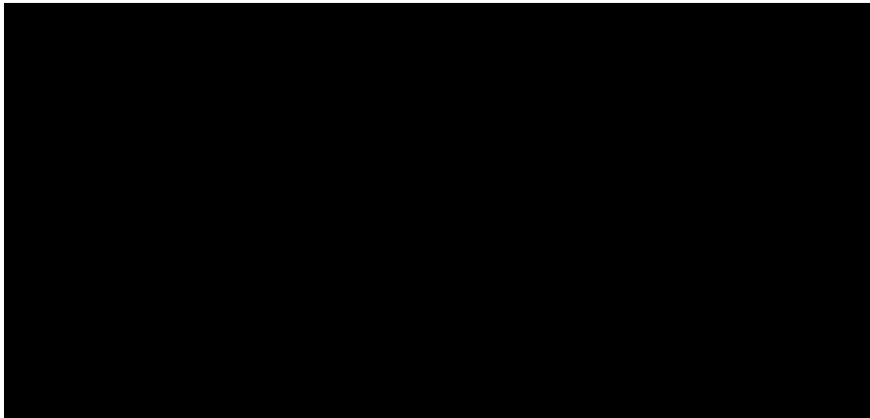


NOTE TO THE MANAGEMENT COMMITTEE

POUR DECISION

Subject: LONDON OFFICE



1. SUMMARY AND CONCLUSIONS

1.1 The London office is achieving the limited objectives set for it and has proved good value for the money. It has proved useful to both UK and Irish clients and to EIB departments other than PM.

1.2 EIB's representation in the UK has not been at a sufficiently high level to have any impact on Government policy or important decisions in the regions in which the Bank mainly operates.

1.3 Operations in the UK and Ireland are inefficiently conducted because of the excessive time wasted in travelling.

1.4 New clients are often confused by changes in staff between promotion and project appraisal.

1.5 The changes in the exchange risk cover schemes coupled with the Commission's aggressive marketing of ECSC facilities will require additional effort if the flow of EIB lending in the UK is to continue at a reasonable level.

1.6 The success in attracting new clients in the UK, and the Irish need for additional loans to justify the maximum EMS subsidies available, has greatly increased the workload of PM staff in Luxembourg. This heavy workload is likely to continue for the foreseeable future.

1.7 Whilst the advantages in operational efficiency to be gained from establishing a full London office on a similar scale to the Rome office are obvious, the political objections are no less than they were in 1978. The problem is how to realise the operational opportunities to the maximum extent consistent with avoiding political difficulties elsewhere.

2. RECOMMENDATIONS

PM recommend as follows :

2.1 The EIB's London office should be retained for the foreseeable future as a permanent feature of the Bank's organisation.

2.2 Its present objectives (see 4.2) should be expanded to include:

5. carry out appraisals of as many private sector projects as possible, under the supervision of senior PM staff based in Luxembourg and in liaison with the relevant Technical and Economic Advisers.

2.3 No additional staff should be posted permanently to London, but the relevant Deputy Manager should, as a matter of routine, normally spend the two weeks prior to each Board meeting in Britain and Ireland (i.e. after project appraisal work on projects for that Board had been completed), based on the London office, in order to :

- 2.3.1 extend and improve the Bank's relations with decision-makers in the UK and Ireland and introduce EIB staff to them;
- 2.3.2 improve the Bank's public image in those countries, in association with the relevant AG staff;
- 2.3.3 more closely supervise and facilitate the work of the London office;
- 2.3.4 improve operational efficiency, assisted by other senior PM staff.

2.4 Since the existing office seems likely to remain adequate for the foreseeable future, negotiations should be opened forthwith for the renewal of the lease for the longest available term.

2.5 The basement should be partitioned and furnished to provide an additional office for EIB visitors to London.

2.6 The existing establishment for two secretaries should be retained for 1980.

2.7 Special terms, including exemption from VAT and preferential reservation facilities, should be negotiated for hotel accommodation for visiting EIB staff, on the basis of competitive offers from the major hotel chains operating in the UK and Ireland.

3. BACKGROUND

3.1 In January 1978 PM suggested that in order to improve operational efficiency and to facilitate the expansion of EIB business in the UK, an operational office should be opened in London, with a staff led by a Directeur Adjoint (note PM/78/13 of 23.1.78).

3.2 After much discussion, this proposal was rejected for political reasons, including the 1965 decision of the then Member States that the Bank should be transferred to Luxembourg and should carry out all its activities there.

3.3 The Management Committee decided instead that a liaison office should be opened in London with one officer on Group 2 and one or two secretaries (CD 39-SG 12/78 of 5.4.78).

3.4 The office was to be established on an experimental basis for one year: the position was to be reviewed after six months. Because of the many uncertainties likely to affect future operations in the United Kingdom, this review was postponed. Some of these uncertainties have now been removed and a review is now appropriate.

3.5 Since the lease for the premises at 23 Queen Anne's Gate expires on 1.8.80 and the landlords are already pressing for a decision as to whether or not the Bank wishes to renew it, an early decision on this point at least is essential.

