



COMMISSION OF THE EUROPEAN COMMUNITIES

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Proposal for a

COUNCIL DECISION

granting a Community guarantee to the European Investment Bank against losses under loans for certain types of projects in Russia and the Western New Independent States (WNIS)

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. INTRODUCTION

This proposal deals with the granting of a Community guarantee for an amount of up to EUR 500 million to cover lending in Russia and the Western New Independent States (WNIS)¹ by the European Investment Bank (EIB) as a further development of the Decision on the Northern Dimension² and in line with the Wider Europe – New Neighbourhood³ policy. The Mid-term review⁴ of the EIB external lending mandate pursuant to Council Decision 2000/24/EC⁵ acknowledged the need for increased investment in Russia and WNIS.

(1) Past experience

The Luxembourg European Council in December 1997 recognised for the first time EU wide the Northern Dimension in the external and cross-border policies of the European Union. The Vienna European Council (December 1998) and the Cologne European Council (June 1999) developed it into a more concrete concept. In November 1999, the Finnish EU Presidency held a Foreign Ministerial Conference on the Northern Dimension and, one month later, the Helsinki European Council invited the Commission to prepare an Action Plan, covering the period 2000-2003, which was endorsed by the Feira European Council in June 2000. In October 2003 the European Council endorsed the Second Northern Dimension Action Plan (2004-2006), which came into force on 1 January 2004.

At its meeting in Stockholm on 23-24 March 2001 and following a proposal by the Commission, the European Council agreed that the Community should open up EIB lending for selected environmental projects in the Baltic Sea basin of Russia. The lending ceiling was limited to EUR 100 million and the guarantee rate was set at 100%. The following specific criteria were decided by the Council:

- Projects shall have a strong environmental objective and be of significant interest to the EU.
- The EIB shall co-operate and co-finance with other international financial institutions (IFIs) in order to ensure reasonable risk-sharing and appropriate project conditionality.
- The Board of Directors of the EIB shall only propose projects for approval to the Board of Governors if Russia honours its international financial obligations, including obligations for its Paris Club debt.

¹ Belarus, Moldova and Ukraine.

² Council Decision 2001/777/EC of 6 November 2001 granting a Community guarantee to the European Investment Bank against losses under a special lending action for selected environmental projects in the Baltic Sea basin of Russia under the Northern Dimension (OJ L 292, 9.11.2001, p. 41).

³ “Wider Europe — Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours”, COM(2003) 104.

⁴ “Mid-term review of EIB external lending mandate pursuant to Council Decision 2000/24/EC”, COM(2003) 603.

⁵ Council Decision 2000/24/EC of 22 December 1999 granting a Community guarantee to the European Investment Bank against losses under loans for projects outside the Community (Central and Eastern Europe, Mediterranean countries, Latin America and Asia and the Republic of South Africa) (OJ L 9, 13.1.2000, p. 24).

- Loans shall be approved on a case-by-case basis by the Board of Governors of the EIB.

EIB lending under this Decision is approaching the ceiling of EUR 100 million.

(2) European Neighbourhood Policy

The November 2002 General Affairs and External Relations Council launched work on the Wider Europe initiative, noting the particular situation of Ukraine, Moldova and Belarus. The Copenhagen European Council in December 2002 reaffirmed that enlargement will serve to strengthen relations with Russia, and called for enhanced relations with Ukraine, Moldova and Belarus to be based on a long term approach promoting reform, sustainable development and trade.

In March 2003, in its "Wider Europe - Neighbourhood" Communication, the Commission outlined a proposed approach towards its eastern and southern neighbours with the ultimate goal of creating a "ring of friends", an area of shared values, stability and prosperity, and deeper economic integration.

In this spirit, the European Council of 19 June 2003 endorsed the General Affairs and External Relations Council conclusions of 16 June 2003 on the Commission's Communication "Wider Europe - Neighbourhood" and looked forward to the work to be undertaken by both the Council and the Commission in putting together the various elements of these policies. Commissioner Verheugen presented an oral report to the October 2003 General Affairs Council. The Council and subsequently the October European Council urged the Commission to take this issue forward.

