Basic information

2003/0233(CNS) CNS - Consultation procedure Regulation	Procedure completed
Community loans to third countries: Guarantee Fund and new Member States, tranfer from the Fund to the budget Amending Regulation (EC) No 2728/94 1993/1004(CNS) **Subject** 6.30.04 Loans to third-countries, Guarantee Fund 8.20.08 Enlargement's economic and monetary point of view 8.70.01 Financing of the budget, own resources	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
BUDG Budgets	SEPPÄNEN Esko (GUE /NGL)	04/11/2003

Committee for opinion	Rapporteur for opinion	Appointed
AFET Foreign Affairs, Human Rights, Common Security, Defense	ISLER BÉGUIN Marie Anne (V/ALE)	04/11/2003
ITRE Industry, External Trade, Research, Energy	The committee decided not to give an opinion.	

Council of the European Union

Council configuration	Meetings	Date
Agriculture and Fisheries	2633	2004-12-21

European Commission

Commission DG	Commissioner
Economic and Financial Affairs	

Key events

Date	Event	Reference	Summary
13/10/2003	Legislative proposal published	COM(2003)0604	Summary
05/11/2003	Committee referral announced in Parliament		

17/03/2004	Vote in committee		Summary
17/03/2004	Committee report tabled for plenary, 1st reading/single reading	A5-0199/2004	
31/03/2004	Decision by Parliament	T5-0229/2004	Summary
31/03/2004	Results of vote in Parliament		
21/12/2004	Act adopted by Council after consultation of Parliament		
21/12/2004	End of procedure in Parliament		
31/12/2004	Final act published in Official Journal		

Technical information

Procedure reference	2003/0233(CNS)
Procedure type	CNS - Consultation procedure
Procedure subtype	Legislation
Legislative instrument	Regulation
Amendments and repeals	Amending Regulation (EC) No 2728/94 1993/1004(CNS)
Legal basis	Euratom Treaty A 203 EC Treaty (after Amsterdam) EC 308
Stage reached in procedure	Procedure completed
Committee dossier	BUDG/5/20204

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee report tabled for plenary, 1st reading/single reading		A5-0199/2004	17/03/2004	
Text adopted by Parliament, 1st reading/single reading		T5-0229/2004 OJ C 103 29.04.2004, p. 0448-0544 E	31/03/2004	Summary

European Commission

Document type	Reference	Date	Summary
Legislative proposal	COM(2003)0604	13/10/2003	Summary
Follow-up document	COM(2006)0695	16/11/2006	Summary
Document attached to the procedure	SEC(2006)1460	16/11/2006	

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
CofA	Court of Auditors: opinion, report	RCC0010/2003 OJ C 019 23.01.2004, p. 0003-0003	17/12/2003	Summary

Additional information		
Source	Document	Date
European Commission	EUR-Lex	

Final act	
Regulation 2004/2273 OJ L 396 31.12.2004, p. 0028-0029	Summary

Community loans to third countries: Guarantee Fund and new Member States, tranfer from the Fund to the budget

2003/0233(CNS) - 16/11/2006 - Follow-up document

The Guarantee Fund for external actions was set up by Council Regulation 2728/94/EC *establishing a Guarantee Fund for external actions*. For a summary of the Regulation see CNS/1993/1004. The main purpose of the Fund is to ensure that Community creditors can be reimbursed in the event of any default by the beneficiaries of loans granted or guaranteed by the Communities. The Fund covers the risk of loans and loan guaranteed to third countries. Its main task is to act as a "shock absorber" for the EU's budget.

Three different lending instruments benefit from the guarantee namely:

- guarantees of the European Investment Bank (EIB) **external lending**;
- Euratom **external lending;** and
- Macro-financial Assistance (MFA) **loans to third countries**.

In 1994 a second amendment to the Regulation was adopted, which stipulates that in cases where a third country becomes a Member State of the European Union, the Fund's coverage of the corresponding guaranteed lending is withdrawn and the Union budget will directly cover these guarantees. Accordingly, and as a result of this amendment, in early 2005 a total amount of EUR 339 million was reversed to the Community budget, with a resulting reduction in the EU's budget.

Performance of the Fund: 2003-2006:

The Commission report states that the Fund has fulfilled its main objective efficiently. It has prevented any disruption of budgetary implementation that would otherwise have occurred as a result of defaults on lending operations guaranteed by the Union budget. Had it not been for the Fund, the Communities would, on several occasions, have had to use budgetary resources to pay for activations of guarantees resulting in a redeployment of appropriations in the course of the budget's implementations. Since 2003, four calls, totalling EUR 9.2 million have been handled through Fund. All concerned guarantees issued to the EIB for loans in the Republic of Argentina. The Fund has recovered all capital and interest due from the Republic of Argentina. Only penalty interest of USD 1.4 million or EUR 1.2 million are still to be recovered by the Fund.

The Commission points out though that the recent low default related losses should not be mistaken as a sign of decreased risk for the Fund. In the case of a civil war situation, for example, the calls on the Fund could increase substantially – as witnessed with the former Federal Republic of Yugoslavia.

