European Investment Bank

EIB Information

1-2001

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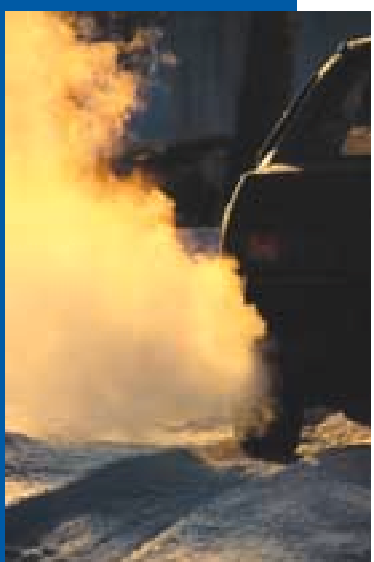
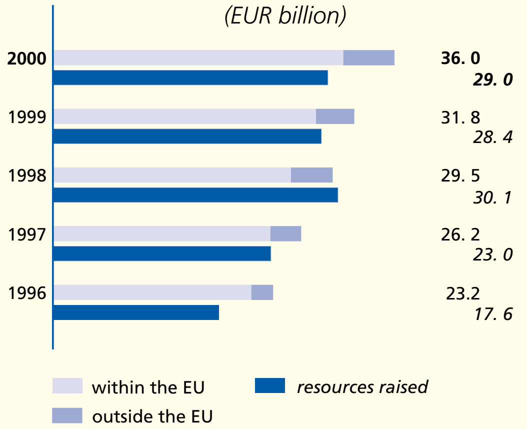


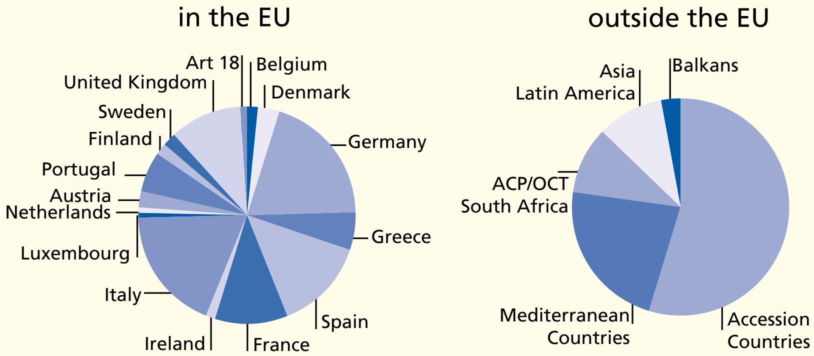
EIB targets Climate Change, see page 11

Finance contracts signed and Resources raised

(EUR billion)



Geographical breakdown of contracts signed in 2000



Highlights in 2000

- the new "Innovation 2000 Initiative" (i2i) underpinning a European economy based on knowledge and innovation,
- substantial increase in finance for SMEs and environmental projects,
- vigorous support for less advanced regions, which received over two thirds of individual loans granted within the EU,
- 24% growth in lending to the Accession Countries and buoyant activity in other countries neighbouring the EU.

EIB in 2000

In 2000, EIB financing for projects supporting European Union policy objectives totalled EUR 36 billion (up 13% on 1999).

EUR 30.6 billion went to projects within the EU Member States and close to EUR 3 billion to those in the Accession Countries, while lending in other countries ran to over EUR 2.4 billion.

To fund these activities, the European Investment Bank borrowed EUR 29 billion on the world's capital markets.

On 31 December 2000, the EIB's balance sheet stood at EUR 219.2 billion, with outstanding borrowings totalling EUR 160 billion and outstanding loans amounting to EUR 199 billion.

EIB Group established

By becoming the majority shareholder and operator of the European Investment Fund (EIF) in June 2000, the EIB created a Group within which the Bank is responsible for medium and long-term lending, while the EIF has become its specialist subsidiary for venture capital and SME guarantee operations.

Thus, the EIB Group is in a position to offer SMEs, through its specialist partners, the full range of financial products they need to develop and meet the challenges of a changing economy.■

Lending in the EU

Innovation 2000 Initiative

The EIB launched this initiative to promote the Lisbon Strategy decided by the European Council (March 2000), which aims to build a Europe based on knowledge and innovation.

Through this initiative, the EIB Group is directing lending towards the following objectives: development of SMEs and entrepreneurship, diffusion of innovation, research and development, information and communications technology networks, and human capital formation. i2i also embraces investment in European audiovisual projects in order to strengthen the financial base of Europe's audiovisual and film industry and its capacity to adapt to the challenges of digital technology.

Since May 2000, loans worth EUR 1.6 billion have been signed under i2i for investment in communications networks (EUR 965 million) and education (EUR 450 million), notably computer literacy and teaching. Furthermore, venture capital operations of some EUR 215 million in favour of innovative SMEs have been concluded.

Over the next three years, the EIB expects to lend between EUR 12 billion and EUR 15 billion under this initiative in addition to funds earmarked for developing venture capital operations through the EIF.

Substantial increase in finance for SMEs

EIB support for SME investment came to EUR 6.2 billion (up 44% on

EUR 2.8 billion in EIB loans went to urban environmental projects, such as public transport, here in Montpellier

Key data 2000 (EUR billion)	
Loan contracts signed	36.0
In the Union	30.6
Outside the Union:	
- Accession Countries	2.9
- other countries	2.4
Loans outstanding	198.9
Borrowings	29.0
Borrowings outstanding	159.9
Balance sheet total	219.2
Subscribed capital	100.0
- of which paid in	6.0

1999), of which over EUR 5.7 billion via traditional global loans (credit lines to local partner banks), fostering investment by some 27 000 SMEs. Another EUR 450 million contributed towards financing 24 venture capital funds in 10 EU countries, which acquire participations in and help to strengthen the capital base of innovative SMEs in the high-tech sector.

In June 2000, the Bank's Board of Governors doubled the scope for EIB Group venture capital operations to EUR 2 billion up to 2003. The Group's venture capital operations are entrusted to the EIF, the Group's subsidiary specialising in venture capital and SME guarantees. The EIF's activity focuses on the Member States, although its venture capital operations will now gradually be extended to the Accession Countries with a view to assisting the emergence of high-tech companies.

…and environmental projects

The Bank's lending for environmental projects showed a marked increase to EUR 6.4 billion (up 39% on 1999). Finance for projects safeguarding the natural environment (water management, waste treatment and reduction in harmful emissions from industry) totalled EUR 3.6 billion. Urban environmental projects received EUR 2.8 billion in loans, particularly in the fields of public transport and urban development.

Regional development

In line with its core mission of underpinning balanced regional development, the EIB pressed ahead with its support for the modernisation of industry and infrastructure in less advanced regions. Aggregate lending in these areas came to EUR 20 billion, comprising EUR 13.7 billion in the form of individual loans (representing 73% of total individual lending operations in the EU) and EUR 6.2 billion in global loan financing promoting small-scale SME ventures and local infrastructure schemes. 45% of individual loans went to projects in the Cohesion Countries (Spain, Greece, Ireland and Portugal).

EIB support for regional development forms an integral part of the EU's structural and cohesion policies. In January 2000, the EIB and the Commission signed an agreement on even closer coordination of their regional development assistance over the period 2000-2006 in both the Member States and the Accession Countries, and particularly on co-financing investment projects (EIB loans and EU budgetary grant aid).

TENs and human capital

Lending for transport, energy and telecommunications infrastructure projects totalled EUR 6.6 billion and loans for health and education, EUR 1.2 billion. In these sectors, the EIB stepped up its involvement in Public Private Partnership financing (for example, communications infrastructure projects in the United Kingdom, Greece, Portugal and Germany as well as in the Accession Countries; education schemes in the United Kingdom).

