Managing the assets of the ECSC in liquidation and of the Research Fund for Coal and Steel: multiannual financial guidelines

2020/0143(NLE) - 16/07/2020 - Legislative proposal

PURPOSE: to amend Decision 2003/77/EC laying down multiannual financial guidelines for managing the assets of the ECSC in liquidation and, on completion of the liquidation, the Assets of the Research Fund for Coal and Steel.

PROPOSED ACT: Council Decision.

ROLE OF THE EUROPEAN PARLIAMENT: the Council adopts the act after consulting the European Parliament but without being obliged to follow its opinion.

BACKGROUND: the European Commission uses the returns on ECSC in liquidation to support research projects in the steel and coal sectors. However, the ability of the portfolio to generate sufficient returns to finance a meaningful research programme has come under pressure in recent years as a result of the secular decline in financial market returns. Even before the recent market deterioration caused by the Covid-19 pandemic, the portfolio was generating lower returns due to the lower interest rate environment prevailing after the financial crisis. The Covid-19 crisis has exacerbated this longer-term structural decline in expected returns.

Against this backdrop, the Commission proposed to amend Council Decision 2008/376 to bring it in line with the objectives of the Green Deal by ensuring a steady allocation of EUR 111 million per year until 2027 to support collaborative and cutting-edge research projects in the steel sector, as well as research projects on just transition for the coal sector.

The size of the portfolio as of 31.3.2020 is approximately EUR 1.5 billion. Since 2003 and until recently, the assets of the ECSC in liquidation have generated positive returns which have made it possible to support research projects to the amount of EUR 50 million per year. However, the current low (and often negative) level of bond yields, together with the prospect of Brexit, suggests a decline in returns in the short to medium term. In this context, a different approach to the use of ECSC assets is needed.

CONTENT: this proposal amending Council Decision 2003/77/EC has a two-fold objective:

- to allow the resources of the portfolio to be sold where necessary in order to enable payments related to an annual allocation of EUR 111 million until the year 2027 to support research projects in the steel and coal sectors outside the Research Framework Programme. Depending on investment conditions and evolution of the size of the portfolio, this will entail a gradual reduction of the volume of assets under management;

- to diversify the eligible investments in the portfolio in order to strengthen its risk-return performance. It is proposed to enlarge the universe of eligible assets in order to enhance expected returns for a given level of risk.

In concrete terms, this proposal for a Decision shall amend the Decision governing the management of the assets of the ECSC in liquidation to allow for:

- investment in a wider range of money market instruments (including money market funds);

- investment in a broader range of debt instruments and debt securities;

- exposure to equity markets and equity-like products (including through appropriate instruments such as exchange-traded funds);

- the use of standard investment techniques, such as interest rate futures, to manage maturity;

- invest in hedged USD-denominated securities issued by sovereign, supranational or public sector borrowers.

The Decision shall not entail any automatic recourse to use of these assets or instruments. It shall merely authorise the Commission to make such investments when market conditions are propitious. The asset selection shall include both a negative screening (a list of activities excluded for treasury investment purposes on ethical or moral grounds) and a positive screening (to favour integration of positive environmental, social and governance considerations in the selection of investments).