4. PROGRESS

4.1 In accordance with the CD decision, one rapporteur (Mr R Stevens) and one junior secretary (Miss J Strover) were transferred to London on 5.9.78 to establish the liaison office at no. 23 Queen Anne's Gate. One senior secretary (Miss C Lucas) was transferred there on 6.11.78. Miss Lucas (now Mrs Peare) returned to Luxembourg at her own request on 6.8.79; Miss Strover resigned with effect from 15.11.79. It has not yet been possible to find replacements but efforts are continuing. Meantime a temporary secretary has been hired from an employment agency.

4.2 The limited objectives set for the initial operation have been achieved. It will be recalled that these were to:

1. seek suitable new clients for the Bank's loans,
 2. attract as much business as possible,
 3. ensure that such business was carried out as smoothly as possible,
- and 4. process the applications for allocations from the UK Government Agency Loan scheme.

/. 4.3 Annexe 1 lists the 36 new clients and potential clients already introduced by or with the help of the London office. This represents a significant achievement given that over the previous six years the total number of borrowers of direct EIB loans in the UK was only 30.

4.4 As regards the volume of lending, the 1979 turnover of 844 M u.a. (1), is almost double the 1978 figure, reflecting the value of the London office in facilitating discussions with existing major borrowers, their advisers, the Government departments and other authorities concerned as well as new clients.

4.5 It could scarcely be argued that the UK business has run smoothly: nevertheless the London office has been useful for trouble-shooting project problems.

4.6 The UK Government Agency Loan scheme has also encountered problems: nevertheless the 66 allocations made in 1979 for 43.5 M u.a. compare favourably with the 18 allocations made in 1978 for 16.6 M u.a.

4.7 One noteworthy achievement was the negotiation and signature in the London office of the Bank's first Framework Agreement (accord-cadre) - that with the National Water Council. Other contracts have also been signed in the London office at the request of the borrowers. This has saved the borrowers time and expense in travelling and the Bank time and expense on protracted hospitality which is required when signatories are obliged to spend a whole day - sometimes a night as well - in Luxembourg for a signing ceremony lasting less than an hour.

4.8 The UK Government, the nationalised industries, the banks and other finance institutions, local government and private industry have expressed appreciation of the EIB's initiative in opening the London office, and for the additional convenience and ease of contact it provides.

4.9 The London office provides a useful meeting place not only for visiting members of the Management Committee and PM staff, but also for those from the Bank's other departments. This facility could be further improved if additional partitions and furniture were installed on the basement floor.

5. COSTS

5.1 Costs have been kept within the figures budgeted. The 1979 provision of FB 6.4 M was utilised only to the extent of FB 5.3 M. Moreover, FB 0.5 M of this was used for the purchase of non-recurrent items, so that the effective annual running cost in 1979 was only FB 4.8 M. Staff salaries, which would have been augmented by expatriation allowances had the staff remained in Luxembourg, accounted for FB 2.9 M of this. It may therefore be concluded that the net additional annual cost of the London office was less than FB 1.9 M and that it has proved quite good value for money.

(1) including the NIC loans.

6. POLICY PROBLEMS

6.1 The major problem has been that the Bank's representation has not been at a level sufficient to exert any influence on Government policy or major decisions in the regions. Governmental contacts have been with relatively junior civil servants who themselves have little influence on policy. In consequence the EIB has not been in sufficiently close touch with relevant policy changes as they have evolved.

6.2 A case in point was the recent policy changes on exchange risk cover both in the public and private sectors. Only the last minute intervention of the President and Vice-President with the Chancellor of the Exchequer and the Secretary of State for Industry personally, prevented the abolition of the private sector scheme and the consequent cessation of operations in the UK private sector, not only by the EIB but also by ECSC.

6.3 These changes nevertheless mean it will be more difficult for the Bank to attract business in the UK from 1980 onwards. It seems inevitable that turnover in the UK will be proportionately lower, even if more diversified projects and borrowers can be found. Greater promotional effort will be needed in the public sector, given the reduced advantages of EIB, NIC and EURATOM finance and the severe cuts in public expenditure now proposed. In the private sector, the present limit of £200 M for Community loans covered by Government for exchange risk in the next two years might be reached very quickly and mainly by ECSC loans, aided by the Commission's four offices in the UK.

6.4 The 1979 change of Government in the UK affords the opportunity for better co-operation in the long-term. The new Ministers are basically more favourable and flexible towards the Community than their predecessors. Some disillusionment is however now apparent. The EIB will not be able to contribute significantly towards removing that disillusionment and the misunderstandings on which it is based, nor to take advantage of the opportunities for greater business if its London office arrangements remain unchanged, still less if the office is closed.

6.5 Representatives of the Irish Government and Irish clients have found the London office very useful for purely practical purposes and are likely increasingly to do so. It would however, for obvious reasons, be undesirable from the point of view of protocol to formalise this use in any way. Operations in Ireland must continue to be based, formally at least, on Luxembourg.