Loan contracts signed in 2000 and from 1996 to 2000 (EUR million)				
COUNTRY	2000		1996-2000	
	amount	%	amount	%
Belgium (BE)	503	1.4	3 384	2.3
Denmark (DK)	991	2.8	4 060	2.8
Germany (DE)	6 038	16.8	23 281	15.9
Greece (GR)	1 712	4.8	5 335	3.6
Spain (ES)	4 199	11.7	16 667	11.4
France (FR)	3 323	9.2	15 684	10.7
Ireland (IE)	419	1.2	1 165	0.8
Italy (IT)	5 640	15.7	21 718	14.8
Luxembourg (LU)	200	0.6	510	0.3
Netherlands (NL)	260	0.7	2 161	1.5
Austria (AT)	735	2.0	2 744	1.9
Portugal (PT)	1 852	5.1	7 604	5.2
Finland (FI)	525	1.5	2 356	1.6
Sweden (SE)	621	1.7	3 600	2.5
United Kingdom (GB)	3 303	9.2	15 877	10.8
Other	321	0.9	1 286	0.9
Total European Union	*30 644*	*85.0*	*127 431*	*86.8*
Accession Countries	2 948	8.2	10 398	7.1
(of which Pre-Accession Facility)	1 618	4.5	4 455	3.0
Total Accession Countries	*2 948*	*8.2*	*10 398*	*7.1*
Mediterranean Countries (excl. Cyprus, Malta)	1 214	3.4	4 595	3.1
ACP-OCT-South Africa	541	1.5	2 459	1.7
Asia, Latin America	532	1.5	1 627	1.1
Balkans	154	0.4	318	0.2
Total Other Countries	*2 441*	*6.8*	*8 999*	*6.1*
Grand Total	**36 033**	100.0	**146 828**	100.0

Additional project details can be found in "EIB Lending in 2000". This document and further information on the EIB Group's activity and organisation is available on the websites www.eib.org and www.eif.org.

Lending in regions neighbouring the EU

The EIB placed special emphasis on modernisation of SMEs.

Accession Countries

EIB lending in the Accession Countries focused strongly on transport and telecommunications projects linking the region with the EU (Crete and Helsinki corridors) and thus enabling it to participate in and integrate with the EU's internal market, while catching up economically. Of EUR 3 billion in total loans, EUR 960 million went to transport infrastructure projects, notably roads and motorways (EUR 765 million), while EUR 175 million was advanced for rail schemes.

The Bank also placed special emphasis on industrial modernisation, including SMEs.

Increasing attention was given to projects helping the Accession

The EIB has previously participated in the financing of the tram network in Budapest, Hungary

Countries to meet the environmental standards laid down in the *acquis communautaire*. Lending for environmental projects amounted to EUR 745 million, equivalent to almost a quarter of aggregate EIB financing in these countries (water and waste treatment schemes attracted EUR 190 million and projects enhancing the urban environment, especially public transport schemes, over EUR 305 million, while EUR 250 million went for flood damage reconstruction in Romania).

The EIB will continue to expand its activity in support of the pre-accession process, backed by a EUR 8.7 billion lending mandate from the EU (2000-2007) and its own EUR 8.5 billion Pre-Accession Lending Facility (2000-2003), entirely at the Bank's risk. This will further consolidate the EIB's position as the major source of external finance for projects in Central and Eastern Europe.

To prepare for enlargement, the EIB merged its lending directorates for the EU Member States and the Accession Countries, so helping to facilitate operations.

Mediterranean region

In the Mediterranean region, the EIB lent a total of EUR 1.2 billion in non-EU countries, mainly under the "Euro-Mediterranean Partnership". The focus was on modernising the private sector, including SMEs, and strengthening development of the local financial sector, plus enhancing infrastructure and the environment.

The Bank resumed its activities in Syria and continued to back investment underpinning the Peace Process in the region by financing projects in Gaza-West Bank and Jordan. Of overall EIB lending in the region, EUR 575 million went to projects in Turkey, largely under the "Turkish Earthquake Rehabilitation and Reconstruction Assistance" (TERRA) programme.

Stability Pact for South-Eastern Europe

The EIB contributed to the Stability Pact for South-Eastern Europe by making available a total of EUR 154 million in the region. The Bank is participating in the so-called Quick-Start and Near-Term programmes, in which the European Commission, World Bank and EBRD are also involved.

In particular, the EIB assisted reconstruction of Bosnia and Herzegovina's power transmission and distribution systems, building of the Danube bridge linking Bulgaria with Romania, and upgrading of Albania's main North-South road corridor.

A framework agreement for EIB financing in Croatia was established at the end of 2000 and an EIB lending mandate for the Federal Republic of Yugoslavia is currently under consideration by the Council.

Lending in other countries

In Latin America, lending totalled EUR 400 million and in Asia, EUR 130 million. More than a quarter of loans was directed towards private-sector investment, underpinning joint-ventures with European companies and banks.

Particular emphasis was placed on financing private-sector investment in the ACP countries, benefiting both large and small firms. Of the total EUR 400 million lent, EUR 210 million took the form of risk capital drawn from EU budgetary resources. In the Republic of South Africa, the Bank lent an additional EUR 140 million for small infrastructure schemes, telecommunications and productive-sector investment.

Under the Highly Indebted Poor Countries (HIPC) initiative, the EIB is contributing up to EUR 70 million in debt relief for some 12 countries.

Borrowing

The EIB must aim to optimise borrowing costs in order to be able to advance funds on the most favourable conditions to project promoters, thereby encouraging investment.

In 2000, the EIB borrowed EUR 29 billion through 149 operations, raising funds in 11 currencies, of which 49.5% in GBP, 23% in EUR, 21% in USD and the remainder in CHF, Central and Eastern European currencies, HKD, JPY, TWD and ZAR.

After swaps, the EIB's resources were raised in three main currencies: EUR, 42.5%; GBP, 38%; and USD, 13.5%.

The substantial borrowing in GBP reflects the very cost-effective funding opportunities which the Bank was able to seize (including favourable conditions for swapping GBP into EUR). The Bank thus consolidated its standing as a non-sovereign benchmark issuer against a background of reduced new UK Government issuance.

Funding in euro declined in 2000 because of less advantageous borrowing conditions. These resulted, not least, from the ongoing depreciation of the euro and the consequent falling demand on the part of US and Asian investors for euro denominated bonds.

Despite less receptive market conditions, the EIB further increased its existing euro benchmarks (EARNS - Euro Area Reference Notes) by regular reopenings (new bond issues with the same interest rate and maturity as existing ones, so bolstering their volume and liquidity) and the issuance of additional bonds with maturities up to 2010.

Outstanding EIB benchmarks now range from 2003 to 2010 with a volume of between EUR 2 billion and EUR 6 billion each, and totalled approximately EUR 29 billion at year end.

The EIB's efforts to continue boosting the liquidity of its benchmarks and to complete its yield curve underline its commitment to the euro as well as its leading role as a supranational issuer in this currency. The EIB is now the only non-sovereign borrower offering an entire euro benchmark curve traded on MTS platforms.

The USD remained an important currency for funding in shorter maturities and for taking advantage of favourable opportunities for currency swaps, in view of the transparency, size and unmatched liquidity of the dollar market. New issuance was carried out by adding to existing benchmark issues.

The Bank was also present on the Asian markets and succeeded in establishing itself as a prime borrower in Hong Kong and Taiwan.

The EIB pursued its efforts to borrow in the currencies of the Accession Countries, both on domestic markets and the Euromarket.

By virtue of its top credit rating, the Bank continues to be able to issue longer-term bonds denominated in such currencies, thereby contributing to the development of deeper capital markets. Funds raised in such currencies are on-lent to project promoters in the region concerned. Scope for project promoters to borrow in local currency eliminates exchange risks, serving as a strong incentive for investment which, in turn, assists the Accession Countries in catching up with the productivity and income levels of the EU. ■

Brussels in February 2001:
The EIB President introduced the Bank's activities in 2000

Philippe Maystadt:
EIB puts emphasis on efficiency and flexibility

Exactly a year ago, having just taken over the reins at the EIB for a six-year term of office, I was determined to press ahead with various initiatives designed to increase our efficiency, diversify our instruments and areas of operation and make the Bank more open to dialogue with our partners on the European scene and the general public.

I am glad to be able to underline that, while preserving its exceptional financial strength and high degree of expertise in project financing, the EIB has successfully made several moves which have strengthened its capacity to provide effective support for the needs of the European economy and the Accession Countries:

- By becoming the majority shareholder and operator of the European Investment Fund (EIF) in June 2000, the EIB created a Group within which the Bank is responsible for medium and long-term lending, while the EIF has become its specialist subsidiary for venture capital and SME guarantee operations. Thus, the EIB Group is in a position to offer SMEs, through its specialist partners, the full range of financial products they need to develop and meet the challenges of a changing economy.

- By combining the financial teams responsible for its operations in the European Union and in the Accession Countries into a single directorate, the EIB has expressed its commitment to promoting the integration of these same countries. By applying the same criteria, project selection and lending procedures, we are aiming to accelerate the transfer to these countries of the existing body of Community legislation and regulations, the *acquis communautaire*.