The Commission's Communication foresees a progressive and targeted extension of the EIB's general lending mandate to Russia and the Western NIS, in close collaboration with the EBRD and other relevant IFIs. Extending the EIB's activities would be designed to reward reform efforts undertaken by these countries. Such a move would reflect their political importance to the EU, as well as their need for enhanced investment in infrastructure that could be fostered by EIB projects.

(3) Mid-term review of EIB external lending mandate

In October 2003, the Commission submitted a mid-term review on the EIB external lending mandate to the Council and the European Parliament, including a proposal for an amendment of Council Decision 2000/24/EC. The proposal dealt with the revision for the remainder of the mandate period of the Community budget guarantee.

The review proposed that two of the regional envelopes⁶ for EIB external lending should be restructured within the overall lending envelope so as to take into account the fact that the new Member States fall outside the scope of the general mandate. The restructuring also reflected the evolution of Community external policy priorities.

⁶ The ceilings being: South Eastern neighbours EUR 9 185 million, Mediterranean countries EUR 6 520 million, Latin America and Asia EUR 2 480 million, Republic of South Africa EUR 825 million and Turkey customs union special action programme EUR 450 million.

Furthermore, in line with the Communication "Wider Europe-Neighbourhood", it was proposed to put forward a progressive extension of EIB lending in Russia and the WNIS. The Commission proposed to the Council to allocate EUR 300 million to Russia and WNIS under the general external lending mandate.

2. THE PROPOSAL

In its conclusions relating to financial co-operation with Russia and the WNIS, the Ecofin Council of 25 November 2003 agreed to a Community guarantee for a ceiling of EUR 500 million for loans which the EIB would grant from its own resources in Russia and the WNIS. This action could be considered as a further development of Decision 2001/777/EC. The action would cater for limited lending in Russia and WNIS in certain sectors (i.e. environment, and transport, telecommunications, energy infrastructure on priority TEN axes with a cross-border aspect for a Member State) and it should benefit exceptionally from a 100% guarantee cover outside the general external lending mandate.

Extending EIB activity to the WNIS would be designed to reward reform efforts undertaken by these new neighbours. In the case of Russia, lending would further build on the experience gained from the present lending mandate in support to environmental projects in the Baltic Sea basin of Russia. The extension would reflect the political importance of the region to the EU, as well as the need for enhanced investment in infrastructure that could be fostered by EIB projects.

This mandate would be subject to, on the one hand, appropriate conditionality consistent with EU high-level agreements on political and macro-economic aspects, and with other IFIs on sectoral and project aspects, and on the other hand, appropriate work sharing between the EIB and the EBRD. EIB lending would be activated on a country-by-country basis, subject to appropriate reform efforts undertaken in each of the countries concerned. It is proposed that the individual countries would become eligible under the ceiling as and when they fulfil specific conditionality consistent with European Union high level agreements with the country in question on political and macro-economic aspects. The Commission shall determine when an individual country has fulfilled the specific conditionality and shall notify the EIB thereof.

Unlike the Northern Dimension Decision, this proposal does not foresee a case-by-case approval by the Board of Governors of the EIB.

It is proposed in line with the general mandate Decision 2000/24/EC that the Decision would cover lending activity by the EIB until end January 2007.

Russia's and the WNIS's inclusion in the general mandate will be assessed in the review of the general mandate to be conducted in 2006.

3. BUDGETARY IMPLICATIONS

The EIB estimates for loans, as well as the Commission's estimates for Euratom and macro financial assistance loans, leave sufficient margins to provision the guarantee for the proposed extension of the mandate from the Reserve to the Guarantee Fund. The direct budgetary impact of the extension is linked to the mechanism of the Guarantee Fund and affects the use of the Reserve for the Guarantee Fund. See the table below:

Table 1: Guarantee Fund Forecasts

		2004		2005		2006 ³	
		loan amount	provision	loan amount	provision	loan amount	provision
EIB loans							
Mandate		2.840,00	166,14	2.909,00	170,18	2.910,00	170,24
	correction ¹	-181,00	-10,59	0,00	0,00	0,00	0,00
Baltic sea Russia		75,00	6,75	0,00	0,00	0,00	0,00
	correction ¹	-15,00	-1,35	0,00	0,00	0,00	0,00
Russia/WNIS		100,00	9,00	200,00	18,00	200,00	18,00
	correction ¹	0,00	0,00	0,00	0,00	0,00	0,00
Total EIB loans		2.819,00	169,95	3.109,00	188,18	3.110,00	188,24
Macrofinancial assistance loans		200,00	18,00	250,00	22,50	250,00	22,50
Euratom loans		223,50	20,12	0,00	0,00	0,00	0,00
Total provision			208,07		210,68		210,74
Reserve			221,00		225,00		229,00
Margin			12,93		14,32		18,27
Residual 100% guarantee capacity 2004-2006	annual ² cumulated	143,71		159,15		202,94	
		143,71		302,86		505,80	

¹ Correction of the 2003 provisioning to reflect actual 2003 lending.