Concerning the Fund's assets, the report states that the volume of the Fund has decreased since 2001 when the Fund reached its peak of EUR 1.8 billion. This decrease is mostly a result of the accession of ten new Member States in May 2004. A further significant development is the decision by the Commission to present its financial statements according to the IPSAS inspired principles in 2005. This could impact upon the valuation of the fund' s portfolio.

On the matter of budgetary discipline the Commission points out that as of 2007 the reserve mechanisms will cease to exist in its present form. Budgetary discipline will be maintained through other mechanisms. For example:

- The EIB's multi-annual external lending mandate will be limited over the 2007-2013 period;
- Macro-financial Assistance loans are subject to individual decisions by the Council; and
- Euratom lending has a ceiling of EUR 4 billion, of which around 85% will have already been used. The remaining margin stands at around EUR 600 000.

New provisioning mechanism:

In April 2005, the Commission adopted a proposal for a new provision mechanism for the Fund. (See CNS/2005/0025). The proposed new mechanism is based on provisioning linked to the outstanding amount of loans and guaranteed loans – i.e. on actual net disbursements or disbursements minus amortizations minus cancellations. Thus, under the new system, only one single annual transfer will be needed – contrary to the existing system whereby several annual transfers between the Fund and the Budget are undertaken. The single annual transfer is determined as the difference between the target amount of the Fund at year-end and the value of the Fund's assets at year end.

In order to maintain the Fund' main purpose (to act as a shock absorber for the budget) a smoothing mechanism has been introduced in the proposal, which will cap the annual amounts to a maximum of EUR 100 million per annum. This means that losses exceeding this cap will be paid back into the Fund over several years.

The Commission believes that the main advantages of a new provision mechanism are:

- Improved efficiency of budgetary means and a reduced number of annual transfers between he Union budget and the Fund. And
- Provisioning based on the variations of the observed net-disbursements, thereby creating greater transparency and improving the precision of the budgetary programming.

The new provisioning is a "technical" improvement. It does not change the principle of the Fund namely that the value of its assets should be equivalent of the target amount (9% times the total amount of outstanding guaranteed lending.). Further, the new provision will be much stricter in maintaining the relation between the amount of guaranteed loans and the assets of the Fund. The overall budgetary needs, during the forthcoming Financial Framework, will under the new mechanism, remain substantially lower that would be the case under the present mechanisms.

At the same time, the Commission gives warning that "shocks" such as important calls on the Fund or outflows due to the accession of new Member States or IPSAS-accounting standards-induced fluctuations, will have a direct impact on the funding needs for the Fund. As a result, any slightly higher volatility of the provisioning needs, which is the price for the improved mechanisms, will have to be absorbed in budgetary terms.

Outlook:

In early 2007, upon the accession of Bulgaria and Romania to the EU, an amount of about EUR 260 million will be reversed from the Fund's assets to the Union budget – thereby reducing the size of the Fund.

The report also ponders the role of the EIB in managing the assets of the Fund, on behalf and under the supervision of, the Commission. Experience has shown that the Bank has always performed this task most satisfactorily. The cost of this arrangement has, however, been raised. A further issue are the fees the EIB receives from the management of the Fund's assets. The Commission is, therefore, evaluating whether it should take over the management of the Fund's assets itself.

To conclude, the report notes that since 1994 the Fund has performed its main tasks satisfactorily. The new Commission proposal, if adopted, will improve budget efficiency considerably. At this stage, no further legislative proposal is required. However, a new comprehensive report will be finalised in 2010 at the latest – or at an earlier stage if there is a need to change the parameter of the Fund.

Community loans to third countries: Guarantee Fund and new Member States, tranfer from the Fund to the budget

2003/0233(CNS) - 13/10/2003 - Legislative proposal

PURPOSE : Comprehensive report on the functioning of the Guarantee fund and proposal to amend Regulation 2728/94/EC establishing a Guarantee fund for external action. PROPOSED ACT : Council Regulation. CONTENT : Regulation 1149/1999/EC stipulates that a comprehensive report on the functioning of the Guarantee Fund (the "Fund") has to be prepared. The present report accordingly covers the period 1998-2002. The Fund covers guaranteed loans and loan guarantees to third countries. The approaching accession of 10 countries to the EU in 2004 will affect the Fund as several of these countries have benefited from EIB loans guaranteed by the EU Budget. Guaranteed loans to these countries will no longer be covered by the target amount of the Fund as soon as they join the EU. The guarantees themselves will remain in place but the outstanding risk will be borne by the EU budget directly. The same situation will arise in the case of further accessions. The Commission encloses a proposal for an amendment to the Regulation to establish rules for addressing all such situations. It is stressed that this does not mean a withdrawal of the guarantee from these loans, rather that a call on such a guarantee would have an impact on the EU budget directly. The report analyses: - the functioning of the Fund. This covers the description and analysis of the key characteristics of the Fund such as liabilities, defaults covered by the Fund, and its financing. - the impact of enlargement. The report examines the coverage of risk on the outstanding debt guaranteed by the EC for these countries and the nature of the