- The EIB Group has also focused its attention on the issue of financing projects with a favourable impact on the environment; this is reflected in a net increase in funding in this area (+ 39% in one year), particularly in the Accession Countries. Moreover, the same concerns have led us to reorganise our Projects Directorate, with particular emphasis on the ways and means of assessing the environmental impact of capital investment and on formulating a strategy designed to support the Union's commitment to combating climate change.

- The Bank has also broadened its palette of financial products and developed a range of structured financing operations enabling it to accommodate more effectively the expectations of project promoters faced with specific risks and varying payback periods for their investment. To spearhead, and at the same time manage, this trend towards riskier projects and more sophisticated products, we have established a Structured Finance Facility and have set aside for this purpose a total of 750 million euro for the next three years, the intention being to generate a volume of operations amounting to between 1.5 and 2.5 billion euro. These products will prove

especially useful for financing communications and environmental infrastructure and projects associated with the emergence of the "New Economy".

• Finally, the EIB has recently taken certain decisions concerning transparency and disclosure which will enable it to put its operations and procedures across more effectively to the public; in short, by joining with the European institutions in their information campaigns, the Bank is hoping to draw closer to the general public which is, when all is said and done, the final beneficiary of our activities.

Pipeline on website

This will involve, in particular, listing projects under appraisal on our Website. The Project List discloses new projects which have reached an advanced stage in the discussions on possible EIB involvement. The projects will be introduced before the EIB Board of Directors' approval provided the project promoter does not request exclusion on the basis of confidentiality. Thus we combine a legitimate demand for disclosure with the respect of confidentiality towards the promoters.

Preparing for the knowledge-based society

The highlights of our lending activity during the past year can be grouped under two main headings: strengthening the Union's economic and social fabric in preparation for the "New Economy" and increased support for the Union's partner countries, especially those on its periphery, with a view to future enlargement.

Since the Lisbon European Council (March 2000), the EIB Group has been firmly committed to a new programme of support for investment aimed at facilitating Europe's transformation into an innovation-led and knowledge-based society.

Baptised "Innovation 2000 Initiative" (i2i), this programme is designed to supplement our traditional activities and steer a substantial proportion of our financing towards the five priorities flagged by the Lisbon Council: promotion of human capital (training); research and development; the new networks based on information and communications technologies; dissemination of innovation; and leading-edge SMEs.

Specifically, the Bank intends to allocate aggregate lending of 12 to 15 billion euro to this programme over a three-year period and to devote 2 billion to the provision of venture capital for SMEs via the EIF. Already, since Lisbon, we have granted loans worth more than 1.6 billion, or over 11% of our individual loans within the Union, and have invested nearly 500 million euro in 34 venture capital operations.

This initiative is intended to supplement the Bank's traditional activities: for example, it comes on top of the 5.7 billion or so that we, in partnership with the European banking community, have invested this year in more than 27 000 SMEs. It is also additional to the dedicated approach adopted by us over a period of years towards developing Trans-European Networks and other communications infrastructure (roads, railways and telecommunications) as well as towards facilitating projects to enhance management of the natural and urban environment in all our Member Countries, an objective that alone accounts for more than 35% of this year's activity.

In fulfilment of its primary mission, the Bank has devoted 73% of its financing to generating new investment in assisted areas (with more than two thirds going to the Cohesion Countries alone, i.e. Greece, Ireland, Portugal and Spain) and this policy is being pursued particularly vigorously in certain key sectors. Thus, for example, nine tenths of our projects in health and education are located in those areas of Southern Europe and East Germany lagging furthest behind in their development.

Paving the way for enlargement

Naturally, the lion's share of our financing outside the Union has gone to the countries in areas bordering the Union to the South and East.

In the Accession Countries of Central Europe and the Mediterranean, where it is far and away the leading source of multilateral finance, the Bank is endeavouring to strengthen the internal cohesiveness of the economies concerned and to close the gap between them and those of the Union in terms of productivity and per capita income. Thus, the 3 billion or so euro we have invested in these countries in the course of the year (up 24% on 1999) has gone mainly towards modernising transport infrastructure (especially that likely to facilitate integration of their economies with each other and with that of the Union), towards developing private enterprise (particularly joint ventures between local and EU firms) and, lastly, towards financing projects aimed at protecting the natural or urban environment, all of which will help to make these regions more attractive to investors.

I am also pleased to note that the growth, in recent years, of our lending for environmental projects reflects, on the one hand, the increased technical capacity of the countries of the region to generate such projects and, on the other, their keener awareness of the need to place more stress on the qualitative aspects of economic development.

The Bank is determined to pursue its efforts in this direction, as requested by the Helsinki (December 1999) and Lisbon (March 2000) Councils.

In 2000, the EIB invested 1.2 billion euro in the Euro-Mediterranean partnership countries in furtherance of the objectives of the Barcelona Process, in particular private sector development and environmental investment, with a view to a customs union between the countries concerned and the European Union by 2010.

The relevance of our primary investment in the Mediterranean partner countries, which increased substantially this year (up 51%, if the loans for reconstruction of earthquake-stricken areas in Turkey are included) was reaffirmed by the Fourth Euro-Mediterranean Conference in Marseilles (November 2000) and by the Nice Council (December 2000) which, moreover, invited the EIB to step up its action by putting in place an additional 1 billion euro loan programme in the region, in addition to its current 6.4 billion mandate for the period 2000-2006.

A diversified presence on the capital markets

The EIB finances most of its loans through calls on capital markets where its issues are rated "Triple A". As one of the leading non-sovereign borrowers on the world financial stage, in order to raise the large volume of funds it needs to finance its activities - EUR 29 billion last year alone - the Bank is obliged to maintain a diversified presence on the markets for various currencies and types of borrowing. In so doing, it attaches importance to optimising the cost of its resources in order to be able to pass on the best possible financial terms to the promoters of the projects it decides to support in pursuit of the Union's objectives.

Thus, while remaining firmly committed to supporting development of the euro, the Bank has anchored its borrowings on three major currencies: the pound sterling, which accounted for 49.5% of pre-swap funding (38% after swaps), the euro which represented 23% (42.5% after swaps) and, finally, the US dollar with 21%, likewise before swaps (13.5% after swaps).

In the sterling market, we are the largest non-sovereign issuer (accounting for about 12.8% of non-Gilt issues) and our benchmark issues, whose maturity curve extends over 30 years, complement those of the British Government. This policy of regular fund-raising, catering for demand by institutional investors for pounds, enables us to resource ourselves at the keenest cost.

We are determined to pursue an innovative borrowing strategy so that we can better accommodate the needs of investors, particularly those operating in the European currency.

The euro remains the most important disbursement currency for the Bank which, thanks to its policy of switching into that currency, is able to offer euro area and third country promoters bespoke rate and maturity structures for their projects. ■

EIB at the plenary session of the European Parliament

Mr Alain Lipietz (Verts/ALE – Group of the Greens/European Free Alliance) presented the report on "Action taken on the EIB Annual Report" in February in the European Parliament.

As a sign of the European Parliament's desire to take a keen interest in the activities of all European institutions, the plenary session held on 14 February discussed and then approved the report "Action taken on the EIB Annual Report" presented by Mr Alain Lipietz (Verts/ALE – Group of the Greens/European Free Alliance) on behalf of the Committee on Economic and Monetary Affairs.

The examination of Parliament's first report on following up the Bank's activities marks a major step forward in relations between the Bank and Parliament, since it demonstrates Parliament's legitimate concern to take account of the activities of the EIB in its overall assessment of progress in attaining the objectives of the Union and enables the President of the Bank to be heard by the Assembly as a whole in response to questions from its members and, by extension, from the citizens of the Union whom they represent.

Environmental protection in particular attracted the attention of Parliament.

In his presentation to Parliament, Mr Lipietz emphasised the quality of the constructive dialogue he had had with the EIB when preparing the document and the detailed information he had been able to glean to evaluate the activities of the Bank in the light of the demands of the Committee on Economic and Monetary Affairs and of the criticisms from the community at large.

"We have thus produced a report which is virtually unanimous", stated the rapporteur, who added: "unanimity was achieved on proposals for a shift of emphasis which are addressed at least as much to the other bodies, and even States, of the European Union as to the European Investment Bank."

