 billion which he would regard as extraordinary.

Mr. MARCHAT, Head of the Finance & Treasury Directorate, cautioned that the mid-year results were only a snap-shot of the situation on 30 June 1993 which should not be extrapolated over the whole year. Among the reasons for the increase in the operating income had been the increase of own funds and the fact that no provisions had needed to be made so far in 1993. He added that declining interest rate might have a dampening effect on the results for the second half of the year.

Mr. FERNANDEZ commended the Bank for its efforts in Spain under the Edinburgh Facility which were particularly welcome in the present adverse economic situation. He stressed that, in his view, Spain was a beneficiary of the value added by the Edinburgh Facility and he encouraged the Bank to continue with efforts for the utilisation of the Edinburgh and Copenhagen lending instruments.

The CHAIRMAN commented that although the Bank believed that these lending instruments entailed value added, it was not easy to measure their precise impact.

In the absence of any further remarks, he recorded that the BOARD OF DIRECTORS took note of Documents 93/318 and 93/368.

10. Implementation of the Conclusions of the Edinburgh and Copenhagen Summits concerning the Bank

The CHAIRMAN introduced Document 93/319 (general paper), 93/367 (concerning the Conclusions of the Copenhagen Summit regarding the temporary lending facility, sent in French - English and German versions tabled) and revised versions of Documents 93/239 and 297, distributed after the Board meeting held on 7 June 1993 (Relations between EIB and EIF Decision-making organs, and matrix for nomination of EIB Representatives for the Supervisory Board), following comments from certain Directors (also tabled).

The Board was being asked to take note of the state of play on Edinburgh Facility operations, the EIF (on which certain points needed to be settled at the present meeting), the Cohesion Fund and the Structural Funds, as set out in Document 93/319, and to endorse the guidelines proposed in Document 93/367 for responding to the conclusions of the European Council in Copenhagen regarding the extension of the Temporary Lending Facility in support of trans-European networks and SMEs.

The CHAIRMAN had attended the Ecofin Council Meeting on 12 July to report on the deployment of the Edinburgh Facility : the operations on the day's agenda would bring Board approvals to ECU 3.25 billion.

As far as Copenhagen was concerned, the additional ECU 2 billion of financing proposed for Trans-European Networks was an extension of the arrangement put in place as a result of the Edinburgh Summit. The Bank would however be faced with a heavier burden and would need further help on project identification from the Commission and the Member States. The concept of "priveleged project" could be accepted, provided it implied no deviation from the Bank's existing procedures and quality criteria.

The question of a further ECU 1 billion of financing for SMEs with interest subsidies, which had suddenly emerged at Copenhagen, was yet to be settled : this had been remitted to COREPER by the Council. With the strong support of Commission Vice-President Christophersen, the CHAIRMAN had argued for maximum operating flexibility, with a view to the conclusion of a cooperation agreement with the Commission (the attached draft Council decision was also designed for this purpose), but no move could be made until the Council had delivered a clear decision, not earlier than the beginning of September. A swift response might then be necessary. The CHAIRMAN would report back to the Board as soon as there were developments.

At the invitation of the CHAIRMAN, Mr LANDABURU reported on the latest developments, notably the unanimous agreement reached by the Council a few hours earlier in concluding its negotiations on the Structural Funds regulations, which would now become operative on 1 January 1994, with ECU 140 million of Structural Fund grants to be deployed over the next six years. The Member States could now elaborate in detail their regional development plans with the negotiation of Community Support Frameworks expected in the Autumn.

Mr LANDABURU had himself sent a letter to the authorities concerned in this exercise, asking them to indicate what deployment of complementary EIB financing they could foresee. This implied an increased rôle for the Bank in the formulation of CSFs and greater synergy between the Structural Funds and EIB loan financing in the various programmes.

The question of financing interest payments in respect of the proposed Bridging Facility was still under review. In the meanwhile, contacts were being pursued in all Community capitals to identify needs for such Bridging Facility.

There was scope for the ERDF to finance the proposed interest subsidies on extended SME financing.

The CHAIRMAN thanked Mr LANDABURU and looked forward to intensified cooperation between the Bank and the Commission on elaborating their combined role.

Mr RAVASIO commented that the Bridging Facility was for support to the Member States, but that real needs had first to be identified. He thanked the Bank for the work it had contributed to drawing up the text for the SME Facility.

Mr FERNANDEZ welcomed the support for SMEs, but foresaw certain difficulties in the allocation of interest subsidies from budgetary funds. In particular, he pointed out that some of these specifically-allocated funds could find their way into the financing of more general, "horizontal" actions, such as the BEX Global Loan, just approved by the Board, which would be at odds with the objectives set for those funds. The Bank could not prescribe the ultimate location of financing under such instruments and might thus find itself channelling additional resources to projects outside assisted areas.