7. OPERATIONAL PROBLEMS

7.1 In retrospect, the decision to confine operational work to allocations under the UKGAL has proved unfortunate. The large volume of supervisory and co-ordinating activities on UKGALs as well as the additional operational work on proposals for direct loans has thrown a severe burden on the remaining staff of PM's UK, Ireland and North Sea department in Luxembourg.

Much of their time is wasted in travelling. A one-day mission - sufficient for most projects - to the UK Development Areas or to Ireland, often involves two extra days travelling - a patent inefficiency. Every effort is made to carry out several project appraisals during the same mission, but this is rarely possible because different appraisal teams are usually needed for the different sectors. Meantime, despite achieving the limited objectives set for them, the staff in London have not been employed to the maximum of their capabilities.

7.2 Some confusion, especially to new clients in the private sector, has been caused by the changes in the staff handling their cases between initial contact and appraisal. To eliminate this problem PM's organisation was changed from sectoral to geographical division of responsibilities. This proved effective but the advantages are eroded in the UK by the renewed separation of prospection and promotion on the one side, and appraisal on the other.

7.3 The ECSC meantime have announced their first loan to the Electricity Council, one of the Bank's most important clients. They have also stepped up the aggressive marketing for their loans for "reconversion" projects in the UK - see PM RQs of 1.3.79, 6.3.79, 22.3.79, 18.9.79 and 10.1.80. Since most of the assisted areas in the UK contain redundant coalminers and/or steelworkers, this is eroding the potential for EIB loans for private sector industrial projects. The only way in which EIB can compete (apart from securing interest rate subsidies equivalent to those applicable to ECSC loans, which seems increasingly unlikely) is to deal with enquiries and applications more quickly and efficiently than ECSC. The confusion and delays referred to above obstruct this aim.

7.4 An irritating administrative problem has been the difficulty of retaining two secretaries in post in London. The posting is not popular, largely because of the very high cost of housing in London (a two-room basement apartment, in one of the least attractive areas within reasonable travel distance of the office, rents at the equivalent of more than FLux 20 000 per month). It is extremely difficult for one secretary to cope simultaneously with switchboard, typing, reception and telex duties, though this is essential when the other is on leave or sick. The two secretaries are more than fully occupied when visiting staff from Luxembourg are in London, and one is overwhelmed in such circumstances.

7.5 Hotel accommodation in London is often difficult to obtain, and is expensive. Especially during the tourist seasons the Bank's staff frequently have to approach numerous hotels in order to secure reservations for EIB staff from Luxembourg. The Bank still pays VAT (now 15%) on hotel bills incurred by its staff.

8. COMPARISONS WITH ROME OFFICE

8.1 Over the past five years, the number and volume of operations in the UK and Ireland have steadily increased, both in absolute terms and as a proportion of the Bank's total activities. In 1979 new loans in the UK

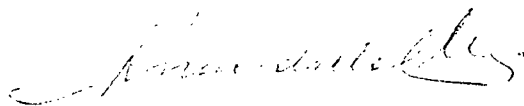
and Ireland amounted to 46% of total loans in the Community by comparison with 39% in Italy. Many of the UK and Irish regions in which the Bank operates are just as difficult of access from Luxembourg as those in Italy.

8.2 On volume of business, saving of travelling time and operational efficiency grounds, it would seem thus self-evident that an operational office in London is as justified as that in Rome.

8.3 It is sometimes said that this is not so, because there are legal and procedural difficulties in Italy which cause special problems requiring close attention at a high level - difficulties which do not exist elsewhere. It is true that Italy does not generally have the wide enabling legislation common in the UK by which Parliament delegates certain of its powers to Ministers and others. The UK common law system also reduces the need for detailed legislation.

8.4 By contrast however in the UK and Ireland, a much greater number of business decisions, both in the public and private sectors, are effectively made in personal discussions between people in positions of power or influence who meet frequently and informally - colloquially known as "the old boy network". It is commonly and mistakenly believed that this system operates only when the Conservatives are in power. This is not so. Nowadays Labour politicians and trade unionists operate the system just as effectively as Tories, bankers and captains of industry. Academics, professional consultants and senior civil servants are part of the system, whichever party is in power. The value of the system lies in mutual trust between people who know each other well and do not require legally binding agreements or special laws to be confident that "gentlemen's agreements" will be honoured.

8.5 The relative success of EIB operations in the UK and Ireland since 1974 is to a large extent a result of the prior integration of its senior staff in this "old boy network" especially in the provinces, where many important decisions are made without reference to London. This network is constantly changing, with transfers and retirements of some key people and their replacement by others. As time elapses, it becomes increasingly difficult to maintain the necessary network of relevant contacts from Luxembourg. The indifferent international telephone system and poor air communications, frequently interrupted by bad weather, do not help. The EIB staff responsible for such operations thus tend to become increasingly remote from the new decision-makers in the UK.



Romeo dalla Chiesa



enc 1

Messrs Le Portz
Steffe
Bombassei
Esselens
Ross

Dir AG
London office