In reply to the rapporteur and the speeches made by the four political groups which had contributed to the plenary discussions (PPE, PSE, Verts/ALE and GUE/NGL), EIB President Philippe Maystadt, described the Economic and Monetary Committee's report as "stimulating and useful" and told the Assembly that "work had already started on implementing a number of the recommendations made in the draft resolution". This applied to three areas to which the parliamentary report attached particular importance, viz. the environment as one of the Bank's operational priorities, the evaluation of the real impact of projects and the monitoring structures.

Environmental protection in particular attracted the attention of Parliament. The identification of projects that contribute directly to environmental protection is one of the top five priorities under the EIB's Corporate Operational Plan endorsed by the Bank's Board of Directors for the period 2001/2003 and has been the focus of special attention, resulting in a marked growth in lending in this field (up by 39% in 2000), particularly in the accession countries, where it accounts for nearly a quarter of loans granted.[1] The same concern has also prompted the Bank to reorganise its Projects Directorate, by laying particular stress upon the methodology for assessing the environmental impact of projects and upon defining a strategy for supporting the commitments entered into by the Union, in the wake of the Kyoto Conference, to guard against climate change.[2]

Transparency and dialogue

The examination of the European Parliament report on following up the Bank's activities should be seen in the context of the increased effort being deployed by the EIB to provide greater transparency and more information concerning its operations. The Bank's new policy of disclosure, which was welcomed by Parliament in these debates, will enable the Bank to publicise its activities more effectively and provide the public with wider access to information about its procedures and operations.

This will be reflected in particular in the publication on the Bank's website, before the corresponding lending decisions are taken by the EIB's Board of Directors, of the list of projects being examined, except where the project promoter has good reason to object on grounds of confidentiality. Furthermore, a section of the Bank's website entitled "Information Policy" will bring together all the documents governing the EIB's relations with the public, as well as information on projects about which questions have been raised by European citizens.

In this way the EIB wishes while respecting the special nature of its relationship with its clients, the majority of which are in the private sector - to contribute to the endeavours of European institutions to move closer to the citizens who, in the final analysis, are the ultimate beneficiaries of its activities.[3] ■

1. See the Report on the EIB's activities in 2000, pp. 1 - 9.
2. See article "The EIB and Climate Change", pp. 11 - 13.
3. The text of President Maystadt's address to Parliament is available on the EIB's website (www.eib.org) under "Information Policy/ Topical News".

EIB targets Climate Change

According to the latest decision of its Board of Directors, the protection and improvement of the environment in general and support for the climate change policy of the European Community in particular, are "top priority" fields of activity of the EIB.

The term "climate change" is used here to refer to future probable changes in the earth's climate, notably those in temperature ("global warming"), associated with the "greenhouse effect" and attributed to human ("anthropogenic") activities.

This reflects the central position of climate change in the framework of Community environmental policy objectives as well as the principles enshrined in Community environmental law.

Probably more than any other environmental issue, climate change cuts across all the activities of the Bank. In fact, through financing projects, the Bank is already making a significant contribution to climate change abatement and mitigation.

The EIB is already working in the field of climate change, financing projects to promote renewable energy, energy efficiency, combined heat and power (CHP), industrial efficiency, waste management and public transport.

Background

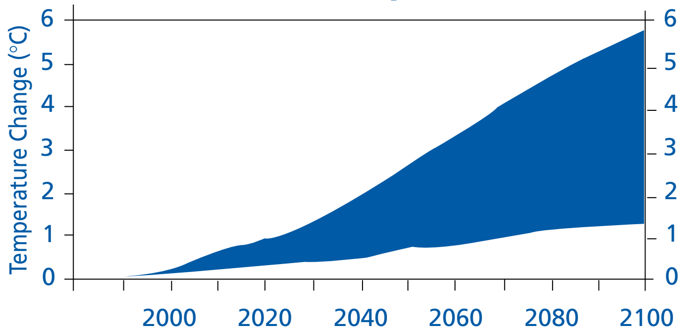
The mainstream scientific community now generally agrees that "global warming" is taking place due to human activities. It is deduced that this is the outcome of a complex ocean-land-air relationship driven by the emission of greenhouse gases (GHGs) - especially carbon dioxide (CO2), which accounted for about two thirds of total European Union (EU) GHG emissions in 1990 - notably through the combustion of fossil fuels in the energy, transport, industrial and household sectors.

The Inter-governmental Panel on Climate Change (IPPC) estimates that, under "business-as-usual", global mean temperature will increase in the range 1.4 - 5.8C by 2100 (see diagram page 12). Global warming is likely to give rise to an increase in sea level, changes in the volume and distribution of precipitation by region and season and probably a greater severity and frequency of extreme weather events.

In this context, at the 1992 Rio "Earth Summit", over 160 countries signed the United Nations Framework Convention on Climate Change, the aim of which was to stabilise GHG emissions at 1990 levels.

The international commitment to action was strengthened in 1997 with the signing of the Kyoto Protocol, according to which the main industrialised countries would limit their respective GHG emissions in the period 2008 - 12 by on average about 5% below those of 1990. The

Projected Change in Global Mean Surface Temperature



source: IPPC

"burden-sharing" agreement commits the EU as a whole to an 8% reduction.

Although there is some doubt "whether" and, if so, "when" the Kyoto Protocol will be ratified, it is clear that a carbon constraint is fast becoming a feature of the environmental policy landscape.

Apart from the approach of the Community described below, a number of Member States have also published their own climate change policies and associated frameworks of institutions and measures (see e.g. for France, "Programme National de Lutte contre le Changement Climatique", 2000/10 (2000)). The same is true of many large corporations and financial institutions.

The Community Policy Framework

Within the context of promoting sustainable development, climate change is high on the environmental policy agenda of the European Community (EC). An EC policy framework is gradually taking shape. The general approach - to reinforce the measures being taken at the national level - is made up of a number of "common and co-ordinated policies" in four main fields.

EC climate change policy also represents a good example of how environmental concerns are being integrated into other Community policy areas, as required by the Treaty of Amsterdam (Article 6).

Main Evolving Features of the EC Policy Framework

- Planned directive on an energy product tax as well as measures to promote improvements in energy efficiency and renewable energy
- Voluntary environmental agreements in specific industrial sectors, building on the experience in the automobile sector
- An enhanced GHG monitoring and verification system
- Promotion of the "Flexible Mechanisms" of the Kyoto Protocol, through emissions trading and project-related emissions reductions (Joint Implementation (JI) and the Clean Development Mechanism (CDM))

Examples of relatively GHG friendly activities: in the energy sector - renewable energy; in transport - rail; in industry - eco-efficiency.

The Approach of the EIB

The proposed response by the EIB to the issue of climate change incorporates a number of components. The Bank has experience with most of these; the novelty is in putting them together and strengthening their application as a package. Implementation will depend on working together in various ways with various public and private sector partners, including the Commission, Member States, large European corporations, the financial sector, multilateral financial institutions and NGOs. The components can be grouped under three headings, internal policies and procedures, investment financing and financing instruments.

Policies and Procedures

There are three aspects under this heading.

Measurement

It will take time for the EIB to develop a reliable and meaningful GHG emissions measurement and reporting system. It is proposed to concentrate on obtaining systematic measurements of GHG emission reductions at the time of appraisal of those projects that are financed for climate change policy reasons, beginning with those in the energy sector where emissions can be measured with a relatively high degree of confidence.

Valuation

The emission of GHGs gives rise to a so-called environmental "externality". Market prices do not fully reflect the economic and social impacts that certain operations are expected to have in terms of climate change. It is therefore appropriate to introduce the quantification and valuation of the impacts of GHG emissions into the cost benefit analysis carried out by the Bank's Projects Directorate in a selective way in those cases where such an analysis is expected to play a significant decision-making role. For some projects, the valuation of GHG emissions may tip the economic balance for or against financing - depending on

the weight of other considerations - gradually resulting in a shift in the structure of the portfolio of the Bank in favour of relatively more climate-friendly investments.

Risk Management
It will also be important that the analytical work of the Bank reflects the fact that projects whose financial viability might depend on the value of carbon credits suffer from inherent uncertainty. For instance, the market value of carbon will vary, among other things, according to political decisions about the degree of decarbonisation. More generally, the uncertainties that the impacts of global warming and the associated evolving policy, behavioural and other responses that they give rise to, represent an area of risk for a variety of projects that the Bank will need to assess.