The CHAIRMAN suggested that decisions on these matters remained the province of other bodies : the Bank's first concern was to ensure that there was flexibility in the implementation procedures to be followed. Directors - both those from the Commission and others - were noting these proceedings and would report back to their respective authorities.

Mr LANDABURU pointed out that the funding in question would be from existing sources, which allowed of deployment outside assisted areas.

Mr HECK thought it would have been preferable to await the Council decision and then take up discussion before earmarking ECU 1 billion for SME support.

Mr O'CONNELL shared the views of Mr FERNANDEZ and looked forward to EIB participation in the programme for Ireland.

While taking the CHAIRMAN's point on preparedness for action, Mr EVANS advised against pre-judging the issue on interest subsidies. He was also interested in the prospects for further Bank contributions in the form of input of expertise and experience, and hoped that the transport sector would be able to benefit from action under the cohesion objectives, where also Bank appraisal work might be included.

In the absence of any further remarks, the CHAIRMAN thanked the BOARD OF DIRECTORS for its endorsement of the guidelines proposed in Document 93/367 for responding to the conclusions of the European Council in Copenhagen regarding the extension of the Temporary Lending Facility in support of trans-European networks and SMEs.

The BOARD OF DIRECTORS also noted the need for a swift response to a clear decision by the Ecofin Council, probably in September, and for an acceptable arrangement for the financing of interest subsidies.

With regard to the European Investment Fund, the CHAIRMAN reported that the Bank had made great efforts in recent weeks to follow up its original approaches to banks and financial institutions to take up part of the 30% shareholding in the Fund earmarked for them. He had written to well over 100 banks, a list of which had been distributed to Board members. There had been follow-up discussions, with others still to come, conducted by the CHAIRMAN and other Management Committee members.

Some thirty banks had given a positive response and certain of those had also confirmed their intention to take a shareholding in writing. Formal and putative confirmations accounted for a total approaching ECU 200 million. The central core however was still being established, and there might be further bilateral contacts with Directors in the efforts to persuade parties still hesitating over their decisions.

As far as internal arrangements were concerned, the Bank had already put in hand provisional arrangements for setting up the Fund, as far as the its participation was concerned, and for the financing of this work. Formal establishment of the Fund could however only follow when the other partners were fully on board and formal ratification by the Member States had taken place.

As part of the campaign to attract other parties, an assembly of prospective members was being organised for mid-September, which it was hoped would have a catalytic effect on other potential participants.

The Bank was optimistic but aware that there was still some way to go, and it was putting great effort into the work of canvassing and persuading prospective partners.

The CHAIRMAN thanked Messrs EVANS and HECK for their suggestions. Document 93/239 had been adapted to include Mr HECK's proposed modification of Article 7, stipulating prior approval by the Board of Governors not only of increases in the subscribed capital of the EIF, but also for the calling-in of capital and for the decision to embark on equity participation operations : this, for consistency with the statutes.

The Management Committee did not feel it desirable to incorporate into Article 4 of the paper the concept of instructions. It felt that the term "guidelines", thoroughly discussed at the previous meeting, would give the Board sufficient influence over its representatives on the EIF Supervisory Board. Nothing should now make it more difficult to persuade banks and financial institutions from coming into the EIF.

Mr FERNANDEZ professed some sympathy with the arguments for including provision for the Board to issue instructions to its representatives on the EIF Supervisory Board, and suggesetd that, by way of compromise, the Board's prerogative to do so should be specifically recorded in these Minutes.

Mr HECK, thanking the Management Committee for its acceptance of his proposed modifications to Article 7, made it clear that the notion of "instructions" had only been put forward for exceptional circumstances. He die not feel there to be any risk of deterring the banks, since the provisions in question were of strictly internal interest to the EIB.

Mr EVANS approved the change to Article 7 and rallied to Mr FERNANDEZ' compromise, whereby the wording he had proposed might be minuted for future reference.

Mr VANORMELINGEN seconded Messrs EVANS and HECK and the solution suggested by Mr FERNANDEZ. He urged the Bank to keep up its contacts with the banking institutions and to allay their fears : their greatest assurance would be to maximise their participation, and provide the Fund with the full tripartite structure desired.

He could see the anomalies inherent to the proposed matrix but, given the likely enlargement of the Community, favoured continued use of the matrix as set for the time being.

He still favoured cost-sharing between the three parties during the preparatory period leading up to the creation of the Fund, as part of the continuing effort to arrive at a balanced structure. The Belgian Conseil d'Etat had given the green light for ratification of the addition to the Bank's Statute, enabling the Governors to create the Fund.

Mme OBOLENSKY expressed her continuing aversion to the matrix approach, arguing again for an **ad hoc** method of nomination, in particular for alternates.

Mr HECK favoured this approach as an alternative, as he could see little point in a matrix that would have to be changed so soon. Moreover, he believed that the relative weight of the Member Countries in terms of their contributions to the Bank's capital, might also need to be reflected in the selection of representatives on the EIF Supervisory Board.