liabilities to be assumed by the EU budget upon accession. - the assessment of the parameters of the Fund, in the light of the experience gained so far with the functioning of the Fund and the forecast volume of additional lending to be covered by EU guarantee up to end-2006. - technical improvements in the functioning of the Fund. The report states that the Fund has continued to fulfil its main objectives period in providing a liquidity cushion for the Community budget against defaults on guaranteed loans and as a mechanism to fix a financial framework for Community guarantees covering Commission and EIB external lending. The volume of defaults has been low. On the basis of current forecasts for guaranteed loan operations and the proposed revision to the general lending mandate for the EIB set out in the Commission's midterm review, no immediate requirement to change the parameters of the Fund has been identified. The Commission does, however, envisages the introduction of some technical improvements to the Fund's provisioning procedures in order to further facilitate the functioning of the Fund. These improvements will not require any change to the Regulation. FINANCIAL IMPLICATIONS : This is a one-time event due to the accession of third countries to the Communities. The amount of EUR 343 Million to be reversed to the Community budget after the accession in 2004 is calculated as follows: Estimated outstanding amount at accession date: target rate = EUR 3,808 Million. 9% = 343 Million. This amount is calculated according to the mechanism of the Guarantee Fund which stipulates that the amount held in the Fund shall correspond to the target amount (currently 9% of outstanding liabilities). As a result,the deprovisioning amount shall be based only on this parameter, independently of how it has been provisioned.

Community loans to third countries: Guarantee Fund and new Member States, tranfer from the Fund to the budget

2003/0233(CNS) - 17/12/2003 - Court of Auditors: opinion, report

In its Opinion 10/2003 of the Court of Auditors of the European Communities on a proposal for a Council Regulation amending Regulation 2728/94/EC, Euratom establishing a Guarantee Fund for external actions, the Court of Auditors regrets the Commission's proposal to extend the deadline for the presentation of the Annual Report concerning the Fund from 31 March to 30 June. In the Court's view this report contains information which is necessary for the annual audit work carried out from April until June following the presentation of the Fund's revenue and expenditure account and balance sheet. The Court hopes that it will continue to be able to have access to this information at a convenient date.

Community loans to third countries: Guarantee Fund and new Member States, tranfer from the Fund to the budget

2003/0233(CNS) - 31/03/2004 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted a non-binding resolution on establishing a Guarantee Fund for external actions in relation to enlargement. The report, by Esko Olavi SEPPNEN (EUL/NGL, FIN), was subject to a number of technical and drafting amendments. These are as follows: - loans from the Euratom Guarantee Fund to third countries will in future be granted only in accordance with Decision 94/179 Euratom which means that funds cannot be lent to a third country to finance new nuclear power stations but only for measures to increase the level of safety at existing nuclear power installations; - Council Decision 94/179/Euratom of 21 March 1994 amending Decision 77/270/Euratom, to authorise the Commission to contract Euratom borrowings in order to contribute to the financing required for improving the degree of safety and efficiency of nuclear power stations in certain non-member countries; - the fact that EIB loans to the accession countries will no longer be covered by the Guarantee Fund will create an additional margin for lending to other countries and/or regions under Decision 2000/24/EC; - 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) ; - the additional margin, created as a result of accession, under the EIB lending mandate totals EUR 2 180 million. The Commission has brought forward a separate proposal for a Decision concerning the possible use of that amount; - the amount paid into the Guarantee Fund, which corresponds to the loans no longer covered by it, totals approximately EUR 343 million and will flow back to the budget as revenue; - a date change has been proposed : "31 March" shall be replaced by "31 May".

Community loans to third countries: Guarantee Fund and new Member States, tranfer from the Fund to the budget

2003/0233(CNS) - 22/12/2004 - Final act

PURPOSE : to amend Regulation 2728/94/EC, Euratom establishing a Guarantee Fund for external actions with regard to the accession of 10 new Member States on 1 May 2004.

LEGISLATIVE ACT : Council Regulation 2273/2004/EC, Euratom amending Regulation 2728/94/EC, Euratom establishing a Guarantee Fund for external actions.

CONTENT : this Regulation deals with the implications of accession on the Guarantee Fund for external actions. To recall, the Communities have granted loans and guaranteed loans to accession countries or for projects executed in those countries. Those loans and guarantees are currently covered by the Guarantee Fund and will remain outstanding or in force after the date of accession. From that date, they will cease to be external actions

of the Communities and should therefore be covered directly by the general budget of the European Union and no longer by the Guarantee Fund. This Regulation sets out rules for addressing such issues.

The new amended Regulation also includes an extension for the presentation of a annual report to the European Parliament, the Council and the Court of Auditors on the situation of the Funds and the management throughout the past year.

ENTRY INTO FORCE : 03/01/2005.

DATE APPLICABLE : from 01/05/2004.