Investment

The EIB aims to step-up its project financing in the field of climate change in two broad areas, energy saving (i.e. reducing the energy intensity of production, transformation and use) and energy-substitution (i.e. promoting the transition from the use of more to less carbon intensive fossil fuels and, where practicable, from fossil fuels to renewable sources of energy).

Examples of areas with potential for energy saving: industrial processes, public transport and the cogeneration of heat and electricity; examples of areas of energy substitution: increased use of wind, biomass and solar energy.

It is proposed to follow this "twin-track" approach to varying degrees in all the main economic sectors of Bank operations - not only energy itself but also especially transport and industry - through individual as well as global loan operations.

In addition, there is a number of other more specific, some relatively novel - but often relatively small-scale - projects that the Bank proposes to target in order to promote the climate change policy of the Community, where appropriate exploring the potential for synergy between environmental investment and innovation, employment and growth (see "Innovation 2000 Initiative - EIB focus on knowledge-based economy", EIB Information, 2 - 2000, 105)

Examples of relatively new sectors with potential for Bank operations: the capture and use of methane gas from landfills for combined heat and power (CHP) production; the research and development, introduction and manufacture of climate-friendly systems, processes and products, e.g. fuel cells, photovoltaics, information and communications technology (ICT) in the transport sector.

Pilot JI and CDM projects will also be promoted selectively to test the modalities, regulations and practices that are gradually being firmed-up and to prime the market for tradable emission credits that could be offset against the Kyoto commitments.

Instruments

By virtue of the context and often their nature, certain climate change projects might require special financial incentives similar to those that are already available in other fields of EIB activity. Among the possibilities that are expected to be deployed by the Bank in the field of climate change are the following:

- Long term funding, possibly combined with some form of promotional mechanism (cf. existing arrangements for environmental lending in the Mediterranean region).
- The use of METAP (Mediterranean Technical Assistance Programme)-type technical assistance to cover the complex process of project identification, preparation and implementation of climate change projects (see EIB Annual Report, 1998).
- The scope for a global loan or venture capital-type fund dedicated to climate change projects.

Challenge and opportunity

Although climate change is not a new field of operations for the EIB, major uncertainties and unresolved issues remain. For these reasons, the Bank is undertaking a gradual development of climate change-related operations through a judicious approach that will be adapted as experience is gained and new evidence becomes available.

The issue of climate change represents a big challenge for the Bank but it also offers an opportunity to demonstrate its ability and willingness to contribute in a timely and appropriate manner to Community policy to protect and improve the environment. The Bank has been successful in the past when called upon to respond to specific issues in an imaginative and flexible way. It aims to be equally successful in the case of climate change. ■

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Trans-European Transport Networks:

Focus to shift from north-south to east-west

The challenges EU enlargement will bring about was the focus of the EIB Conference on Trans-European Transport Networks, which took place in Strasbourg in mid-February. There was also consensus that the name of the game is rail rather than roads.

Speakers and participants included representatives of the European Commission and the Parliament, transport authorities and industrialists as well as bankers. The aim of the conference was to raise awareness on how to combine TENs priorities with sustainable development.

The EIB wished to do its share with regard to the new "White Paper" on future transport guidelines to be drawn up by the European Commission and the EU Member States. This "White Paper" will replace the current framework approved by the Essen Council in 1994.

Enclosed, excerpts of the presentations. These may be found in extenso on www.eib.org

Philippe Maystadt : The EIB intends to expand its range of financing instruments for TENs in the immediate future through the introduction of a Structured Finance Facility [1], which will involve higher degree of risk sharing as well as the provision of guarantees and mezzanine debt.

[1] see also page 18

Philippe Maystadt, President of the EIB

"The EIB is particularly keen to work with the Member States and with the Community institutions to give greater priority to the development of rail transport systems both for passengers and for freight.

Rail is increasingly seen as capable of playing a greater role in tackling the transport challenges facing the Union in the opening decades of the millennium. These challenges arise from the growing congestion, environmental problems, traffic noise and the growing public opposition to the development of new road infrastructure to meet increasing traffic demands. Road and air transport face severe capacity and congestion difficulties, in many cases, where rail could be more efficient.

The Bank and most Member States are convinced that the increasing involvement of the private sector in the investment in public infrastructure is a welcome development and that such PPP structures can be an important complement to public sector investment in various countries throughout the Union and also serve to accelerate investment in infrastructure as well as improving the overall value for money for the public sector.

Neither private sector investment nor innovative financial instruments will replace the role of the public sector nor the need for public subsidies and grants in various situations; nor do they involve privatisation of public services. They are nevertheless an important and valuable additional instrument to meet Community policy objectives." ■

Loyola de Palacio, Vice-President of the European Commission, responsible for transport and energy issues

"Enlargement is accompanied by efforts in the accession countries to catch up economically with existing EU members. Their economic growth will therefore be faster than within the Union. Economic integration with Western Europe is triggering an explosion of trade. East-West links, which have not been developed to any great extent for historical reasons, risk becoming saturated. Another striking aspect is the very rapid increase in car ownership rates.

Not only are these trends and their corollary, traffic congestion, likely to exact a very heavy toll on society but they are also incompatible in the long term with the commitments we entered into in Kyoto to reduce greenhouse gas emissions. The fact is that in the transport sector sustainable development remains an abstract objective which we have not yet managed to express in concrete terms.

Since the historic agreement of Parliament and the Council just before Christmas to guarantee access to the national rail networks for international freight carriers after 2008, a Swedish operator, for instance, will be able to offer its services on the network in France. This should considerably improve the quality of service and economies of scale at European level, so that rail operators will become competitive again in relation to road hauliers. I believe that a 40% increase in freight traffic on the railways would be possible within ten years.

Work will also be necessary to facilitate the flow of freight traffic on existing lines and to construct new lines dedicated exclusively to goods trains, port access infrastructure and intermodal terminals. Such measures are essential to create a European rail network that gives priority to freight traffic, and I believe that they are the top priority for capital investment within the European Union. Differences with regard to technical standards governing railway installations and equipment are another technical obstacle to the establishment of a network that is genuinely integrated at continental level. It is by implementing the rail interoperability directives that trains will be able to cross frontiers without these obstacles. ■

Loyola de Palacio: Transport policy must not be concerned solely with competitiveness but must also be at the service of the citizen. Lending should encourage the best possible practices with regard to safety.

Henning Christophersen, former Vice-President of the European Commission

Henning Christophersen is one of the founding fathers of the TENs scheme in the early 90's. He underlined that the most difficult task in the early 1990's was not to identify large scale projects, but to make an assessment of the maturity and feasibility of the projects, as well as to find out how they should be financed.

"A lot has happened. A large part of the PBKAL (Paris, Brussels, Köln, Amsterdam and London) high-speed rail network has been constructed. The Øresund Fixed Link, the Malpensa Airport and large parts of the so-called Nordic Triangle and the motorway networks in Portugal, Spain and Greece have been constructed. Final decisions about the implementation of the Lyon-Turin and TGV-Est in France have recently been taken.

But, we do have a number of very important rail projects where no visible progress has been made.The Brenner pass and the extension to Berlin, the French-Spanish high speed lines and the Betuwe Line linking Rotterdam to the Ruhr-district are a few examples. There is also a long way to go before the West Coast line in the UK is in place in an upgraded form.

Secondly, due to cumbersome and not always well organised planning procedures, due to a lack of cross border coordination and different priorities and due to a lack of funding, the completion and initiation of projects have taken much more time than expected.

The balance between freight-traffic on rail and on road is still more and more shifting in the favour of road. Two big transit countries such as France and Germany are lagging behind as far as cross border railroad construction is concerned.

In all these respects, the intentions behind the work we have tried to do in 1993 and in 1994 have been without any major success. It is still diffucult for the Member States and transport authorities to get their acts together and the notion of public-private-partnership (PPP) is still to a very large extent an unproven concept.

Moreover, the need for better infrastructure is even more obvious today than eight years ago. For example, most of the Accession Countries have for the last 55 years been without proper infrastructure links with the rest of Europe.

In order to improve the situation, a new list of top-priority projects with emphasis on the enlargement has to be established. A certain shift of EU-budgetary resources from country-wise infrastructure projects to cross border and transit projects is necessary. ■

Henning Christophersen: It should be mandatory for the national ministries of transportation to consult each other and for the EU transport council to adopt annual binding guidelines on TENs.