² Annual residual capacity = margin / 0,09.

³ In fact 31 January 2007.

The budget headings supporting the Community guarantee are entered with a "p.m."

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THE COUNCIL OF THE EUROPEAN UNION

Having regard to the Treaty establishing the European Community, and in particular Article 308 thereof,

Having regard to the proposal from the Commission⁷,

Having regard to the opinion of the European Parliament⁸,

Whereas:

- (1) In support of the European Union's European Neighbourhood policy, the Council wishes to make it possible for the European Investment Bank (EIB) to grant loans for certain types of projects in Russia and in the Western New Independent States ("WNIS"), namely Belarus, Moldova and Ukraine.
- (2) In support of the Northern Dimension initiative launched by the Helsinki Council of December 1999, Council Decision 2001/777/EC of 6 November 2001 granting a Community guarantee to the European Investment Bank against losses under a special lending action for selected environmental projects in the Baltic Sea basin of Russia under the Northern Dimension⁹ was adopted.
- (3) The EIB lending under Decision 2001/777/EC is now approaching its ceiling.
- (4) In its conclusions, the Ecofin Council of 25 November 2003 agreed to an additional allocation for lending to Russia and the WNIS by the EIB, as a further development of Decision 2001/777/EC for projects in areas in which the EIB has a comparative advantage and where there is unmet credit demand. The areas in which the EIB is considered to have a "comparative advantage" are: environment as well as transport, telecommunications and energy infrastructure on priority Trans-European network ("TEN") axes having cross-border implications for a Member State.

⁷ OJ C [...], [...], p. [...].

⁸ OJ C [...], [...], p. [...].

⁹ OJ L 292, 9.11.2001, p. 41.

- (5) The lending mandate should be subject, on the one hand, to appropriate conditionality consistent with EU high-level agreements on political and macro-economic aspects, and with other international financial institutions on sectoral and project aspects, and on the other, to appropriate work-sharing between the EIB and the European Bank for Reconstruction and Development (EBRD).
- (6) EIB financing should be managed in accordance with the EIB's usual criteria and procedures, including appropriate control measures, as well as with the relevant rules and procedures concerning the Court of Auditors and OLAF, in such a way as to support Community policies. There should be regular consultation between the EIB and the Commission to ensure coordination of priorities and activities in the countries in question and to measure progress towards the fulfilment of the Community's relevant policy objectives.
- (7) Russia and the WNIS should be fully taken into account for the 2006 review of the EIB general mandate under Council Decision 2000/24/EC of 22 December 1999 granting a Community guarantee to the European Investment Bank against losses under loans for projects outside the Community (Central and Eastern Europe, Mediterranean countries, Latin America and Asia and the Republic of South Africa)¹⁰.
- (8) The Treaty does not provide, for the adoption of this Decision, powers other than those under Article 308,

HAS DECIDED AS FOLLOWS:

Article 1

Objective

The Community shall grant the European Investment Bank (hereinafter referred to as “the EIB”) a guarantee in respect of all payments not received by it but due in respect of credits opened, in accordance with its usual criteria and in support of the Community's relevant external policy objectives, for investment projects carried out in Russia and in the Western New Independent States, namely Belarus, Moldova and Ukraine.

Article 2

Eligible projects

Eligible projects shall be economically viable and of significant interest to the European Union. Eligible sectors shall be environment as well as transport, telecommunications and energy infrastructure on priority Trans-European Network (TEN) axes having cross-border implications for a Member State.

¹⁰ OJ L 9, 13.1.2000, p. 24.