The CHAIRMAN recalled that the matrix was only a provisional arrangement and that no automatic system could satisfy everybody. However, given the reactions in the Board, **ad hoc** nomination of alternates would appear to be an acceptable recourse.

He assured Mr VANORMELINGEN that the Bank's approach in its contacts with potential EIF members was precisely to argue that joining the Fund gave an opportunity to influence the outcome. Equity participation had always been a deferred activity, but even so some banks were being deterred by the prospective involvement of the Fund in SME financing.

Mr HECK seconded this observation : equity participation had never been foreseen as an activity for the emergent EIF.

It should be remembered that the arrangements currently under discussion applied to the preparatory phase : it would be for the Fund itself to decide once it came into being.

He noted the proposed compromise on the wording of Article 4, but reminded the Board that it had always the option of changing its representatives, should the occasion arise.

Mr RAVASIO suggested a further alternative wording for Article 4, but would prefer to leave Article 7 untouched.

In the absence of any further remarks, the CHAIRMAN recorded that the BOARD OF DIRECTORS adopted the text of Document 93/239 on relations between the decision-making organs of the EIF and those of the Bank on the understanding that the wording of Article 4 "may provide guidelines" would be retained, but that this would not preclude the Board of Directors from giving instructions to the Bank's representatives where appropriate.

The BOARD OF DIRECTORS, referring to the matrix for the nomination of EIB representatives on the Supervisory Board of the EIF as a provisional arrangement, subject to modification with the enlargement of the Community, decided to keep open the possibility of nomination of alternates on an **ad hoc** basis.

11. ECSC : take-up of certain activities by the EIB

The CHAIRMAN turned to Document 93/320, an inter-service document drawn up by Bank and Commission staff, following discussions in the Council of Ministers (Industry). This was putting forward the assumption by the Bank, as from 1 January 1994, of lending activity hitherto carried out by the Commission as ECSC operations where consumption of coal and steel was involved (Article 54.2 operations). The Bank would apply to these its usual lending criteria as part of its support for TENs.

As regards Article 54.1 operations (investment programmes in the coal and steel sectors), more study was required, notably for applying the Bank's eligibility criteria. Moreover, this would be another new area of activity, and the Bank needed to weigh the consequences.

Mr MORAWITZ welcomed this development, which was something he had always favoured, viz. the transfer of what might be considered as the Commission's "banking activities". The matter had to be resolved before the year 2002, and in his view, the sooner the better. He did not foresee problems : the Bank would apply its criteria, vet guarantees ; and there was no need for involvement of the Board of Governors in the proposed arrangements, which were simply for the application of Treaty provisions to move out of one Community institution's hands into another's.

However, there did arise in his mind the question of actual assets in the name of the ECSC, and whether the EIB would take these over or only manage them, and if so how the accounts would be rendered, whether discretely or subsumed into EIB own funds.

The CHAIRMAN reminded the Board that this was only a discussion paper, which had not so much as approached such questions as that of Mr MORAWITZ, where there were very real implications and critical distinctions to be drawn. Moreover, whereas Article 54.2 activity required no formal changes in Bank procedures, new operations under Article 54.1 could prove a source of difficulty which might call for recourse to the Board of Governors.

Mr LANDABURU urged the Board to express its views, which would be most helpful to the Commission as it moved on from the present "non-paper" to the development of draft guidelines. Document 93/320 was not a "note des services". The Commission services were still reflecting on the question of possible EIB involvement in ECSC activities and the Commission itself had yet to be consulted on the question of principle. It was envisaged that any ECSC assets that had accrued as a result of Article 54.1 and 2 activity would actually be liquidated. The Bank would inherit only future operations, starting with a blank slate.

The CHAIRMAN said that this also had been his understanding.

Mr EVANS took a view similar to that of Mr MORAWITZ : he would like to see the Bank take up these activities, including Article 54.1 operations, and before the expiry of the ECSC Treaty provisions. He would like to see ECSC reconversion loans phased out and equivalent operations absorbed into mainstream lending, and would prefer not to see this linked with grants as suggested in the paper (§2.4 ii).

Mme OBOLENSKY was in favour of the lines recommended and hoped that the timing would work out as envisaged. The Bank's regular crieria should be applied. There would have to be further study of such elements as reconversion loans and housing loans. She would also hope to see ECSC operations merged into EIB operations as far as activities in Central and Eastern Europe were concerned.

In the absence of any further remarks, the CHAIRMAN recorded that the BOARD OF DIRECTORS took note of Document 93/320, as an indication of developments up to the present stage on possibilities for the Bank's assumption of ECSC lending operations under Article 54 of the Treaty at or before the expiry of the same in the year 2002. It endorsed the broad lines of the approach set out in the Document.