Konstantinos Hatzidakis: While remaining an important source of financing to the public sector, the EIB should also work closely with the private sector and provide expertise assessing the economic and financial viability of the projects.

Konstantinos Hatzidakis, *Member of the European Parliament and Chairman of its Committee on Regional Policy, Transport and Tourism*

"We all recognise that there are serious imbalances affecting the transport system which have been brought about not least by the failure to adopt a common strategy at EU level.

Seven out the 14 priority projects are still facing difficulties and no timetables exist for their completion. The EU Parliament has called upon the Member States to honour their commitments in this respect and the Commission, working in tandem with the Member States involved, should submit a timetable for their implementation. The original intention was to complete such projects by 2010 and we must bear in mind that these are an essential outward sign of the EU commitment towards an infrastructure policy.

I must also remind that cost considerations are not the only factor blocking such projects: lengthy public enquiry procedures, political discussions, administrative and legal problems also exist. That is why I think it is wrong to focus exclusively on financial problems, although I must state that more efforts must certainly be made in order to increase public financing by the States and the EU.

Our common goal is to implement the TENs and their extension to Central and Eastern Europe, as quickly as possible in order to ensure that we have a European Transport System that can properly meet the economic, social, environmental and safety need of our citizens, help reduce regional disparities and enable European business to compete effectively in world markets." ■

Pierre Bilger, *Chief Executive Officer of Alstom, France:*

"To achieve a real European rail system is technically challenging. The network has been developed independently and the result is a true "technological tower of Babel".

In order to progressively achieve a European standard, first priority has to be given to interoperability with regard to all new infrastructure projects, both rail and rolling stock. This development is already visible to some extent, for example, in the case of the Eurostar and Thalys, which may operate in several countries.

The challenge is to invest without delay not only in high-speed passenger rail links but also in similar schemes for freight transports in order to tackle congestion problems.

Personally I believe that the key to successful future development of the European rail network are well designed and balanced public-private partnerships. TENs are thus

not only an economic and a technical challenge, but also a political one, as the ball is in the hands of decision makers." ■

Helmut Draxler, *Chairman of the Board of Management of the Austrian Federal Railways:*

"Marketing and operational excellence are key factors on the way to success, as well as perfect coordination between freight transport and distribution to individual customers. If the final receiver of a delivery requests it for seven o'clock in the morning, we implement a "just in time delivery". In order to be successful you need to invest in and guarantee service to the customers of your customers.

During the last 30 years, the European rail system has lost considerable market shares of the European cargo market – from about one third down to less than 10% - but we are now moving up in market shares and productivity is increasing. This may be achieved only through effectiveness, good management and continuity. Our activities cannot be based on five year long 'political cycles'."■

Jaromir Schling, Minister of Transport and Communications, Czech Republic:

"In much the same fashion as other Central and East European countries, the Czech Republic has launched an ambitious programme to modernize its transport infrastructure, and so far it has progressed smoothly. By the end of the year 2000, for example, 503 km of motorways and 335 km of expressways had been built since the start of construction, the airport in Prague had been modernized, and the modernization of the key railway corridors is under way.

Yet this is only about half of the government's strategic plan. If the goals of Czech transport policy are to be realized, we need to speed up the processes that will lead to the desired state of the transport infrastructure. The access to sufficient funding sources to ensure maintenance and investment into the transport infrastructure and the public transport vehicle fleet is of key significance for the implementation of our transport policy.

The most frequent sources of funding for transport modernization and reconstruction are public budgets, bank loans offered by institutions such as the World Bank, EBRD, and EIB, traditional loans, grants, and structural assistance from the EU (PHARE, ISPA, etc.), private capital, and PPPs.

The initial items on this list are fairly well developed methodically and experience of the rules for their application has been good, but private capital, or combinations of public and private partnerships have come up against difficulties. Yet it is quite evident that by getting rid of the restrictions of annual budgetary financing and passing on authorization to independent licensees, given the right conditions, we could see the implementation of, say, motorway projects that the state would be unable to execute itself in a realistic time. One of the basic requirements is to adapt our current legislation. ■

Ewald Nowotny, Vice-President, EIB, responsible for Trans-European Networks :

"In conclusion, we are faced with a challenge of crucial importance for Europe's future. The development of trans-European transport networks is vital to avoid growing congestion of our transport system, yet it must be accompanied by a series of complementary measures designed to :

- open up the sector to much greater competition ;
- charge users prices which more accurately reflect real costs, hence by including external costs ;
- make extensive use of intelligent transport systems to improve efficiency in terms of both logistic chains and mobility in general ;
- favour the emergence of innovative technical solutions for all aspects of the transport system ;
- incorporate environmental considerations at strategic level ;
- accommodate the needs of internal cohesion and integration with neighbouring countries.

If we are to coordinate the vigorous measures planned, the TENs policy will have to be reinstated at the very top of the Community agenda. The EIB stands ready to take up the challenge and to work hand in hand not only with the Commission but also with economic players in promoting the development of a modern, efficient and sustainable transport system for Europe." ■

The EIB expands its range of instruments for e.g. TENs through the new Structured Finance Facility. The Øresund link between Sweden and Denmark, a TENs priority project, has been partly financed by the EIB.

New Structured Finance Facility

The EIB is to establish a new framework to widen the scope for product innovation and development and to extend its activities into higher risk operations. These new activities are to be covered by a Structured Finance Facility (SFF).

> **Instruments to be offered under the SFF could include:**
>
> - Senior loans and guarantees incorporating pre-completion and early operations risk;
> - Subordinated loans and guarantees;
> - Mezzanine finance;
> - Project related derivatives.

The SFF will finance projects which are in line with the EIB's task to support investment furthering EU policy objectives, in particular the new priorities of its "Innovation 2000 Initiative" to promote a European knowledge and information based economy, as well as infrastructure, the development of the Trans-European Networks, and Public Private Partnerships.

The focus of the SFF will be in the EU, with the possibility of undertaking operations in other countries where the Bank is satisfied that the necessary legal and institutional framework is in place.

The Structured Finance Facility will extend the range of risk and complexity of financing instruments from the EIB Group for priority projects, including loans and guarantees, as well as securitization and debt or derivatives structures. The new Facility will also enable the Bank to take on the previous mandate of the European Investment Fund (EIF) to support the financing of Trans- European Networks.

Since the end of last year the EIF has become the specialist risk capital arm of the EIB Group, and is a provider of guarantees for small and medium-sized enterprise lending. With the EIB as major shareholder, the EIF is jointly owned with the European Commission and a group of public and private sector financial institutions.

Products and pricing

The aim is to provide value added through the SFF by complementing commercial banks and capital markets with the most appropriate financial instruments identified on a case-by-case basis. These instruments may be more complex or "structured" or carry a higher risk than the Bank has taken in the past.

The Bank's pricing of SFF operations will reflect the higher risks and complexity and will for the most part be in line with the market fees, price or yields to the co-financiers.

Covering the risk

The risk associated with SFF will be covered through an allocation of capital from the Bank's surplus reserves of up to EUR 750 million spread over three years (2001-2003). There will also be an additional provisioning to the Bank's Fund for General Banking Risks on the Bank's balance sheet which will establish the ceiling on SFF operations the Bank can sign each year. Depending on the risk profile, the total annual volume under this limit, can be expected be to be quite significant and initially at least EUR 1 billion.

Earlier project involvement

With the various products available under the SFF, the EIB will be able to assume construction and early operation risks directly. In certain cases, the EIB will be able to provide instruments coming within the SFF alongside its traditional loan products. It will therefore be able to play a more important role in projects from the outset.

The Bank's total share in the project's financing will continue to be no greater than 50% of project cost and its traditional requirement for a thorough independent appraisal of the project's technical (including procurement and environment), economic and financial viability and legal structure will be reinforced to reflect the increased risk the Bank assumes. ■

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"'Old' World? Ha! The Europeans are beginning to teach the Americans a thing or two about the secrets of doing business in the 21st century."

Newsweek, 29 January 2001

The EIB's 2001 Conference on Economics and Finance

European E-conomic Growth: the Impact of New Technologies

For over 40 years the Bank has tried to give helping hands by financing large "basic" infrastructure works. But many are now arguing that the globalisation of commerce and the proliferation of information and communication technologies (ICT) are redefining what it takes for a region to prosper. This is why the EIB's 2001 Conference in Economics and Finance was fully devoted to the impact of new technologies on economic growth.