Article 3

Ceiling and conditions

1. The overall ceiling of the credits opened shall be EUR 500 million.
2. The EIB shall benefit from an exceptional Community guarantee of 100 %, which shall cover the total amount of the credits opened under this Decision and all related sums.
3. Projects financed by loans to be covered by the guarantee shall satisfy the following criteria:
 - (a) eligibility in accordance with Article 2;
 - (b) co-operation, and where appropriate co-financing, by the EIB with other international financial institutions in order to ensure reasonable risk-sharing and appropriate project conditionality.

The EIB and the EBRD shall share the work appropriately.

Article 4

Eligibility of individual countries

Individual countries shall become eligible under the ceiling as and when they fulfil specific conditionality consistent with European Union high level agreements with the country in question on political and macro-economic aspects. The Commission shall determine when an individual country has fulfilled the specific conditionality and shall notify the EIB thereof.

Article 5

Reporting

The Commission shall inform the European Parliament and the Council each year of the loan operations carried out under this Decision and shall, at the same time, submit an assessment of the implementation of this Decision and of coordination between the international financial institutions involved in the projects.

That information shall include an assessment of the contribution of the lending under this Decision to the fulfilment of the Community's relevant external policy objectives.

For the purposes of the first and second paragraphs, the EIB shall transmit to the Commission the appropriate information.

Article 6

Duration

The guarantee shall cover loans signed until 31 January 2007.

If, on expiry of this period, the loans granted by the EIB have not attained the overall ceiling referred to in Article 3(1), the period shall be automatically extended by six months.

Article 7

Final provisions

1. This Decision shall take effect on the date of its publication in the *Official Journal of the European Union*.
2. The EIB and the Commission shall establish the terms on which the guarantee is to be given.

Done at

*For the Council
The President*

FINANCIAL STATEMENT				
			DATE:	
1.	BUDGET HEADING: 01 04 01 11 (Former B0-222) European Community guarantee for European Investment Bank loans to other third countries.	APPROPRIATIONS:		
2.	TITLE: Extension of the European Community guarantee for EIB loans to Russia and the Western New Independent States (WNIS – Belarus, Moldova and Ukraine).			
3.	LEGAL BASIS: Proposal for a Council Decision granting a Community guarantee to the European Investment Bank against losses under loan projects in Russia and in Western New Independent States (WNIS).			
4.	AIMS: The budget entry is intended to provide a budgetary back-up for guarantees granted by the European Community to the European Investment Bank. The proposal foresees a ceiling of EUR 500 million to cover lending to Russia and the WNIS by the EIB until end January 2007 for the loans it grants from its own resources. The action will benefit from a 100% Community guarantee.			
5.	FINANCIAL IMPLICATIONS only if a call is made on the guarantee.	2004 (EUR million)	2005 (EUR million)	2006 (EUR million)
5.0	EXPENDITURE	[9]	[18]	[18]
	- CHARGED TO THE EC BUDGET (REFUNDS/INTERVENTIONS) The direct budgetary impact of the extension relates to the Compulsory Expenditure linked to the mechanism of the Guarantee Fund for external actions.			
	- NATIONAL AUTHORITIES			
	- OTHER			
5.2	METHOD OF CALCULATION: The direct budgetary impact of the extension is linked to the mechanism of the Guarantee Fund and affects the use of the Reserve for the Guarantee Fund. It is calculated according to the current rules of the Fund: amount of the guaranteed loan * blanket guarantee rate * provisioning rate = EUR 500 million * 100% * 9% = EUR 45 million. The following volumes of signatures could be envisaged: in 2004 EUR 100 million, in 2005 EUR 200 million and in 2006 EUR 200 million. The EIB estimates for loans over those years, as well as the Commission's estimates for Euratom and macro financial assistance loans, leave sufficient margins to fund the proposed extension of the mandate from the Reserve to the Guarantee Fund. The budget headings supporting the Community guarantee are entered with a "p.m.". Should the EIB activate the Community guarantee, the Guarantee Fund will intervene. The Community budget will be called only after the resources of the Fund have been exhausted. As a result, the amount and timing of any call on this budget heading cannot be calculated in advance and should not occur since the guarantee fund mechanism has been created to avoid direct calls on Community budget.			
6.0	CAN THE PROJECT BE FINANCED FROM APPROPRIATIONS ENTERED IN THE RELEVANT CHAPTER OF THE CURRENT BUDGET?		YES	
OBSERVATIONS:				