The notable and simultaneous rise in both ICT investment and productivity growth in the United States in the second half of the 1990s has generated the widespread belief that these new technologies may indeed be key to a higher growth rate in economic output and incomes. At the same time, however, there is some evidence that the prolonged upswing of the U.S. economy may also generate a cyclical acceleration in both business investment and productivity growth, which may not be sustainable once the expansion comes to an end. Differentiating between permanent and temporary elements in the U.S. "new economy" is crucial when assessing whether Europe is falling behind the United States and when designing growth-promoting policies in Europe.

Paul David, a Professor in economic history at Oxford University who was the first speaker at the conference, expressed the view that at least part of the U.S. growth acceleration is the result of a temporary surge in aggregate demand. But he also concluded that a substantial fraction might turn out to be structural, resulting in a sustained improvement in productivity performance. According to David, the reason we have only recently seen an acceleration in productivity growth from ICT investment is that it normally takes some time for new technologies to diffuse throughout the economy. ICT may thus be a new form of "general purpose technology", eventually generating large and sustained productivity gains stemming from better ways of organi-

sing economic activity, similar to the historical case of the electrical dynamo.

The productivity gains from implementing ICT are so far less visible in Europe, although some of the observed difference between the EU and the United States stems from different ways of measuring the economy. **Patrick Vanhoudt** (economist at the EIB's Chief Economist's Department) showed that the EU is still far behind the United States in measuring ICT investment and production, which is likely to underestimate the real growth rate of productivity in the EU compared with the United States. While these factors explain some of the gap in ICT spending, it seems a real difference remains. But Europe not only spends less on ICT that the United States, it also distributes its ICT expenditures very differently.

Kristian Uppenberg (from the EIB's Chief Economist's Department) showed that Europe spends at least as much as the United States on telecommunications, but is well below the United States in spending on computers. If the economic gains from ICT spending stem from synergy effects from computers and telecoms combined (such as the Internet) then Europe's ICT strategy may be too unbalanced to reap the full gains from the "new economy".

Session two took a closer look at the information technology and communications sectors. **Pierre Montagnier** from the OECD provided a clearer description of what exactly is meant by the ICT industries. **Harald Gruber** (EIB Project Directorate) subsequently looked at the dissemination of IT, addressing the question of whether possible market failure could lead to too low investment levels. Such possible market failures include inadequate financing of small and medium-sized companies and insufficient research and development - compare 1.8 percent of GDP in the EU to 2.8 in the US - in the winner-takes-all environment of the new economy. A third factor could be a lack of necessary skills in the workforce. Rather than "picking winners," Gruber suggested that governments support training, research and the promotion of entrepreneurial talent.

Effective financing of new companies seems to be a key factor behind the relative success in the United States of making the shift to the "information society". In session three, which looked at the issue of finance, **Bernard de Longevialle** from Standard and Poor's assessed the impact of the Internet on banking activities. He predicted that Internet banking activities would grow quickly and become a driver of structural changes in financial intermediation. **Herman Hauser** (founder of Amadeus Capital Partners) commented on the supply side of funds from the point of view of a venture capitalist. He expressed the view that even with the institutional framework in place - the UK is for instance not particularly more risk averse than the US - generating a fertile environment for venture capital can take a long time. The successful IT cluster around Cambridge that Hauser started up took more than a decade to become what it is today. This transformation requires the creation of a new generation of entrepreneurs, resulting from adequate training and a change of values towards private wealth accumulation, as well as willingness to accept an inflow of skilled foreigners, a key element in the creation and growth of new start-ups in Silicon Valley.

IT clusters were at the heart of the final session. **Danny Quah** from the London School of Economics showed that Europe already has a substantial number of technology clusters, mainly concentrated within a dense, urbanised economic area extending from the South of England across the Benelux countries and southwestern Germany into northern Italy. That these urban areas attract high-tech clusters is the result of better access to specialised factor inputs and the need in high-tech industries for face-to-face interaction with knowledge-able experts. In theory, ICT may reduce some of these factors that lead to geographical agglomeration, by reducing telecommunications costs and thus allowing better long-distance communication between workers. In practice, however, Quah believes that ICT products are typically associated with increasing returns to scale, which leads to greater concentration in production.

Andrew Gillespie, **James Cornford**, and **Ranald Richardson** (University of Newcastle) shed additional light on these ideas with the help of a wide range of case studies. They concluded that the "compulsion of proximity" may persist also within the ICT industry, with telecommuting largely consigned to simpler corporate functions such as customer service and back-office. The result may thus be that agglomerations in the information society become increas-ingly dominated by R&D and command and control functions, which depend the most on the kind of personal interaction that drives teamwork and creativity.

Bas Ter Weel and ***Luc Soete*** (University of Maastricht) looked into the labor market aspects of new technologies, and comforted the audience with history. The fear that technology will destroy jobs also showed up in the automation debate in the 1960s, it was still present in the Delors' White Paper in the early 1990s, but it eventually turned out that new technologies did not pose a tremendous problem for labor markets. IC technologies spread across all sectors and skill levels, including the unskilled and the "remote" sectors, they said. What is more important is that labor markets are sufficiently flexible, and that good active labor market policies are put in place.

So what is the conclusion of all this?

Obviously, new technologies have an impact on how business is conducted. Nobody will ignore that. However, it has become clear that ICT is not a miracle solution that will bring the standard of living in the lagging regions all of a sudden more rapidly to the EU average. In other words, ICT alone won't solve the old Europe's chronic problems.

To keep prosperity growing, the continent's lawmakers will have to tackle the rigid labor market rules that make it so hard for companies to hire and fire employees - and that often keep ambitious workers from developing and applying new skills on the job. Europe also needs to build the kind of labor force to meet the constantly mutating job descriptions of a knowledge-based economy. It will also have to put more money where its brains are. Clearly, the changes may not be cheap or easy - that's precisely where the new economy meets an old reality! ■

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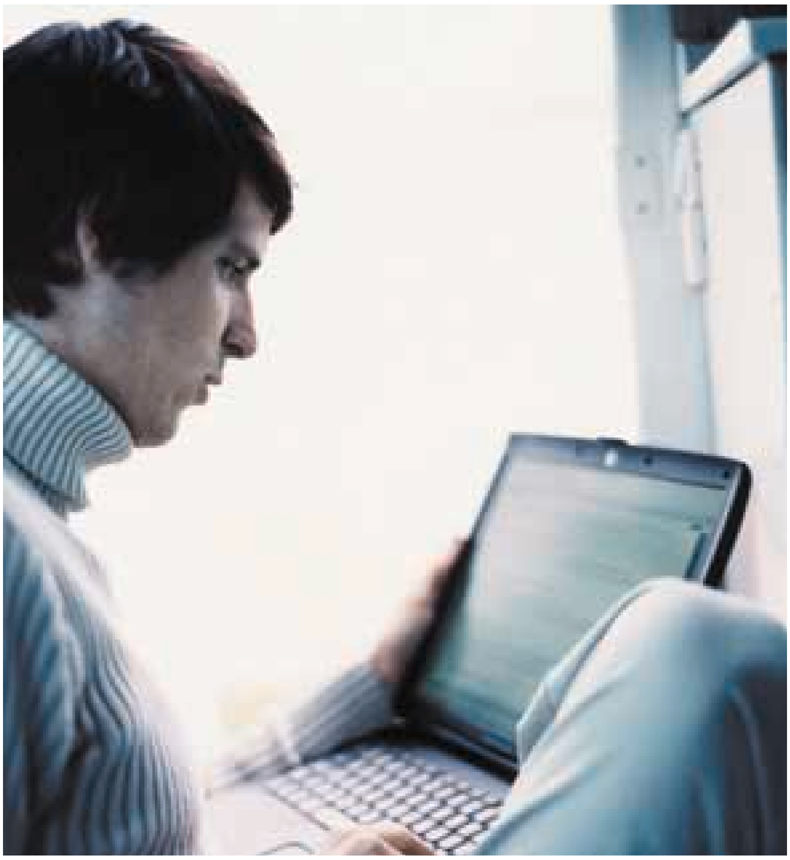


First commitment to Creative Industries Fund in Finland

The EIB Group's venture capital arm, the European Investment Fund (EIF), has signed a commitment to invest up to EUR 16.5 million in the Venture Fund for Creative Industries which will invest mainly in northern European countries. This fund will support sports, TV, movies and 'new media'.

It is the first Venture Capital fund dedicated to this sector, which is receiving increased attention from the European Union. The EIF commitment is an important breakthrough in the European media sector.

"The creative industries market may become the next "frontier" in venture capital. It certainly marks a field where Europe may have considerable leverage potential", says Walter Cernoia, EIF Chief Executive.

The management of the new fund is in Finland which is the home of many innovations of the European venture capital market. If the fund turns out to be successful, other venture capital funds dedicated to creative industries will be supported elsewhere in the European Union.

EIB Group support for Europe's audiovisual industry

Responding to the invitation from the Lisbon European Council (March 2000), the EIB Group has resolutely embarked upon a new programme dubbed the "Innovation 2000 Initiative" ("i2i"), intended to support investment preparing Europe for a knowledge-based and innovation-driven society. This programme, which has now been operating for nearly seven months, has rapidly taken off, with some EUR 2 billion in loans approved in sectors such as information and communications technology networks, human capital formation and research and development, the dissemination of innovation, and the development of an entrepreneurial spirit among innovative SMEs.

In December 2000, the EIB Group decided to introduce, under the "i2i", a special sub-programme covering Europe's audiovisual industry in the wide sense of the term, that is both production, distribution and dissemination of films, television programmes and music, and development of the infrastructure required by this industry together with support for SMEs operating in this sector.

Deploying a variety of financial engineering techniques in partnership with the European banking community, the EIB Group aims to increase the volume of funds available and improve the financial terms offered to those operating in the industry. The "i2i" audiovisual sub-programme will take two forms: lending by the European Investment Bank for financing medium and long-term investment, and operations involving its specialist subsidiary, the European Investment Fund (EIF), for strengthening SME equity and granting guarantees.

This commitment by the EIB Group is being taken forward on three complementary fronts, two involving banking-sector finance for companies, the third development of the industry specialising in providing venture capital for the audiovisual sector. They will enable the financial base of this industry to be strengthened in order to make it more competitive, encourage the development of European content and facilitate the adjustment to digital technology.

Concentrating on firms' medium to long-term financing requirements

The EIB will make available its credit lines ("global loans") to banks specialising in finance for small audiovisual production/technology development companies as well as firms to which work from the large groups in this sector is subcontracted. Where there is scope for mounting operations in tandem with national or European arrangements for subsidising productions, a number of these global loans could be supplemented under aid schemes for the film and television industry. For some global loans, the EIB is also considering developing with the intermediary financial institutions risk-sharing and/or external guarantee facilities.

Still in partnership with the banking sector, the EIB will also be providing finance for large private or public sector television and audiovisual production and distribution groups to cover their infrastructure investment needs (studios, digitalisation facilities, transmitting stations, etc.) and creative enterprises (production of film "packages", distribution of works and catalogues). In appropriate cases, depending on the characteristics of the projects being financed, operations could take the form of structured finance. The objectives pursued by the EIB are designed to promote development of the industry on a pan-European scale, compensate for certain weaknesses inherent in the industry compared with its global competitors and support establishment of activities benefiting the numerous SMEs to which work is subcontracted by such groups.

Backing venture capital commitment to the audiovisual sector

Action by the EIB Group is also set to strengthen the industry specialising in providing venture capital for Europe's audiovisual sector. In this highly specialised field, it will take the form of EIF equity participations in new or existing venture capital funds dedicated to increasing the equity capital of SMEs in the audiovisual sector. Acting as a fund of funds, the EIF will thus be launching out into a sector where the lack of financial resources and pan-European players is hampering the establishment of an effective venture capital market. This innovative approach has been inaugurated with an operation totalling EUR 50 million signed in December 2000 between the EIF and the specialist Venture Capital for Creative Industries Fund.

Joining forces with the Community's "Media Plus"

With a budget of EUR 400 million over five years (2001-2005), the "Media Plus" programme is aimed principally at helping firms to work together to promote a pan-European dimension for the audiovisual industry.

With that in mind, the "development, distribution and promotion" aspect of the Media Plus programme will focus on support for projects making use of innovative technology and on measures encouraging international distribution of works with a European content. At the same time, the programme's "training" aspect will help professionals working in the industry and in the financial sector to gain a fuller insight into the industry and its specifics.

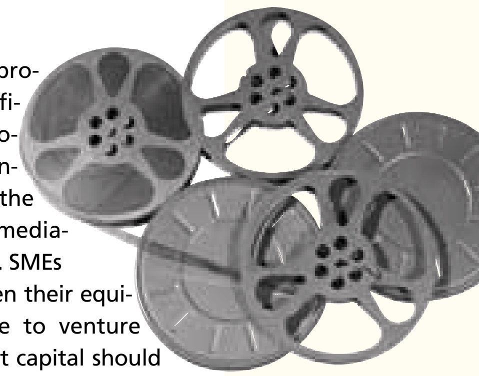
The activities of the EIB Group and those of Media Plus can therefore be seen to be complementary. On the one hand, they both foster, through loans and subsidies, projects incorporating development/production and distribution aspects and support infrastructure projects as well as the rapid expansion of firms employing innovative technologies; on the other, they will facilitate training schemes which, by using equipment and premises financed by the EIB, will hone financial and banking expertise tailored to the audiovisual sector in a context where EIB finance acts as a catalyst for additional funding.

With this in view, the EIB Group and the European Commission could well launch joint ventures involving creative productions or development of the audiovisual industry, based on complementary cofinancing arrangements bringing together EIB loans and Community grants.

How to obtain finance?

The EIB's customary procedures will apply to finance for the audiovisual industry. Since December 2000, the EIB and the EIF have already made a number of contacts with industry specialists as well as financial and banking institutions that could act as intermediaries for its funding of SMEs either in the form of global loans or by means of dedicated venture capital funds. The initial operations – currently under appraisal – suggest that the "Audiovisual i2i" will be able to bring together substantial financial resources, with the EIB Group's lending at the outset exceeding EUR 500 million.

The Bank will help to provide funding for large-scale projects (those costing around EUR 50 million minimum) by granting individual loans directly to the project promoter or a consortium of financial backers. There are no special formalities when it comes to submitting applications to the EIB for individual loans. Project promoters are required simply to provide the Bank with a detailed description of the project and of the proposed financing arrangements.



With regard to projects that are to be financed using global loans, firms are invited to contact the banks and intermediaries involved directly. SMEs wishing to strengthen their equity through recourse to venture capital or investment capital should approach these specialist funds directly. In order to facilitate these contacts, the list of these intermediaries will be kept up to date on the websites of the EIB (www.eib.org) and the EIF (www.eif.org). ■

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Appointments

Capital Markets Department

In December 2000, Barbara Bargagli-Petrucci took over from Jean-Claude Bresson, who retired, as Director of the Capital Markets Department within the Finance Directorate.

Barbara Bargagli-Petrucci joined the EIB in 1994 as Head of Division of Capital Markets and was in 1999 appointed Deputy Director of the Capital Markets Department.

Her career encompasses four years at Deutsche Bank, in the Corporate Finance Department, and ten years at Credit Suisse First Boston, as Head of the Capital Markets and Syndicate Department in Frankfurt.

Barbara Bargagli-Petrucci

Information Technology Department

In mid-March 2001, Luciano Di Mattia joined the EIB as Director of the Information Technology Department.

Luciano Di Mattia has had a long career with Q8 Kuwait Petroleum in Italy and Q8 Kuwait Petroleum International in Copenhagen and London. Starting as a project manager of a Corporate European General Accounting project, he was being appointed System Planning, Control and Development Manager following the merger between Q8 and Mobil, then Group Information Systems Manager in control of the corporate IT strategy, and most recently corporate Marketing Operation Support System Project Manager co-ordinating international teams in several European countries.

Luciano Di Mattia

Sir Denys Lasdun, architect of EIB head office, dies

Sir Denys Lasdun, the architect of the EIB head office building in Luxembourg, died in January 2001 at the age of 86.

Sir Denys is one of the great names in the history of the architectural modern movement in England.

Of the many important buildings he designed during his life, the European Investment Bank is one of three (the others being the Royal College of Physicians and the National Theatre, London) he considered as encapsulating most successfully his approach to architecture. He particularly liked the Bank's building because of its democratic monumentality - as he himself described it.

The Bank's main building was inaugurated in 1980 and its extension in 1995.

Sir Denys Lasdun